中國建築興業集團有限公司

CHINA STATE CONSTRUCTION DEVELOPMENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 00830

ANNUAL REPORT 2019

Expanding New Future

MISSION AND VISION

China State Construction Development Holdings Limited up holds its core value of "Integrity, Innovation, Practicality and Excellence", to carry out "quality guaranteed, value generated" operating objective. We take strict control on corporate governance, active participation on social responsibilities, constant pursue on further development and a win-win business with our shareholders, employees, partners and the community. The Group insists on sustainable development, forges an evergreen foundation and steps forward along the target of "a modern international corporate with dual-core traditional curtain wall business and new business" in the new era.

CONTENTS

ABOUT CHINA STATE CONSTRUCTION DEVELOPMENT HOLDINGS LIMITED

INTERNATIONAL ADVANTAGES

With the new development strategic guideline

China State Construction Development Holdings Limited is one of the world's leading specialty engineering firms in providing one-stop curtain wall and building facade solution for high-end property development projects. Over the years, the Company operated multiple landmark projects in North America, Greater China, Australia as well as United Kingdom. The Company focused on the development of a global industry chain on the back of its inherent strengths as an international operation; on top of the expansion of its traditional curtain wall and general construction business, a strong emphasis will be placed on the development of new investment businesses — operating management business. Meanwhile, the Company will actively investigate innovations in its business model and strengthen the collaborative use of internal resources to drive business transformation and upgrade.

1. Boston *(USA)*
- Millennium Tower

2. Baltimore *(USA)*
- MGM National Harbour

3. Las Vegas *(USA)*
- Cosmopolitan Resort Hotel & Casino
- Mandarin Oriental Hotel
- Veer Towers

4. Miami *(USA)*
- Brickell City Center
- Miami Int'l Airport Renovation

5. New Jersey *(USA)*
- 99 Hudson
- Harbourside Phase 1 & 1A

6. New York *(USA)*
- 605 42nd Street
- 1568 Broadway
- New York Police Academy
- Sanitation Garage
- United Nations HQ
- UAE Mission
- 540 West 21st Street
- World Trade Center

7. San Francisco *(USA)*
- Trinity Plaza – Block A

8. Calgary *(Canada)*
- SAIT Trades & Technology Complex

9. Edmonton *(Canada)*
- Edmonton Ice Tower A
- Symphony Tower

10. Montreal *(Canada)*
- Altoria Tower
- Jewish General Hospital
- L'Avenue
- Roccabella
- St. Justin Hospital
- U Condos
- University of Montreal Hospital Centre
- YUL Condos

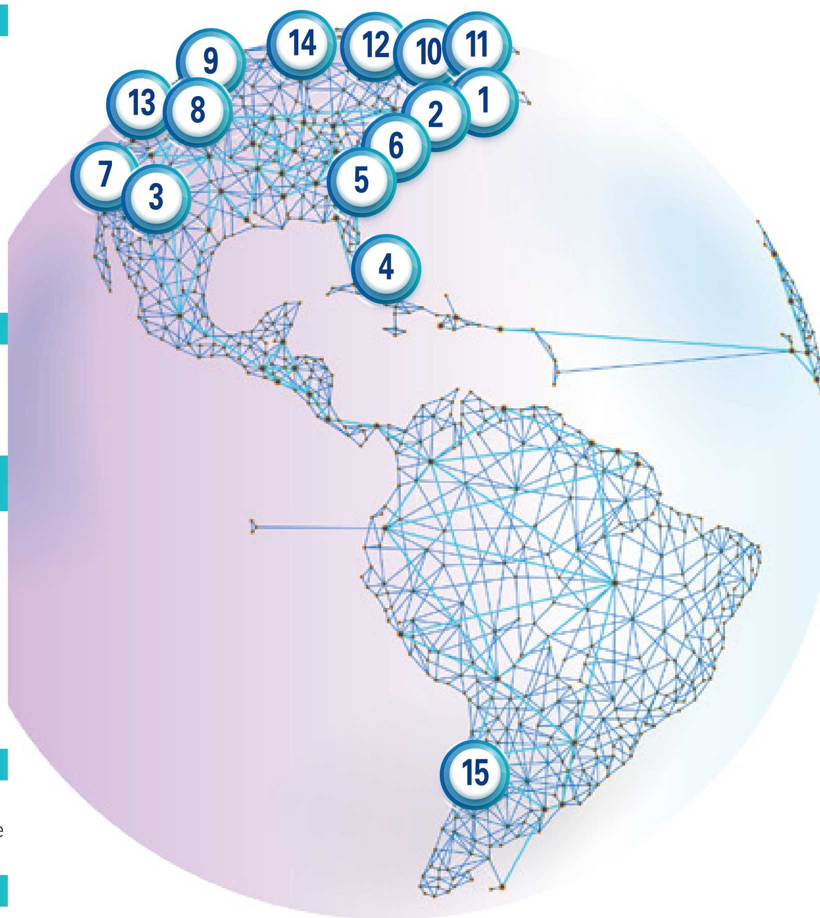
11. Quebec *(Canada)*
- Museum Beaux Arts
- Universite de Sherbrooke – Campus Longueuil

12. Toronto / Vaughan *(Canada)*
- 620 King Street
- Mackenzie Vaughan Hospital
- Shangri-la Toronto
- Trump International Hotel & Tower
- The One
- York Region

13. Vancouver *(Canada)*
- Landmark On Robson
- Vancouver Stock Exchange
- Vancouver Urban Resort

14. Winnipeg *(Canada)*
- True North Square

15. Santiago *(Chile)*
- Costanera Center (Tower 2)



1. Beijing *(China)*
- CYTS Plaza

2. Shanghai *(China)*
- International Financial Centre
- 江森辦公樓

3. Shenyang *(China)*
- New World Int'l Convention & Exhibition Centre

4. Shenzhen *(China)*
- One Shenzhen Bay
- Upper Hills

5. Tianjin *(China)*
- Chow Tai Fook Financial Centre

6. Changsha *(China)*
- 長沙望城

7. Hong Kong *(China)*
- CUHK Medical Centre
- Children's Hospital
- Ka Tak Cruise Terminal
- One Kai Tak
- Phase 2A, Taikoo Place
- The Emperor Hotel
- Shangri-La Hotel
- Shatin Communication and Technology Centre
- The Bloomsway
- Science Park

8. Macau *(China)*
- MGM Cotai
- The 13th Hotel
- Wynn Palace Cotai
- Macau Science Centre

9. Melbourne *(Australia)*
- Aurora Melbourne Central
- Prima Pearl
- Upper West Side T2
- Victoria Police Centre

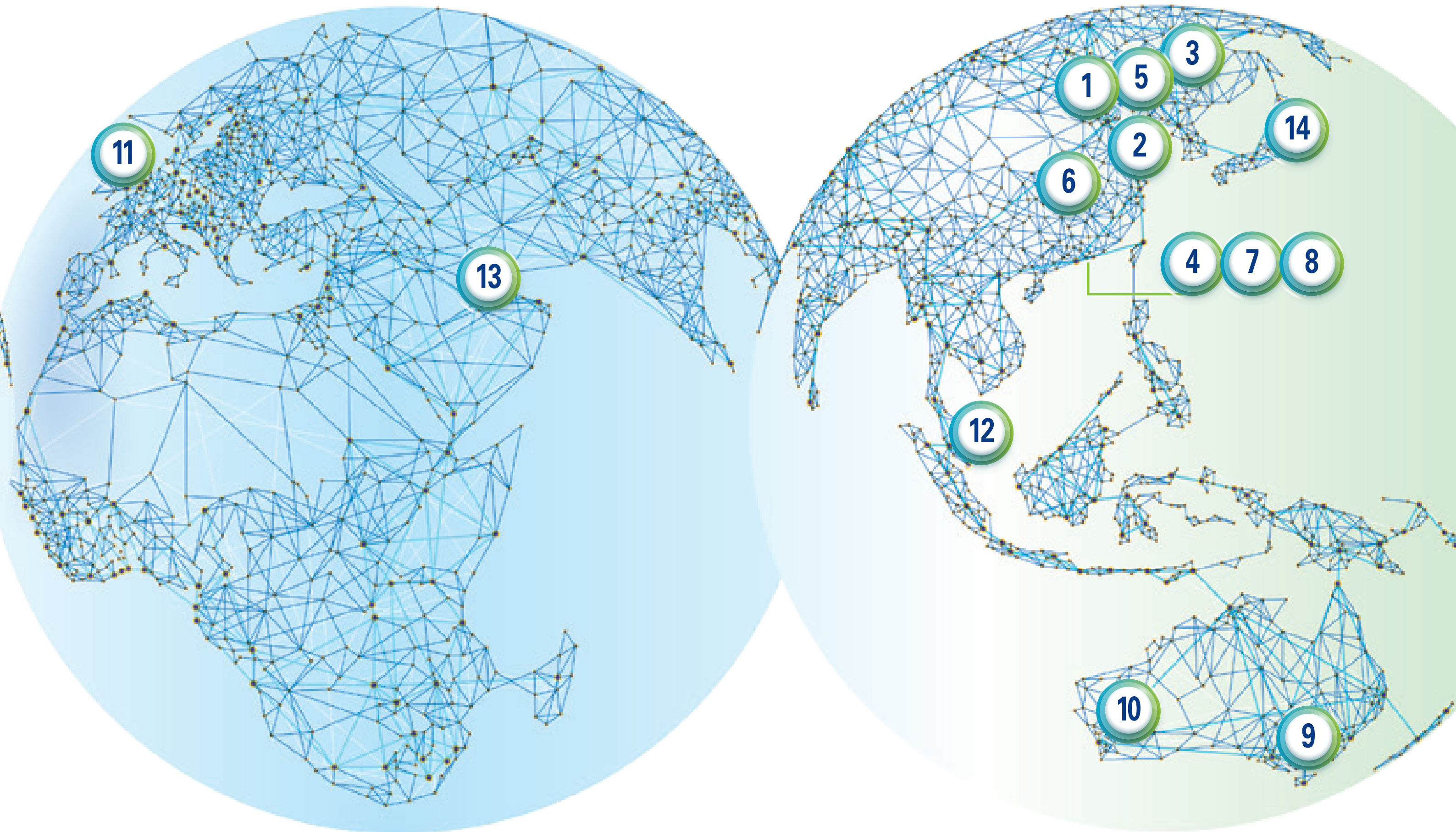
10. Perth *(Australia)*
- Elizabeth Quays

11. London *(UK)*
- 71 Queen Victoria Street
- One The Elephant
- The Stage

12. Singapore
- Marina Bay Sands Integrated Resort

13. Dubai *(UAE)*
- Burj Khalifa
- Darwish Tower
- Sama Tower

14. Tokyo *(Japan)*
- Chiyoda-Ku Yonubanchou Building
- Tokyo Station Yaesu II project



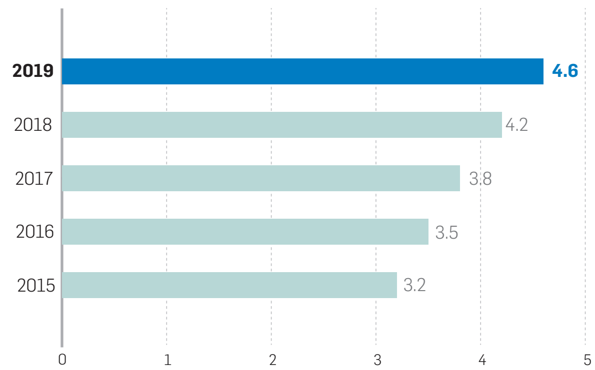
FINANCIAL HIGHLIGHTS

The key financial and business performance indicators comprise revenue growth; profitability growth; return on equity and dividend payout. Details of the key performance indicators are stated as below.

Year ended 31 December	2015 HK$'000 restated	2016 HK$'000 restated	2017 HK$'000 restated	2018 HK$'000 restated	**2019 HK$'000**
Revenue	3,151,779	3,451,152	3,755,581	4,243,167	**4,619,412**
Profit attributable to owners of the Company	265,483	118,900	161,714	182,780	**175,560**
Total assets	5,492,964	5,810,264	6,437,557	6,739,198	**7,053,994**
Equity attributable to owners of the Company	2,341,823	1,511,538	1,605,457	968,556	**1,058,513**
Return on Equity attributable to owners of the Company (%)	11.3	7.9	10.1	18.9	**16.6**
Basic earnings per share (HK cents)	12.32	5.52	7.50	8.48	**8.14**
Dividend (HK cents)	1.2	1.6	2.0	2.2	**1.2**

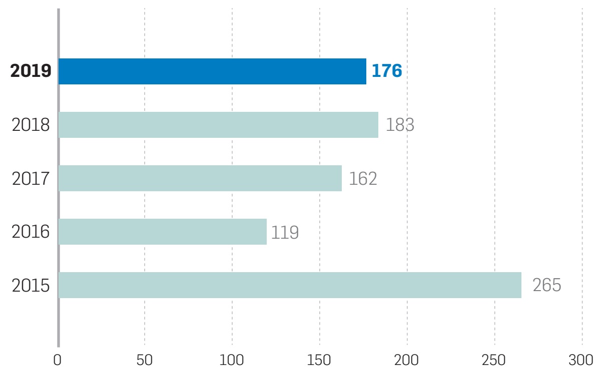
REVENUE

HK$ billion
(restated)



PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

HK$ million
(restated)



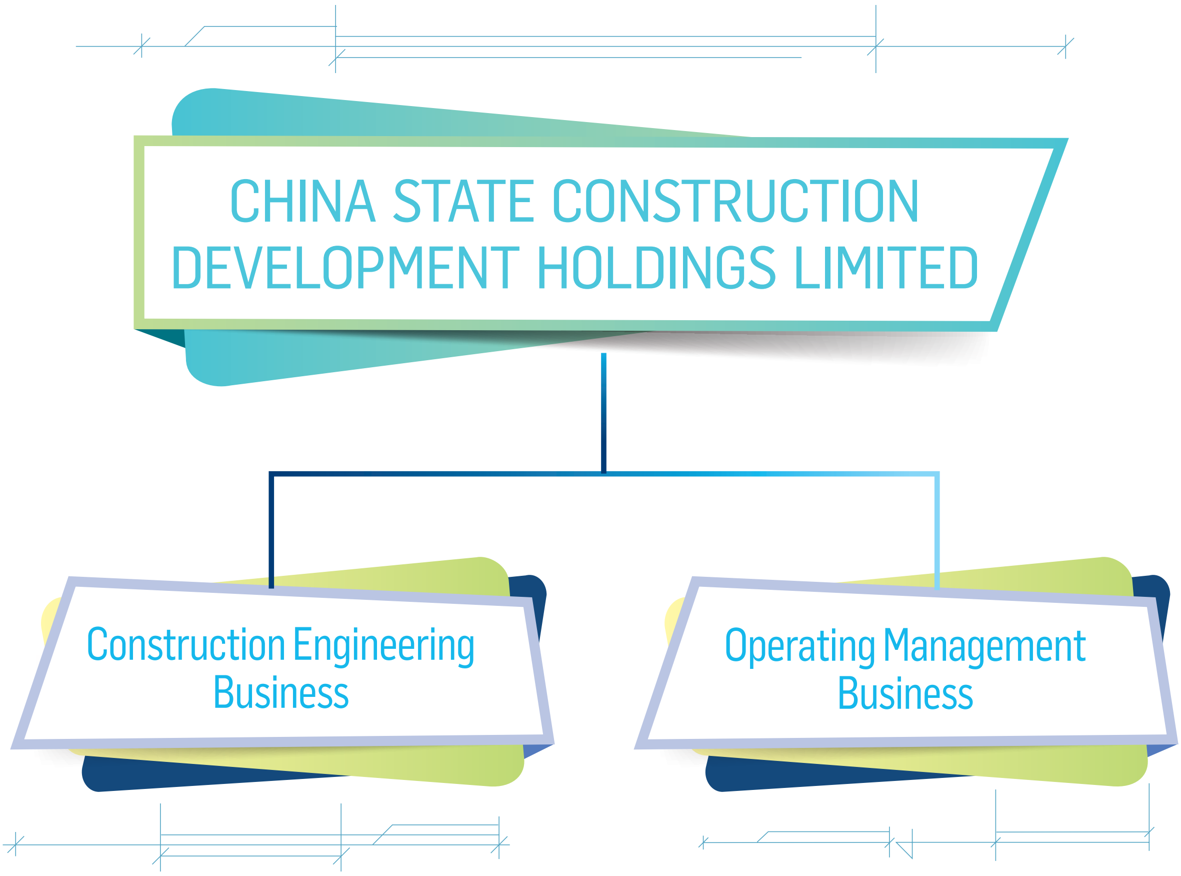
2019 REVENUE BY SEGMENTS

81%
Construction Engineering Business

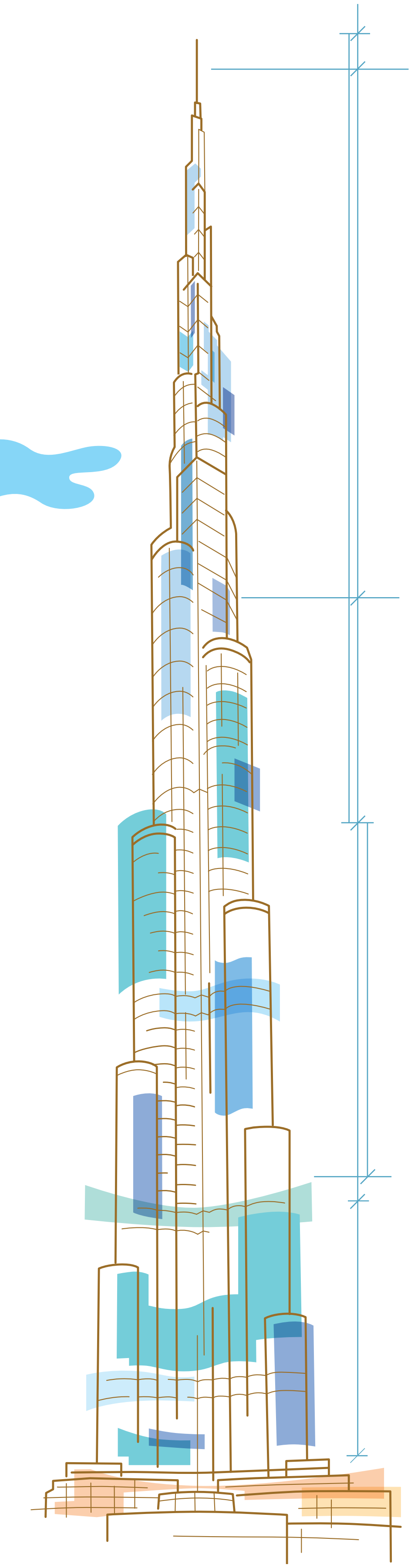
19%
Operating Management Business

* *Construction Engineering Business including facade contracting and general contracting business*

CORPORATE STRUCTURE



MAJOR EVENTS OF THE YEAR 2019



JANUARY

1) China State Construction Development Holdings Ltd. “CSC Development” (former name: Far East Global Group Ltd. “FEGG”) joined the Community Chest’s Walk for Millions (Hong Kong and Kowloon).

2) Announced on January 7 that proposed acquisition of the entire issued share capital of, and shareholder’s loan to, Value Idea Investments Limited and Fuller Sky Enterprises Limited (Nanchang Two Bridge Infrastructure) and proposed change of company name.

MARCH

1) The Hong Kong Council of Social Service awarded the “Caring Company 5+” label to CSC Development.

2) Annual results of 2018 released and the acquisition of the Nanchang Two Bridge Infrastructure Operation Business was completed on March 20.

3) CSC Development encouraged employees to join the “Earth Hour” event which was held on March 30, this event was organized by World Wide Fund.

APRIL

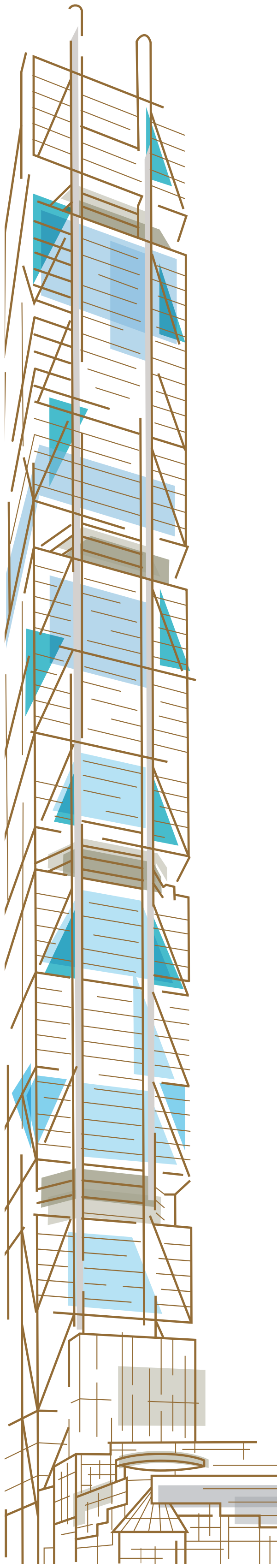
1) Announced on April 11 that the English name of the Company has been changed from “FAR EAST GLOBAL GROUP LIMITED” to “CHINA STATE CONSTRUCTION DEVELOPMENT HOLDINGS LIMITED” and the dual foreign name of the Company in Chinese has been changed from “遠東環球集團有限公司” to “中國建築興業集團有限公司”.

2) Announced on April 16 that the stock short name for trading in the shares of the Company on The Stock Exchange of Hong Kong Limited will be changed from “FAR EAST GLOBAL” to “CSC DEVELOPMENT” in English and from “遠東環球” to “中國建築興業“ in Chinese.

MAY

1) Far East Aluminum won the bid for "Lot No. 6556 Kai Tak Area" project of Nan Fung Group.

2) Cancellation of the lease for Miami Factory in America is completed.



JUNE

1) Netfortune (Shanghai) Aluminium Works Co., Ltd. has won the bid for the curtain wall and daylighting subcontracting project of "Huawei Production Center G Area".

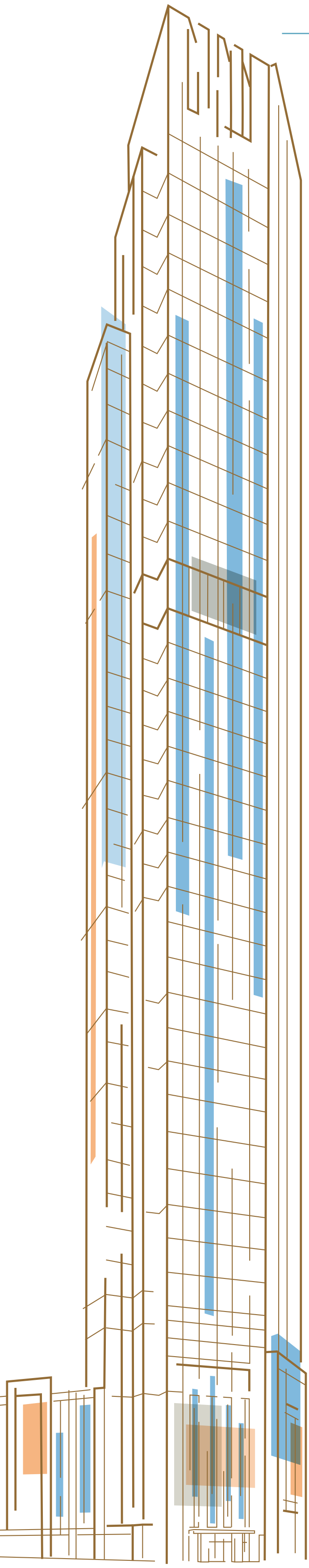
2) China Overseas Land & Investment Ltd. (Hua Nan Region) and China Overseas Supervision Co. Ltd. signed《South China District's Project Supervision Service Centralized Procurement Agreement 2019–2020》. The signing of the agreement further deepens the synergy and cooperation among the business segments within the group, and promotes the realization of strategic cooperation goals and value concepts.

3) Far East Aluminum won the "Swire 2B" key project and the Swire Properties visited Zhuhai factory.

4) The property delivery of Shenzhen Factory is completed and has been moved to Zhuhai smoothly.

JULY

1) The unveiling ceremony has been held at CSC Development office on July 23.



AUGUST

1) Hong Kong Henderson Group visited Zhuhai factory.

2) CSC Development released 2019 interim results.

3) CSC Development held the "Company Day" at Kwun Tong Centre for celebrating Company's 50th anniversary with colleagues and their families.

SEPTEMBER

1) Far East Aluminum completed the "Macau Science Museum" project 50 days in advance. This project became the CCTV command center for the "20th anniversary of Macau's return to China".

OCTOBER

1) Announced on October 14 that proposed acquisition of the entire issued share capital of China Overseas Public Utility Investment Ltd. and the remaining onshore interest, for an aggregate consideration of HK$673,580,000.

2) Far East Heng Fai Facade (Zhuhai) Ltd. started the construction of the drawing and bending workshop, its drawing and bending equipment and supporting facilities are the most advanced in the industry.

3) CSC Development held "Arts for All" with Treats at TWGHs Tsui Tsin Tong School. 15 TWGHs Tsui Tsin Tong students and 15 volunteers of CSC Development joined this event.

NOVEMBER

1) World Green Organization issued the "Green Office 3+" and "Eco-Healthy Workplace" labels to CSC Development.

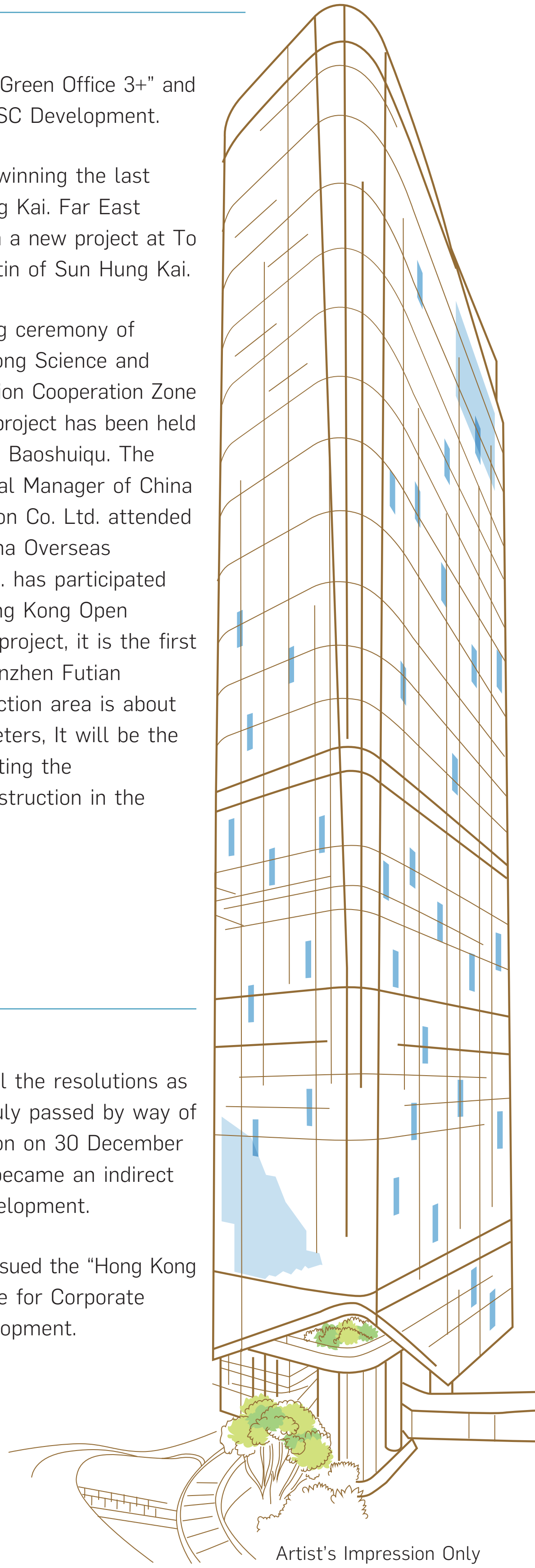
2) After 12 years for winning the last project of Sun Hung Kai. Far East Aluminium has won a new project at To Shek Street in Shatin of Sun Hung Kai.

3) The Groundbreaking ceremony of "Shenzhen-Hong Kong Science and Technology Innovation Cooperation Zone — Shenzhen Park "project has been held at Shenzhen Futian Baoshuiqu. The Director and General Manager of China Overseas Supervision Co. Ltd. attended this ceremony. China Overseas Supervision Co. Ltd. has participated "The Shenzhen-Hong Kong Open Innovation Center" project, it is the first new project at Shenzhen Futian Baoshuiqu, construction area is about 200,000 square meters, It will be the leading role in starting the comprehensive construction in the cooperation zone.

DECEMBER

1) At the EGM held on 18 December, all the resolutions as set out in the Notice of EGM were duly passed by way of poll. The completion of the Acquisition on 30 December 2019, Shenyang Huanggu Company became an indirect wholly-owned subsidiary of CSC Development.

2) The Hong Kong Productivity Council issued the "Hong Kong Corporate Citizenship Program"-"Drive for Corporate Citizenship 2020" label to CSC Development.



Artist's Impression Only

BOARD OF DIRECTORS AND COMMITTEES

BOARD OF DIRECTORS

Chairman and Non-executive Director
ZHANG Haipeng

Executive Directors
WU Mingqing
(Vice Chairman and Chief Executive Officer)
WANG Hai
CHAN Sim Wang (resigned on 18 March 2020)

Non-executive Director
HUANG Jiang

Independent Non-executive Directors
ZHOU Jinsong
HONG Winn
KWONG Sum Yee Anna

COMMITTEES

Audit Committee
ZHOU Jinsong, *CPA (Chairman)*
HONG Winn
KWONG Sum Yee Anna

Remuneration Committee
ZHOU Jinsong *(Chairman)*
ZHANG Haipeng
WU Mingqing
HONG Winn
KWONG Sum Yee Anna

Nomination Committee
ZHANG Haipeng *(Chairman)*
WU Mingqing
ZHOU Jinsong
HONG Winn
KWONG Sum Yee Anna

CORPORATE INFORMATION

AUTHORISED REPRESENTATIVES

ZHANG Haipeng
WU Mingqing

COMPANY SECRETARY

LAU Shuk Yin Connie

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MaplesFS Limited
P.O. Box 1093
Queensgate House
Grand Cayman
KY1-1102
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

REGISTERED OFFICE

P.O. Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

16th Floor, Eight Commercial Tower
8 Sun Yip Street
Chai Wan
Hong Kong

AUDITOR

PricewaterhouseCoopers

LEGAL ADVISOR

Mayer Brown

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
BNP Paribas Hong Kong Branch
Bank of The West
China Construction Bank Corporation
Hang Seng Bank Limited
Industrial Bank Company Limited — Hong Kong Branch
Industrial and Commercial Bank of China (Macau) Limited
The Hongkong and Shanghai Banking Corporation Limited

STOCK CODE

00830

CORPORATE WEBSITE

www.cscd.com.hk

FINANCIAL CALENDAR

Annual Results Announcement

24 March 2020

Closure of register of members for Annual General Meeting

25–28 May 2020 (both days inclusive)

Annual General Meeting

28 May 2020

MAJOR PROJECTS IN PROGRESS OVERVIEW

St Jacques Victoria Sur Le Parc
Montreal, Canada

Project Name	Project Type	Estimated Contract Sum HK$ million	Year of Estimated Project Completion
Facade Contracting Works			
Mainland China			
華為生產中心G1棟改造工程項目, Shenzhen	Commercial	108.8	2021
南山醫院改造工程項目, Shenzhen	Hospital	150.3	2021
深圳中洲濱海商業中心, Shenzhen	Commercial	103.2	2020
Hong Kong, Macau & Others			
Lohas Park Package 9, Town Lot No 70RP (Site J, Tseung Kwan O, Hong Kong)	Residential	292.3	2020
Lot No. 1–11 Au Pui Wan Street, STTL 576, Fo Tan, Hong Kong	Residential	299.7	2022
New Kowloon Inland Lot No. 6556, Kai Tak Area 1F Site 2, Hong Kong	Residential	345.5	2021
Office Development at 2 Murray Road, Central, Hong Kong	Commercial	636.0	2023
Redevelopment of Kwong Wah Hospital Phase 1, Hong Kong	Hospital	275.5	2021
Residential Development of Lot No. 467 at site A of Wong Chuk Hang Station, Hong Kong	Residential	138.7	2022
Taikoo Place Phase 2B, Hong Kong	Commercial	481.9	2021
Tai Po Town Lot No. 221, Shan Tong Road, Lai Chi Shan, Tai Po, Hong Kong	Residential	486.6	2020
TMTL 500 Kwun Chui Road, Tuen Mun, Hong Kong	Residential	276.8	2020
Treasury Building, Cheung Sha Wan, Hong Kong	Public Building	134.4	2020
The Stage, London, UK	Residential	486.2	2021
North America			
540 West 21st Street, New York, USA	Commercial	208.7	2020
1568 Broadway, New York, USA	Commercial	301.1	2020
Harborside Phase 1 & 1A, New Jersey, USA	Commercial	132.6	2020
HEC Montreal, Canada	Public Building	108.0	2022
Landmark On Robson, 1400 Robson Street, Vancouver, Canada	Commercial	176.0	2020
St Jacques Victoria Sur Le Parc, Montreal, Canada	Residential	162.0	2022
Queen's Marque, Halifax, Canada	Commercial	116.3	2020
The One, Toronto, Canada	Residential	533.2	2021
YUL Condos, Montreal, Canada	Residential	119.2	2022
General Contracting Works			
57–59 Ma Tau Wai Road and 2–20 Bailey Street, KIL, 1151, Hong Kong	Residential	591.0	2020

CHAIRMAN'S STATEMENT

Expanding

NEW FUTURE

Huawei Production Center G1 Building, Shenzhen

CHAIRMAN'S STATEMENT

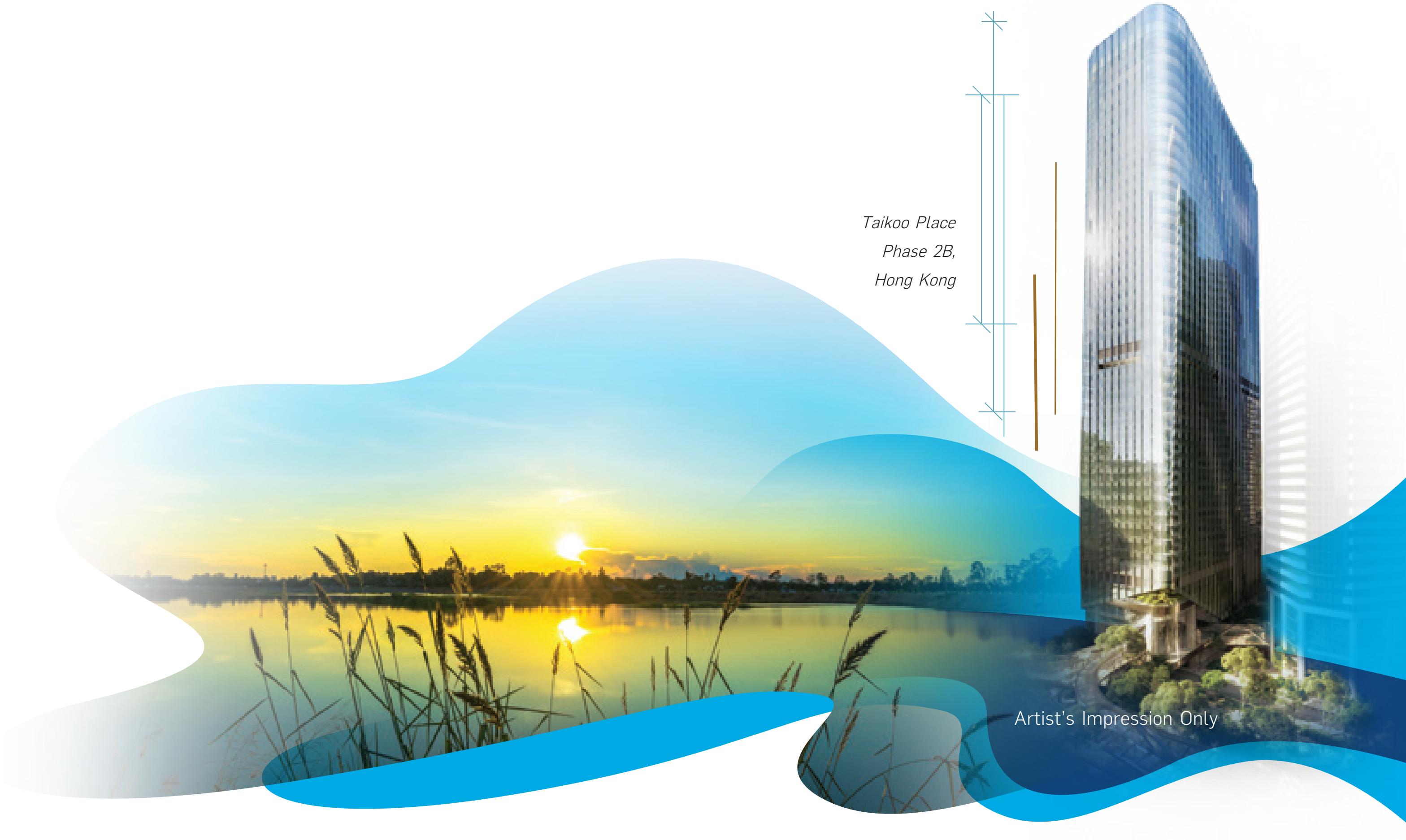
Mr. ZHANG Haipeng

Chairman and
Non-executive Director

The Group accurately capitalised on the changes in the macroeconomic environment, timely adjusted its operational strategies, consolidated its superior internal resources, effectively implemented the strategy of "driven by both traditional and new businesses".

The transformation of new business in Mainland China also made significant progress.

In 2019, China State Construction Development Holdings Limited and its subsidiaries (collectively the "Group") pursued the policy of "striving for higher quality and efficiency, innovation, optimisation, transformation and upgrade", accurately seized market opportunities, fully capitalised on internal synergy, timely adjusted the management structure and business layout, actively strengthened the traditional curtain wall business, pushed forward with various operational deployments in an orderly manner, and achieved significant results. In view of the Company's overall strategic development and its strategic position in the future and to further unify the brand image, the Group changed the name of the Company from "Far East Global Group Limited" to "CHINA STATE CONSTRUCTION DEVELOPMENT HOLDINGS LIMITED" in 2019, and implemented an in-depth dual-core-driven strategy of "traditional



Taikoo Place Phase 2B, Hong Kong

business and innovative business" to speed up strategic transformation. Pursuant to the strategic restructuring of the Group's assets, the Company acquired the infrastructure operation business of two bridges in Nanchang and Shenyang Huanggu Thermoelectricity business from the parent company to further consolidate the asset operating management business. The newly awarded contract value of the core curtain wall business reached a record high, while the general contracting business developed steadily and the operations in Mainland China progressed smoothly.

RESULTS

During the year ended 31 December 2019, the audited profit attributable to owners of the Group amounted to HK$176 million, representing an increase of 18.1% before restatement or a decrease of 4.0% after restatement from last year. In particular, the Group discontinued the operation of two factories for the traditional curtain wall business in Miami, US and Shenzhen, China during the year, and incurred a one-off severance and discontinuation expenses of approximately HK$42 million in total. Excluding such expenses, profit from core business amounted to HK$218 million, representing an increase of 46.6% before restatement and 19.1% after restatement from last year. Revenue from principal activities amounted to HK$4,619 million, representing an increase of 27.9% before restatement and 8.9% after restatement from last year. Earnings per share were HK8.14 cents, representing an increase of 18.1% before restatement and a decrease of 4.0% after restatement from last year.

DISTRIBUTION OF DIVIDENDS

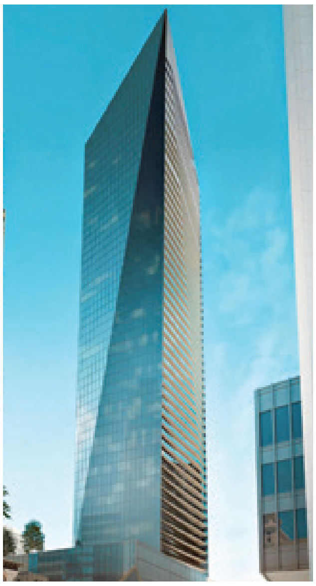
Taking into account of the development needs of operating management business in the future, the Board of Directors does not recommend the payment of a final dividend for the year ended 31 December 2019. The total dividends for the year amounted to HK1.20 cents per share.

BUSINESS REVIEW

Market conditions

In 2019, the global political and economic conditions wobbled amid intensifying trade protectionism in the US, escalating trade tensions around the globe, the mounting risk of hard Brexit, slowing global economic growth, and the apparent downtrend in emerging economies. The turmoil in the financial market intensified as the Federal Reserve suspended rate hikes and cut interest rates for the third time in a row during the year, and the central banks around the world restarted monetary easing measures. China-US trade disputes eased somewhat after the two countries had reached a phase one trade agreement, alleviating the pressure on economic slowdown in China. Following the implementation of a series of policies to stabilise the economy, China saw stable economic development in general with improving quality of growth.

The Group adhered to the operational strategy of "rooting in Hong Kong and Macau, relying on Mainland, exploring overseas markets, joining internal and external forces", persisted with its prudent bidding strategy, drew on internal synergy, and proactively developed premium projects that could enjoy branding effect.



St Jacques Victoria Sur Le Parc
Montreal, Canada

1. Contracting Engineering Business

Curtain Wall Business

Hong Kong and Macau are the traditional key markets of the Group. The Group overcame the adverse effects of the social events on the economy in Hong Kong, further stepped up its investment in the Hong Kong market, and consolidated the competitive advantages of the curtain wall business to further strengthen its leadership in Hong Kong's curtain wall market. In Macau, the high-end curtain wall market stabilised as the economy began to bottom out. As a recognized high-end curtain wall total solution provider in Hong Kong and Macau, the Group focused on deepening the strategic cooperation with its major clients and actively expanded its strategic client base while striving for better coordination internally. Its strong performance in the Hong Kong and Macau markets renewed the record for business scale, after the Group had successfully bid for iconic commercial projects with great technical difficulties and high quality requirements. In 2019, the Group's newly awarded projects in the regions included Building B of Two Taikoo Place, Section B of the commercial project building located in New Kowloon Inland Lot No. 6556 at Kai Tak, Phase I redevelopment of Kwong Wah Hospital in Kowloon, the commercial project at 2 Murray Road, Central, etc. The Group has put emphasis on managing the schedule, quality, safety, cash flow and efficiency of its projects in progress. Synergy is achieved by consolidating the internal design, procurement, production and installation resources of the Group. The Group has also been working on measures such as enhancing safety control and implementing incentive schemes, so as to adjust and maximise project teams' motivation.

Growth of the construction and curtain wall market in the US slowed down amid trade frictions. The Group consciously shifted its bidding strategy in North America towards Canadian regions where more mature resources and management conditions were found, focusing on profitable premium projects with controllable risks. During the year, in North America, the Group was awarded the projects of 700 St Jacques Victoria and 1500 Rene-Levesque in Montreal, Canada. Apart from these, more potential projects are being examined. With its effort in strengthening project cost control and contract management, promoting integrated management over its North American operations, and enhancing its cross-field resources allocation and coordination, the

Group successfully integrated and optimised production capacity of the US factories, and achieved initial results in cost reduction and efficiency enhancement. The lease of the factory in Miami was discontinued smoothly in 2019, and costs and expenses of more than US$4 million were expected to be saved each year from 2020 onwards. The level of management and control over the Group's projects in North America was improving continuously, and all projects in progress were proceeding smoothly.

There is huge potential in the curtain wall market in Mainland China, but disordered price competition in the industry is yet to be improved. The Group has been selective about curtain wall projects in Mainland China and has focused on major projects owned by creditworthy landlords. In 2019, the Group leveraged its branding effect to proactively explore strategic high-end clients in Mainland China. Capitalising on the internal synergy, the Group was awarded a number of premium projects, such as the curtain wall modification project at Building G1 of Huawei's production centre, the curtain wall subcontracting project of office and hotel buildings of China Overseas' Unipark Phase II, the specialised curtain wall subcontracting project for the reconstruction and expansion of Nanshan Hospital, the curtain wall project of Vitality Smart Island (活力智島) Phase II in the southern part of Nanjing Science and Technology Creative Park, and the curtain wall project in the core area of the life medical science and technology service platform in Xuzhou Economic and Technological Development Zone.

The largest manufacturing base of the Group in Mainland China began to take shape in Zhuhai as the Shenzhen factory was successfully relocated and merged with the new Zhuhai factory in the first half of 2019. With the production capacity of quality products of the Group's Hong Kong and Macau projects and the further upgrade and modification of the smart factory in Zhuhai, scalable production capacity was in place after the new Zhuhai factory had come into operation, with the capacity utilisation rate ramping up as planned. Benefiting from the opening of the Hong Kong-Zhuhai-Macau Bridge, the new Zhuhai factory will play a greater role leveraging its large capacity.

In addition to the Greater China region and North America, the Group was highly dedicated to the curtain wall projects in progress in other overseas regions, and prudently involved itself in local competition only when the performance risks of projects were manageable. In 2019, the police headquarters project in Melbourne, Australia, the project for the supply of components for West Side Place Stage 1 in Melbourne, Australia, as well as the project of The Stage in London, the UK were progressing well.

Contracting Business

The development of our contracting business was stable. The Group actively participated in the bidding of small and medium housing projects in Hong Kong, and proactively explored internal cooperation opportunities. Bidding work was progressing steadily. The projects in progress were proceeding smoothly, with the work regarding Chuang's residential development at Tuen Mun Town Lot No. 514 and Hong Kong Henderson Land's project in Ma Tau Wai being conducted in an orderly manner.

2. Operating Management Business

In 2019, pursuant to the strategic business transformation of the Group under the direction of the parent company, the Group further expanded its operating management business with the full support of the parent company. In the first half of 2019, the Group completed the acquisition of Nan Chang Bridge and Nan Chang Zhong Hai Xin Ba Yi Bridge operating management business from China State Construction International Holdings Limited ("CSC"), our controlling shareholder. In September 2019, the Group announced the acquisition of Shenyang Huanggu Thermoelectricity operating business from CSC, our controlling shareholder, and completed the acquisition process at the end of 2019. It is expected that the acquisitions above will bring stable cash flow and considerable returns, laying a solid foundation for the Group's expansion into new operating businesses, making a further step in the transition of the Group towards a professional operation enterprise, and promoting the vertical in-depth development of the Group's dual-core driven strategy.

Furthermore, the name of the Company has been changed from "Far East Global Group Limited" to "CHINA STATE CONSTRUCTION DEVELOPMENT HOLDINGS LIMITED". The change of the Company's name will better reflect the strong branding effect of "China State Construction", and is more compatible to the direction of the Group's future business development.

Abiding by its "big markets, big landlords, and big projects" operational strategy while enhancing the business synergy within its systems, China Overseas Supervision (中海監理) of the Group was awarded a number of projects, such as the Shenzhen Innovation and Technology Zone project in Shenzhen-Hong Kong Innovation and Technology Co-operation Zone, the archives project in Shenzhen Longhua District, and the Leping Jing Ying and Lushui River projects, which further bolstered the advantages of the supervision business.

The Group has also been proactively exploring investment and operating business in the elderly care sector. Preliminary planning and design of the investment project involving elderly care apartments in Toronto, Canada were completed and executed as scheduled, which represented a step forward in the Group's investment business.

New Projects Awarded

In 2019, the Group undertook 31 projects in total, with an aggregate contract value of HK$5,054 million. Among them, Asia Pacific and Greater China region accounted for HK$4,562 million, representing 90% of the total; North America region accounted for HK$492 million, representing 10% of the total.

Projects in Progress

As at 31 December 2019, the Group's total contract value of projects in progress amounted to HK$15,279 million, among which the contract value attributable to uncompleted projects on hand amounted to HK$8,196 million.

Corporate Governance

Adhering to the corporate governance philosophy of honesty, integrity, transparency and efficiency, the Group strictly complied with various laws and regulations and abided by the Listing Rules and regulatory requirements. The Group continuously improved its corporate governance structure and measures to gradually establish and optimise a series of policy systems, internal control system and management mechanism and processes to ensure sound corporate governance. The board of directors strived to maintain high standard commercial ethics, healthy corporate culture and excellent corporate governance, so that the Group was able to actively adjust its business strategy in response to changes of market trends, allowing each professional decision-making team to play its role and strengthening the regionalised governance capability of each business unit.

Risk Management and Control

The Group continued to improve its internal control system to enhance the ability of risk predictions and the effects of risk management and control, and promote the integration of internal control and business processes. In response to changes in business environments and regulatory requirements, the Group strengthened supervision over major areas and key issues to prevent operational risks and eliminate management loopholes. The Group continued to improve its management systems and optimise mechanisms and procedures to ensure healthy operations.

The Group monitored the policies in overseas markets and the trends of exchange rates constantly and focused its resources on key cities in Europe and North America with relatively optimistic economic prospects to avoid political and exchange rate risks.

Financial Management

In 2019, the Group continued to enhance its financial management. Under the principle of stringent financial management, the Group improved the efficiency in utilisation of its capital and actively expanded its finance channels. In addition, the Group focused on expediting its collection of payments due from projects, thereby improving cash flow and liquidity pragmatically, and effectively fulfilling the capital needs of projects in progress and investment projects. As at 31 December 2019, the Group's cash and cash equivalents amounted to a total of HK$827 million. Total borrowings amounted to HK$868 million, and the net gearing ratio was 3.9%. The Group had sufficient credit facilities to meet the needs of its future business development thanks to its sound financial conditions. At the same time, the Group had committed but unutilised credit facilities and other facilities such as construction performance bond facility of HK$2,051 million in aggregate.

Human Resource Management

By persisting in the "people-oriented" managerial philosophy, the Group emphasises the attraction, retention, and cultivation of all levels of talents who recognise its corporate vision. The Group improves employees' satisfaction and work efficiency by creating a variety of systems that cover employees' recruitment, training, performance assessment and remuneration, and has established an open and transparent mechanism for staff selection and employment to provide its employees with a healthy environment for professional competition and development. During the year, the Group implemented its lecture system to enrich training and the exchange of ideas. The Group also continued to improve its KPI assessment for the purpose of establishing a more comprehensive assessment system. The further implementation of the "Site Contracting Responsibility System" (《地盤目標管理責任制》), the "Design Contracting Incentives System" (《設計承包激勵制度》), the "Site-related Integrated Appraisal and Incentives Methods" (《地盤綜合獎勵評選辦法》) and the "Shenzhen Production Line Motivation System" (《深圳生產線激勵制度》) in Hong Kong, Macau and Mainland China has greatly improved the enthusiasm and work efficiency of employees.

The Group has also formulated solutions targeted to the needs of employees for regimes, procedures, benefits and training, and built a smooth communication platform to create a sound communication atmosphere and contribute ideas for the development of the Company.

As at 31 December 2019, the Group had a total of 3,197 employees.

Social Responsibilities

The Group has been a participant of charity events such as "Walks for Millions" and "Kids' Dream" for many years. The Group is also named a "Caring Company" by virtue of its active participation in and promotion of the "Earth Hour" event, demonstrating its dedication towards the community and contribution to social harmony and stability.

PROSPECTS

Looking forward to 2020, continual global trade frictions and geopolitical tensions, slowdown in global economic growth, the complicated and ever-changing general outlook of the macroeconomy, and the frequent occurrence of "black swan" and "grey rhino" events contribute to mounting uncertainties in the market, thus presenting new risks and challenges to the global economy. The second round of China-US trade talks is about to begin. Affected by the novel coronavirus outbreak, the downward pressure on the Chinese economy remains large in the short term. However, in view of faster economic transformation and structural adjustment, internal growth momentum of the Chinese economy will build up, which will promote the long-term stability and healthy development of the country's economy. Moreover the group's factory in China have reopened and operated in March 2020.

The recovery of construction market in North America will slow down as growth momentum of the US economy diminishes. Hong Kong's construction market size will remain stable despite stiffer competition. The economy in Macau will start to recover after major correction. The continual construction of Guangdong-Hong Kong-Macau Bay Area will usher in ample opportunities for the construction industry in Hong Kong and Macau. There is huge potential in the curtain wall market in Mainland China. The imbalance between demand and supply in the curtain wall market in the Mainland manifests itself, resulting in more disordered competition

Business and Development Strategies

The curtain wall business is the Group's core business. The Group will continue to adopt the operational strategy of "big markets, big landlords, big projects", adhere to the business philosophy of "closely focusing on high-end markets and providing high-quality services", integrate advantageous resources, improve its operational and management and control models by taking into consideration the features of various markets, and optimise business deployment. It will further dive into the Hong Kong and Macau markets and participate in the competition in the North America and Mainland China markets with sustainable strategies. At the same time, it will prudently explore other overseas markets such as Australia, the UK and Asia-Pacific region. The Group will further utilise and integrate existing resources and production capacity, continue to focus on the work schedule, quality, safety, capital and cost management of projects and production restructuring plan while improving the synergies created during design, production and installation processes. The Group will sharpen its integrated competitive edges in its curtain wall business. Efforts will be made to further improve branding and market development, strengthen management over projects on hand, consolidate the Group's core competitiveness in design, procurement, production and construction, and exercise rigorous control over the project risks while maintaining desired profitability.

The Group highly values the building of its design teams, and will strengthen its design teams in Hong Kong and North America while expanding its design teams in Mainland China, by continuously recruiting additional experts and coordinating resources to ensure the design standards of key projects in Hong Kong, Macau and overseas markets. Meanwhile, the Group will provide stronger support to its personnel serving overseas, which includes establishing the basic policies for overseas core management team setup and the remuneration and benefits of personnel serving overseas, thereby maintaining the stability of overseas teams and enhancing the Group's cohesiveness and competitive strengths.

The Group will strengthen its system, make a plan in advance and facilitate communication for project design and construction plan evaluation. In addition, the Group will dovetail the design and production processes of projects to elevate the contract business management levels. Efforts will be increased to improve planning for the procurement of materials and for better process-oriented management to ensure successful completion of all projects.

In respect of its general contracting business, to cope with the robust demand for small and mediumsized buildings in Hong Kong's construction market, the Group will actively leverage the rich experience of China State Construction International, our controlling shareholder, in project management, and utilize the synergy with China State Construction Engineering (Hong Kong) to actively expand its client base in target markets and secure premium projects.

In the field of operating management business, while further improving the operation model of its operating management business, the Group will thoroughly explore the direction of its innovative businesses in Mainland China, and continue to study the feasibility of injecting quality operation assets from its system. The Group will also proactively seek for opportunities of merger and acquisition of quality assets, promote industry-finance integration, and strive to increase the contribution of its operating management business in order to achieve its dual-core-driven strategic objective.

The board of directors is able to discern and face various problems that may arise in the course of development and wishes to, through constant exploration and efforts, establish and maintain a healthy system integrating the mutual interests of shareholders, the board of directors, management and general employees as well as customers to promote the sustainable growth of the Group's revenue and profitability.

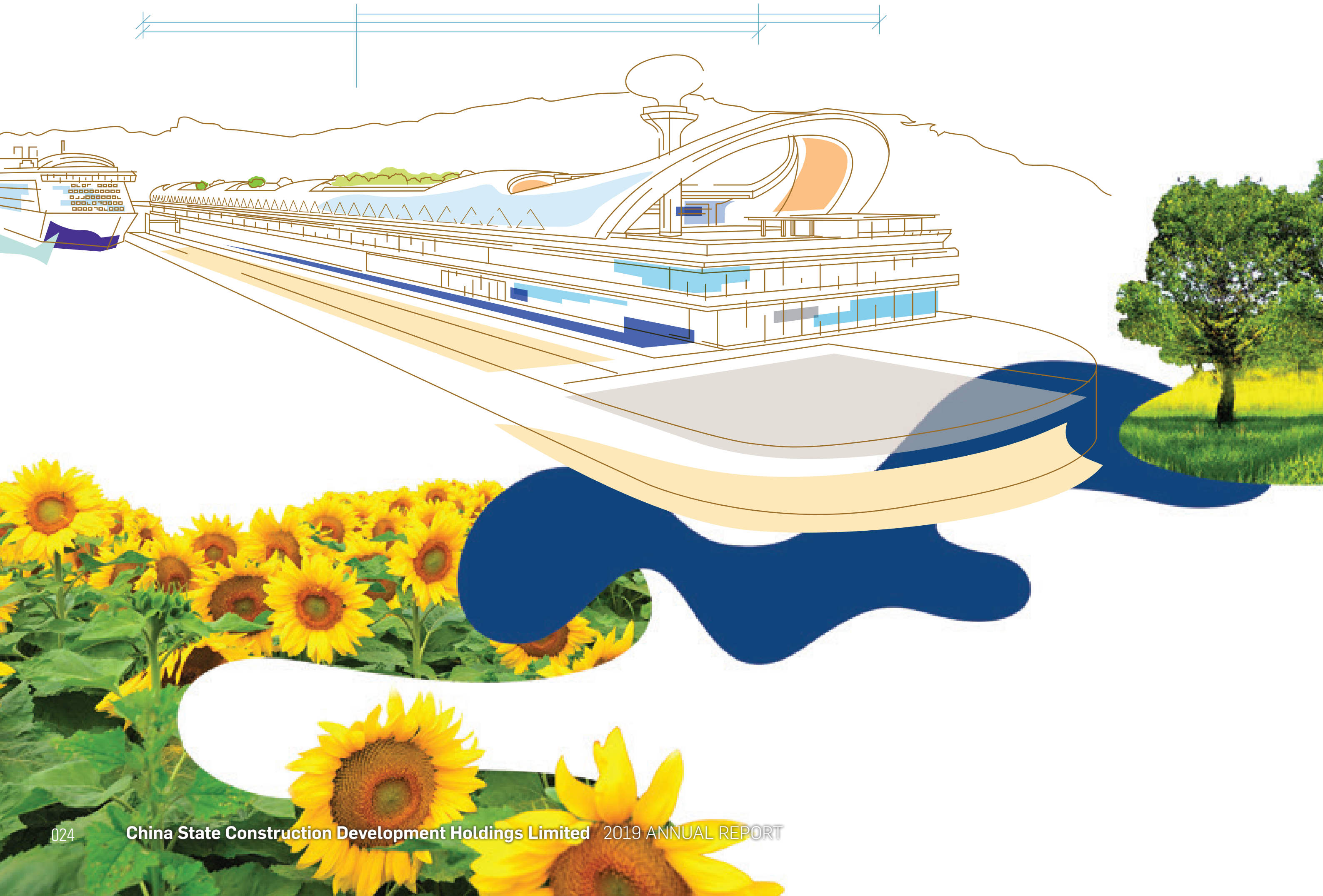
APPRECIATION

I would like to take this opportunity to express my heartfelt gratitude to all shareholders and customers for their strong support and to all employees for their hard work and commitment.

By Order of the Board
CHINA STATE CONSTRUCTION DEVELOPMENT HOLDINGS LIMITED
Zhang Haipeng
Chairman and Non-executive Director

Hong Kong, 24 March 2020

A New Voyage, CHINA STATE CONSTRUCTION DEVELOPMENT SAILS TO A NEW DIRECTION



Redevelopment of Kwong Wah Hospital Phase 1, Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL PERFORMANCE

For the year ended 31 December 2019, the Group continued to expand the Group's operating asset portfolio, enabling the Group to head to the strategic target of "Dual-core Driving" by construction related business and operating management business. The Group recorded aggregate revenue of HK$4,619 million (2018 (restated): HK$4,243 million), an increase of 8.9% as compared to last year. The profit attributable to owners of the Company was HK$176 million (2018 (restated): HK$183 million), a decrease of 4.0% as compared to last year. Excluding the impact of one-off expenses of discontinuation of factories amounting to HK$42 million, the profit from core business was HK$218 million, increased by 46.6% as compared to the profit attributable to owners of the Company before restatement of last year. The basic earnings per share was HK8.14 cents (2018 (restated): HK8.48 cents), a decrease of 4.0% as compared to last year. Taking into account of the development needs of operating management business in the future, the Board of Directors does not recommend the payment of a final dividend for the year ended 31 December 2019. The total dividend for the year amounted to HK1.2 cents per share, representing 14.7% payout of the distributable profit for the year.

During the year, the Group acquired 100% of equity interests in and shareholder's loan to Fuller Sky Enterprises Limited ("Fuller Sky") and Value Idea Investments Limited ("Value Idea") from Ever Power Group Limited, a wholly owned subsidiary of China State Construction International Holdings Limited for a total consideration of HK$295 million. Fuller Sky holds 55.24% of the equity interests in a joint venture company which owns the management and operation rights for the Nan Chang Zhong Hai Xin Ba Yi Bridge. Value Idea holds 55.24% of the equity interests in three joint venture companies which together own the management and operation rights for the Nan Chang Bridge.

The Group also acquired 100% of equity interests in Shenyang Huanggu Thermoelectricity Company Limited ("Shenyang Huanggu") from Ever Power Group Limited for a cash consideration of approximately HK$674 million. The acquisition was treated as common control combination and merger accounting was adopted as if Shenyang Huanggu had been combined from the date when Shenyang Huanggu first came under the control of the controlling party. The comparative figures of the consolidated financial statements have been restated.

Segment Analysis

Facade Contracting Business

Revenue contribution from the segment remained stable, the segment's revenue recorded an increase to HK$2,786 million for the year ended 31 December 2019 (2018: HK$2,518 million). The operating profit decreased to HK$123 million for the year ended 31 December 2019 (2018: HK$144 million). It is due to the fact that the discontinuation of the factories in Shenzhen, China and Miami, US incurred one-off discontinuation expenses amounting HK$42 million during the year and the newly awarded projects of 2019 have not yet made a significant contribution in the preliminary stage of construction.

General Contracting Business

The segment delivered a steady growth of revenue to HK$941 million for the year ended 31 December 2019 (2018: HK$851 million). The segment profit decreased to HK$47 million for the year ended 31 December 2019 (2018: HK$64 million) as a results of the increase in construction cost of certain projects.

Operating Management Business

With the contribution from newly acquired Shenyang Huanggu, Nan Chang Zhong Hai Xin Ba Yi Bridge and Nan Chang Bridge, the segment's revenue recorded a revenue of HK$893 million for the year ended 31 December 2019 (2018 (restated): HK$874 million). The operating profit increased to HK$199 million for the year ended 31 December 2019 (2018 (restated): HK$123 million).

南山醫院改造工程項目, Shenzhen

Administrative, selling and other operating expenses

As a results of the acquisition of Shenyang Huanggu and the restructure of business unit in North America, administrative expenses increased by 15.9% to HK$248 million (2018 (restated): HK$214 million).

Finance costs

For the year ended 31 December 2019, the Group's finance costs increased to HK$39 million (2018 (restated): HK$29 million) as a result of the increase in bank borrowings.

New Contracts Awarded and Project in Progress

The Group recorded an accumulated new contract value of HK$5,054 million for the year ended 31 December 2019 and achieved the full year target of 2019.

As of 31 December 2019, the on-hand contract value amounted to approximately HK$15,279 million, among which the backlog was approximately HK$8,196 million.

Business Segments	New Contract Awarded (HK$ million)	Project in Progress Total Value (HK$ million)	Project in Progress Backlog (HK$ million)
Curtain Wall	4,538	12,051	6,956
Building Works	16	2,362	724
Operating Management	500	866	516
Total	5,054	15,279	8,196

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operation with internally generated cash flow and credit facilities provided by its principal bankers. At 31 December 2019, the Group had cash and cash equivalents of HK$827 million (31 December 2018 (restated): HK$697 million), total borrowings of the Group were HK$868 million (31 December 2018 (restated): HK$750 million), of which approximately 44%, 6% and 50% were denominated in Hong Kong dollars, Canadian dollars and US dollars respectively. The Group's net gearing ratio (net debt to total net assets) as at 31 December 2019 was approximately 3.9% (31 December 2018 (restated): 5.5%). Furthermore, the Group had unutilised banking facilities (including performance guarantee facilities, working capital facilities and loan facilities) of approximately HK$2,051 million, the Group had sufficient financial resources to meet the business development and expansion. The Group's borrowings are principally on a floating rate basis and have not been hedged by any interest rate financial instruments.

The maturities of the Group's bank and other borrowings, including a loan from a fellow subsidiary, as at 31 December 2019 and 31 December 2018 are set out as follows:

	31 December 2019 HK$'000	31 December 2018 HK$'000 (restated)
On demand or within one year	**655,780**	505,178
More than one year but not exceeding two years	**200,494**	455
More than two years but not more than five years	**11,264**	234,665
More than five years	**—**	9,806
Total borrowings	**867,538**	750,104

The portfolio of the currencies of cash and cash equivalents of the Group as at 31 December 2019 and 31 December 2018 is set out as follows:

	31 December 2019	31 December 2018
	%	%
		(restated)
Renminbi	**82**	64
Hong Kong Dollars	**11**	11
United States Dollars	**1**	2
Macau Pataca	**1**	3
Others	**5**	20

As at 31 December 2019, the Group's equity attributable to owners of the Company amounted to HK$1,125 million (31 December 2018 (restated): HK$1,028 million), comprising issued capital of HK$22 million (31 December 2018: HK$22 million) and reserves of HK$1,103 million (31 December 2018 (restated): HK$1,006 million).

TREASURY POLICY

The Group adopts a conservative treasury policy in cash and financial management. The Group's treasury activities are centralised in order to achieve better risk control and minimise cost of funds. Cash is generally placed in short-term deposits mostly denominated in Hong Kong dollar or Renminbi. The Group's liquidity and financing requirements are frequently reviewed. In anticipating new investments or maturity of bank loans, the Group will consider new financing while maintaining an appropriate level of gearing.

EMPLOYEES AND REMUNERATION POLICY

At 31 December 2019, the Group employed a total of 3,197 (31 December 2018: 2,735) employees. The Group has sound policies of management incentives and competitive remuneration, which align the interests of management, employees and shareholders' alike. The Group sets its remuneration policy by reference to the prevailing market conditions and the performance of the individuals concerned, subject to review from time to time. The components of the remuneration package consist of base salary, allowances, fringe benefits including medical insurance and contributions to pension funds as well as incentives such as discretionary bonus.

DIRECTORS AND ORGANISATION

BOARD OF DIRECTORS

Mr. ZHANG Haipeng

Chairman and Non-executive Director
Chairman of the Nomination Committee
Member of the Remuneration Committee

Aged 44, was appointed as Chairman of the Board and a Non-executive Director on 18 August 2018. Mr. Zhang graduated from the Harbin Institute of Technology, and obtained a degree of Master of Business Administration from Hong Kong Baptist University and a degree of Executive Master of Business Administration from Nankai University. He joined 中國建築集團有限公司 (China State Construction Engineering Corporation*, "CSCEC") in 2000 and was seconded to China State Construction International Holdings Limited ("CSC", a company listed on the Main Board of The Stock Exchange of Hong Kong Limited) in 2002. Mr. Zhang has been a director of certain subsidiaries of CSC since 2008. Currently, he is an executive director and chief executive officer of CSC. CSCEC and CSC are controlling shareholders of the Company. Mr. Zhang has over 20 years of experience in construction engineering management.

Mr. WU Mingqing

Vice Chairman, Executive Director and
Chief Executive Officer
Member of the Nomination Committee
Member of the Remuneration Committee

Aged 55, was appointed as Vice Chairman of the Board, an Executive Director and Chief Executive Officer on 18 August 2018. Mr. Wu is also a director of the Company's subsidiaries. He graduated from Shanxi University of Finance and Economics and obtained a degree of Executive Master of Business Administration from Nankai University. Mr. Wu was awarded the title of Senior Accountant. He joined CSCEC in 1986 and was seconded to CSC in 2000. Mr. Wu has been a director of certain subsidiaries of CSC since 2002. He was an executive director of CSC between June 2014 and August 2018. Mr. Wu has over 34 years of experience in financial management, construction engineering, infrastructure investment and project management.

* *for identification purpose only*

Mr. WANG Hai

Executive Director, Senior Vice President

Aged 47, was appointed as an Executive Director on 15 August 2012. Mr. Wang is Senior Vice President of the Group, responsible for the Group's operations in the North America region. He is also a director of the Company's subsidiaries. Mr. Wang joined the Group in March 2012 and held various senior management positions including Chief Executive Officer and Associate Chief Executive Officer of the Company. He ceased to be Associate Chief Executive Officer on 21 September 2015 when he was reallocated to North America taking charge of North America business. Mr. Wang graduated from Tianjin University and Greenwich University and is a member of the Royal Institution of Chartered Surveyors. He joined CSCEC in 1994 and started getting involved in the operation of certain subsidiaries of CSC since 2003. Mr. Wang has over 26 years of experience in international corporation management in the industry of building and infrastructure investment in North America, Hong Kong and Mainland China.

Mr. CHAN Sim Wang

Executive Director and Chief Financial Officer

Aged 51, was appointed as an Executive Director and Chief Financial Officer on 2 March 2012. Mr. Chan is also a director of the Company's subsidiaries. He graduated from Hong Kong Baptist University (formerly known as Hong Kong Baptist College). Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants and Fellow of the Association of Chartered Certified Accountants. He joined the CSC Group in 1997 and was a director of certain subsidiaries of CSC. Prior to joining the Company, Mr. Chan was deputy general manager of Finance and Treasury Department of CSC. He has over 27 years of experience in finance, accounting and auditing. Mr. Chan has experience in supervising the accounts and finance departments of various subsidiaries of CSC in Mainland China and overseas.

Mr. HUANG Jiang

Non-executive Director

Aged 45, was appointed as a Non-executive Director on 16 March 2017. Mr. Huang graduated from Chongqing Jianzhu University and holds a Master's degree in Project Management from Hong Kong Polytechnic University and an Executive Master's degree in Business Administration from Nankai University. He joined CSCEC in 1997 and was seconded to CSC in 2000. Mr. Huang has been a director of certain subsidiaries of CSC since 2007. Currently, he is an Assistant President of CSC. Mr. Huang has over 23 years of experience in contract and project management.

Mr. ZHOU Jinsong

Independent Non-executive Director
Chairman of the Audit Committee
Member of the Nomination Committee
Chairman of the Remuneration Committee

Aged 49, was appointed as a Director on 8 March 2010 and was subsequently designated as an Independent Non-executive Director on 10 March 2010. Mr. Zhou graduated from Guangdong Radio and TV University in 1992 and obtained a Master of Business Administration degree from Harbin Institute of Technology in 2003. He is a Certified Public Accountant licensed in the People's Republic of China ("PRC"). Mr. Zhou has extensive experience in accounting, audit and business advisory in various audit firms and private companies in the PRC. He was an accountant supervisor in the fund management office of the Shenzhen Cultural Development Department (深圳市宣傳文化事業發展專項基金領導小組辦公室) from 1995 to 2002. Mr. Zhou is currently the President of Weiya, an accounting firm in Shenzhen.

Mr. HONG Winn

Independent Non-executive Director
Member of the Audit Committee
Member of the Nomination Committee
Member of the Remuneration Committee

Aged 50, was appointed as a Director on 8 March 2010 and was subsequently designated as an Independent Non-executive Director on 10 March 2010. Mr. Hong obtained a Bachelor of Science degree in Aerospace Engineering and a Master of Science degree in Mechanical Engineering from the University of California, Los Angeles in 1993 and 1996, respectively. He graduated from the University of Chicago with a Master of Business Administration degree in 2005. Mr. Hong is Deputy Executive Director for the Alfred E. Mann Institute for Biomedical Engineering at the University of South California (AMI-USC) focusing on biotechnology, medical device, and medical and health care technologies. He is a member of the College of Fellows of the American Institute for Medical and Biological Engineering and has over 20 years of experience in high-tech product development and high-tech start-up success and leadership.

Ms. KWONG Sum Yee Anna

Independent Non-executive Director
Member of the Audit Committee
Member of the Nomination Committee
Member of the Remuneration Committee

Aged 70, was appointed as an Independent Non-executive Director on 1 July 2013. Ms. Kwong is managing director of Anna Kwong Architects & Associates. She holds a Bachelor of Arts degree (Honours) in Architectural Studies and a Bachelor of Architecture degree from the University of Hong Kong. Ms. Kwong is a Registered Architect in Hong Kong and an Authorised Person (List of Architects) of Hong Kong. She possesses Class 1 Registered Architect Qualification of the PRC. Ms. Kwong is a past president and fellow of the Hong Kong Institute of Architects, an ex-member of the Hong Kong Architects Registration Board and a member of the Hong Kong Institute of Directors. She has over 42 years of professional experience in the architectural field.

SENIOR MANAGEMENT

Mr. HO Wai Man, Raymond

Senior Vice President

Aged 58, joined the Group in April 2012 and is responsible for the general management of the Group's general contracting business. Mr. Ho received his Bachelor of Science degree in Civil Engineering from the National Cheng Kung University, Taiwan in 1984 and a Master of Science degree in Civil Engineering from the Queen's University of Belfast, United Kingdom in 1986. He is a member of Hong Kong Institute of Construction Managers. Mr. Ho joined the CSC Group in 1994 and has over 34 years of experience in engineering, construction, contract administration, project management, tendering and business development in Hong Kong and overseas.

Mr. WANG Yapeng

Assistant President

Aged 44, joined the Group in June 2018 and is responsible for the overall management of the Group's construction supervision business. Mr. Wang graduated from Huazhong University of Science and Technology and Renmin University of China, and holds a Bachelor's degree in Engineering and a Master's degree in Management. He joined CSCEC in 2004 and was seconded to China Overseas Holdings Limited in 2007. Mr. Wang has over 16 years of experience in enterprise management, human resources and administration.

Mr. TAN Yong

Deputy Chief Financial Officer

Aged 44, joined the Group in September 2016 and is responsible for the treasury function of the Group and in charge of the finance departments of certain subsidiaries in Mainland China. Mr. Tan graduated from Huazhong University of Science and Technology and Zhongnan University of Economics and Law, and holds a Master's degree in Accountancy. He is a member of Chartered Institute of Management Accountants of the United Kingdom and Chartered Global Management Accountant. Mr. Tan joined China Overseas Holdings Limited in 2000 and has over 18 years of experience in finance, accounting, taxation and funds management in property development, construction and infrastructure investment businesses.

Mr. ZHU Minfeng

General Manager, 遠東恒輝幕牆（珠海）有限公司 (Far East Heng Fai Facade (Zhuhai) Limited)

Aged 40, joined the Group in September 2018 and is the general manager of Far East Heng Fai Facde (Zhuhai) Limited. Mr. Zhu graduated from Southeast University and Huazhong University of Science and Technology, and holds a Bachelor's degree and a Master's degree in Engineering. He joined the CSC Group in 2003 and has over 17 years of experience in construction engineering management.

Mr. LAU Sai Ying, Alan

Marketing Director, Far East Aluminium Works Company Limited

Aged 59, joined the Group in 1997 and is responsible for the marketing function of the Group in Hong Kong, Macau, the United Kingdom and Australia. Mr. Lau received his Bachelor of Science degree in Civil Engineering from the University of Manitoba, Canada in 1981. He is a member of Hong Kong Institution of Engineers, a registered professional engineer in Hong Kong and professional engineer for the Province of Ontario, Canada. Mr. Lau has over 30 years of construction, engineering and facade system project management and marketing experience in Canada and Hong Kong.

Mr. CHAN Sun Nung

Technical Director, Far East Aluminium Works Company Limited

Aged 60, joined the Group in 2003 and is responsible for the facade design function of the Group in Hong Kong, Macau, the United Kingdom and Australia. Mr. Chan received his Master's degree in Construction Engineering and Management from Griffith University, Australia in 2006 and has been a council member of Hong Kong Facade Association since 2005. He has over 39 years of experience in curtain wall design.

Mr. MOK Wai Him

Project Director, Far East Aluminium Works Company Limited

Aged 59, joined the Group in 1996 and is responsible for the project management of the Group's projects in Hong Kong, Macau and Australia. Mr. Mok received his Bachelor of Science degree in Applied Physics from the University of Essex, United Kingdom in 1983 and a Master's degree in Instrumentation and Analytical Science from the University of Manchester Institute of Science and Technology, United Kingdom in 1986. He is a member of the Institute of Measurement and Control in the United Kingdom and an associate member of the Chartered Institution of Building Services Engineers. Mr. Mok has over 31 years of experience in project management.

GOVERNANCE FRAMEWORK

The Company is committed to building and maintaining high standards of corporate governance to promote corporate accountability, transparency and integrity. The Board recognises that good corporate practices are fundamental to the smooth and effective operation of the Group and protection of the interests of shareholders and other stakeholders.

The Company has applied the principles, and complied with all code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2019, save for the following deviation:

Code provision E.1.2 — code provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting. Mr. Zhang Haipeng, Chairman of the Board and Non-executive Director, was unable to attend the annual general meeting held on 29 May 2019 due to other business engagement and Mr. Wu Mingqing, Vice Chairman and Chief Executive Officer, chaired the meeting in his stead to answer questions at the meeting. The Vice Chairman reported back to the Chairman the views of shareholders after the meeting.

THE BOARD

The Board has a collective responsibility for promoting the Company's long-term sustainable success and delivering long-term value to shareholders. The Board is responsible for managing the Group, agreeing strategy, overseeing performance and discharging certain legal responsibilities. The Board delegates day-to-day responsibility for running the Group to the Company management and governance responsibility in relation to audit and risk management, remuneration, board composition and succession planning to the Board committees. Details of the Board committees' responsibilities are described more fully in the "Board Committees" section of this report. The Board reserves for its consideration and decision matters affecting the Group as a whole including approval of the Group's financial statements and dividends, Board appointments, major acquisitions, disposals and certain material contracts, broad policies and systems of internal control and risk management (supported by the Audit Committee) and corporate governance and compliance arrangements.

As at 31 December 2019, the Board comprised eight Directors — three Executive Directors, two Non-executive Directors and three Independent Non-executive Directors. The Directors have a broad range of expertise and experience, which we believe, contributes significantly to the effectiveness of the Board. The names of the Directors in office as at 31 December 2019 are set out in the "Board of Directors and Committees" section of this Annual Report and their biographical details are set out on pages 30 to 32.

The Company has received from each of the Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. Although some of the Independent Non-executive Directors have served more than nine years, the Company continues to consider all of them to be independent having regard to (i) their annual confirmation on independence; (ii) the absence of their involvement in the day-to-day management of the Company; and (iii) the absence of any relationships or circumstances which would interfere with the exercise of their independent judgement.

The roles of Chairman and Chief Executive Officer are performed by separate individuals in accordance with the CG Code. There is a clear division of responsibilities between the Chairman and Chief Executive Officer to ensure a balance of power and authority so that no one individual should have unfettered powers of decision-making. The Chairman of the Board, Mr. Zhang Haipeng, leads the Board and ensures its effectiveness in directing the Company. The Chairman achieves this through promoting a culture of open and constructive debate among all Board members, both executive and non-executive. The Chairman encourages high standards of corporate governance and ensures that the Board receives accurate, timely and clear information, and is consulted on all relevant matters. The Chief Executive Officer, Mr. Wu Mingqing, leads the Group's performance and management and implements Board decisions, policies and strategies. The Chief Executive Officer develops and promotes compliance with the Company's policies on conducting business around the world.

The Board meets regularly and at least four times a year. Additional meetings of the Board or the Board committee established by it to consider specific matters, can be convened, when necessary. During the year, the Board held six meetings. In addition to physical meetings, Directors participate in the deliberation and approval of routine and operational matters of the Company by circulation of written resolutions with supporting explanatory materials. For regular meetings of the Board and Board committees, Directors receive notice and agenda at least 14 days in advance and supporting Board papers no less than three days prior to the meeting. For other meetings, Directors are given as much notice as is reasonable and practicable in the circumstances. Where Directors have not been able to attend a Board or committee meeting, they have reviewed the papers circulated for that meeting and provided their comments directly or through the Company Secretary, to the Chairman or the Committee chair, as appropriate.

The attendance of Directors at general meetings, meetings of the Board and Board committees of which they were members during the year is set out in the table below.

	Meetings attended/eligible to attend				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	General Meetings
Chairman and Non-executive Director					
Zhang Haipeng	6/6	—	2/2	1/1	1/3
Executive Directors					
Wu Mingqing	6/6	—	2/2	1/1	3/3
Wang Hai	3/6	—	—	—	2/3
Chan Sim Wang	6/6	—	—	—	3/3
Non-executive Director					
Huang Jiang	6/6	—	—	—	3/3
Independent Non-executive Directors					
Zhou Jinsong	6/6	4/4	2/2	1/1	3/3
Hong Winn	6/6	4/4	2/2	1/1	3/3
Kwong Sum Yee Anna	6/6	4/4	2/2	1/1	3/3

The Board recognises the importance of individual members having sufficient time available to discharge their duties effectively. Additional commitments of Directors are carefully reviewed on appointment, before new directors are accepted onto the Board. Each Director is fully aware of his duties and responsibilities as a Director of the Company and the requirement to give sufficient time and attention to the affairs of the Company. The Non-executive Directors provide a strong independent element on the Board and collectively bring independent and objective judgement to bear on Board decisions through regular attendance and active participation in the meetings of the Board and the Board committees on which they serve. All Independent Non-executive Directors serve on the Board committees, each of which is chaired by either a Non-executive Director or an Independent Non-executive Director. Through the Board committees and through the Board, Independent Non-executive Directors ensure that the integrity of financial information, financial controls and systems of risk management are robust and defensible. They also determine appropriate levels of remuneration and are involved in succession planning and appointments.

Directors have access to relevant and timely information, and they can ask for further information if necessary. They also have direct access to the Company Secretary for advice and, if required, can seek independent professional advice at the Company's expense. There is an agreed procedure to enable them to do so which is managed by the Company Secretary. Directors are given sufficient time for discussion at the Board meetings. Where queries are raised by Directors, prompt and full responses will be given if possible.

If a conflict of interest involving a substantial shareholder or a Director arises, the matter will be discussed at a physical meeting, as opposed to being dealt with by written resolution. Independent Non-executive Directors with no material interest in the proposed matter or transaction will be present at the meeting to deal with the conflict.

The Company has in place appropriate directors and officers insurance cover in respect of legal action against Directors. The coverage and sum insured under the directors and officers issuance policy are reviewed annually.

All Non-executive Directors are appointed under letters of appointment for specific terms. Directors appointed by the Board shall hold office until the first general meeting following their appointments in the case to fill a casual vacancy or until the next following annual general meeting in the case as an addition to the Board. Such Directors shall then be eligible for re-election. In addition, all Directors are subject to retirement by rotation at least once every three years in accordance with the Articles of Association of the Company. A retiring Director is eligible for re-election and re-election of retiring Directors at general meetings is dealt with by separate resolutions.

If an Independent Non-executive Director serves more than nine years, his/her further appointment should be subject to a separate resolution to be approved by shareholders and the circular to shareholders will include the reasons why the Board believes he/she is still independent and should be re-elected.

All newly-appointed Directors are briefed on the duties and responsibilities they owe as directors to the Company as well as on the relevant Company policies and key governance issues following their appointments. Directors are encouraged to attend internal and external briefings and courses on aspects of their respective committee specialisms. Training and regular updates on relevant legal, regulatory and corporate governance matters are provided to Directors as appropriate.

All Directors are required to provide training records to the Company on a regular basis and such records are maintained by the Company Secretary.

During the year, the participation of individual Directors in the continuing professional development activities is set out as below:

	Attending seminars, conferences, courses or briefings, or giving talks	Reading relevant materials
Directors		
Zhang Haipeng	√	√
Wu Mingqing	√	√
Wang Hai	√	√
Chan Sim Wang	√	√
Huang Jiang	√	√
Zhou Jinsong	√	√
Hong Winn	—	√
Kwong Sum Yee Anna	√	√

BOARD COMMITTEES

The Board currently has three committees, namely the Audit Committee, Nomination Committee and Remuneration Committee and each of which has specific written terms of reference approved by the Board. The terms of reference of the Audit Committee, Nomination Committee and Remuneration Committee are available on the Company's website or, on request, from the Company Secretary. Verbal reports on meetings of the committees are provided at each regular Board meeting by the relevant committee chair.

The committees are provided with all necessary resources including access to independent professional advice, if necessary, to enable them to undertake their duties in an effective manner. The Company Secretary acts as secretary to the committees.

Audit Committee

The Audit Committee is composed soley of Independent Non-executive Directors with Mr. Zhou Jinsong as chairman and Mr. Hong Winn and Ms. Kwong Sum Yee Anna as members of the committee. All the members served on the committee throughout the year. Mr. Zhou Jinsong possesses appropriate professional qualifications and experience in financial matters which is in compliance with Rule 3.21 of the Listing Rules.

The Audit Committee meets at least four times a year and its primary duties include ensuring the Group's financial statements (including annual, half-year and quarterly results) present a true and balanced assessment of the Group's financial position; reviewing the Group's financial reporting process, internal control and risk management systems; reviewing the Group's financial and accounting policies and practices; and recommending the appointment and approving remuneration of external auditor. Other duties of the Audit Committee are set out in its specific terms of reference.

The committee met four times in 2019. The Chief Financial Officer and Financial Controller were also regular attendees at the meetings of the committee. External auditors were invited to attend two of those meetings to discuss various accounting issues and findings and the audit plan with the committee.

The work of the committee during the year included reviewing the results announcements and financial statements for the year ended 31 December 2018, and for the first quarter, half-year and third quarter of 2019, the annual report and interim report. To aid its review, the committee considered the reports from the Chief Financial Officer and the report from external auditors on the outcomes of the annual audit. The committee also reviewed the connected transactions, internal control, risk management and internal audit matters, approved the audit strategy and plan for the 2019 year end audit before audit commencement and made recommendation on the reappointment of auditor.

In addition, the Audit Committee monitors the audit and non-audit services rendered to the Group by its external auditor to ensure that their engagement in non-audit services will not impair their audit independence or objectivity. An independence confirmation has been obtained from PricewaterhouseCoopers which confirms that they are independent of the Group in accordance with the independence requirements of the Hong Kong Institute of Certified Public Accountants.

The fees in respect of audit and non-audit services provided to the Company and its subsidiaries by PricewaterhouseCoopers and other firms of its worldwide network for the financial year ended 31 December 2019 amounted to approximately HK$2,787,000 and HK$1,424,000 respectively. The non-audit services mainly consist of tax services amounting HK$329,760 and the issuance of special review reports amounting HK$978,000 for two merger and acquisition transactions.

Nomination Committee

The Nomination Committee is chaired by Mr. Zhang Haipeng, the Chairman of the Board and Non-executive Director and its other members include Mr. Wu Mingqing, Vice Chairman, Executive Director and Chief Executive Officer and the three Independent Non-executive Directors, namely Mr. Zhou Jinsong, Mr. Hong Winn and Ms. Kwong Sum Yee Anna. All members served on the committee throughout the year.

The Nomination Committee meets at least once a year and is responsible for reviewing the Board structure, size and composition, identifying and nominating to the Board candidates who are appropriate for appointment or reappointment as Directors, assessing the independence of Independent Non-executive Directors and making recommendation to the Board on succession planning.

The committee held one meeting in 2019. The work of the committee during the year included consideration of the composition of the Board to ensure there was an appropriate balance of skills, knowledge and experience and the independence of Independent Non-executive Directors, and considering and making recommendation to the Board on the re-appointment of the retiring Directors at the annual general meeting.

The Company's existing approach and procedure have been formalised as policy for nomination of Directors to ensure that, with the support of the Nomination Committee, proper selection and nomination process are in place for the appointment of additional and replacement Directors. Such procedure for the appointment of Directors to the Board may involve the Nomination Committee meeting candidates proposed by existing Board members, if necessary. Careful consideration is given to ensure appointees have enough time available to devote to the role and that the balance of skills, knowledge and experience on the Board is maintained. When the committee has found a suitable candidate, the chairman of the committee will make a proposal to the Board since the appointment is the responsibility of the whole Board following recommendation from the committee.

In assessing the independence of Directors, the Nomination Committee recognises that Mr. Zhou Jinsong and Mr. Hong Winn have served on the Board for more than nine years but having considered their annual confirmation of independence and the absence of any relationships or circumstances which would interface with the exercise of their independent judgement, the committee remains confident that both of Mr. Zhou and Mr. Hong continue to demonstrate independent character and judgement in carrying out their roles.

The Board has adopted a Board diversity policy. Differences in background, skills, industry experience, gender, age and other qualities will be considered in determining the optimum composition of the Board and the aim will be to balance them appropriately to ensure that the composition is appropriate to the business of the Company and the range and breadth of markets in which the Group operates. The Company is focused upon increasing Board diversity without compromising on the calibre of directors and the overriding principle is that all appointments to the Board will be based on merit as well as complementing and expanding the skills, knowledge and experience of the Board as a whole. During the annual review of the Board composition and in determining suitable candidates for the Board appointment, the committee pays due regard for the benefits of diversity on the Board and disclose in the circular to shareholders how the individual who is proposed to be elected as an Independent Non-executive Director at the general meeting contributes to the diversity of the Board.

Remuneration Committee

The Remuneration Committee is chaired by Mr. Zhou Jinsong, an Independent Non-executive Director and its other members include Mr. Zhang Haipeng, the Chairman of the Board and Non-executive Director, Mr. Wu Mingqing, Vice Chairman, Executive Director and Chief Executive Officer and two Independent Non-executive Directors, namely Mr. Hong Winn and Ms. Kwong Sum Yee Anna. All members served on the committee throughout the year.

The Remuneration Committee meets at least once a year and is responsible for formulating and making recommendations to the Board on the policy and structure for all remuneration of Directors and senior management of the Group with reference to the Group's overall performance, individual's responsibilities and performance and the prevailing market conditions, as well as reviewing and making recommendations on the Company's share option scheme, bonus structure and other compensation related issues. The committee determines the remuneration packages of individual Executive Directors and senior management and reviews the adequacy and effectiveness of the Group's remuneration policy. The committee also has the responsibility to make recommendations to the Board on the remuneration of Non-executive Directors.

The Remuneration Committee held two meetings in 2019. The committee made recommendations to the Board on the remuneration of a Non-executive Director which was determined with reference to her responsibilities, time commitment and the then prevailing market conditions. The committee also reviewed and approved the annual salary adjustment and discretionary bonus of individual Executive Directors and senior management of the Company which were determined based on the Group's overall performance as well as individuals' performance. In addition, the committee reviewed and considered the appropriateness and relevance of the remuneration policy and structure of the Group with reference to the construction market practices, the Group's performance and remuneration offered by peer companies.

Remuneration of Directors and Senior Management

Information relating to the remuneration of each Director for the year ended 31 December 2019 is set out in note 11 to the consolidated financial statements.

The remuneration of members of the senior management by band for the year end 31 December 2019 is set out in note 12 to the consolidated financial statements.

CORPORATE GOVERNANCE

The Board has undertaken the responsibility for performing the corporate governance duties pursuant to the CG Code and is committed to ensuring that an effective governance structure is in place to continuously review, monitor and improve the corporate governance practices within the Group with regard to the prevailing legal and regulatory requirements.

During the year, the work of the Board in this area included reviewing the policies and practices on the Group's corporate governance, monitoring the Company's legal and regulatory compliance and training and continuing professional development of Directors and senior management, developing relevant policies to ensure compliance with the latest change in the laws and regulations and reviewing the Company's compliance with the CG Code and the disclosure in this report.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

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 Company's code of conduct regarding Directors' securities transactions. Having made specific enquiry by the Company, all Directors have confirmed that they have complied with the Model Code in their securities transactions throughout the year ended 31 December 2019.

ACCOUNTABILITY AND AUDIT

Financial Reporting

It is the responsibility of the Board to present a balanced, clear and comprehensible assessment of the Company's performance, position and prospects.

Management is responsible for providing such explanation and information to the Board as will enable the Board to make an informed assessment of the financial and other matters put before the Board for approval. All members of the Board are provided with, on a regular basis, monthly updates with respect to the performance and business activities of the Group to enable the Director, individually and collectively, to discharge their legal and regulatory duties.

The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently, and that judgements and estimates made are prudent and reasonable. In preparing the consolidated financial statements, the accounting principles generally accepted in Hong Kong have been adopted and the requirements of Hong Kong Financial Reporting Standards and the applicable laws have been complied with.

The Directors acknowledge their responsibility for preparing the consolidated financial statements for the year ended 31 December 2019. The Directors, having made appropriate enquiries, were not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern and on such basis, the Board has prepared the financial statements on a going concern basis.

The responsibilities of external auditors of the Company with respect to financial reporting are set out in the "Independent Auditor's Report".

Internal Controls and Risk Management

The Board is responsible for maintaining appropriate systems of internal control and risk management, policies and procedures within the Group and the Audit Committee has the delegated responsibility to assess on an ongoing basis the effectiveness and relevancy of the systems. Such systems are designed to identify and control rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. Processes and procedures are in place to ensure maintenance of proper accounting records for the provision of reliable financial information for internal use and for publication and to ensure compliance with applicable laws, rules and regulations.

The Group has established a risk management framework to enable the Board and the management of the Company to discharge their risk management-related responsibilities with appropriate delegation and checks and balances. Various operational committees including Project Tendering Committee, Procurement and Subcontracting Committee, 3MS Committee and Safety Production Committee which stand at the highest level of the Group's risk governance structure below the Board have been established to manage the risks and opportunities across the project lifecycle. These committees provide direct oversight of the formulation of institutional risk appetite, and control and monitor the levels of risk that the Group is willing to undertake with regard to its financial capacity, strategic direction, prevailing market conditions and regulatory requirements.

The Group's risk management and internal control framework comprises a number of approval and review gates that cover the business lifecycle from initial project pursuit through to delivery and completion. All gates are mandatory and require approval at Group level by the operational committees, by divisional or business unit level depending upon the nature and complexity of projects.

The Group's internal audit function is performed by the holding group's Intendance and Audit Department and an ad hoc team mandated from time to time to carry out regular and irregular audit on the governance and control processes of the Group. The findings and recommendations were reported to the Audit Committee. Following an annual review of the effectiveness of the financial, operational and compliance controls and risk management functions of the Group and the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function, the Board confirms that no material control failure was noted and there were adequate resources and expertise in the accounting and financial reporting function.

In addition to the inside information disclosure policy adopted by the Board, the Group has in place policies and procedures to regulate employees conduct on handling, disseminating and preserving confidential information (including inside information) with designated teams to review their implementation and monitor compliance.

The Group will continue to review and develop risk management and internal control systems and procedures to manage and mitigate the impact of risks both within and outside its control.

DIVIDEND POLICY

The dividend policy of the Company will be approximately 30% of the profits available for distribution, which will be declared/ recommended by the Board for distribution semi-annually when the Board approves the interim results and annual results. The amount of dividends actually distributed to shareholders will depend upon the earnings and financial position, operating requirements, capital requirements and any other conditions that the Directors may deem relevant. There is no assurance that dividends of any amount will be declared or distributed in any year.

COMPANY SECRETARY

The Company Secretary is an employee of the Group and the appointment and removal of the Company Secretary is a matter for the whole Board. Whilst the Company Secretary reports to the Board through the Chairman and the Chief Executive Officer, all Directors have access to the advice and services of the Company Secretary for the ongoing discharge of their duties and responsibilities.

The Board is supported by the Company Secretary who is responsible for ensuring that the Board is able to function effectively and efficiently. In addition to making logistical arrangements for meetings, the Company Secretary manages the policies and procedures relating to the Board and ensures that the Board receives information in a timely manner. Minutes of meetings of the Board and Board committees are taken and kept by the Company Secretary and are open for inspection by Directors.

During the year, the Company Secretary undertook no less than 15 hours of relevant professional training.

SHAREHOLDERS' RIGHTS

Shareholders are encouraged to maintain direct communication with the Company. Shareholders who have any questions for the Board may send a letter to:

Company Secretary

Address:	China State Construction Development Holdings Limited 16th Floor, Eight Commercial Tower 8 Sun Yip Street Chai Wan Hong Kong

The Company maintains procedures for shareholders to propose a person for election as a Director. The details of these procedures are available on the Company's website.

Should shareholders wish to call an extraordinary general meeting, it must be convened according to the Company's Articles of Association, which state as follows:

- Any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company can, by written requisition to the Board or the Company Secretary, require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

- Such meeting shall be held within two (2) months after the deposit of such requisition.

- If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

RELATIONS WITH SHAREHOLDERS AND INVESTORS

The Board attaches great importance to maintaining good relationships with shareholders and investors to ensure that they are kept informed of major developments of the Group. The Management of the Group believes that active communication with shareholders can not only increase the transparency of operation, but also enhance the ability to create value.

The Board believes that general meetings with shareholders is one of the channels for direct communication with investors. Meanwhile, the Management of the Group and investor relations team maintain mutual communication with shareholders and investors through results presentations, post-results roadshows, one-on-one meetings and telephone conferences, which introduce the market and policy environment, business strategy, business development, financial situation and management experience. The Management of the Group also listens to concerns and expectations from shareholders and investors, taking them as important considerations for formulating long-term development strategies of the Group. The Group will continue its effort to increase the investor relations service to enhance the transparency in 2020.

The website www.cscd.com.hk is a source of information on the Group, including press releases, shareholder documentation, annual, interim and quarterly results and the terms of reference of the principal Board committees. Moreover, the enquiries from shareholders and investors will be received and replied by the investor relations email info.cscd@cohl.com.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

This report is prepared in accordance with Appendix 27 "Environmental, Social and Governance Reporting Guide" promulgated by The Stock Exchange of Hong Kong Limited ("HKEX"). This report covers the policies, measures and performances of China State Construction Development Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") in environmental, social and governmental aspects. This report is available in both Chinese and English, and has been uploaded to the website of HKEX and the Company www.cscd.com.hk, please proceed to read the environmental, social and governance ("ESG") report of financial year 2019 as well as the past years.

REPORTING BOUNDARY

This report focuses on the operation of the Group's glass façade business, general contracting business and supervision business from 1 January 2019 to 31 December 2019. The operating locations include Hong Kong, Pearl River Delta, Shanghai, USA and Canada. The Group will keep improving the reporting boundary by covering more operation locations.

Business	Subsidiaries covered in the report
Glass façade business	Far East Aluminium Works Company Limited, Netfortune (Shanghai) Aluminium Works Company Limited, Far East Heng Fai Facade (Zhuhai) Limited, Gamma North Corporation, Gamma USA, Inc. and Gamma Windows and Walls International Inc.
General contracting business	Treasure Construction Engineering Limited
Supervision business	中海監理有限公司

STAKEHOLDER ENGAGEMENT

The Group values shareholder engagement, which can help the Group to review its business operation and company governance objectively. Therefore, the Group develops various communication channels to understand its shareholders' needs and opinions.

Stakeholder Group	Stakeholder	Communication channels and means of stakeholder engagement
Internal stakeholder	Employees Board of Directors	• Company internal magazines • Staff trainings and workshops • Employees' activities and meetings
External stakeholder	Clients and Property Owners Suppliers Shareholders and Investors Government Community Partners Peer Enterprises Media	• Hiring standards and practices • Customer satisfaction survey • Diverse services and customised products • Professional after-sales service • Shareholders' meetings • Announcements/circulars, annual reports and financial statements • State policies implementation • Actively participate in community affairs • Factory inspections • Industry chambers and standard-setting organizations

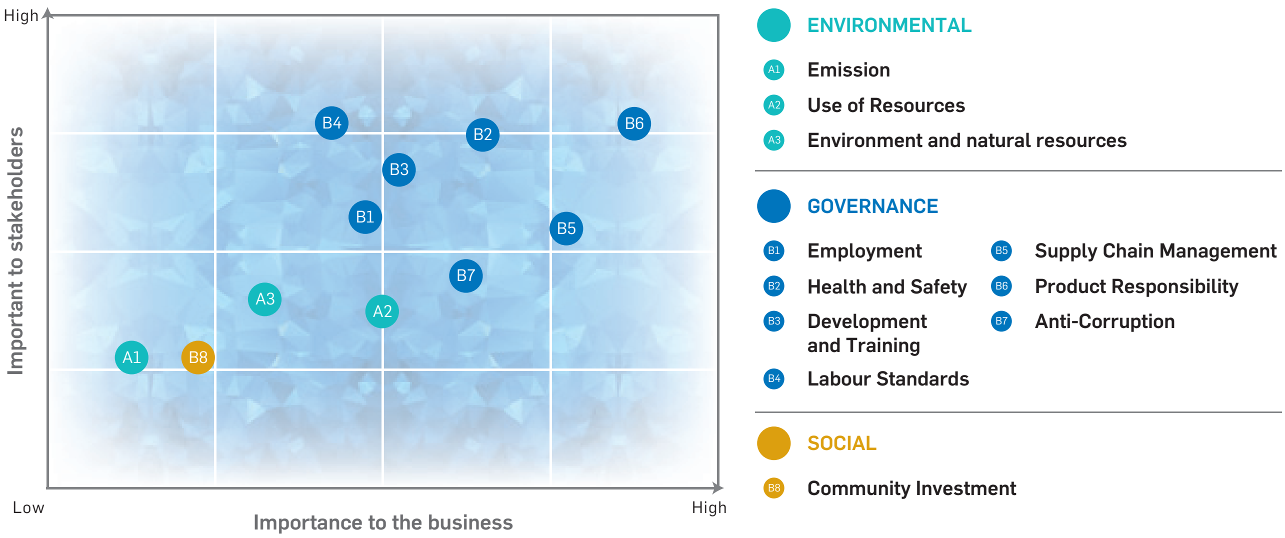
MAJOR SUSTAINABILITY ISSUES

The Company has established the Sustainability Governance Committee and has been implementing "Sustainability Development Management Method" since 2017. The Group aims at maintaining well relationships with both the society and community, identifying stakeholders' opinions and make responses in time. Through discussions, internal and external analysis, the Group identified the major concerns of the stakeholders and these help the Company to formulate its policies. The materiality of the stakeholders' concerns is listed as below.

SUSTAINABILITY GOVERNANCE

The Group understands the importance of environmental management and sustainable development, so it actively introduces a sustainable operation model. The Group's Sustainability Governance Committee applies the sustainable development concept into its business. The Committee not only identifies material sustainability aspects, but also coordinates the communication with stakeholders. In the future, the Group will continue to enhance environmental policies to minimize the environmental impact.

ESG Issues Materiality Matrix



ENVIRONMENTAL POLICIES

Apart from focusing on business development, the Group also takes up the corporate environmental and social responsibility. The Group strictly abides by relevant environmental laws and regulations to reduce impact on the environment and society. The Group has set up different guidelines for various operational stages to ensure the integration of concept of sustainability into operation, instruct employees to comply with and implement the guidelines to achieve sustainable operation.

Green office

Regarding green office, the Group has set up relevant guidelines, including "China State Construction Development Holdings Green Office Environmental Proposal" and "Green Office Guidelines". They are strictly implemented and supervised by general office. General office reviews and updates the guidelines every year to put its most effort to reduce the waste disposal and carbon emission produced by the offices. Apart from providing advices on the consumptions of energy, paper and water, as well as the disposal of waste, business trips and vehicles usage, the Group also tries to raise the awareness of environmental protection through environmental workshops and trainings. The Group has been awarded the "Green Office" logo from the World Green Organization for four consecutive years. The Group will continue to promote energy conservation and waste reduction in order to practice green culture in the future.

Green production

In the production stage, the Group always tries to strike a balance between product and service quality and sustainability. It integrates the elements of sustainability into production as much as practical and supervises regularly. Under special circumstances, materials which could cause harm to the environment, such as electroplated surface treatment and chemical sandblasted glass, are requested in some projects. Although this does not happen very often, the Group will convince the clients to replace with more environmentally friendly materials.

Production stage	Sustainable development measures
Façade product design	Design with low-carbon and energy saving features: — High light transmission glass to allow more natural light into the interior of the building — Low heat reflecting glass to prevent ultraviolet light and to stabilize interior temperature — Use mainly aluminium alloy, stainless steel and low-carbon metal, that with the characteristics of high recyclability
Procurement	Implement centralized procurement to reduce carbon emissions during transportation
Production	— Produce façade products at the factory to reduce wastage at the construction site — Reduce aluminium waste from cutting phase by optimising aluminium product design software and improving production processes — Reuse remaining materials such as scraps of aluminium and metal in the production plants — Simplify packaging and the total amount of packaging materials used this year was 158 tons only

Energy use and air pollutants

Electricity is the most consumed energy of the Group. Main consumption includes production facilities and office lighting. Electricity consumption also contributes the most to the Group's greenhouse gas emission indirectly, followed by business trips. The Group will optimise the production by exploring higher energy efficient production tools and suitable renewable energy sources. On the other hand, the Group will strictly implement the green office policy, encouraging our employees in the use of technology for remote meetings and inspection. This helps to reduce unnecessary business trips and use of transportation, thus, to lower the carbon emission.

Water consumption and sewage discharge

The Group understands the scarcity of fresh water resources. Therefore, it advocates water efficiency plans through "Energy Conservation Management System" and "Green Office Guidelines", encouraging employees to save water and reduce wastewater. For example, when any leakage is found and reported, the responsible employees will fix it immediately. Moreover, all the operation locations under the Group are in urban areas using the public facilities, which enable the Group not having any difficulties in sourcing water. The sewage discharge of the Group is mainly domestic sewage and is discharged through the municipal drainage systems. The Group does not engage in any illegal sewage discharge.

Waste management

For the office waste disposal, the Group uses measures such as garbage classification and paper recycling to reduce waste of resources. In the Hong Kong office, the Group commissioned a registered waste recycling company to handle electronic waste and the office recycled 36 pieces of electronic waste this year, easing the effect of electrical and chemical materials to land pollution. The waste from production facilities will be collected by recycling companies, and a local environmental company will dispose of the non-recyclable waste. The Group will continue to review waste disposal methods and to improve the recycling rates to lower the environmental impacts.

Environment and natural resources

The Group understands its business will cause a certain impact on the environment through use of resources and greenhouse gas emission. Therefore, the Group actively adopts different environmental measures to limit the impacts from its operation. For example, the production facility employee trainings include technical trainings on installing glasses to prevent breaking the glasses. These measures can reduce waste generated from production and installation phases. In addition to reducing waste generated at the source, the Group also puts resources and efforts on waste disposal, trying to recycle and reuse the waste as much as possible.

EMPLOYMENT AND LABOUR PRACTICES

Labour standards

The Group values employees as its great assets, therefore the Group always comply with laws and regulations relevant to labour. Child labour or forced labour is absolutely prohibited in the Group. During the reporting period, the Group did not find any relevant non-compliance. The Group has a standard recruitment process and reviews on a regular basis. The human resources department will check the job applicant's identity certificate to ensure that the candidates meet the minimum legal working age. A copy of the identification documents will be retained when the new employee joins the Group. If violations of child labour or forced labour are found, the Group will correct the violations first. Then it will dismiss employees who do not meet the legal working age or compensate employees who are forced to work. The Group will pursue accountability for the entire recruitment process, and analyse and review the cause of the behaviour. At last, the Group will optimise related regulations and processes, and the relevant responsible person shall get penalty accordingly.

Labour aspect	Labour policy
Recruitment and promotion	— Equal employment opportunities regardless of gender, ethnicity, age, etc. — Establish a fair and equitable promotion system, publishing the requirement for each position and opening regular employee selection
Work benefits	— Wages exceed governments minimum levels — Standard working hours for office workers, while project department employees have a separate comprehensive working hours system — Provision of at least one day off a week for employees
Employee benefits	— Social insurance, housing fund, high temperature allowance, etc. — Comprehensive holiday management system, including holidays as required by various laws, annual leave, sick leave, maternity leave, etc.
Dismissal	— Perform statutory dismissal procedures and provide financial compensation in accordance with the law

Employment system

The Group attaches great importance to equal employment opportunities and does not allow any discrimination in the Group. The Group specifies the company policies regarding compensation and dismissal, recruitment and promotion, working hours, holiday arrangement, equal opportunities, diversity, anti-discrimination and other benefits in Chapters 1 to 5 and 9 in the Employee Handbook to protect the employees. The Group strives to be fair and impartial during recruitment and promotion, it conducts annual performance appraisal at the end of every year. The appraisal result will provide reference for salary adjustment and promotion. Relevant policies such as the "Prevention of Discrimination and Harassment Policy" and "Personal Data (Privacy) Policy" are also contained in the Employee Handbook to define the definition of discrimination and harassment for employees and facilitate their reference at any time. If employees encounter any relevant situation, they can report immediately report through different whistleblowing channels.

Health and safety

In order to ensure that employees have a safe and healthy working environment, the Group purchases medical insurance plans for all full-time employees, organizes regular employee health check-up, safety training and safety inspections. The Group has also formulated different policies according to different situation at each operating location. The Hong Kong company assigns certain employees as Corporate Safety Officer and Safety Supervisor, who not only provide employees with safe working environment trainings to enhance employees' safety awareness, but also conduct site inspections. The Company has newly set up a Safety Committee. The Committee meets regularly every 3 to 4 months to review the existing internal occupational safety and health policies and measures. There are also relevant guidelines such as the "Company Safety Management System Manual — Internal Safety Code" and "Safety and Health Policy" to remind employees to work safely. In addition, the Company's relevant system was updated this year in accordance with the Hong Kong Labour Department's revised "Code of Practice for Typhoons and Rainstorm Warnings", providing guidelines for work arrangement under "extreme situations".

For production facilities in other regions, the Group labels all hazardous substances, and provides safety trainings according to work needs to employees. In the trainings, the hazardous substances that employees may encounter in each job are clearly introduced. The safety manager will also be responsible for developing injury and disease prevention plans and documenting any observed health and safety and danger situations. The Group will also provide project staff with safety supplies needed for safe production, including safety helmets, safety shoes, safety ropes, reflective clothing, raincoats and rain boots.

On the other hand, the subsidiaries in Mainland China have also established a number of guidelines on work safety, including "Four No-harm Rule", "Occupational Health Management", "Cranes Safe Operation Regulation — Ten No Lifting Rule, Eight Prohibition Rule", "Glass Lifting and Installation Safety Operational Regulation" and other documents. The Company compiles and operates the Environmental Management System GB/T 24001–2016 (version C) and the Occupational Health and Safety Management System GB/T 28001–2011 (version C). The management holds an occupational health and safety management system review meeting every year, inviting the technical management department to introduce the monitored situation of the occupational health and safety management system operation, including the canteen management — strict control on the procurement of ingredients, operating practices and daily hygiene to reduce the risk of food poisoning, and formulate corresponding emergency plans.

Development and training

The Group takes the all-round development of its employees as its top priority and upholds the core idea that "talent and culture are the most precious wealth". It focuses its human resources work on "educating and employing people". The Group provides internal trainings, subsidies external training courses and offers exam holidays. In addition, the Group conducts different types and specific safety trainings to improve employees' safety knowledge to avoid accidents. It also professional body membership subsidies and special bonus for obtaining professional qualifications to encourage employees to obtain professional qualifications. During the conduction of the Company's annual performance appraisal, the Company also tries to understand employee's expectations for career development and assists employees in setting work goals.

Training type	Subject	Example
Internal training	Company policy and culture introduction	Welcoming workshop, new employee training
	Basic technique course	Basic course about façade, Safety license OSHA360
	Professional technique course	Latest law and case study about Safety and Environment, Introduction to Building Information Modelling (BIM) and Quantity Surveying Practices
	Quality improvement course	Nine types of personality — self-awareness and management level improvement workshop, time management — essential skills for high-performance people, production management — human heart
External training	Professional technique course	First Aid Certification Course, Higher Diploma in Architecture
	Communication course	Foundation project exchange and communication, Zhongzhou Binhai Commercial Centre project's aluminium film, creeping formwork supervision work experience sharing

The Group always adheres to fulfilling corporate social responsibility from employee development and care to corporate culture. The Group strike to create a healthy and harmonious working atmosphere and a positive corporate image. It regularly organizes employee activities and festival celebrations, which includes Staff Recreation Day, "Company Day" and The Community Chest's Walks for Millions, to strengthen team spirit and relieve employees' work pressure.

Company Day held on around 30 August each year, allowing employees to have fun all together

OPERATING PRACTICES

Product responsibility

The Group pursues the core values of "integrity, innovation, pragmatism and refinement", practises the business philosophy of "quality assurance and value creation". It strictly implements corporate governance, uses standardized business processes, and pursues high-quality products and services, aiming to create a sustainable business.

The Group complies with relevant laws and client's requirements and got ISO 9001:2015 quality management system certification. The Group requires design managers to design façade in accordance with the technical requirements from the HKSAR Buildings Department and architects, such as Code of Practice for Structural Use of Glass 2018, Code of Practice for the Structural Use of Steel 2011 and Code of Practice on Wind Effects in Hong Kong 2019. At the same time, the production standards could be changed according to different situation to be matched with Leadership in Energy and Environmental Design (LEED), BEAM Plus New Building (BEAM Plus). The Group also strictly performs structural thermal calculations on Façade products to lower the environmental pollution caused by heating and cooling of buildings. The Group checks the sound insulation of façade and the transmission of glass to prevent from noise pollution and light pollution. In the production process, the Group carries out quality control on materials and semi-finished products before entering to next process. All products must pass a test before being sent to construction sites for installation. Therefore, the Group is confident in the product quality.

Apart from that, the Group also regards product maintenance as one of its product responsibilities. Employees contact customers regularly to follow the façade or project conditions. In case of emergencies such as natural disaster happens, our employees will inspect our façade products and provide maintenance services for the customers if needed.

The Group cares a lot about intellectual property rights, its waterproof ventilation design has passed the USA requirements and was granted a patent. The Company checks regularly whether the designer has followed the company's standards to design, and also whether there is any infringement of intellectual property rights at the same time. After completing the design work, the design department will check if any ventilation design on the market violate the Group's intellectual property rights on a regular basis.

Cares for clients

The Group always put our customers as the top priority. It conducts customer satisfaction survey annually on each project. The collected data is saved by project department and reviewed by department head. The data can only be accessed by relevant project team and employees responsible for ISO. The Company regularly updates customer contact information to maintain a close relationship with them. To ensure customer privacy, all customer information is stored on specific servers in marketing department.

If the Group receives any complaints, project department and procurement department will contact relevant customers to understand the cause, and then make appropriate arrangements, such as investigations and remedies. At the same time, the cause will be recorded and reported to marketing department at regular meetings, suggestions for improvements shall be discussed with project department. Having that information, marketing department could propose suitable products to different customers in the future bidding process. During the reporting year, the Group did not receive any considerable complaints about products or services.

Supply chain management

The Group's procurement department reviews the distribution of expenses on various suppliers on a regular basis to strengthen the monitoring and planning of suppliers. The Group updates the supplier list annually, based on the selection criteria of environmental protection, labour safety, quality of supply, past service performance, and goodwill. This can ensure the quality and stability of the supply chain and also reduce the environmental and social impacts of the Group's operation. This can also help to improve the transparency of the Group's operation by regular supplier reviews. The procurement department can thus have a better procurement plan and help to monitor the environmental and social risks of the supply chain by putting environmental protection factors into the supplier selection criteria, discovering collaboration opportunities between cross-regional procurement teams to prioritize suppliers with higher proximity to project construction site and processing centre to reduce transportation costs and carbon emissions.

The Group puts its concern on the integrity of the supply chain. The Group will confirm supplier's fair, equitable and safe procurement policies and principles as well as anti-bribery policies when employing suppliers. This allows employees to communicate well with the suppliers on compliance of labour, health and safety and environmental regulations and ensure the Group to work with ISO-qualified suppliers. When selecting a new supplier, the new supplier must fill in the "Temporary Supplier Application Form". Procurement department manager will review and approve the application before asking for quotation. Then, the Group's employees will visit the production plants for technical capability, production capability and processing equipment evaluation. After three times of cooperation, we will evaluate its quality, service and other performances again. The new supplier could only include in the supplier list after passing the evaluation. The Group has also expanded its supplier list year by year to provide more flexible arrangements to effectively and quickly respond to the delays or other impacts that climate change may cause on its business.

	China							Overseas	
Regions	Guangdong	Hong Kong	Shanghai	Beijing	Tianjin	Jiangsu	Jiangxi	USA	Australia
Number of suppliers	66	44	5	1	1	3	1	1	1

Anti-corruption

The Group is committed to build an ethical working environment, without tolerance to any corruption or fraud. In all circumstances, the Group does not allow staff to provide or accept any benefits. If there is any violation, the relevant employee(s) can report through phone, email and mail. Beyond compliance with the laws, Chapter 7 of the Employee Handbook covers the "Prevention of Bribery Ordinance", and describes the company policy in details, providing clear guidelines for employees' handling of conflicts of interest situations such as gifts and entertainment. The Group also provided a number of internal trainings on anti-corruption issues to the directors and employees, including the Anti-Corruption in the Construction Industry Lecture by Independent Commission Against Corruption, "Keeping the Heart, Keeping the Honesty" Talk, "Upholding the Bottom Line and Honesty" Talk, etc.

Anti-Corruption in the Construction Industry Lecture by Independent Commission Against Corruption

COMMUNITY INVESTMENT

When the Group's Sustainable Development Management Committee conducts community public relations management, it actively participates in various community public welfare activities. The Group hopes to promote the concept of equality through its corporate effect, and encourage employees to participate in various community charitable, cultural, and environmental activities. This can enhance employee's communication as well when they jointly fulfil their social responsibilities.

Community harmony

The Group collaborated with a registered charity "TREATS" to organise community activities every year, using the power of the Group to promote the concept of equality and inclusive society. Apart from the activity expenses, the Group also encourages employees to participate the activity as volunteers. This year, the Group held "Arts for All" at TWGHs Tsui Tsin Tong School on 26 October 2019, to allow children of different backgrounds to develop their creativity.

Mutual help in society

The Group participated in the volunteer service organized by China Overseas Group this year, bringing warmth to the community. The Group also participates in The Community Chest's Walks for Millions every year to encourage employees to put effort in community work.

"Arts for All" on 26 October 2019, co-organised with "TREATS

The Community Chest's 50th Anniversary Walks for Millions in January 2019

MAJOR AWARDS AND RECOGNITIONS IN 2019

Category	Award or recognition	Awarding Organization
Environmental protection	"Green Office 3+" and "Eco-Healthy Workplace" Label	World Green Organisation
Social responsibility	"Caring Company 5+" Label "Hong Kong Corporate Citizenship Program — Drive for Corporate Citizenship 2020" Label	The Hong Kong Council of Social Service Hong Kong Productivity Council

LAWS AND REGULATIONS

The Group's business complies with all relevant environmental and social laws, regulations and policies, including but not limited to the following laws and regulations.

Environment	Environmental Protection Law of the People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, Hong Kong "Noise Control Ordinance", Hong Kong "Waste Disposal Ordinance", etc.
Employment	Hong Kong "Employment Ordinance", Hong Kong "Sex Discrimination Ordinance", Hong Kong "Occupational Safety and Health Ordinance", Hong Kong "Prevention of Bribery Ordinance", People's Republic of China Safety Production Law, Labour 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 Fair Labour Standards Law, the Jinwan District Industrial Talent Policy, Zhuhai Social Insurance Policy, the New Jersey Employee Safety and Health Act, 2017 New York Local Law 216, and New York City Building Code, etc.
Clients	Hong Kong "the Trade Descriptions Ordinance", Hong Kong "the Personal Data (Privacy) Ordinance", etc.
Supply Chain	Hong Kong "the Sales of Goods Ordinance", etc.

ENVIRONMENTAL PERFORMANCE

Category	Emission in 2019 (tonne)
Sulphur oxides	4
Nitrogen oxides	790
Particulate matter	0.06

Scope		Source of emission	GHG emission in 2019 (tonne CO_2 -e)	
Scope 1:	Direct GHG Emissions	Combustion of fossil fuel — gasoline	229	678
		Combustion of fossil fuel — diesel	326	
		Combustion of fossil fuel — liquefied Petroleum Gas	119	
		Combustion of fossil fuel —towngas	6	
		Greenhouse gas reductions from planting trees	(2)	
Scope 2:	Energy Indirect GHG Emissions	Purchased energy	2,468	2,494
		Purchased towngas	26	
Scope 3:	Other Indirect GHG Emissions	Electricity for municipal drinking water treatment	25	196#
		Electricity for municipal wastewater treatment	13	
		Methane produced from wastepaper disposed to the landfill	31	
		Business trip	127	
Total GHG emission				3,368*
GHG intensity (tonnes CO_2 -e/employee)				1.05

Category	Total amount (tonne)	Intensity (tonne/employee)
Hazardous waste	0.005	0.000002
Non-hazardous waste	5,095	1.59

Energy use	Energy consumption of in 2019 (1,000 kWh)
Gasoline	720
Diesel	1,279
Liquefied petroleum gas	271
Electricity	4,148
Towngas	31
Total energy consumption	6,449
Energy intensity (1,000 kWh/employee)	2.02

Resource use	
Total water consumption (tonne)	62,585
Water consumption intensity (tonne/employee)	19.6

* The Group's Shenzhen production facility has been relocated to Zhuhai in 2019 and the reporting scope has been expanded by including the supervision business of its subsidiary (中海監理有限公司). However, compared with the last year's data, the total greenhouse gas emission has decreased significantly, from 5,279 tonnes in the previous year to 3,368 tonnes, the decrease is 36.2%. The main reason is that the Group has reduced its energy use such as gasoline and diesel through various green policies. Therefore, the direct greenhouse gas emission has also been reduced. This shows that the Group is committed to practicing sustainable development and the effectiveness of setting up a sustainable development management committee.

\# The Group also put forward many measures for the use of resources, including making good use of paper, paperless meetings, online meetings, etc., so that the carbon dioxide equivalent emission from wastepaper disposed to the landfill and business trip have been reduced by 63% and 40% compared to the previous year. The overall greenhouse gas emission in scope three also decreased by 38.4%, and the greenhouse gas emissions in scope one and two also fell.

SOCIAL PERFORMANCE — EMPLOYMENT AND LABOUR PRACTICES

Ranking	Total workforce	Employee turnover	Ratio to total workforce in the category
By Region			
Hong Kong	318	57	17.9%
Mainland China	2,604	561	21.5%
USA	126	153	121.4%
Canada	149	26	17.4%
By Age			
Below 30	932	328	35.2%
31–40	1,042	281	27.0%
41–50	806	136	16.9%
Above 51	417	52	12.5%
By Employment Type			
General staff	2,900	767	26.4%
Entry level	258	29	11.2%
Middle management	31	0	N/A
Senior management	8	1	12.5%
By Gender			
Male	2,799	696	24.9%
Female	398	101	25.4%
Total	3,197	797	24.9%

Average hours of employee trainings and ratios of trained employees

Employment type	Average training hours of male employee (hour)	Ratio of trained male employee	Average training hours of female employee (hour)	Ratio of trained female employee
General staff	11.6	80.9%	9.3	71.9%
Entry level	15.1	88.3%	16.9	85.1%
Middle management	10.9	77.7%	11.0	75.0%
Senior management	23.9	82.5%	N/A	N/A

REPORT INDEX

Main aspect	Description	Page/remarks
A1 General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste	45-46
A1.1	The types of emissions and respective emission data (tonne)	54-55
A1.2	Greenhouse gas emissions in total (tonne) and intensity (tonne CO 2 -e/employee)	54-55
A1.3	Total hazardous waste produced (tonne)	54
	Total hazardous waste intensity (tonne/employee)	54
A1.4	Total non-hazardous waste produced (tonne)	54
	Total non-hazardous waste intensity (tonne/employee)	54
A1.5	Description of measures to mitigate emissions and results achieved	45-46
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	45-46
A2 General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials	45-47
A2.1	Energy consumption by type (1,000 kWh)	54
	Energy intensity (1,000 kWh/employee)	54
A2.2	Water consumption in total (tonne)	54
	Water consumption intensity (tonne/employee)	54
A2.3	Description of energy use efficiency initiatives and results achieved	45-47
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	45-47
A2.5	Total packaging material used for finished products (tonne)	46
A3 General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources	46-47
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	46-47
B1 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	47-48
B1.1	Total workforce	55
	Total workforce by gender, employment type, age group and geographical region	55
B1.2	Employee turnover rate	55
	Employee turnover rate by gender, age group and geographical region	55
B2 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	48
B2.1	Number and rate of work-related fatalities	0, 0%
B2.2	Lost days due to work injury	952 Days
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	48
B3 General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	49
B3.1	The percentage of employees trained	55
	The percentage of employees trained by gender and employee category	55
B3.2	The average training hours completed per employee	55
	The average training hours completed per employee by gender and employee category	55
B4 General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour	47
B4.1	Description of measures to review employment practices to avoid child and forced labour	47
B4.2	Description of steps taken to eliminate such practices when discovered	47

Main aspect	Description	Page/remarks
B5 General Disclosure	Policies on managing environmental and social risks of the supply chain	51
B5.1	Number of suppliers by geographical region	51
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	51
B6 General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress	50
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	0%
B6.2	Number of products and service-related complaints received and how they are dealt with	50
B6.3	Description of practices relating to observing and protecting intellectual property rights	50
B6.4	Description of quality assurance process and recall procedures	50
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	50
B7 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	51
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	0
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	51
B8 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	51-52
B8.1	Focus areas of contribution	51-52
B8.2	Resources contributed to the focus area	51-52

REPORT OF THE DIRECTORS

The Directors present their report and the audited consolidated financial statements of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and the provision of corporate management services. The activities of the Company's principal subsidiaries are shown in note 19 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated income statement and consolidated statement of comprehensive income on pages 83 and 84 respectively.

An analysis of the Group's performance for the year by segments is set out in note 6 to the consolidated financial statements.

An interim dividend of HK1.2 cents per share was paid to shareholders on 4 October 2019. The Board did not recommend the declaration of a final dividend for the year ended 31 December 2019. As an interim dividend of HK1.2 cents was paid, total dividend for the year amounts to HK1.2 cents per share which represents a total distribution of HK$25,867,000.

BUSINESS REVIEW

A fair review of the Group's business, including the important events affecting the Group that have occurred since the end of 2019 and the likely future developments, is set out in the "Financial Highlights", "Chairman's Statement" and "Management Discussion and Analysis" sections of this Annual Report, and disclosures relating to the Group's environmental policies and performance, and relationships with major stakeholders can be found in the "Environmental, Social and Governance Report" section of this Annual Report.

Principal Risks and Uncertainties

Below are the principal risks and uncertainties facing the Group that could adversely impact the Group's business, financial condition and profitability. There may be other risks in addition to those disclosed below which are not known to the Group or which may currently be immaterial but turn out to be material in the future.

Risk	Description	Management Measures
Foreign Exchange	The Group's foreign currency exposures primarily arise from certain sales or purchases by operating units in currencies other than the unit's functional currency where these sales or purchases are mainly denominated in United States dollar, Renminbi, Australian dollar, Canadian dollar, Pound Sterling and Macau Pataca.	The Group monitors foreign exchange exposure by closely reviewing the movement of the foreign currency rate and adapting natural hedge strategies. During the year ended 31 December 2019, the Group did not engage in the use of other financial instruments for hedging purposes, and there were no hedging instruments outstanding as at 31 December 2019.
Interest Rate	The Group's interest rate risk mainly related to variable rate borrowings.	The Group has established policies and procedures to the assessment, booking and monitoring such risk and will consider hedging significant interest rate fluctuation should the need arise.
Market	The effects of national or market trends, political change or new developments in infrastructure expenditure may cause customers to postpone, reduce or change existing or future projects, which may impact the Group's strategy, business model, revenue or profitability in the short or medium term.	The Group's strategy to focus on the more resilient and stable infrastructure and property markets and geographies will help mitigate this risk. The effect of spending changes in any one market is mitigated by the Group's broad exposure to infrastructure and property markets across the globe and the continued need for infrastructure spending. It also mitigates the effects of such market conditions by continuing to adapt its business model.

Risk	Description	Management Measures
		It is essential that the financial solvency and strength of counterparties is always considered before contracts are signed. During the life of a contract, such assessments are updated and reviewed whenever possible. The business also seeks to ensure that it is not over-reliant on any one counterparty.
Bidding	The Group's success depends on its ability to identify, price and execute the right volume and quality of bids to maintain a profitable, sustainable order book. This in turn requires that it has a competitive business model and overheads.	All bids are subject to rigorous estimating and tendering processes within the risk management framework. The Group has defined delegated authority levels for approving all tenders. Reviews are conducted following all tenders to ensure lessons are learnt and applied to future tenders.
Project Execution	The Group performs the construction projects with complex design, engineering and construction works. If it fails to deliver them on time, to customers' requirements, and in accordance with its own cost assumptions and reporting, the Group faces the risk of financial loss, claims and reputational damage.	Each business unit has defined operating procedures to address the risks inherent in project delivery. In addition, the revision of the Group risk management framework and increased controls aid identification and quantification of specific risks on projects and the mitigating actions required. This has been further reinforced through the implementation of common minimum standards in project and commercial management.
Supply Chain	The Group is heavily reliant on its supply chain partners for successful operational delivery, which means it is also exposed to a variety of risks in the supply chain, including financial, technical, quality, safety and ethics. UK withdrawal from the EU is likely to impact on our supply chain of our project in UK, although it is currently very difficult to predict how, pending ongoing government negotiations.	The Group aims to develop long-term relationships with key subcontractors, working closely with them to understand their operations. It develops contingency plans to address subcontractor failure, and also obtains project retentions, bonds and/or letters of credit from subcontractors, where appropriate to mitigate the impact of any insolvency. The Group aims to work as much as possible with preferred suppliers and subcontractors who undergo rigorous, risk-based prequalification processes and share its values. It also aims to avoid becoming over-reliant on any one supplier or subcontractor. The Group works with suppliers in a number of territories to reduce the risks of disruption, and the Group continues to monitor sourcing opportunities nearer to the UK.

Risk	Description	Management Measures
People	Inability to recruit and retain the best management and employees who have the appropriate competencies and also share Company values and behaviours may hamper the Group's growth prospects.	All potential recruits for key roles in the organisation are measured against a competency and leadership system. The Group's succession planning process to identify and develop high potential personnel is reviewed regularly within the organisation and by the Board of Directors. The Group has appropriate remuneration and incentive packages to help it attract and retain key employees.
Business Conduct	The Group operates in various markets that present business conduct-related risks involving fraud, bribery or corruption, whether by its own staff or via third parties such as partners or subcontractors. Those risks are higher in some countries and sectors. Overall the construction industry has a higher risk profile than other industries.	The Group has a range of risk assessment, due diligence and procurement controls that are designed to identify and minimise such risks.
Legal	The Group operates in different markets and its businesses are subject to a variety of complex, demanding and evolving legal, tax and regulatory requirements.	The Group monitors and responds to legal and regulatory requirements by qualified internal personnel and external lawyers or counsel. The Group has established comprehensive policies, guidelines, and manuals with proper training courses provided to its employees.

Compliance with Relevant Laws and Regulations

The construction industry is regulated by the local authorities in which the business units operate. In general, contractors must comply with certain requirements mandated by the applicable laws and regulations and may be required to obtain permits or licenses in order to carry on certain businesses such as general contracting, facade contracting, design and manufacturing in certain countries. Apart from the specific laws and regulations, the Group is also subject to the general laws and regulations governing the environment, employment, anti-competition and anti-corruption regardless of its nature of business.

In addition, the Company, as a listed company, is subject to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Codes on Takeovers and Mergers and Share Buy-backs and the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

The Group seeks to ensure compliance with all relevant laws and regulations through various measures such as internal controls and approval procedures, trainings and oversight of various business units with the designated resources at different levels of the Group.

As far as the Board is aware, the Group has complied with the relevant laws and regulations that have a significant impact on the Group in all material respects throughout the year ended 31 December 2019.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 152.

PROPERTY, PLANT AND EQUIPMENT

Particulars of the movements of property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 28 to the consolidated financial statements.

RESERVES

Distributable reserves of the Company as at 31 December 2019 amounted to HK$992,806,000 (2018: HK$940,883,000). Movements in the reserves of the Company and the Group during the year are set out in note 35 to the consolidated financial statements and the consolidated statement of changes in equity on page 87 respectively.

DIRECTORS

The Directors during the year and up to the date of this Annual Report are:

Chairman and Non-executive Director

Mr. Zhang Haipeng

Executive Directors

Mr. Wu Mingqing *(Vice Chairman and Chief Executive Officer)*
Mr. Wang Hai
Mr. Chan Sim Wang (resigned on 18 March 2020)

Non-executive Director

Mr. Huang Jiang

Independent Non-executive Directors

Mr. Zhou Jinsong
Mr. Hong Winn
Ms. Kwong Sum Yee Anna

Notes:

Pursuant to article 84(1) of the Articles of Association of the Company, Messrs. Wang Hai, Huang Jiang and Hong Winn will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

The change in emoluments of the Directors is set out in note 11 to the consolidated financial statements.

The Company has received annual confirmation from all Independent Non-executive Directors regarding their independence pursuant to Rule 3.13 of the Listing Rules. The Company considered each of them to be independent.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, the Company discloses that during the year, Messrs. Zhang Haipeng, Wu Mingqing, Chan Sim Wang and Huang Jiang held directorships and/or senior management positions in the Company's holding companies and/or their subsidiaries. These companies are engaged in construction, infrastructure investments and related business.

The Board is independent of the boards of directors of the Company's holding companies and their subsidiaries. With the presence of appropriate portion of Independent Non-executive Directors in the Board, the Group is capable of carrying on its business independently of, and at arm's length from, the businesses of its holding group.

DIRECTORS' INDEMNITY

The Articles of Association of the Company provides that every Director shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses incurred or sustained by him by reason of any act done, concurred in or omitted in or about the execution of his duty as a Director provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to the Director. A directors and officers insurance policy is in place to protect the Directors against potential costs and liabilities arising from claims brought against the Directors.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2019, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as adopted by the Company (the "Model Code") were as follows:

(a) Interests and short positions in the shares, underlying shares and debentures of the Company

Long positions in the shares of the Company

Name of Director	Capacity	Nature of Interests	Number of ordinary shares held	% of shares in issue (Note)
Zhang Haipeng	Beneficial owner	Personal interest	3,078,000	0.143
Wu Mingqing	Beneficial owner	Personal interest	5,000,000	0.232
Chan Sim Wang	Beneficial owner	Personal interest	50,000	0.002
Huang Jiang	Beneficial owner	Personal interest	3,000,000	0.139

Note: The percentage is based on the total number of ordinary shares of the Company in issue as at 31 December 2019 (i.e. 2,155,545,000 shares).

(b) Interests and short positions in the shares, underlying shares and debentures of the associated corporations of the Company

Long positions in the shares of the associated corporations of the Company

As at 31 December 2019, Mr. Zhang Haipeng had personal interests in 774,000 A-shares, representing approximately 0.002% of the then issued voting shares, in China State Construction Engineering Corporation Limited ("CSCECL") held in his capacity as beneficial owner; Mr. Wu Mingqing had personal interests in 294,000 A-shares, representing approximately 0.001% of the then issued voting shares, in CSCECL held in his capacity as beneficial owner; Mr. Wang Hai had personal interests in 210,000 A-shares, representing approximately 0.001% of the then issued voting shares, in CSCECL held in his capacity as beneficial owner; Mr. Chan Sim Wang had personal interests in 32,400 ordinary shares, representing approximately 0.001% of the then issued shares, in China State Construction International Holdings Limited held in his capacity as beneficial owner; and Mr. Huang Jiang had personal interests in 210,000 A-shares, representing approximately 0.001% of the then issued voting shares, in CSCECL held in his capacity as beneficial owner. The Company was informed that all the interests in A-shares in CSCECL held by Directors were granted to them by CSCECL pursuant to its share award scheme (details are set out in note 30 to the consolidated financial statements).

Save as disclosed above, as at 31 December 2019, none of the Directors or chief executive of the Company and their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code. Nor any of the Directors or chief executive of the Company (including their spouses and children under the age of 18), during the year ended 31 December 2019, held any interests in, or was granted any right to subscribe for, the securities of the Company and its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

SHARE OPTIONS

The Company adopted a share option scheme (the "Scheme") on 10 March 2010 and unless otherwise cancelled or amended, is valid and effective for 10 years from 30 March 2010. A summary of the Scheme is as follows:

(a) The purpose of the Scheme is to provide incentives or rewards to the eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group.

(b) Share options may be granted to any director, employee, supplier and customer of the Group or any entity in which the Group holds an equity interest ("Invested Entity") and any consultant, adviser, manager, officer or entity that provides research, development and other technological support to the Group or any Invested Entity.

(c) The total number of shares which may be issued upon exercise of all options granted and to be granted under the Scheme and any other share option schemes of the Group shall not exceed 10% of the shares of the Company in issue immediately following the completion of the Global Offering of the Company (as defined in the Prospectus issued by the Company dated 17 March 2010) unless the Company obtains a fresh approval from the shareholders.

(d) As at the date of this Annual Report, the total number of shares which may be issued under the Scheme is 38,689,000 shares i.e. 1.79% of the Company's shares in issue as at that date.

(e) The maximum entitlement for any participant (other than a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates) under the Scheme is that the total number of shares issued and to be issued upon exercise of all options granted and to be granted in any 12-month period up to and including the date of the proposed grant does not exceed 1% of the shares of the Company for the time being in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

(f) The period within which an option may be exercised under the Scheme will be determined by the Board at its absolute discretion provided that such period shall not be more than ten years from the date of grant of the option.

(g) The exercise price of the share options shall be determined by the Board, at its absolute discretion, but in any case, shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date of grant of such option, which must be a trading day; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant.

(h) Upon acceptance of the option, the grantee shall pay HK$1 to the Company by way of consideration for the grant.

No share options were granted to or exercised by any Directors or chief executive of the Company or employees of the Group or other participants, nor were cancelled, or lapsed during the year ended 31 December 2019.

As at 1 January 2019, 31 December 2019 and the date of this Annual Report, the Company had no share options outstanding under the Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year ended 31 December 2019 was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Except for the connected transactions set out on pages 67 to 76 and the related party transactions set out in note 34 to the consolidated financial statements, there were no transactions, arrangements or contracts of significance in relation to the business of the Company and its subsidiaries to which the Company or any of its subsidiaries, was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Company's business were entered into or existed during the year.

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

So far as is known to any Directors or chief executive of the Company, as at 31 December 2019, other than the interests of the Directors and chief executive of the Company as disclosed above, the following persons had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

Long positions in the shares of the Company

Name of Shareholder	Capacity	Number of ordinary shares held	Total	% of shares in issue[1]
Add Treasure Holdings Limited ("Add Treasure")	Beneficial owner	1,596,403,279	1,596,403,279	74.06
China State Construction International Holdings Limited ("CSC")[2]	Interest in controlled corporation	1,596,403,279	1,596,403,279	74.06
China Overseas Holdings Limited ("COHL")[2]	Interest in controlled corporation	1,596,403,279	1,596,403,279	74.06
中國建築股份有限公司 (China State Construction Engineering Corporation Limited) ("CSCECL")[2]	Interest in controlled corporation	1,596,403,279	1,596,403,279	74.06
中國建築集團有限公司 (China State Construction Engineering Corporation*) ("CSCEC")[2]	Interest in controlled corporation	1,596,403,279	1,596,403,279	74.06

* *for identification purpose only*

Notes:

1. The percentage is based on the total number of ordinary shares of the Company in issue as at 31 December 2019 (i.e. 2,155,545,000 shares).

2. Add Treasure is a wholly-owned subsidiary of CSC which, in turn, is owned as to approximately 64.66% by COHL. COHL is a wholly-owned subsidiary of CSCECL and CSCECL is a subsidiary of CSCEC. By virtue of the SFO, each of CSC, COHL, CSCECL and CSCEC is deemed to be interested in the same 1,596,403,279 shares held by Add Treasure.

Save as disclosed above, as at 31 December 2019, no other person (other than the Directors or chief executive of the Company) had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

CONNECTED TRANSACTIONS

The connected and continuing connected transactions required to be disclosed in accordance with Chapter 14A of the Listing Rules, are disclosed on pages 67 to 76.

EQUITY-LINKED AGREEMENT

Other than the Scheme as disclosed in this report, there were no equity-linked agreements entered into by the Company during the year or subsisted at the end of the year.

RETIREMENT BENEFIT SCHEME

With effect from 1 December 2000, the Group has joined a mandatory provident fund scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. The Group's employees outside Hong Kong are primarily covered by the respective defined contribution schemes in accordance with local legislation and practices. During the year, the Group made contribution to these schemes amounting to approximately HK$59,932,000. No forfeited contribution under these schemes are available to reduce the contribution payable in future years.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association of the Company, or the laws of Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PUBLIC FLOAT

As at the date of this Annual Report, based on publicly available information and within the Directors' knowledge, more than 25 per cent of the Company's issued share capital was held by the public.

MAJOR CUSTOMERS AND SUPPLIERS

In 2019, the five largest customers of the Group accounted for approximately 44.7% of the Group's revenue and the revenue from the largest customer included therein accounted for approximately 16.9%. The largest customer is a subsidiary of the controlling shareholder of the Company. The five largest suppliers of the Group accounted for less than 30% of the Group's total purchases for the year.

Other than disclosed above, at no time during the year did a Director, close associate of a Director or a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the number of issued shares of the Company) have an interest in any of the Group's five largest customers.

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

During the year, neither the Company nor any of its subsidiaries has made any purchase, sale or redemption of any of the Company's listed securities.

AUDITOR

The consolidated financial statements for the year ended 31 December 2019 have been audited by PricewaterhouseCoopers who will retire at the 2020 annual general meeting. A resolution will be proposed at the annual general meeting to appoint Ernst & Young as auditor of the Company.

On behalf of the Board
CHINA STATE CONSTRUCTION DEVELOPMENT HOLDINGS LIMITED
Zhang Haipeng
Chairman and Non-executive Director

Hong Kong, 24 March 2020

CONNECTED TRANSACTIONS

During the year ended 31 December 2019, the Group conducted the following transactions which constituted connected transactions for the Company under Chapter 14A of the Listing Rules.

1. Acquisition of (i) Value idea Investments Limited and (ii) Fuller Sky Enterprises Limited

On 7 January 2019, Far East Global Investment Limited ("FEGI", a wholly-owned subsidiary of the Company) as purchaser entered into a sale and purchase agreement (the "SP1") with Ever Power Group Limited ("Ever Power", a direct wholly-owned subsidiary of China State Construction International Holdings Limited ("CSC") which, in turn, is an intermediate holding company of the Company) as vendor whereby FEGI conditionally agreed to acquire the entire issued share capital of, and shareholder's loan to, (i) Value idea Investments Limited ("Value Idea") and (ii) Fuller Sky Enterprises Limited ("Fuller Sky") at a total consideration of HK$295,000,000 (the "First Acquisition"), of which (a) HK$104,035,754 and HK$38,964,246 shall be attributable to the entire issued share capital of and shareholder's loan to Value idea, respectively; and (b) HK$103,761,748 and HK$48,238,252 shall be attributable to the entire issued share capital of and shareholder's loan to Fuller Sky, respectively.

Completion of the First Acquisition took place on 11 June 2019. 33% of the consideration shall be paid within 5 business days after the date of completion; another 33% of the consideration shall be paid within 6 months after the date of completion; and the remaining 34% of the consideration shall be paid within 1 year after the date of completion.

Value Idea holds 55.24% of the equity interests in three joint venture companies which together, own the management and toll-collection rights for 南昌大橋 (Nan Chang Bridge*), which is located at Nan Chang city in Jiangxi province of the People's Republic of China ("PRC"), up to 30 June 2025. The remaining 44.76% of the equity interests in the joint venture companies are held by 南昌大橋有限責任公司 (Nan Chang Bridge Company Limited*) ("Nan Chang Bridge Company"). Value Idea is entitled to share a fixed pre-determined level of distributable revenues from the operation of the Nan Chang Bridge received by the three joint venture companies up to 31 December 2022.

Fuller Sky holds 55.24% of the equity interests in a joint venture company which owns the management and toll-collection rights for 南昌中海新八一大橋 (Nan Chang Zhong Hai Xin Ba Yi Bridge*), which is located at Nan Chang city in Jiangxi province of the PRC, up to 30 June 2025. The remaining 44.76% of the equity interests in the joint venture company is held by Nan Chang Bridge Company. Fuller Sky is entitled to share a fixed pre-determined level of distributable revenues from the operation of the Nan Chang Zhong Hai Xin Ba Yi Bridge received by the joint venture company up to 30 June 2025.

As stable cash flow is expected to be generated from each of the Nan Chang Bridge and the Nan Chang Zhong Hai Xin Ba Yi Bridge and therefore considerable overall returns are being contemplated, the First Acquisition may lay a solid foundation for the Group's expansion into new operating businesses and represents a solid step in the Group's development into a professional operating enterprise.

Given that Ever Power is a connected person of the Company, the First Acquisition constitutes a connected transaction for the Company under the Listing Rules. Details of the acquisition were disclosed in the announcement dated 7 January 2019 and the circular dated 22 February 2019. The SP1 was duly approved by the independent shareholders of the Company at the extraordinary general meeting held on 20 March 2019.

2. Acquisition of Shenyang Huanggu Company

On 14 October 2019, the Company as purchaser entered into a sale and purchase agreement (the "SP2") with Ever Power as vendor whereby the Company conditionally agreed to acquire the entire registered capital of 瀋陽皇姑熱電有限公司 (Shenyang Huanggu Thermoelectricity Company Limited*) ("Shenyang Huanggu Company") by way of sale and purchase of (i) the entire issued share capital of China Overseas Public Utility Investment Limited (a direct wholly-owned

* *for identification purpose only*

subsidiary of Ever Power) (the "Target Company") which owns 99.69% of the registered capital of Shenyang Huanggu Company (the "Sale Share"); and (ii) the 0.31% of the registered capital of Shenyang Huanggu Company (the "Remaining Onshore Interest") held by 深圳海豐德投資有限公司 (Shenzhen Haifengde Investment Co. Ltd.*) ("Shenzhen Haifengde", an indirect wholly-owned subsidiary of CSC), for an aggregate consideration of HK$673,580,000 (the "Second Acquisition"), of which (a) HK$671,480,000 shall be attributable to the Sale Share; and (b) HK$2,100,000 shall be attributable to the Remaining Onshore Interest.

Completion of the Second Acquisition took place on 30 December 2019. As for the Sale Share, (i) HK$222,000,000 shall be paid within 10 business days after the date of completion (the "First Payment Date"); (ii) HK$222,000,000 shall be paid within six months after the First Payment Date; and (iii) HK$227,480,000 shall be paid within one year after the First Payment Date. As for the Remaining Onshore Interest, HK$2,100,000 shall be paid by the transferee of the Remaining Onshore Interest, being a designated onshore entity wholly owned by the Company, to Shenzhen Haifengde on the date of completion (or such other date as may be agreed between the Company and Ever Power in writing). Since the transfer of the Remaining Onshore Interest has not taken place on the date of completion, the Remaining Onshore Interest is being held to the order of the Company in the interim period pursuant to the SP2.

Shenyang Huanggu Company is principally engaged in the production and supply of heat, electricity and steam and the provision of installing service heat distribution network in Shenyang, the capital city of the Liaoning Province, PRC and 瀋陽皇姑粉煤灰建材有限公司 (Shenyang Huanggu Fenmeihui Construction Material Co. Ltd.*) ("Shenyang Huanggu Fenmeihui"), which is wholly-owned by Shenyang Huanggu Company, is principally engaged in the manufacture and sale of fly ash products and fly ash adhesive.

The Second Acquisition will enable the Group to diversify its operating asset portfolio and accelerate the growth of the operating management business in terms of revenue and profit base; and the heat and electricity service fees received by the Target Company will provide a steady cash flow and income source to the Group.

Certain fellow subsidiaries of Ever Power owe an amount of RMB675,001,908 (equivalent to approximately HK$772,313,396) to Shenyang Huanggu Company in the PRC. On the other hand, the Target Company, Shenyang Huanggu Company and Shenyang Huanggu Fenmeihui (together, the "Target Group") owe an aggregate amount of HK$776,771,615 payable to Ever Power and certain of its fellow subsidiaries in Hong Kong. The amount due owing to Shenyang Huanggu Company is an onshore receivable of the Target Group, which cannot be offset against the offshore amount due payable by the Target Group because of foreign exchange control of RMB. In view of the above, Ever Power has agreed to procure the settlement of (and failing which to settle) the Target Group's onshore receivable amount within two years from the date of completion and that the Target Group is only required to repay the offshore amount due payable to Ever Power and certain of its fellow subsidiaries to the extent the onshore receivable is repaid.

Given that Ever Power is a connected person of the Company, the Second Acquisition constitutes a connected transaction for the Company under the Listing Rules. Details of the acquisition were disclosed in the announcement dated 14 October 2019 and the circular dated 22 November 2019. The SP2 was duly approved by the independent shareholders of the Company at the extraordinary general meeting held on 18 December 2019.

Prior to the completion of the Second Acquisition, Shenyang Huanggu Company entered into certain agreements with China Overseas Land & Investment Limited ("COLI", a subsidiary of China Overseas Holdings Limited ("COHL") which, in turn, is an intermediate holding company of the Company) and its subsidiaries (together, the "COLI Group") in relation to the provision of connection services for heating pipes for certain real estate projects located in Shenyang which would subsist after the completion of the Second Acquisition. Given that members of the COLI Group are connected persons of the Company, these subsisting agreements have become connected transactions for the Company after completion of the acquisition. As of the date of completion, there were 4 subsisting contracts in respect of the prevailing projects with an outstanding aggregate amount of not more than HK$88 million to be payable by the COLI Group to Shenyang Huanggu Company. Details of the subsisting contracts were disclosed in the announcements dated 30 December 2019 in relation to the continuing connected transactions in relation to connection services.

* *for identification purpose only*

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2019, the Group conducted the following transactions which constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

1. FE-CSCECL Sub-construction Engagement Agreement

On 11 October 2017, the Company entered into a new agreement ("FE-CSCECL Sub-construction Engagement Agreement") with China State Construction Engineering Corporation Limited ("CSCECL", an intermediate holding company of the Company) to renew the previous agreement entered into between the parties on 28 October 2014 which would expire on 31 December 2017. Under the FE-CSCECL Sub-construction Engagement Agreement, the Group may continue to act as sub-contractor of CSCECL and its subsidiaries (together, the "CSCECL Group") for provision of contracting and engineering works, project consultancy service and project management service for the CSCECL Group's construction works for a term of three years commencing from 1 January 2018 and ending on 31 December 2020 provided that the total contract sum that may be awarded by the CSCECL Group to the Group under the FE-CSCECL Sub-construction Engagement Agreement for each year shall not exceed HK$1,000 million.

As for the provision of contracting and engineering works, the Group will normally need to go through a tender or similar process before being selected and appointed as sub-contractor of the CSCECL Group. The Group has a standard and systematic tender submission procedure to determine the prices and terms of a tender which applies to tender submitted to both connected persons and independent third parties. In preparing and assessing a tender, the Group will consider the technical requirements, quantity specifications, expected completion time, customer's expectations and possible risks associated with the project. In determining the tender price, the Group will review the costs information maintained in its in-house database for material supplies and prices from sub-contractors for the Group's previous projects and peripheral operation. The Group will also review and compare previous tender prices submitted to both connected persons and independent third parties so as to ensure that the tender price to be submitted is no more favourable than those submitted to independent third parties.

Where the Group submits the tender directly to the ultimate employer and is nominated by the ultimate employer as sub-contractor to the CSCECL Group, consideration to the Group will be ascertained by an independent professional quantity surveyor appointed by the ultimate employer.

As for the provision of project management service and project consultancy service, the Group is typically engaged to provide such services through direct appointment by the CSCECL Group. The price and terms of each service provided to the CSCECL Group shall be determined on a fair basis and on normal commercial terms based on the scale, degree of difficulty of the project, geographical location and duration of the project. The service fees are determined based on a percentage ranging from 2% to 5% of the contract sum of the projects.

Given that members of the CSCECL Group are connected persons of the Company, the transactions contemplated under the FE-CSCECL Sub-construction Engagement Agreement constitute continuing connected transactions for the Company under the Listing Rules. Details of the transactions were disclosed in the announcement dated 11 October 2017 and the circular dated 1 November 2017. The FE-CSCECL Sub-construction Engagement Agreement was duly approved by the independent shareholders of the Company at the extraordinary general meeting held on 18 December 2017.

The total value of the contracts awarded to the Group under the FE-CSCECL Sub-construction Engagement Agreement during the year ended 31 December 2019 was HK$164,185,993.

2. FE-CSC Sub-construction Engagement Agreement

On 11 October 2017, the Company entered into a new agreement ("FE-CSC Sub-construction Engagement Agreement") with CSC to renew the previous agreement entered into between the parties on 28 October 2014 which would expire on 31 December 2017. Under the FE-CSC Sub-construction Engagement Agreement, CSC and its subsidiaries (together, the "CSC Group") may continue to engage the Group as its sub-contractor for provision of contracting and engineering works, project consultancy service and project management service for the CSC Group's construction works (the "CSC Works Transactions") for a term of three years commencing from 1 January 2018 and ending on 31 December 2020 provided that the total contract sum that may be awarded by the CSC Group to the Group under the FE-CSC Sub-construction Engagement Agreement for each year shall not exceed HK$1,600 million.

In respect of the provision of contracting and engineering works, the Group will normally need to go through a tender or similar process before being selected and appointed as sub-contractor of the CSC Group. The Group has a standard and systematic tender submission procedure to determine the prices and terms of a tender which applies to tender submitted to both connected persons and independent third parties. In preparing and assessing a tender, the Group will consider the technical requirements, quantity specifications, expected completion time, customer's expectations and possible risks associated with the project. In determining the tender price, the Group will review the costs information maintained in its in-house database for material supplies and prices from sub-contractors for the Group's previous projects and peripheral operation. The Group will also review and compare previous tender prices submitted to both connected persons and independent third parties so as to ensure that the tender price to be submitted is no more favourable than those submitted to independent third parties.

Where the Group submits the tender directly to the ultimate employer and is nominated by the ultimate employer as sub-contractor to the CSC Group, consideration to the Group will be ascertained by an independent professional quantity surveyor appointed by the ultimate employer.

In respect of the provision of project management service and project consultancy service, the Group is typically engaged to provide such services through direct appointment by the CSC Group. The price and terms of each service provided to the CSC Group shall be determined on a fair basis and on normal commercial terms based on the scale, degree of difficulty of the project, geographical location and duration of the project. The service fees are determined based on a percentage of not more than 20% of the value or remaining value of the projects.

Given that members of the CSC Group are connected persons of the Company, the CSC Works Transactions contemplated under the FE-CSC Sub-construction Engagement Agreement constitute continuing connected transactions for the Company under the Listing Rules. Details of the transactions were disclosed in the announcement dated 11 October 2017 and the circular dated 1 November 2017. The FE-CSC Sub-construction Engagement Agreement was duly approved by the independent shareholders of the Company at the extraordinary general meeting held on 18 December 2017.

The total value of the contracts awarded to the Group under the FE-CSC Sub-construction Engagement Agreement during the year ended 31 December 2019 was HK$1,432,959,824.

3. FE-CSC Operational Services Agreement

On 11 October 2017, the Company entered into a new agreement ("FE-CSC Operational Services Agreement") with CSC to renew the previous agreement entered into between the parties on 28 October 2014 in respect of the engagement of the CSC Group by the Group for the provision of mechanical and electrical engineering works, leasing of machineries, provision of insurance services and supply of building materials to the Group which would expire on 31 December 2017.

3.1 Mechanical and Electrical Engineering Works Transactions

Under FE-CSC Operational Services Agreement, the Group may engage the CSC Group as sub-contractor for provision of mechanical and electrical engineering works for the Group's construction works ("Mechanical and Electrical Engineering Works Transactions") for a term of three years commencing from 1 January 2018 and ending on 31 December 2020 provided that the total contract sum that may be awarded by the Group to the CSC Group in respect of the Mechanical and Electrical Engineering Works Transactions for each year shall not exceed HK$450 million.

Where the CSC Group is nominated as sub-contractor by the ultimate employer, consideration to the CSC Group will be ascertained by an independent professional quantity surveyor appointed by the ultimate employer.

Where the Group has the right to select contractors, consideration to such contractors will be ascertained under the supervision of an in-house qualified professional quantity surveyor. The Group will obtain at least three quotations from a list of pre-approved contractors (which is subject to periodic review and update by the management of the Group to ensure contractors' quality standards).

For projects which involve substantial contract amount, the CSC Group will participate in a tender with all bidders (including independent third parties in the market), the winning bid of which will be the one with the lowest tender amount in accordance with the Group's internal tender procedure on the condition that the bidder also satisfies all other essential requirements (including but not limited to relevant experience, capability, historical relationship and track records) as set out in the bid invitation.

No contract was awarded to the CSC Group in respect of the Mechanical and Electrical Engineering Works Transactions during the year ended 31 December 2019.

3.2 Machineries Leasing Transactions

Under the FE-CSC Operational Services Agreement, the Group may lease machineries from the CSC Group for the Group's construction works ("Machineries Leasing Transactions") for a term of three years commencing from 1 January 2018 and ending on 31 December 2020 provided that the total rent payable in respect of the Machineries Leasing Transactions for each year shall not exceed HK$25 million.

The Group will obtain at least three quotations from a list of pre-approved vendors (which is subject to periodic review and update by its management to ensure vendors' machinery and equipment are in good operational condition). For the selection of a vendor, the lowest quotation will be selected on the condition that the vendor also satisfies all other essential requirements (including but not limited to the specification and condition of the machinery and equipment).

The total rent in respect of the Machineries Leasing Transactions during the year ended 31 December 2019 was HK$6,042,996.

3.3 Insurance Services Transactions

Under the FE-CSC Operational Services Agreement, the Group may engage the CSC Group to provide insurance services (including but not limited to Public Liability Employees' Compensation insurance and Contractors' All Risks insurance) to the Group ("Insurance Services Transactions") for a term of three years commencing from 1 January 2018 and ending on 31 December 2020 provided that the total fees payable in respect of the Insurance Services Transactions for each year shall not exceed HK$70 million.

The Group will obtain at least three quotations from independent insurers (directly or indirectly through insurance brokers) and the CSC Group. If the price and terms offered by the CSC Group are equal to or better than those offered by independent insurers on the condition that the insurer also satisfies all other essential requirements (including but not limited to paying ability, financial strength, specialisation, historical relationship and record of claim refusal), the Group may probably accept the quotation from the CSC Group.

The total fee in respect of the Insurance Services Transactions during the year ended 31 December 2019 was HK$13,083,998.

3.4 Supply of Building Materials Transactions

Under the FE-CSC Operational Services Agreement, the CSC Group may supply building materials to the Group for the Group's construction works ("Supply of Building Materials Transactions") for a term of three years commencing from 1 January 2018 and ending on 31 December 2020 provided that the total sum payable in respect of the Supply of Building Materials Transactions for each year shall not exceed HK$150 million.

The Group will obtain at least three quotations from a list of pre-approved suppliers (which is subject to periodic review and update by its management to ensure a portfolio of best in class suppliers is available for use). For the selection of a supplier, the lowest quotation will be selected on the condition that the supplier also satisfies all other essential requirements (including but not limited to relevant experience, qualities and specifications of materials and track records).

The total sum in respect of the Supply of Building Materials Transactions during the year ended 31 December 2019 was HK$5,613,971.

Given that members of the CSC Group are connected persons of the Company, the Mechanical and Electrical Engineering Works Transactions, Machineries Leasing Transactions, Insurance Services Transactions and Supply of Building Materials Transactions contemplated under the FE-CSC Operational Services Agreement constitute continuing connected transactions for the Company under the Listing Rules. Details of the transactions were disclosed in the announcement dated 11 October 2017 and the circular dated 1 November 2017. The FE-CSC Operational Services Agreement was duly approved by the independent shareholders of the Company at the extraordinary general meeting held on 18 December 2017.

4. COLI Works Framework Agreement

On 26 June 2018, the Company entered into a framework agreement ("COLI Works Framework Agreement") with COLI, pursuant to which the COLI Group may engage the Group for the provision of building construction, contracting and engineering works, project management, supervision and consultancy services for the COLI Group's construction works as a contractor, sub-contractor or service provider (the "COLI Works") for the period commencing from 20 August 2018 and ending on 30 June 2021 provided that the total contract sum that may be awarded by the COLI Group to the Group for the relevant period/year under the COLI Works Framework Agreement in respect of (i) the building construction works; and (ii) project management, supervision and consultancy services shall not exceed the following COLI Works Engagement Cap:

COLI Works Engagement Cap	For the period from 20 August to 31 December 2018 (HK$ million)	For the year ending 31 December 2019 (HK$ million)	For the year ending 31 December 2020 (HK$ million)	For the period from 1 January to 30 June 2021 (HK$ million)
Building construction works	1,190	1,100[Note]	1,100[Note]	700[Note]
Project management, supervision and consultancy services	10	100[Note]	100[Note]	100[Note]
Total	1,200	1,200	1,200	800

Note: The sub-caps of the COLI Works Engagement Cap were re-allocated in anticipation of business expansion in the construction supervision market, details of which were disclosed in the announcement dated 18 October 2019.

The Group may participate in competitive tender for the COLI Works as a contractor, subcontractor or service provider in accordance with the tendering procedures of the COLI Group and on the same and normal terms as offered to other independent third party construction contractors, subcontractors or service providers. The Group has a standard and systematic tender submission procedure to determine the prices and terms of a tender which applies for tender submitted to both connected persons and independent third parties. In preparing and assessing a tender, the Group will consider the technical requirements, quantity specifications, expected completion time, customer's expectations and possible risks associated with the project. In determining the tender price, the Group will review the costs information maintained in its in-house database for material supplies and prices from sub-contractors for the Group's previous projects and peripheral operation. The Group will also review and compare previous tender prices submitted to both connected persons and up to two independent third parties, so as to ensure that the tender price to be submitted is no more favourable than those submitted to independent third parties.

Given that members of the COLI Group are connected persons of the Company, the transactions contemplated under the COLI Works Framework Agreement constitute continuing connected transactions for the Company under the Listing Rules. Details of the transactions were disclosed in the announcement dated 26 June 2018 and the circular dated 18 July 2018. The COLI Works Framework Agreement was duly approved by the independent shareholders of the Company at an extraordinary general meeting held on 17 August 2018.

The total value of the contracts awarded to the Group under the COLI Works Framework Agreement during the year ended 31 December 2019 was HK$174,182,238.

5. COGO Framework Agreement

On 26 June 2018, the Company entered into a framework agreement ("COGO Framework Agreement") with China Overseas Grand Oceans Group Limited ("COGO", a 30% controlled company of COHL), pursuant to which COGO and its subsidiaries (together, the "COGO Group") may engage the Group to provide project management, supervision and consultancy services for the property development projects of the COGO Group in the PRC (the "COGO Management Services") for the period commencing from 1 July 2018 and ending on 30 June 2021 provided that the total contract sum that may be awarded by the COGO Group to the Group under the COGO Framework Agreement for the period from 1 July 2018 to 31 December 2018 shall not exceed HK$30 million, for each of the two years ending 31 December 2020 shall not exceed HK$60 million, and for the period from 1 January 2021 to 30 June 2021 shall not exceed HK$30 million (i.e. the COGO Engagement Cap).

The Group may participate in competitive tender for the provision of the COGO Management Services for the property development projects of the COGO Group in the PRC as a service provider in accordance with the tendering procedures of the COGO Group and on the same and normal terms as offered to other independent third party service providers. The Group has a standard and systematic tender submission procedure to determine the prices and terms of a tender which applies for tender submitted to both connected persons and independent third parties. In preparing and assessing a tender, the Group will consider the technical requirements, quantity specifications, expected completion time, customer's expectations and possible risks associated with the project. In determining the pricing terms, the Group will review the costs information maintained by its in-house database for staff needed for its previous projects and peripheral operation. The Group will also review and compare previous tender prices submitted to both connected persons and independent third parties, so as to ensure that the tender price to be submitted is no more favourable than those submitted to independent third parties.

Given that members of the COGO Group are connected persons of the Company, the engagement of the Group by the COGO Group pursuant to the COGO Framework Agreement constitutes continuing connected transactions for the Company under the Listing Rules. Details of the transactions were disclosed in the announcement dated 26 June 2018.

No contract was awarded to the Group under the COGO Framework Agreement during the year ended 31 December 2019.

6. Framework Agreement with CSC for Hong Kong Building Construction Main Contracts

On 22 October 2019, the Company entered into a framework agreement ("JV Framework Agreement") with CSC, pursuant to which CSC and the Company (or their respective subsidiaries) may cooperate to enter into the main contract(s) (the "Hong Kong Building Construction Main Contracts") for private sector building construction works in Hong Kong (the "Hong Kong Building Construction Works") as joint venture main contractor at the request of CSC or the Company for the period commencing from 20 December 2019 and ending on 30 June 2022 provided that the total contract sum that may be awarded jointly to CSC and the Company (or their respective subsidiaries) as joint venture main contractor for the period from 20 December 2019 to 31 December 2019 shall not exceed HK$1,000 million, for each of the two years ending 31 December 2021 shall not exceed HK$2,000 million, and for the period from 1 January 2022 to 30 June 2022 shall not exceed HK$2,000 million (i.e. the Annual Caps).

The cooperation between CSC and the Company (or their respective subsidiaries) as contemplated by the JV Framework Agreement will take the form of contractual joint venture in accordance with terms customary in the construction industry in Hong Kong. CSC (or its subsidiary) and the Company (or its subsidiary) may participate in the tendering process or such other prescribed contract award process as may be implemented by the relevant third-party developer/owner client as joint venture main contractor if the Company (or its subsidiary), after making qualitative and quantitative assessment of the scoring criteria of such process, determines that such joint venture will maximise the scoring of the tendering process and therefore enhance the chance of successful award of the contract.

As a general principle and in accordance with market practice, the contract sum with respect to the Hong Kong Building Construction Main Contracts shall be determined in the ordinary course of business on normal commercial terms and on an arm's length basis after a tendering process or such other prescribed contract award process as may be implemented by the relevant third-party developer/owner client.

Given that members of the CSC Group are connected persons of the Company, the transactions contemplated under the JV Framework Agreement constitute continuing connected transactions for the Company under the Listing Rules. Details of the transactions were disclosed in the announcement dated 22 October 2019 and the circular dated 22 November 2019. The JV Framework Agreement was duly approved by the independent shareholders of the Company at the extraordinary general meeting held on 18 December 2019.

No contract was awarded jointly to CSC and the Company (or their respective subsidiaries) as joint venture main contractor during the year ended 31 December 2019.

7. Connection Services Framework Agreement

On 30 December 2019, the Company entered into a framework agreement ("Connection Services Framework Agreement") with COLI, pursuant to which the COLI Group may engage the Group for the provision of heating pipes connection services for the real estate projects which are located in the PRC and developed by the COLI Group ("Heating Pipes Projects") (i.e. the Connection Services) from time to time for the period commencing from 1 January 2020 and ending on 31 December 2022 provided that the total contract sum that may be awarded by the COLI Group to the Group under the Connection Services Framework Agreement for each of the three years ending 31 December 2022 shall not exceed HK$70 million (i.e. the Engagement Cap).

The fees for the Connection Services will be determined by the Group with reference to the prevailing market price of similar heating services offered by other comparable service providers in the vicinity of the Heating Pipes Projects, the coverage of heating services, the location, size and development status of the Heating Pipes Projects, heat capacity and the cost of heating pipes connection.

The price and terms of the tenders submitted by the Group to the COLI Group for the Connection Services are subject to the standard and systematic tender submission procedures maintained by the Group, which apply to tenders submitted to both connected persons and independent third parties of the Group, in order to ensure that the price and terms of the proposed tender submitted by the Group to the COLI Group are no more favourable than those submitted to independent third parties.

Given that members of the COLI Group are connected persons of the Company, the transactions contemplated under the Connection Services Framework Agreement constitute continuing connected transactions for the Company under the Listing Rules. Details of the transactions were disclosed in the announcement dated 30 December 2019.

A summary of all related party transactions entered into by the Group during the year ended 31 December 2019 is contained in note 34 to the consolidated financial statements. Except for the transactions with fellow subsidiaries set out in paragraph (a)(i) of the note which were entered into by the Group pursuant to the connected transactions and continuing connected transactions described above, none of the related party transactions described therein constitute "connected transactions" or "continuing connected transactions" as defined in Chapter 14A of the Listing Rules.

The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the connected transactions and continuing connected transactions entered into by the Group during the year ended 31 December 2019.

In respect of the financial year ended 31 December 2019, each of the continuing connected transactions mentioned above has been subject to annual review by the Independent Non-executive Directors pursuant to Rule 14A.55 of the Listing Rules who have concluded that each continuing connected transaction has been entered into:

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

(ii) on normal commercial terms or better; and

(iii) according to the relevant agreement governing it on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

Based on the work performed, the auditor has confirmed in a letter to the Board that:

a. nothing has come to the attention of the auditor that causes them to believe that the disclosed continuing connected transactions have not been approved by the Board;

b. for transactions involving the provision of goods or services by the Group, nothing has come to the attention of the auditor that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

c. nothing has come to the attention of the auditor that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

d. with respect to the aggregate amount of each of the continuing connected transactions, nothing has come to the attention of the auditor that causes them to believe that the disclosed continuing connected transactions have exceeded the annual caps set by the Company.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the shareholders of China State Construction Development Holdings Limited
(incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of China State Construction Development Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 83 to 151, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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Key Audit Matters

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

Key audit matters identified in our audit are summarised as follows:

- Revenue recognition from construction works
- Recoverability of trade receivables and contract assets
- Assessment of carrying amount of deferred tax assets of Gamma USA, Inc. and impairment of goodwill in Gamma North America, Inc.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition from construction works	
Refer to notes 3.25, 5(i) and 6 to the consolidated financial statements. For the year ended 31 December 2019, the Group recognised revenue from construction works of HK$3,726 million. Most construction works take several years to complete and the scope of work may change during that time. Management estimate the revenue and budgeted costs at the commencement of the contracts and regularly assess the progress of construction works as well as the financial impact of scope changes, claims, disputes and liquidation damages. The management's estimate of revenue, budgeted costs as well as the progress of related construction works requires significant judgement and has a significant impact on the amount and timing of revenue recognised. For this reason, we identified revenue recognition from construction works as a key audit matter.	We understood, evaluated and validated on a sample basis the internal controls relating to the contract budgeting and management process. The measurement of revenue recognition requires management's estimate in respect of revenue, budgeted costs as well as the progress of related construction works. In our testing of the revenue recognition for the reporting period, we selected construction works on a sample basis and: • discussed with management and the respective project teams about the progress of the projects and relevant contract terms; • assessed management's estimates of the impact to revenue and budgeted costs arising from scope changes made to the original contracts, claims, disputes and liquidation damages with reference to supporting documents including variation orders and correspondence among the Group, customers, subcontractors and suppliers; • tested on a sample basis the actual costs incurred on construction works during the reporting period; • recalculated the revised estimate of the progress of the construction works based on the latest budgeted final costs and the total actual costs incurred; and • recalculated the revenue recognised based on the revised estimate of the progress of the construction works. We consider the management's estimates used to determine the revenue and budgeted costs and the progress of the construction works for the reporting period as well as the revenue recognised to be supportable based on the evidence available.

Key Audit Matters	How our audit addressed the Key Audit Matter
Recoverability of trade receivables and contract assets	
Refer to notes 3.10(iv), 3.13, 3.29, 5(v), 21 and 22 to the consolidated financial statements. As at 31 December 2019, the Group recognised net trade receivables of HK$930 million and contract assets of HK$1,018 million, which were significant assets of the Group as of the year end, representing 28% of total assets. In assessing the recoverability of trade receivables and contract assets, management exercised significant judgements to evaluate the collectability from individual customers after taking into account their creditworthiness, whether they have financial difficulties, experience of default or delinquency in interest or principal payments, the probability that they will enter bankruptcy, aging analysis and forecast of future events and economic conditions which may impact the recoverability of trade receivables and contract assets. The judgements applied by management have a significant impact on the level of provision required for trade receivables and contract assets.	We performed the following procedures to assess the recoverability of trade receivables and contract assets: • understood, evaluated and validated on a sample basis the design and operating effectiveness of management control over the collection and the assessment of the recoverability of receivables; • tested on a sample basis the aging of trade receivables at year end; • tested on a sample basis subsequent settlements and the latest amounts certified by quantity surveyors appointed by customers; • in respect of material trade receivables and contract assets, inspected relevant contracts and correspondence with the customers, and assessed their creditworthiness with reference to publicly available information, where applicable; • in respect of material trade receivables balances which are past due, additional procedures were performed to evaluate their historical progress payment records, assess whether the customers are experiencing financial difficulties, default or delinquency in interest or principal payments, and assess the probability that the customers will enter bankruptcy with reference to publicly available information, where applicable; and • evaluated the level of provisions made by management for trade receivables and contract assets using forward-looking and historical information. We consider the judgements applied by management in assessing the recoverability of and determining the level of provision for trade receivables and contract assets to be reasonable based on the evidence available.

Key Audit Matter

Assessment of the carrying amount of deferred tax assets of Gamma USA, Inc. and impairment of goodwill in Gamma North America, Inc.

Refer to notes 3.8, 3.9, 3.20(ii), 5(iii), 5(iv), 18 and 27 to the consolidated financial statements.

As of 31 December 2019, the Group carried goodwill of HK$138 million from the acquisition of a 55% equity interest in Gamma North America, Inc. The Group has also recognised deferred tax assets of HK$82 million, which is mainly attributable to the tax losses in Gamma USA, Inc. The recognition of deferred tax assets is based upon management judgement that it is probable that sufficient taxable profits will be available in the future to utilise available tax losses. In view of the significance of the carrying amounts of both deferred tax assets and goodwill as at 31 December 2019, management performed an assessment of the carrying amount of deferred tax assets of Gamma USA, Inc. as well as an impairment assessment of the goodwill of Gamma North America, Inc.

For the purpose of the goodwill impairment assessment, Gamma USA, Inc. and Gamma Windows and Walls International, Inc. were assessed as a single cash generating unit ("CGU"). The recoverable amount of a CGU is determined based on the value-in-use calculation which requires the use of management estimates. Cash flow projections used in the value-in-use calculation were based on the financial budgets approved by management. The estimated discount rates, revenue growth rates and gross margins were specific to the risks related to the CGU.

A change in the assumptions used for the impairment assessment may impact the carrying amount of the deferred tax assets and the impairment assessment of goodwill.

How our audit addressed the Key Audit Matter

We performed the following procedures to assess the carrying amount of deferred tax assets of Gamma USA, Inc. and of the goodwill on the acquisition of Gamma North America, Inc.:

- understood, evaluated and validated on a sample basis the design and operating effectiveness of management control over the review of the financial budgets;

- involved our internal valuation experts to assess the valuation methodology and compare the discount rates applied by management to other comparable companies in the same industry;

- assessed the key assumptions used by management in the assessment of the carrying amount of deferred tax assets and value-in-use calculations in the impairment assessment of goodwill, including revenue growth rates, gross margins and taxable profits by comparing them with economic and industry forecasts. We compared the current year actual results with the prior year forecasts to assess the reasonableness of financial budgets approved by management;

- assessed management's sensitivity analysis of the impact on the impairment assessment of goodwill through reasonably possible deviations to the assumptions, such as changes in expected revenue growth rates and discount rates, applied by management; and

- compared the market inputs used by management to available market information.

We consider the assumptions applied by management in the assessment of the carrying amount of deferred tax assets and the impairment assessment of goodwill to be in line with our expectations based on the procedures performed above.

Other Information

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

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

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

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

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Kong Ling Yin Raymond.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 March 2020

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000 (restated)
Revenue	6	**4,619,412**	4,243,167
Cost of sales	8	**(4,075,348)**	(3,757,094)
Gross profit		**544,064**	486,073
Other income and other gains, net	7	**19,640**	8,782
Administrative, selling and other operating expenses	8	**(248,104)**	(213,603)
Finance costs	9	**(38,687)**	(29,044)
Profit before tax		**276,913**	252,208
Income tax charge	10	**(109,173)**	(73,519)
Profit for the year		**167,740**	178,689
Profit/(loss) for the year attributable to:			
Owners of the Company		**175,560**	182,780
Non-controlling interests		**(7,820)**	(4,091)
		167,740	178,689
Earnings per share (HK cents)			
Basic and diluted	14	**8.14**	8.48

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000 (restated)
Profit for the year	**167,740**	178,689
Other comprehensive loss		
Items that may be reclassified to profit and loss		
Exchange differences arising on translation of foreign operations	**(26,664)**	(99,652)
Other comprehensive loss for the year, net of tax	**(26,664)**	(99,652)
Total comprehensive income for the year, net of tax	**141,076**	79,037
Total comprehensive income/(loss) for the year attributable to:		
Owners of the Company	**148,880**	83,844
Non-controlling interests	**(7,804)**	(4,807)
	141,076	79,037

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	2019 HK$'000	2018 HK$'000 (restated)
Non-current Assets			
Property, plant and equipment	15(a)	**1,957,144**	1,838,290
Interests in infrastructure project investments	16	**193,890**	—
Prepaid lease payments	17	**—**	166,495
Goodwill	18	**138,149**	138,149
Deferred tax assets	27	**171,971**	172,560
		2,461,154	2,315,494
Current Assets			
Interests in infrastructure project investments	16	**54,010**	—
Inventories	20	**98,524**	127,378
Contract assets	21	**1,017,935**	967,471
Trade and other receivables	22	**1,633,535**	1,239,963
Deposits and prepayments		**133,429**	70,484
Tax recoverable		**874**	707
Amounts due from fellow subsidiaries	23	**824,232**	1,320,965
Amounts due from related companies	23	**3,725**	—
Cash and cash equivalents	24	**826,576**	696,736
		4,592,840	4,423,704
		7,053,994	6,739,198
Current Liabilities			
Bank borrowings	25	**655,780**	505,178
Contract liabilities	21	**685,696**	664,328
Trade payables, other payables and accruals	26	**1,387,986**	1,220,049
Lease liabilities	15(b)	**7,641**	—
Finance lease payables		**—**	793
Deposits received		**38,685**	35,405
Current tax payables		**175,610**	106,756
Amounts due to fellow subsidiaries	23	**1,795,833**	1,536,863
Amount due to a related company	23	**1,475**	—
		4,748,706	4,069,372
Total Assets less Current Liabilities		**2,305,288**	2,669,826

As at 31 December 2019

	Note	2019 HK$'000	2018 HK$'000 (restated)
Capital and Reserves			
Share capital	28	**21,555**	21,555
Share premium and reserves	29	**1,103,770**	1,006,009
Equity attributable to owners of the Company		**1,125,325**	1,027,564
Non-controlling interests		**(66,812)**	(59,008)
		1,058,513	968,556
Non-current liabilities			
Contract liabilities	21	**770,912**	780,629
Bank borrowings	25	**211,758**	211,746
Loan from a fellow subsidiary	23	**—**	33,180
Amount due to a fellow subsidiary	23	**229,580**	673,580
Lease liabilities	15(b)	**29,990**	—
Finance lease payables		**—**	1,842
Deferred tax liabilities	27	**4,535**	293
		1,246,775	1,701,270
		2,305,288	2,669,826

On behalf of the Board

Zhang Haipeng
Director

Wu Mingqing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to owners of the Company									
	Share capital (note 28) HK$'000	Share premium (note 29) HK$'000	Special reserve (note 29) HK$'000	Share-based payment reserve (note 29) HK$'000	Foreign currency translation reserve (note 29) HK$'000	Statutory reserves (note 29) HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2018										
As previously stated	21,555	898,654	(492,807)	4,636	(17,664)	14,391	591,704	1,020,469	(54,201)	966,268
Effect of combination under common control (note 2)	–	–	(673,580)	–	192,917	76,123	370,271	(34,269)	–	(34,269)
As restated	21,555	898,654	(1,166,387)	4,636	175,253	90,514	961,975	986,200	(54,201)	931,999
Profit/(loss) for the year, as restated	–	–	–	–	–	–	182,780	182,780	(4,091)	178,689
Exchange differences arising on translation of foreign operations, as restated	–	–	–	–	(98,936)	–	–	(98,936)	(716)	(99,652)
Total comprehensive income/(loss) for the year, as restated	–	–	–	–	(98,936)	–	182,780	83,844	(4,807)	79,037
Release of statutory reserves, as restated	–	–	–	–	–	6,213	(6,213)	–	–	–
Capital contribution relating to share-based payment borne by an intermediate holding company (note 30)	–	–	643	–	–	–	–	643	–	643
Disposal of interests in a subsidiary	–	–	(13)	–	–	–	–	(13)	–	(13)
2017 final dividend paid	–	–	–	–	–	–	(21,555)	(21,555)	–	(21,555)
2018 interim dividend paid	–	–	–	–	–	–	(21,555)	(21,555)	–	(21,555)
At 31 December 2018 and 1 January 2019, as restated	21,555	898,654	(1,165,757)	4,636	76,317	96,727	1,095,432	1,027,564	(59,008)	968,556
At 1 January 2019										
As previously stated	21,555	898,654	(492,177)	4,636	(46,933)	14,391	697,165	1,097,291	(59,008)	1,038,283
Effect of combination under common control (note 2)	–	–	(673,580)	–	123,250	82,336	398,267	(69,727)	–	(69,727)
As restated	21,555	898,654	(1,165,757)	4,636	76,317	96,727	1,095,432	1,027,564	(59,008)	968,556
Profit/(loss) for the year	–	–	–	–	–	–	175,560	175,560	(7,820)	167,740
Exchange differences arising on translation of foreign operations	–	–	–	–	(26,680)	–	–	(26,680)	16	(26,664)
Total comprehensive income/(loss) for the year	–	–	–	–	(26,680)	–	175,560	148,880	(7,804)	141,076
Capital contribution relating to share-based payment borne by an intermediate holding company (note 30)	–	–	615	–	–	–	–	615	–	615
2018 final dividend paid	–	–	–	–	–	–	(25,867)	(25,867)	–	(25,867)
2019 interim dividend paid	–	–	–	–	–	–	(25,867)	(25,867)	–	(25,867)
At 31 December 2019	**21,555**	**898,654**	**(1,165,142)**	**4,636**	**49,637**	**96,727**	**1,219,258**	**1,125,325**	**(66,812)**	**1,058,513**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000 (restated)
Profit before tax	**276,913**	252,208
Adjustments for:		
Finance costs	**38,687**	29,044
Bank interest income	**(2,737)**	(3,318)
Loss/(gain) on disposal of property, plant and equipment	**423**	(509)
Warranty provisions, net	**17,550**	18,798
Depreciation	**16,846**	5,919
Provision of trade and other receivables, net	**5,287**	387
Share-based payment borne by an intermediate holding company	**615**	643
Operating cash flows before working capital changes	**353,584**	303,172
Decrease/(increase) in inventories	**28,854**	(16,635)
Increase in contract assets/liabilities, net	**126,142**	190,514
Increase in deposits received	**3,280**	24,583
Increase in trade and other receivables	**(351,759)**	(198,690)
(Increase)/decrease in deposits and prepayments	**(62,945)**	7,878
Changes in amounts due from/to fellow subsidiaries, net	**194,308**	(15,523)
Changes in amounts due from/to related companies, net	**(2,250)**	—
Increase in trade payables, other payables and accruals	**150,082**	168,008
Net cash generated from operations	**439,296**	463,307
Income tax paid, net	**(34,901)**	(83,922)
Net cash generated from operating activities	**404,395**	379,385

	Note	2019 HK$'000	2018 HK$'000 (restated)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(104,813)**	(309,221)
Proceeds from disposals of property, plant and equipment		**2,856**	19,945
Payment for interests in infrastructure project investments		**(177,605)**	—
Interest received		**2,737**	3,318
Net cash used in investing activities		**(276,825)**	(285,958)
Cash flows from financing activities			
Finance costs paid		**(39,361)**	(28,945)
Interest on lease liabilities paid	31	**(1,373)**	—
Drawdown of bank loans, net	31	**150,091**	104,238
Repayment of loan from a fellow subsidiary	31	**(33,180)**	—
Payment of principal portion of lease liabilities	31	**(10,069)**	—
Repayment of finance lease payables	31	**—**	(827)
Payment to a fellow subsidiary pursuant to common control combination		**—**	(81,757)
Dividends paid		**(51,734)**	(43,110)
Net cash generated from/(used in) financing activities		**14,374**	(50,401)
Net increase in cash and cash equivalents		**141,944**	43,026
Effect of foreign exchange rate changes		**(12,104)**	(30,970)
Cash and cash equivalents at the beginning of year		**696,736**	684,680
Cash and cash equivalents at the end of year		**826,576**	696,736
Analysis of cash and cash equivalents			
Bank and cash balances		**826,576**	696,736

MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2019, amount of HK$117,395,000 of the total consideration of HK$295,000,000 for the acquisition of 100% equity interests in and shareholder's loan to Fuller Sky Enterprises Limited ("Fuller Sky") and Value Idea Investments Limited ("Value Idea") was settled through amounts due to fellow subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

China State Construction Development Holdings Limited (formerly known as Far East Global Group Limited) (the "Company") and its subsidiaries (together the "Group") are involved in the general contracting business, the facade contracting business (including the design, engineering, manufacture and installation of curtain wall systems) and operating management business.

The Company is a limited liability company incorporated in the Cayman Islands and under the Companies Law of the Cayman Islands. The address of its registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The address of its principal place of business is 16th Floor, Eight Commercial Tower, No. 8 Sun Yip Street, Chai Wan, Hong Kong. The Group changed the name of the Company from Far East Global Group Limited to China State Construction Development Holdings Limited in 2019.

Its immediate holding company is Add Treasure Holdings Limited, a company incorporated in the British Virgin Islands and a wholly owned subsidiary of China State Construction International Holdings Limited ("CSCIHL") whose shares are listed on the Stock Exchange of Hong Kong Limited.

Its intermediate holding company is China Overseas Holdings Limited, a company incorporated in Hong Kong which, in turn, is a wholly-owned subsidiary of China State Construction Engineering Corporation Limited ("CSCECL"). CSCECL is a joint stock company established in the People's Republic of China ("PRC") with its shares listed on the Shanghai Stock Exchange. The Company's ultimate holding company is 中國建築集團有限公司 (China State Construction Engineering Corporation*, "CSCEC"), which is a state-owned enterprise established in the PRC.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited since 30 March 2010.

The consolidated financial statements are presented in the thousands of Hong Kong dollars, unless otherwise stated. The consolidated financial statements have been approved for issue by the Board of Directors on 24 March 2020.

2 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

As at 31 December 2019, the Group had net current liabilities of HK$155,866,000. The Group has sufficient committed undrawn facility to meet its liabilities and cash flow generated from operations. Based on the Group's historical operating performance and its expected future working capital requirements, the directors consider that there are sufficient financial resources available to the Group to meet its obligations as and when they fall due within the next twelve months from the balance sheet date. Accordingly, the financial information has been prepared on a going concern basis.

* The English name is a translated name and is for identification purpose only.

2 BASIS OF PREPARATION *(Continued)*

Common control combinations

On 30 December 2019, the Group acquired 100% of equity interests in 瀋陽皇姑熱電有限公司 ("Shenyang Huanggu Company") by way of purchase of (i) the entire issued share capital of China Overseas Public Utility Investment Limited ("COPUI") which owns 99.69% of the registered capital of Shenyang Huanggu Company; and (ii) the 0.31% of the registered capital of Shenyang Huanggu Company held by 深圳海豐德投資有限公司 ("Shenzhen Haifengde"), for an aggregate consideration of HK$673,580,000.

COPUI is a direct wholly-owned subsidiary of Ever Power Group Limited, a direct wholly-owned subsidiary of China State Construction International Holdings Limited ("CSCIHL"), which is an intermediate holding company of the Company. Shenzhen Haifengde is an indirect wholly-owned subsidiary of CSCIHL.

The transfer of the equity interests in COPUI (the "Acquired Company") and the 0.31% equity interests in Shenyang Huanggu Company held by Shenzhen Haifengde (together, the "Acquired Group") was regarded as common control combination. Accordingly, the consolidated financial statements of the Group for the year ended 31 December 2019 had been prepared using the principle of Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA, as if the Acquired Group had been combined from the date when the Acquired Group first came under the control of the controlling party of the Group and Acquired Group. The comparative figures of the consolidated financial statements have been restated accordingly.

The effect of the combination of Acquired Group on the result of the Group for the year ended 31 December 2018 and the financial position of the Group as at 31 December 2018 are summarised below:

	For the Year ended 31 December 2018 HK$'000 (previously stated)	Combination of The Acquired Group HK$'000	Combination Adjustment HK$'000	For the Year ended 31 December 2018 HK$'000 (restated)
Revenue	3,611,770	631,397	—	4,243,167
Cost of sales	(3,189,952)	(567,112)	(30)	(3,757,094)
Gross profit	421,818	64,285	(30)	486,073
Other income and other gains, net	2,848	5,934	—	8,782
Administrative, selling and other expenses	(191,204)	(22,399)	—	(213,603)
Finance costs	(26,717)	(2,395)	68	(29,044)
Profit before tax	206,745	45,425	38	252,208
Income tax charge	(62,265)	(11,254)	—	(73,519)
Profit for the year	144,480	34,171	38	178,689
Profit/(loss) for the year attributable to:				
Owners of the Company	148,571	34,064	145	182,780
Non-controlling interests	(4,091)	107	(107)	(4,091)
	144,480	34,171	38	178,689

2 BASIS OF PREPARATION *(Continued)*

Common control combinations *(Continued)*

	31 December 2018 HK$'000 (previously stated)	Combination of The Acquired Group HK$'000	Combination Adjustment HK$'000	31 December 2018 HK$'000 (restated)
Non-current Assets				
Property, plant and equipment	476,959	1,495,974	(134,643)	1,838,290
Prepaid lease payments	32,491	—	134,004	166,495
Goodwill	138,149	—	—	138,149
Deferred tax assets	92,647	79,913	—	172,560
	740,246	1,575,887	(639)	2,315,494
Current Assets				
Inventories	7,014	120,364	—	127,378
Contract assets	967,471	—	—	967,471
Trade and other receivables	1,173,875	66,088	—	1,239,963
Deposits and prepayments	53,842	16,642	—	70,484
Tax recoverable	707	—	—	707
Amounts due from fellow subsidiaries	37,026	1,283,939	—	1,320,965
Cash and cash equivalents	386,630	310,106	—	696,736
	2,626,565	1,797,139	—	4,423,704
Current Liabilities				
Bank borrowings	505,178	—	—	505,178
Contract liabilities	299,857	364,471	—	664,328
Trade payables, other payables and accruals	1,049,699	170,350	—	1,220,049
Lease liabilities	—	246	(246)	—
Finance lease payables	793	—	—	793
Deposits received	—	35,405	—	35,405
Current tax payables	88,880	17,876	—	106,756
Amounts due to fellow subsidiaries	170,240	18,451	1,348,172	1,536,863
Amount due to immediate holding company	—	1,348,172	(1,348,172)^	—
	2,114,647	1,954,971	(246)	4,069,372
Total Assets less Current Liabilities	1,252,164	1,418,055	(393)	2,669,826
Capital and reserve	1,097,291	599,877	(669,604)	1,027,564
Non-controlling interests	(59,008)	3,817	(3,817)	(59,008)
Non-current liabilities	213,881	814,361	673,028*	1,701,270
	1,252,164	1,418,055	(393)	2,669,826

^ The combination adjustment represents the reclassification of amount due to Ever Power Group Limited.

* The combination adjustment includes the consideration payable to acquire 100% shareholding in Shenyang Huanggu Company of HK$673,580,000.

2 BASIS OF PREPARATION *(Continued)*

(a) The application of new and revised standards, amendments and improvements to existing standards and interpretations

In the current year, the Group has applied the following new and revised standards, amendments and improvements to Hong Kong Accounting Standards ("HKAS(s)"), HKFRS (hereinafter collectively referred to as the "new HKFRSs") issued by the HKICPA, which are relevant to the Group:

Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Annual Improvement Project	Annual Improvements 2015- 2017 Cycle
HKFRS 16	Leases
HK (IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Annual Improvements 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the adoption of HKFRS 16 "Leases", the application of the above new and revised standard, amendments and improvements has had no material impact on the Group's result and financial position.

HKFRS 16 "Leases"

The Group has adopted HKFRS 16 from 1 January 2019. HKFRS 16 establishes new accounting requirements on leases which lead to the recognition of lease transactions in lessees' financial statements. HKFRS 16 focuses on whether an arrangement contains a lease or a service agreement and introduces a substantial change to lessee accounting. The previous distinction between operating and finance leases is eliminated for lessee. A right-of-use asset (representing the right to use the leased asset for the lease term) and a lease liability (representing the obligation to pay rentals) are recognised for all leases.

In accordance with the transition provisions of HKFRS 16, the Group has adopted the modified retrospective application for existing leases at 1 January 2019 with certain transition reliefs, and under which comparative figures are not restated. For leases previously classified as operating leases, the Group has elected to measure the right-of-use assets at the amounts equal to the lease liabilities adjusted by any prepaid or accrued lease payments. For those leases previously classified as finance leases, the right-of-use assets and lease liabilities are measured at the date of initial application at the same amounts as under HKAS 17 immediately before the date of initial application. Accordingly, no adjustments were recognised to the opening balance of retained profits at the date of initial application.

The Group applied the following practical expedients on transition to HKFRS 16 for those leases which were previously classified as operating leases under HKAS 17.

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review — there were no onerous contracts as at 1 January 2019
- Accounting for operating leases with a remaining lease term of less than twelve months as at 1 January 2019 as short-term leases
- Applied the recognition exemption for leases of low value assets
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

2 BASIS OF PREPARATION *(Continued)*

(a) The application of new and revised standards, amendments and improvements to existing standards and interpretations *(Continued)*

HKFRS 16 "Leases" *(Continued)*

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 "Leases" and Interpretation 4 "Determining whether an Arrangement contains a Lease".

Upon the adoption of HKFRS 16, the Group reclassified the assets under finance leases (mainly land and buildings and motor vehicles) from property, plant and equipment and prepaid lease payments under operating leases to right-of-use assets and the liabilities under obligations under finance leases to lease liabilities for presentation purpose.

The table below explains the difference between operating lease commitments disclosed at 31 December 2018 by applying HKAS 17 and lease liabilities recognised at 1 January 2019 by applying HKFRS 16:

	2019 HK$'000
Operating lease commitments disclosed as at 31 December 2018 (restated)	**86,828**
Discounted using the lessee's incremental borrowing rate of at the date of initial application*	**86,574**
Add: finance lease liabilities recognised as at 31 December 2018	**2,635**
(Less): short-term leases not recognised as a liability	**(1,375)**
(Less): adjustments as a result of a different treatment of extension and termination options	**(57,179)**
Lease liability recognised as at 1 January 2019	**30,655**
Of which are:	
Current lease liabilities	**7,931**
Non-current lease liabilities	**22,724**
	30,655

* The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4%.

2 BASIS OF PREPARATION *(Continued)*

(a) The application of new and revised standards, amendments and improvements to existing standards and interpretations *(Continued)*

HKFRS 16 "Leases" *(Continued)*

The table below summarises the impact of the adoption of HKFRS 16:

	At 1 January 2019 HK$'000
Decrease in prepaid lease payments	166,495
Decrease in property, plant and equipment — land, buildings and motor vehicles	33,491
Increase in property, plant and equipment — right-of-use assets	228,006
Decrease in finance lease payables — current	793
Decrease in finance lease payables — non-current	1,842
Increase in lease liabilities — current	7,931
Increase in lease liabilities — non-current	22,724

(b) New standards and amendments to existing standards and interpretations not yet effective

The Group has not early applied the following new standards and amendments to existing standards that have been issued but are not yet effective.

Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendments to HKFRS 3	Definition of Business[1]
HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting[1]

1 Effective for annual periods beginning on or after 1 January 2020

2 Effective for annual periods beginning on or after 1 January 2021

3 The mandatory effective date will be determined

The Group will adopt the above new standards and amendments to existing standards as and when they become effective. None of the above is expected to have a significant effect on the consolidated financial statements of the Group.

3 PRINCIPAL ACCOUNTING POLICIES

3.1 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to year end.

(i) Subsidiaries

A subsidiary is an entity (including structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Business combinations — common control combinations

Business combinations under common control are accounted for in accordance with the Accounting Guideline 5 'Merger Accounting for Common Control Combinations'. In applying merger accounting, the consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The consolidated income statement also takes into account the profit or loss attributable to the non-controlling interests of the controlling party. Upon the completion of common control combinations, the retained profit of the combining entities or business is transferred to the retained profits of the Group.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the beginning of the previous reporting period or when they first came under common control, whichever is shorter.

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.1 Consolidation *(Continued)*

(i) Subsidiaries *(Continued)*

Business combinations — acquisition method

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in the consolidated income statement.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquire and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated unless the transaction provides evidence of an impairment of the transferred asset. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.1 Consolidation *(Continued)*

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions — that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to income statement.

3.2 Separate financial statements

In the Company's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

3.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.4 Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses are presented in the income statement within 'other income and other gains, net' and 'administrative, selling and other operating expenses' respectively.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security.

Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.4 Foreign currency translation *(Continued)*

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

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

(c) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

(iv) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to consolidated income statement.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to consolidated income statement.

3.5 Property, plant and equipment

Land and buildings comprise mainly factories and offices. Leasehold land classified as finance lease and all other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.5 Property, plant and equipment *(Continued)*

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Freehold land	Not depreciated
Land and buildings	Over the shorter of the term of the relevant lease or 50 years
Right-of-use assets	Over the term of the relevant leases
Heat and electricity supply facilities	Over the shorter of the license operation period or 20 years
Leasehold improvements	4 years
Plant and machinery	5 years
Furniture, fixtures and equipment	5 years
Motor vehicles	4–5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. It will be reclassified to the relevant property, plant and equipment category upon completion and depreciation begins when the relevant assets are available for use.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other income and other gains, net' in the income statement.

3.6 Leasehold land and building

Accounting policies applied until 31 December 2018

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "Prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

The Group has changed its accounting policy for leases where the Group is the leasee. The new policy is described in note 3.22 and the impact of the change in note 2.

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.7 Interests in infrastructure project investments

Interests in infrastructure project investments represent loans advanced to joint ventures whereby the Group's return is predetermined in accordance with the provisions of the relevant agreements.

The Group's interests in the infrastructure project investments are classified as loans and receivables in accordance with HKAS 39 and are stated at amortised cost using effective interest method. The carrying amount of such interests is reduced to recognise any identifies impairment losses of individual investments.

3.8 Intangible assets

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to cash generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

3.9 Impairment of non-financial assets

Assets that have an indefinite useful life — for example, goodwill is not subject to amortisation and is tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

3.10 Financial assets

(i) Classification

The Group classifies its financial assets in the following measurement category — those to be measured at amortised cost. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. Management determines the classification of its financial assets at initial recognition.

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.10 Financial assets *(Continued)*

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset.

(iv) Impairment

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 22 for further details.

For other financial assets originally categorised as loans and receivables under HKAS 39 which all have been classified as financial assets at amortised cost under HKFRS 9 from 1 January 2018, the Group has determined that reliably assessing the probability of default of the counterparties at the initial recognition of each financial asset would result in undue cost and effort. As permitted by a transition provision in HKFRS 9, provision for impairment of receivables account for these financial assets will be determined based on whether their credit risk are low at each reporting date, and if so by recognising a twelve months expected losses amount until the financial asset is derecognised. If the financial asset is not of a low credit risk, the corresponding provision for doubtful debts account will be recognised as equal to lifetime expected losses.

3.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

3.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in selling expenses.

3.13 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.13 Trade and other receivables *(Continued)*

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See note 3.10 for further information about the Group's accounting for trade receivables and description of the Group's impairment policies.

3.14 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, pledged bank deposits, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the consolidated and entity statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

3.15 Trade payables, other payables and accruals

Trade payables are obligations to pay for materials or services that have been acquired in the ordinary course of business from suppliers. Trade payables, other payables and accruals are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables, other payables and accruals are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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

3.17 Borrowing costs

Relevant general and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.18 Deferred income

Deferred income represents connection fee income not yet recognised in relation to heat transmission services.

3.19 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3.20 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

Deferred income tax assets are recognised to the extent that their future utilisation is probable. Deferred income tax arising from revaluation of investment properties is recognised on the rebuttable presumption that the recovery of the carrying amount of the properties would be through sale and calculated at the applicable tax rates.

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.20 Current and deferred income tax *(Continued)*

(iii) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3.21 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3.22 Leases, the Group as a lessee

Accounting policies applied until 31 December 2018

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(i) Operating lease

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.22 Leases, the Group as a lessee *(Continued)*

Accounting policies applied until 31 December 2018 *(Continued)*

(ii) Finance lease

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Accounting policies applied from 1 January 2019

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date,
- amounts expected to be payable by the Group under residual value guarantees,
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.22 Leases, the Group as a lessee *(Continued)*

Accounting policies applied from 1 January 2019 *(Continued)*

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, eg term, country, currency and security.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of twelve months or less.

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.23 Employee benefits

(i) Pension obligations

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies. The Group has defined contribution plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(ii) Employee leave entitlements

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

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

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.24 Share-based payments

(a) Equity-settled share-based payments transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in consolidated income statement such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve. When the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium.

When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

(b) Share-based payments transactions among group entities

Incentive shares granted by an intermediate holding company to the employees of the Group is treated as capital contribution. The fair value of employee services received, measured by reference to the fair value of incentive shares on the date of grant, is recognised as an expense over the vesting period, with a corresponding credit to equity.

At the end of each reporting period, the Group revises its estimates of the number of incentive shares that are expected to be vested. The impact of the revision of the original estimates, if any, is recognised in profit or loss, with a corresponding adjustment to equity.

3.25 Revenue recognition

Revenue is recognised when or as the control of the good or service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good or service may be transferred over time or at a point in time. Control of the good or service is transferred over time if the Group's performance:

(a) Provides all of the benefits received and consumed simultaneously by the customer;

(b) Creates or enhances an asset that the customer control as the Group performs; or

(c) Does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the good or service transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the good or service.

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.25 Revenue recognition *(Continued)*

The progress towards complete satisfaction of the performance obligation is measured based on one of the following methods that best depict the Group's performance in satisfying the performance obligation:

(a) Direct measurements of the value transferred by the Group to the customer; or

(b) The Group's efforts or inputs to the satisfaction of the performance obligation relative to the total expected efforts or inputs ("input method").

Incremental costs incurred to obtain a contract, if recoverable, are capitalised as contract related assets and subsequently amortised when the related revenue is recognised.

Revenue from contracts with customers

(i) Construction contracts

Revenue from individual contracts is recognised according to progress of the project. The Group recognises revenue based on progress towards complete satisfaction of performance obligation, which is measured based on direct measurements of the value of units delivered or surveys of work performed. The customers will provide final statement when the whole project is completed and may have adjustments on accumulated confirmation according to the actual engineering quantity till the day of completion. In addition, when determining the transaction price, the Group consider factors such as whether there is any financing component. The Group considers whether the payment schedule is commensurate with the Group's performance and whether the delayed payment is for finance purpose. The Group has, therefore, recognised revenue on progress confirmation over the period during which the services are rendered and transferred to customers.

The excess of cumulative revenue recognised in profit or loss over the cumulative billings to customers is recognised as contract assets. The excess of cumulative billings to customers over the cumulative revenue recognised in profit or loss is recognised as contract liabilities.

(ii) Service income

Revenue from service income, including consultancy service income and management services income, is recognised over time when the corresponding services are rendered.

(iii) Thermoelectricity business

Revenue from thermoelectricity business consists of revenue from the supply of heat, steam and electricity, and connection service income.

Revenue from the supply of heat, steam and electricity are recognised over time based upon output delivered and capacity provided at rates specified under contract terms.

Connection service income received and receivable, to the extent which is attributable to the initial pipeline construction and connection of transmission of heat and steam, is recognised over time upon the completion of services provided for the relevant connection works. Connection service attributable to the continuing heat and steam transmission is recorded as deferred income and amortised on a straight-line basis over the expected service period of heat and steam transmission to be rendered with reference to the term of the operating license of the relevant entities.

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.25 Revenue recognition *(Continued)*

Revenue from other sources

(i) Income from interests in infrastructure investment projects

Income from interests in infrastructure investment projects is accrued on a time basis, by making reference to the carrying amount and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash flows through the expected life of the infrastructure project to that project's net carrying amount at initial recognition.

(ii) Interest income

Interest income on bank deposits is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(iii) Rental income

Rental income is recognised on a straight-line basis over the term of the lease.

3.26 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability, other than that assumed in a business combination, is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

3.27 Insurance contracts

The Group assesses at the end of each reporting period the liabilities under its insurance contracts using current estimates of future cash flows. If the carrying amount of the relevant insurance liabilities is less than the best estimate of the expenditure required to settle the relevant insurance liabilities at the end of the reporting period, the Group recognises the entire difference in the consolidated income statement. These estimates are recognised only when the outflow is probable and the estimates can be reliably measured.

3.28 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders/directors.

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.29 Contract related assets and contract liabilities

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assumes performance obligations to transfer goods or provide services to the customer.

The combination of those rights and performance obligations gives rise to a net contract asset or a net contract liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognised as contract assets if the cumulative revenue recognised in profit or loss exceeds cumulative payments made by customers. Conversely, the contract is a liability and recognised as contract liabilities if the cumulative payments made by customers exceeds the revenue recognised in profit or loss.

Contract assets are assessed for impairment under the same approach adopted for impairment assessment of financial assets carried at amortized cost. Contract liabilities are recognised as revenue when the Group transfers the goods or services to the customers and therefore satisfied its performance obligation.

The incremental costs of obtaining a contract with a customer are capitalized and presented as contract related assets, if the Group expects to recover those costs, and are subsequently amortized on a systematic basis that is consistent with the transfer to the customers of the goods or services to which the assets relate. The Group recognizes an impairment loss in the consolidated income statement to the extent that the carrying amount of the contract related assets recognised exceeds the remaining amounts of consideration that the Group expects to receive less the costs that relate directly to providing those goods or services that have not been recognised as expenses.

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollar and the Australian dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group's foreign currency exposures primarily arise from monetary assets and liabilities that are denominated in a currency that is not the entity's functional currency, where these assets and liabilities are mainly denominated in United States dollar and Australian dollar.

In view of the fact that the Hong Kong dollar is pegged to the United States dollar, the foreign currency exposure of operating units having the Hong Kong dollar as their functional currency on United States dollar transactions and balances is minimal.

4 FINANCIAL RISK MANAGEMENT *(Continued)*

4.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(i) Foreign exchange risk (Continued)

At 31 December 2019, if the Hong Kong dollar had weakened/strengthened 5% against the Australian dollar with all other variables held constant, the consolidated profit for the year would have been HK$303,000 lower/higher (2018 (restated): HK$564,000 lower/higher).

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

The Group currently does not have a formal foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. However, the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

(ii) Interest rate risk

The Group's interest rate risk arises from bank and other borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. During 2019 and 2018, the Group's borrowings at variable rate were denominated in the Hong Kong dollar, Canadian dollar and United States dollar.

The sensitivity analyses below have been determined based on the exposure to interest rates for floating interest debt securities and variable-rate trade and other receivables and bank borrowings. The analysis is prepared assuming the amount of asset and liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 (2018: 50) basis points increase or decrease representing management's assessment of the reasonably possible change in interest rates is used.

At 31 December 2019, if interest rates at that date had been 50 (2018: 50) basis points higher/lower with all other variables held constant, consolidated profit for the year would have been HK$3,044,000 lower/higher (2018 (restated): HK$2,477,000 lower/higher), arising mainly as a result of higher/lower interest expense on bank and other borrowings, netting off against bank interests in infrastructure project investments.

(b) Credit risk

The carrying amount of the cash and cash equivalents, deposits and prepayments, amounts due from fellow subsidiaries and related companies, contract assets, trade and other receivables and interests in infrastructure project investments included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The Group has policies in place to ensure that sales are made to customers, fellow subsidiaries and related companies with an appropriate credit history. In addition, the directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

4 FINANCIAL RISK MANAGEMENT *(Continued)*

4.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The credit risk on interests in infrastructure project investments is limited because the counterparties are mainly Chinese government-related entities.

The credit risk on contract assets and most trade receivables is limited because the history of default is low. The Group assessed the credit losses against contract assets and trade receivables and the lifetime expected credit loss rate is below 1%, except for trade receivables relating to several accounts from thermoelectricity business which are long overdue with significant amounts or known insolvencies or non-response to collection activities which are assessed individually for impairment allowance. As at 31 December 2019, the expected credit loss rates for these trade receivables from thermoelectricity business are ranging from 30% to 80%.

The credit risk on cash and cash equivalents is limited because the counterparties are banks with high credit- ratings assigned by international credit-rating agencies.

(c) Liquidity risk

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

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Group					
At 31 December 2019					
Trade payables, other payables and accruals, excluding warranty provision	**1,298,771**	**51,585**	**—**	**—**	**1,350,356**
Amounts due to fellow subsidiaries	**1,795,833**	**—**	**—**	**—**	**1,795,833**
Amounts due to related companies	**1,476**	**—**	**—**	**—**	**1,476**
Bank borrowings	**663,891**	**208,586**	**12,324**	**—**	**884,801**
Lease liabilities	**8,869**	**8,349**	**20,444**	**3,095**	**40,757**
	3,768,840	**268,520**	**32,768**	**3,095**	**4,073,223**
At 31 December 2018 (restated)					
Trade payables, other payables and accruals, excluding warranty provision	1,091,538	93,124	—	—	1,184,662
Amounts due to fellow subsidiaries	1,536,863	—	—	—	1,536,863
Bank borrowings	512,174	7,432	209,313	10,110	739,029
Finance lease payables	819	819	1,294	—	2,932
	3,141,394	101,375	210,607	10,110	3,463,486

4 FINANCIAL RISK MANAGEMENT *(Continued)*

4.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current bank borrowings' and 'loan from a fellow subsidiary' as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity attributable to the owners of the Company' and 'non-controlling interests' as shown in the consolidated statement of financial position.

The gearing ratio is calculated as follows:

	2019 **HK$'000**	2018 HK$'000 (restated)
Bank borrowings	**867,538**	716,924
Add: Loan from a fellow subsidiary	**—**	33,180
Less: Cash and cash equivalents	**(826,576)**	(696,736)
Net debt	**40,962**	53,368
Net assets	**1,058,513**	968,556
Gearing ratio	**3.9%**	5.5%

The gearing ratio decreased from restated 5.5% to 3.9% was resulted by an increase in cash and cash equivalents.

4.3 Fair value estimation

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Trade and other receivables
- Deposits and prepayments
- Cash and cash equivalents
- Interests in infrastructure project investments
- Amounts due from/to fellow subsidiaries and related companies
- Trade payables, other payables and accruals
- Bank borrowings
- Lease liabilities

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Construction contracts

Progress of construction works

The Group recognises revenue according to the progress towards complete satisfaction of performance obligation of the individual contract of construction works. The progress is determined by the aggregated cost for the individual contract incurred at the end of the reporting period compared with the estimated budgeted cost. Management's estimation of the cost incurred to date and the budgeted cost is primarily based on construction budget and actual cost report prepared by internal quantity surveyors, where applicable. Corresponding revenue from contract work is also estimated by management based on the progress and budgeted revenue. Because of the nature of the activities undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting periods. The Group regularly reviews and revises the estimation of both contract revenue and contract cost in the budget prepared for each construction contract as the contract progresses.

(ii) Estimation of foreseeable losses in respect of construction works

Management estimates the amount of foreseeable losses of construction works based on the management budgets prepared for the construction works. Budgeted construction income is determined in accordance with the terms set out in the relevant contracts. Budgeted construction costs which mainly comprise subcontracting charges and costs of materials are prepared by management on the basis of quotations from time to time provided by the major contractors/suppliers/vendors involved and experience of management. A foreseeable losses is resulted from a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. In order to keep the budget accurate and up-to-date, management conducts periodic review on the management budgets by comparing the budgeted amounts to the actual amounts incurred.

(iii) Impairment of assets

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3.8. The recoverable amount of goodwill is the higher of the fair values less costs to sell and value in use.

A considerable amount of judgement and assumptions are required in estimating the recoverable amount of goodwill, including financial budgets prepared and approved by management, revenue growth rate, gross margin and weighted average discount rate applied to the discounted cashflows.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(iii) Impairment of assets *(Continued)*

Impairment of property, plant and equipment

The Group regularly reviews whether there are any indications of impairment and recognises an impairment loss if the carrying amount of an asset is lower than its recoverable amount. The recoverable amounts have been determined based on the higher of the fair value less costs to sell and value in use calculations.

In determining the value in use, the Group assesses the present value of the estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life.

Estimates and judgements are applied in determining these future cash flows and the discount rate. The Group estimates the future cash flows based on certain assumptions, such as market competition and development and the expected growth in business.

(iv) Income and deferred taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain.

The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted. To determine the future taxable profits, reference is made to the latest available profit forecasts and relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits.

The Group has exercised significant accounting judgement on recognition of deferred tax assets in respect of losses, particular for the North America division. The amounts recognised in the consolidated financial statements are derived from the Group's best estimation and judgement regarding the future financial performance of the relevant division. Those significant estimations and judgement include financial budgets prepared and approved by management, gross profit margin, overhead and capital expenditure applied to the profit forecasts.

(v) Impairment of receivables, contract assets and amounts due from related parties

The Group assesses on a forward looking basis the expected credit losses associated with its receivables and amounts due from related parties carried at amortised cost and contract assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To make that assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition. Significant estimates and judgements are required in determining the probability-weighted amount that is not recoverable and the forecast of future economic conditions.

(vi) Warranty provision

The Group provides a maintenance warranty for a period of 10 years for the projects completed by the Group. The Group undertakes to rectify the product that fail to perform satisfactorily. The warranty provision has been recognised at the year end for expected warranty claims based on past experience of the level of repairs and returns. Management will review the sufficiency of provision and make adjustments, if appropriate, at the end of each reporting period.

6 REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the facade contracting business, general contracting business and operating management business. The Group's revenue represents revenue from construction and management contracts.

The Group has classified the reportable segments into three operating segments, principally based on reportable business units as well as the reporting organisation hierarchy, which are determined as follows:

— Façade Contracting Works

— General Contracting Works

— Operating Management

Operating management segment includes the Group's urban planning management and consultation services, engineering consultancy services and thermoelectricity business.

The executive directors of the Company are the Group's chief operating decision-maker ("CODM"). The CODM assesses the performance of the operating segments based on a measure of adjusted profit or loss before interest and tax. This measurement basis excludes the effects of non-recurring expenditure from the operating segments, if any, such as restructuring costs, legal expenses and impairment of goodwill. The measurement also excludes the effects of share-based payments and unrealised gains/losses on financial instruments. Interest income and expenses resulting from the central treasury function are not allocated to segments.

Segment results for the years ended 31 December 2019 and 2018 are as follows:

	Revenue		Gross profit		Segment result	
	2019 HK$'000	2018 HK$'000 (restated)	**2019 HK$'000**	2018 HK$'000 (restated)	**2019 HK$'000**	2018 HK$'000 (restated)
Façade Contracting Works	**2,785,753**	2,518,261	**233,623**	252,352	**123,001**	143,608
General Contracting Works	**940,564**	850,553	**56,594**	69,423	**47,410**	63,531
Operating Management	**893,095**	874,353	**253,847**	164,298	**199,284**	123,361
Total	**4,619,412**	4,243,167	**544,064**	486,073	**369,695**	330,500
Unallocated corporate expenses					**(52,810)**	(50,057)
Other income and other gains, net					**(1,285)**	809
Finance costs					**(38,687)**	(29,044)
Profit before tax					**276,913**	252,208

Segment revenue of Façade Contracting Works comprises revenue from Greater China, Asia and other region amounting to HK$2,314,407,000 (2018: HK$1,981,504,000) and revenue from North America region amounting to HK$471,346,000 (2018: HK$536,757,000). Segment revenue of General Contracting Works and Operating Management represent revenue from Greater China region.

The revenue recognised for the year ended 31 December 2019 and 2018 are recognised over time.

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6 REVENUE AND SEGMENT INFORMATION *(Continued)*

Amounts of administrative, selling and other operating expenses included in the measurement of segment result:

	Depreciation of property, plant and equipment		Loss/(gain) on disposal of property, plant and equipment	
	2019 HK$'000	2018 HK$'000 (restated)	**2019 HK$'000**	2018 HK$'000 (restated)
Façade Contracting Works	**12,719**	5,529	**2**	(28)
General Contracting Works	**774**	96	**—**	—
Operating Management	**3,353**	294	**421**	(481)
	16,846	5,919	**423**	(509)

An analysis of the Group's financial position by territory is as follows:

	Non-current assets*		Addition to property, plant and equipment	
	2019 HK$'000	2018 HK$'000 (restated)	**2019 HK$'000**	2018 HK$'000 (restated)
North America	**366,913**	310,997	**38,318**	116,196
Greater China, Asia and Others	**1,922,270**	1,831,937	**68,544**	193,025
	2,289,183	2,142,934	**106,862**	309,221

* Other than deferred tax assets.

Segment assets and liabilities

No assets and liabilities are included in the measurements of the Group's segment reporting that are used by the CODM for performance assessment and resource allocation. Accordingly, no segment assets and liabilities are presented.

Major customer information

One customer in Façade Contracting Works contributed revenue of approximately HK$778,574,000 (2018: No customer) which represents more than 10 per cent of the Group's total revenue.

7 OTHER INCOME AND OTHER GAINS, NET

	2019 HK$'000	2018 HK$'000 (restated)
Bank interest income	**2,737**	3,318
Exchange gain, net	**7,355**	—
Insurance claim received	**653**	—
Rental income	**3,001**	842
Service income	**2,191**	1,531
Sundry income	**4,126**	2,582
(Loss)/gain on disposal of property, plant and equipment	**(423)**	509
	19,640	8,782

8 EXPENSES BY NATURE

	2019 HK$'000	2018 HK$'000 (restated)
Cost of sales		
Cost of contracting works performed	3,570,306	3,171,154
Cost of supply of heat, steam and electricity	487,492	567,142
Warranty provisions, net	17,550	18,798
	4,075,348	3,757,094
Administrative, selling and other operating expenses		
Staff costs, including directors' emoluments:		
Salaries, bonuses and allowances	826,602	723,163
Retirement benefits scheme contributions	59,932	38,912
Less: amounts included in cost of sales	(728,736)	(625,591)
	157,798	136,484
Depreciation of property, plant and equipment, excluding right-of-use assets	168,285	137,193
Less: amounts included in cost of sales	(162,594)	(131,274)
	5,691	5,919
Depreciation of right-of-use assets	13,516	—
Less: amounts included in cost of sales	(2,361)	—
	11,155	—
Operating lease charges — land and buildings	30,927	49,592
Less: amounts included in cost of sales	(20,049)	(37,456)
	10,878	12,136
Amortisation of prepaid land lease payments	—	(679)
Less: amounts included in cost of sales	—	679
	—	—
Auditor's remuneration		
Audit services	2,787	2,847
Non-audit services	1,424	563
	4,211	3,410
Exchange loss, net	—	2,148
Provision of trade and other receivables, net	5,287	387
Others	53,084	53,119
	248,104	213,603

Note: Expenses of discontinuation of factories of HK$31,050,000 and HK$11,121,000 are included in salaries, bonuses and allowances and operating lease charges respectively.

9 FINANCE COSTS

	2019 HK$'000	2018 HK$'000 (restated)
Interest on bank loans and overdrafts	**39,363**	26,537
Interest on loan from a fellow subsidiary	**—**	2,327
Interest on lease liabilities	**1,373**	—
Finance lease charges	**—**	180
	40,736	29,044
Less: amounts capitalised in property, plant and equipment	**(2,049)**	—
	38,687	29,044

10 INCOME TAX CHARGE

(a) The amount of taxation charged to the consolidated income statement represents:

	2019 HK$'000	2018 HK$'000 (restated)
Current tax — Hong Kong profits tax		
Provision for the year	**44,560**	57,662
Under/(over)provision in prior years	**20**	(89)
	44,580	57,573
Current tax — Mainland China and overseas		
Provision for the year	**60,494**	26,623
Under/(over)provision in prior years	**7**	(5,834)
	60,501	20,789
Deferred tax, net (note 27)	**4,092**	(4,843)
Income tax charge for the year	**109,173**	73,519

Hong Kong profits tax has been provided at 16.5% of the estimated assessable profit for both years.

The tax charge on estimated assessable profits elsewhere has been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices.

Certain of the Group's subsidiaries in the Mainland China were approved as new and high technology enterprises pursuant to which the Mainland China subsidiaries can enjoy a preferential income tax rate of 15% effective from 2018 to 2021. The income tax rate of most of the Group's remaining subsidiaries in the Mainland China is 25%.

The income tax rate of the Group's overseas subsidiaries range from 12% to 28%.

10 INCOME TAX CHARGE *(Continued)*

(b) The taxation on the Group's profit before tax differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2019 HK$'000	2018 HK$'000 (restated)
Profit before tax	276,913	252,208
Taxation at Hong Kong profits tax rate at 16.5%	45,691	41,614
Effect of different taxation rates in other countries	6,807	(7,156)
Income not subject to taxation	(666)	(1,788)
Expenses not deductible for taxation purposes	24,356	14,710
Temporary differences not recognised	(628)	(684)
Tax losses not recognised	33,586	32,746
Under/(over) provision in prior years	27	(5,923)
Income tax charge	109,173	73,519

11 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The remuneration of each director and the chief executive is set out below:

For the year ended 31 December 2019

	Emoluments paid or payable in respect of a person's services as a director whether of the company or its subsidiary undertaking				
Name	Fees HK$'000	Salary and allowances HK$'000	Discretionary bonuses HK$'000	Employer's contribution to benefit scheme HK$'000	Total HK$'000
Zhang Haipeng	—	—	—	—	—
Wu Mingqing	—	2,395	3,759	18	6,172
Wang Hai	—	1,721	2,268	—	3,989
Chan Sim Wang	—	1,293	413	18	1,724
Huang Jiang (iii)	—	—	—	—	—
Zhou Jinsong	180	—	—	—	180
Hong Winn	150	—	—	—	150
Kwong Sum Yee Anna	150	—	—	—	150
	480	5,409	6,440	36	12,365

11 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

For the year ended 31 December 2018

	Emoluments paid or payable in respect of a person's services as a director whether of the company or its subsidiary undertaking				
Name	Fees	Salary and allowances	Discretionary bonuses	Employer's contribution to benefit scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Zhou Yong (i) & (iii)	—	—	—	—	—
Zhang Haipeng (ii)	—	—	—	—	—
Wu Mingqing (ii)	—	952	1,668	6	2,626
Zhu Yijian (i)	—	807	1,131	12	1,950
Luo Haichuan (i)	—	862	988	12	1,862
Wang Hai	—	1,840	2,197	—	4,037
Chan Sim Wang	—	1,182	391	18	1,591
Huang Jiang (iii)	25	—	—	—	25
Zhou Jinsong	180	—	—	—	180
Hong Winn	150	—	—	—	150
Kwong Sum Yee Anna	150	—	—	—	150
	505	5,643	6,375	48	12,571

Notes:

(i) Resigned from the Board with effect from 18 August 2018.

(ii) Appointed as Executive Director on 18 August 2018.

(iii) Mr. Zhou Yong has decided to waive his director fee of HK$800,000 per annum between 1 January 2017 and 1 March 2018 and he will not receive any director's fee under his new term of appointment commencing 2 March 2018. Mr. Huang Jiang has decided to waive his director's fee of HK$120,000 per annum with effect from 16 March 2018. Save as aforesaid, there was no arrangement under which a director waived or agreed to waive any emoluments during the year.

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

11 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

Five highest paid individuals

The five highest paid individuals in the Group during the year included 2 (2018: 2) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 3 (2018: 3) individuals is set out below:

	2019 HK$'000	2018 HK$'000
Basic salaries and allowances	**3,552**	5,050
Discretionary bonuses	**4,021**	1,075
Retirement benefit scheme contributions	**132**	238
	7,705	6,363

(b) The emoluments fell within the following bands:

	2019 No. of Employees	2018 No. of employees
HK$2,000,001 to HK$2,500,000	**1**	3
HK$2,500,001 to HK$3,000,000	**2**	—
	3	3

During the year, no emoluments were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

12 SENIOR MANAGEMENT EMOLUMENTS

The emoluments of the senior management (excluding directors and chief executive) for the year ended 31 December 2019 and 2018 were as follows:

	2019 HK$'000	2018 HK$'000
Salaries and other benefits	**15,743**	11,945
Contributions to retirement benefit schemes	**300**	292
	16,043	12,237

12 SENIOR MANAGEMENT EMOLUMENTS *(Continued)*

The emoluments of the senior management for the year ended 31 December 2019 and 2018 were within the following bands:

	2019 No. of Employees	2018 No. of employees
HK$1,000,000 or less	—	1
HK$1,000,001 to HK$1,500,000	—	1
HK$1,500,001 to HK$2,000,000	1	1
HK$2,000,001 to HK$2,500,000	4	4
HK$2,500,001 to HK$3,000,000	2	—
	7	7

13 DIVIDENDS

	2019 HK$'000	2018 HK$'000
Interim dividend paid of HK1.2 cents (2018: HK1.0 cent) per ordinary share	25,867	21,555
No proposed final dividend (2018: HK1.2 cents per ordinary share)	—	25,867
	25,867	47,422

The Board does not recommend payment of a final dividend for the year ended 31 December 2019. The final dividend for 2018 was recognised and paid during the year.

14 EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following:

	2019 HK$'000	2018 HK$'000 (restated)
Earnings		
Profit attributable to owners of the Company, used in the basic and diluted earnings per share calculation	175,560	182,780
Number of shares	'000	'000
Weighted average number of ordinary shares used in diluted earnings per share calculation	2,155,545	2,155,545
Basic earnings per share (HK cents)	8.14	8.48

No diluted earnings per share are presented as the Company did not have any dilutive potential ordinary shares during the year ended 31 December 2019 (2018: Nil).

15(a) PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Heat and electricity supply facilities HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost								
At 1 January 2018, as previously presented	116,671	4,640	53,536	—	52,539	11,933	96,593	335,912
Effect of combination under common control (note 2)	488,067	—	—	2,069,656	13,312	5,847	14,926	2,591,808
At 1 January 2018, as restated	604,738	4,640	53,536	2,069,656	65,851	17,780	111,519	2,927,720
Exchange difference	(26,623)	(201)	(2,153)	(72,064)	(2,448)	(889)	(5,790)	(110,168)
Additions	127,995	2,242	29,192	13,267	10,340	1,369	124,816	309,221
Disposals	—	—	(700)	(21,591)	(2,168)	(720)	—	(25,179)
Transfers	193,567	—	—	18,472	—	—	(212,039)	—
At 31 December 2018, as restated	899,677	6,681	79,875	2,007,740	71,575	17,540	18,506	3,101,594
At 1 January 2019, as previously presented	435,388	6,681	79,875	—	59,420	11,987	—	593,351
Effect of combination under common control (note 2)	464,289	—	—	2,007,740	12,155	5,553	18,506	2,508,243
Effect of change in accounting policy (note 2)	(36,531)	—	—	—	—	—	—	(36,531)
At 1 January 2019, as restated	863,146	6,681	79,875	2,007,740	71,575	17,540	18,506	3,065,063
Exchange difference	(2,262)	23	(319)	(25,713)	(124)	(67)	(116)	(28,578)
Additions	3,472	1,478	5,631	44,792	9,799	242	41,448	106,862
Disposals	(847)	(2,540)	(8,195)	(7,647)	(3,926)	(391)	—	(23,546)
Transfers	469	—	—	10,779	—	—	(11,248)	—
At 31 December 2019	**863,978**	**5,642**	**76,992**	**2,029,951**	**77,324**	**17,324**	**48,590**	**3,119,801**
Accumulated depreciation and impairment								
At 1 January 2018, as previously presented	18,631	2,838	33,983	—	39,453	9,587	—	104,492
Effect of combination under common control (note 2)	183,071	—	—	893,041	11,362	3,939	—	1,091,413
At 1 January 2018, as restated	201,702	2,838	33,983	893,041	50,815	13,526	—	1,195,905
Exchange difference	(10,519)	(114)	(1,492)	(49,270)	(1,942)	(714)	—	(64,051)
Charge for the year	21,274	765	6,739	99,943	7,266	1,206	—	137,193
Disposals	—	—	(651)	(2,872)	(1,536)	(684)	—	(5,743)
At 31 December 2018, as restated	212,457	3,489	38,579	940,842	54,603	13,334	—	1,263,304
At 1 January 2019, as previously presented	21,351	3,489	38,579	—	43,888	9,085	—	116,392
Effect of combination under common control (note 2)	191,106	—	—	940,842	10,715	4,249	—	1,146,912
Effect of change in account policy (note 2)	(3,040)	—	—	—	—	—	—	(3,040)
At 1 January 2019, as restated	209,417	3,489	38,579	940,842	54,603	13,334	—	1,260,264
Exchange difference	(2,639)	19	(108)	(13,514)	(108)	(60)	—	(16,410)
Charge for the year	30,403	1,867	5,681	121,704	7,469	1,161	—	168,285
Disposals	(171)	(2,003)	(7,392)	(6,612)	(3,703)	(386)	—	(20,267)
At 31 December 2019	**237,010**	**3,372**	**36,760**	**1,042,420**	**58,261**	**14,049**	**—**	**1,391,872**
Net book value as at								
At 31 December 2019	**626,968**	**2,270**	**40,232**	**987,531**	**19,063**	**3,275**	**48,590**	**1,727,929**
At 31 December 2018, as restated	687,220	3,192	41,296	1,066,898	16,972	4,206	18,506	1,838,290

15(a) PROPERTY, PLANT AND EQUIPMENT *(Continued)*

An analysis of the cost of the Group's land and buildings is as follows:

	2019 HK$'000	2018 HK$'000 (restated)
Located in:		
Hong Kong, under medium-term leases	**50,645**	50,645
Mainland China, under medium-term leases	**673,307**	678,589
Canada, freehold	**140,026**	133,912
The United States of America, freehold	**—**	36,531
	863,978	899,677

At 31 December 2019, the carrying amount of the Group's land and buildings pledged as security for the Group's banking facilities amounted to HK$17,016,000 (2018: HK$16,980,000) (note 25).

Net book value of property, plant and equipment including right-of-use assets:

	2019 HK$'000	2018 HK$'000 (restated)
Property, plant and equipment	**1,727,929**	1,838,290
Right-of-use assets	**229,215**	—
	1,957,144	1,838,290

15(b) LEASES

(i) Amounts recognised in the consolidated statement of financial position

The consolidated statement of financial position shows the following amounts relating to leases:

	2019 HK$'000	1 January 2019* HK$'000
Right-of-use assets		
Prepaid land lease payment**	162,091	166,495
Land and buildings and motor vehicles	67,124	—
	229,215	166,495
Lease liabilities		
Current	7,641	7,931
Non-current	29,990	22,724
	37,631	30,655

Additions to the right-of-use assets during the 2019 financial year were HK$17,045,000.

* In the previous year, the Group only recognised lease assets and lease liabilities in relation to leases that were classified as "finance leases" under HKAS 17 "Leases". The assets were presented in property, plant and equipment and the liabilities as part of the Group's borrowings. For adjustments recognised on adoption of HKFRS 16 on 1 January 2019, please refer to note 2.

** The Group has land lease arrangement with mainland China government and leasehold land in Hong Kong.

(ii) Amounts recognised in the consolidated income statement

The consolidated income statement shows the following amounts relating to lease:

	2019 HK$'000
Depreciation charge of right-of-use assets	
Prepaid land lease payment	2,361
Land and buildings and motor vehicles	11,155
	13,516
Interest expense (included in finance cost)	1,373
Expenses relating to short-term leases (included in cost of sales and administrative, selling and other operating expenses)	30,927
	32,300

The total cash outflow for leases in 2019 was approximately HK$47,735,000.

15(b) LEASES *(Continued)*

(iii) The Group's leasing activities and how these are accounted for

The Group leases various offices, warehouses, equipment and vehicles. Rental contracts are typically made for fixed periods of 2 to 10 years.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

16 INTERESTS IN INFRASTRUCTURE PROJECT INVESTMENTS

	2019 **HK$'000**	2018 HK$'000
Interests in infrastructure project investments	**247,900**	—
Less: Portion due within one year included in current assets	**(54,010)**	—
Portion due after one year	**193,890**	—

On 7 January 2019, the Group acquired 100% of equity interests in and shareholder's loan to Fuller Sky and Value Idea from Ever Power Group Limited, a wholly owned subsidiary of China State Construction International Holdings Limited for a total consideration of HK$295,000,000.

Interests in infrastructure project investments represent funding denominated in Renminbi ("RMB") advanced to joint ventures for Public-Private-Partnership ("PPP") infrastructure projects located in Mainland China. The Group is responsible to provide finance for the construction of the infrastructure of these projects, whereby the Group's return is predetermined in accordance with the provisions of the relevant agreements.

The effective interest rates on the infrastructure project investments range from 10.2% to 10.7% (2018: nil) per annum. The interests in infrastructure project investments were not past due as at 31 December 2019.

The Directors reviewed individually the infrastructure projects' operations and financial positions as at 31 December 2019 based on the present values of estimated future cash flows from those investments, discounted at their respective original effective interest rates.

17 PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise leasehold land located in Mainland China under medium-term lease.

From 1 January 2019, the Group classified all its prepaid lease payments to right-of-use assets. Please refer to note 2(a).

18 GOODWILL

	HK$'000
Cost, at 31 December 2019 and 31 December 2018	159,707
Accumulated impairment, at 31 December 2019 and 31 December 2018	(21,558)
Carrying values, at 31 December 2019 and 31 December 2018	138,149

Goodwill acquired in a business combination is allocated, at acquisition, to the CGU that is expected to benefit from that business combination.

The carrying amount of goodwill had been allocated to the CGU relating to the operations of Gamma North America, Inc. and its subsidiaries ("Gamma Group") within the North America division.

The recoverable amount of the CGU is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, revenue growth rates and budgeted gross margin and turnover during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on the long-term average economic growth rate of the geographical area in which the businesses of the CGU operate. Budgeted gross margin and turnover are based on past practices and expectations of market development.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next five years with the revenue average growth rate ranging from 16%–24% and extrapolating the average revenue growth rate ranging from 2%–5% from sixth to fifteenth years and then applied the residual period using the growth rate of 3%. These rates do not exceed the average long-term revenue growth rate for the relevant markets. A financial budget of a fifteen year reflects the medium term plan of management in expanding the customer base and market share. The pre-tax rates used to discount the forecast cash flows range from 25.58% to 26.60%. With all other variables held constant, if the revenue growth rates used in the value-in-use calculation was decreased by 0.17% or the discount rate used in the value-in-use calculation had been increased by 0.47% than the management estimates as at 31 December 2019, the headroom would drop to zero.

19 SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2019 and 2018:

Name of subsidiary	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest 2019	2018	Principal activities
Far East Global Group Limited (formerly known as Far East Aluminium (B.V.I.) Limited)	British Virgin Islands/ Hong Kong	6,000 ordinary shares of US$1 each	100%	100%	Investment holding
Far East Aluminium Works Company Limited	Hong Kong	900,000 ordinary shares of HK$188,952,242 5,000 non-voting deferred shares of HK$500,000	100%	100%	Design, manufacture and installation of curtain walls, aluminium windows and other related products
Treasure Construction Engineering Limited	Hong Kong	2 ordinary shares of HK$2	100%	100%	Building constructions
Far East Facade (UK) Limited	United Kingdom	1 ordinary share of GBP1	100%	100%	Design, manufacture and installation of curtain walls, aluminium windows and other related products
Far East Facade (UAE) Limited	British Virgin Islands	10,000 ordinary shares of US$1 each	100%	100%	Investment holding
World Eastern Cladding Works (LLC)	United Arab of Emirates	100 ordinary shares of AED3,000 each	100%	100%	Installation of curtain walls, aluminium windows and other related products
Far East Facade, Inc.	United States of America	100,000 common shares of US$0.01 each	100%	100%	Installation of curtain walls, aluminium windows and other related products
Heng Fai International Limited	Hong Kong	1 ordinary share of HK$1	100%	100%	Investment holding
Venture Synergy Limited	British Virgin Islands	1 ordinary share of US$1	100%	100%	Investment holding
Netfortune Limited	Hong Kong	500,000 ordinary shares of HK$500,000	100%	100%	Investment holding
Netfortune Enterprise Limited	British Virgin Islands	1 ordinary share of US$1	100%	100%	Investment holding
China State Development Holdings Limited	Hong Kong	5,000,000 ordinary shares of HK$5,000,000	100%	100%	Investment holding
Far East Global Investment Ltd[1]	British Virgin Islands	1 ordinary share of US$1	–	100%	Investment holding
中建興業投資（湖南）有限公司[4]	The People's Republic of China	Registered capital of RMB200,000,000	100%	100%	Investment holding
湖南遠東力進建築工程有限公司[4]	The People's Republic of China	Registered capital of RMB50,000,000	100%	100%	Consultancy and construction service
西安遠東幕牆工程設計有限公司[4]	The People's Republic of China	Registered capital of RMB10,000,000	100%	100%	Design service

19 SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest 2019	2018	Principal activities
中海監理有限公司[4]	The People's Republic of China	Registered capital of RMB50,000,000	**100%**	100%	Provision of project consultancy service
Willbert Limited	British Virgin Islands/ Hong Kong	1 ordinary shares of US$1	**100%**	100%	Property holding
Far East Aluminium Works (Guangzhou) Company Limited	Hong Kong	2 ordinary shares of HK$2	**100%**	100%	Property holding
FEA Investments Limited	British Virgin Islands	1 ordinary share of US$1	**100%**	100%	Investment holding
Better View Investment Limited	Hong Kong	2 ordinary shares of HK$2	**100%**	100%	Property holding
FEA Corporate Services Limited	Hong Kong	2 ordinary shares of HK$2	**100%**	100%	Provision of company secretarial services to Group companies
Far East Global Property Development Limited	Hong Kong	1 ordinary share of HK$1	**100%**	100%	Building construction and project management
Far East Aluminium Works (Singapore) Pte Limited	Singapore	700,000 ordinary share of SGD700,000	**100%**	100%	Installation of curtain walls, aluminium windows and other related products
Fuller Sky Enterprises Limited[2]	British Virgin Islands	1 ordinary share of US$1	***100%**	–	Investment holding
Value Idea Investments Limited[2]	British Virgin Islands	1 ordinary share of US$1	***100%**	–	Investment holding
China Overseas Public Utility Investment Limited[2]	British Virgin Islands	1 ordinary share of US$1	***100%**	–	Investment holding
瀋陽皇姑熱電有限公司[2][3][4]	The People's Republic of China	Registered capital of RMB680,660,000	***100%**	–	Generation and supply of heat and electricity and investment holding
瀋陽皇姑粉煤灰建材有限公司[2][4]	The People's Republic of China	Registered capital of RMB8,000,000	***100%**	–	Trading of coal
上海力進鋁質工程有限公司[4]	The People's Republic of China	Registered capital of RMB37,958,749	**100%**	100%	Design, manufacture and installation of curtain walls, aluminium windows and other related products
Netfortune Engineering (FEA) Macau Limited	Macau	Registered capital of MOP25,000	**100%**	100%	Installation of curtain walls, aluminum windows and other related products
Far East Aluminum Works (U.S.) Corporation	United States of America	200,000,000 common stock of US$0.001 each	**100%**	100%	Installation of curtain walls, aluminium windows and other related products
China Construction Think Tank Limited	Hong Kong	1,000,000 ordinary shares of HK$1,000,000	**100%**	100%	Consultancy Service

19 SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest 2019	2018	Principal activities
Far East Facade Investments Limited	British Virgin Islands	10,000 ordinary share of US$1 each	100%	100%	Investment holding
Hygate Development Corp. (formerly known as Far East Aluminium Works Canada Corp.)	Canada	100 common stock of CAD1 each	100%	100%	Business development
Hygate Investment Corp.	Canada	1 common stock of CAD1 each	100%	100%	Investment holding
Hygate Property Corp.	Canada	1 common stock of CAD1 each	100%	100%	Property holding
Hygate Management Services Corp.	Canada	100 common stock of CAD1 each	100%	100%	Provision of management service
遠東幕牆制品(深圳)有限公司(4)	The People's Republic of China	Registered capital of HK$70,000,000	100%	100%	Manufacture of curtain walls, aluminium windows and other related products
遠東恒輝幕牆(珠海)有限公司(4)	The People's Republic of China	Registered capital of US$25,000,000	100%	100%	Manufacture of curtain walls, aluminium windows and other related products
深圳中海通信工程監理有限公司(4)	The People's Republic of China	Registered capital of RMB8,000,000	100%	100%	Provision of project consultancy service
Gamma Buffalo, Inc.	United States of America	1 share of US$1	100%	100%	Property holding
Gamma North America, Inc.	United States of America	7,060 shares of US$0.001 each	93.63%	93.63%	Investment holding
Gamma USA, Inc.	United States of America	1,000 shares of US$0.001 each	93.63%	93.63%	Design, manufacture and installation of curtain walls, aluminium windows and other related products
Gamma Installations, Inc.	United States of America	100 shares of US$0.001 each	93.63%	93.63%	Installation of curtain walls, aluminium windows and other related products
Gamma Windows and Walls International Inc.	Canada	100 common shares of CAD53,362.36 each	93.63%	93.63%	Design, manufacture and installation of curtain walls, aluminium windows and other related products
Gamma North Corporation	United States of America	1 share of US$1	93.63%	93.63%	Manufacture of curtain walls, aluminium windows and other related products

Note:

(1) Dissolved in 2019

(2) Newly acquired in 2019

(3) Registered as sino-foreign joint venture enterprise

(4) Limited liability company registered in the PRC

* Newly acquired in 2019, for details, please refer to note 2

The above table lists the subsidiaries of the Group which, in the opinion of its directors, principally affect the results or assets of the Group.

19 SUBSIDIARIES *(Continued)*

(a) Material non-controlling interests

The non-controlling interest as at 31 December 2019 of HK$66,812,000 (2018: HK$59,008,000) is mainly for Gamma Group within the North America division.

Set out below is the summarised financial information for Gamma Group that has non-controlling interests that are material to the Group.

Summarised statement of financial position

	Gamma Group	
	2019	2018
	HK$'000	HK$'000
Current		
Assets	**420,172**	408,863
Liabilities	**(1,554,424)**	(1,433,671)
Total current net liabilities	**(1,134,252)**	(1,024,808)
Non-current		
Assets	**96,745**	110,009
Liabilities	**(12,139)**	(12,339)
Total non-current net assets	**84,606**	97,670
Net liabilities	**(1,049,646)**	(927,138)

Summarised income statement

	Gamma Group	
	2019	2018
	HK$'000	HK$'000
Revenue	**471,346**	661,393
Loss before tax	**(111,011)**	(64,225)
Income tax charge	**(11,750)**	(4)
Other comprehensive income/(loss)	**253**	(11,233)
Total comprehensive loss	**(122,508)**	(75,462)
Total comprehensive loss allocated to non-controlling interests	**(7,804)**	(4,807)

19 SUBSIDIARIES *(Continued)*

(a) Material non-controlling interests *(Continued)*

Summarised cash flow

	Gamma Group	
	2019	2018
	HK$'000	HK$'000
Operating cash flows		
Cash used in operations	**(25,859)**	(43,986)
Interest paid	**22,981**	18,685
Net cash used in operating activities	**(2,878)**	(25,301)
Net cash used in investing activities	**(3,115)**	(2,331)
Net cash from financing activities	**6,231**	23,469
Net increase/(decrease) in cash and cash equivalents	**238**	(4,163)
Cash and cash equivalents at beginning of year	**3,360**	7,523
Cash and cash equivalents at end of year	**3,598**	3,360

The information above is before inter-company eliminations.

20 INVENTORIES

	2019	2018
	HK$'000	HK$'000
		(restated)
Raw materials	**98,524**	127,378

The cost of inventories recognised as expense and included in 'cost of sales' amounted to approximately HK$462,904,000 (2018 (restated): HK$785,194,000).

21 CONTRACT ASSETS AND CONTRACT LIABILITIES

The Group has recognised the following revenue-related contract assets and contract liabilities:

	2019 HK$'000	2018 HK$'000 (restated)
Contract assets related to construction services (note (i))	**1,017,935**	967,471
Contract liabilities related to construction services (note (ii))	**(278,459)**	(299,857)
Contract liabilities related to thermoelectricity business (note (ii))	**(1,178,149)**	(1,145,100)
	(1,456,608)	(1,444,957)

Notes:

(i) Contract assets related to construction services consist of unbilled amount resulting from construction when the cost-to-cost method of revenue recognised exceeds the amount billed to the customer.

(ii) Contract liabilities related to payments received in advance of the performance under supply of heat, steam and electricity and pipeline construction contracts.

The following table shows the amount of the revenue recognised in the current reporting period which relates to contract liability balance at the beginning of the year and the amount relating to performance obligations that were satisfied in previous years:

	2019 HK$'000	2018 HK$'000 (restated)
Revenue recognised that was included in the contract liability balance at the beginning of the year:		
— Construction services	**266,483**	109,338
— Thermoelectricity business	**535,474**	578,732
	801,957	688,070
Revenue recognised from performance obligations satisfied/partially satisfied in previous periods:		
— Construction services	**38,752**	126,150

21 CONTRACT ASSETS AND CONTRACT LIABILITIES *(Continued)*

The following table shows the amount of unsatisfied performance obligations:

	2019 HK$'000	2018 HK$'000 (restated)
Expected to be recognised within one year	**3,146,543**	3,542,503
Expected to be recognised after one year	**3,231,015**	3,674,435
	6,377,558	7,216,938

For all other contracts with an original expected duration of one year or less or are billed based on time incurred, as permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

22 TRADE AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000 (restated)
Trade receivables	**982,555**	676,842
Retention receivables	**639,496**	558,207
	1,622,051	1,235,049
Less: Provision for impairment	**(60,818)**	(56,543)
	1,561,233	1,178,506
Other receivables	**72,302**	61,457
Trade and other receivables	**1,633,535**	1,239,963

The Group's trade receivables mainly represent progress billing receivables from facade building contracting works and general contracting works and construction contracts of thermoelectricity business. The Group adopts credit policies which are consistent with the trade practices prevalent in the building industry in countries in which the Group has operations. The Group recognises its trade receivables when the value of the subcontract works is certified by the architect. Pursuant to the trade practices, the main contractor from time to time makes applications for payment certificates which include the certified value of the nominated subcontract works.

Retention receivables represents certified contract payments in respect of works performed, for which payments are withheld by customers for retention purposes, and the amount retained is withheld on each payment up to a maximum amount calculated as a prescribed percentage of the contract sum. No aging analysis of retention receivables is presented as the retentions are released to the Group pursuant to the provisions of the relevant contracts after the completion of the projects in question.

22 TRADE AND OTHER RECEIVABLES *(Continued)*

The analysis of trade and other receivables, including the aging analysis of trade receivables, based on invoice date, and net of provisions, is as follows:

	2019 HK$'000	2018 HK$'000 (restated)
Trade receivables:		
0 to 30 days	**725,353**	483,608
31 to 60 days	**24,506**	26,503
61 to 90 days	**28,388**	2,944
More than 90 days	**151,990**	115,745
	930,237	628,800
Retention receivables	**630,996**	549,706
	1,561,233	1,178,506
Other receivables	**72,302**	61,457
Trade and other receivables	**1,633,535**	1,239,963

Except for the receivables arising from construction contracts which are billed and immediately payable in accordance with the terms of the relevant agreement, the Group generally allows an average credit period not exceeding 90 days (2018: 90 days) to its customers and the retention receivables are repayable approximately one year after the expiry of the defect liability period of construction projects.

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The Group determines the provision for expected credit losses by grouping together trade and other receivables with similar credit risk characteristics and collectively assessing them for likelihood of recovery, taking into account prevailing economic conditions. For trade and other receivables relating to accounts which are long overdue with significant amounts or known insolvencies or non-response to collection activities, they are assessed individually for impairment allowance.

As at 31 December 2019, trade and retention receivables of approximately HK$60,818,000 (2018 (restated): HK$56,543,000) were impaired and fully provided.

The individually impaired trade and retention receivables relate to contracts under disputes with customers and are expected not to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

22 TRADE AND OTHER RECEIVABLES *(Continued)*

Movements of provision for impairment of the trade and retention receivables are as follows:

	2019	2018
	HK$'000	HK$'000
		(restated)
At 1 January	**56,543**	58,287
Addition of provisions	**5,287**	387
Exchange differences	**(1,012)**	(2,131)
At 31 December	**60,818**	56,543

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2019	2018
	HK$'000	HK$'000
		(restated)
Hong Kong dollar	**980,478**	585,399
Renminbi	**291,449**	282,458
United States dollar	**161,000**	148,032
Canadian dollar	**108,247**	109,301
Macau Pataca	**63,945**	99,128
Great British Pound	**15,397**	2,343
United Arab Emirates Dirham	**9,558**	9,547
Others	**3,461**	3,755
	1,633,535	1,239,963

There is no concentration of credit risk with respect to trade and retention receivables, as the Group has a large number of customers.

The carrying amounts of the Group's trade and other receivables approximate the fair value of these balances.

23 AMOUNTS/LOAN DUE FROM/TO FELLOW SUBSIDIARIES AND RELATED COMPANIES

Balances with fellow subsidiaries and related companies are unsecured, interest-free and repayable on demand. The balances are mainly denominated in RMB.

The loan from a fellow subsidiary of HK$33,180,000 as at 31 December 2018 was unsecured, interest bearing at 5.46% per annum and denominated in Renminbi.

24 CASH AND CASH EQUIVALENTS

Cash and cash equivalents of the Group are denominated in the following currencies:

	2019 HK$'000	2018 HK$'000 (restated)
Renminbi	**677,865**	447,970
Hong Kong dollar	**94,555**	77,278
Great British Pound	**33,555**	117,737
Australian dollar	**7,266**	13,515
Canadian dollar	**5,573**	2,983
Macau Pataca	**4,215**	21,285
United States dollar	**3,065**	11,301
United Arab Emirates Dirham	**434**	4,583
Others	**48**	84
	826,576	696,736

In respect of the cash balance denominated in RMB which is held by the Group's subsidiaries incorporated in the PRC, conversion into foreign currencies and remittance out of the PRC is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

25 BANK BORROWINGS

	2019 HK$'000	2018 HK$'000
Bank loans, secured	**12,232**	12,183
Bank loans, unsecured	**855,306**	704,741
	867,538	716,924
The borrowings are repayable as follows:		
On demand or within one year	**655,780**	505,178
In the second year	**200,494**	455
In the third to fifth years, inclusive	**11,264**	201,485
More than five years	**—**	9,806
	867,538	716,924
Less: amounts due for settlement within twelve months	**(655,780)**	(505,178)
Amounts due for settlement after twelve months	**211,758**	211,746

25 BANK BORROWINGS *(Continued)*

At 31 December 2019, bank loans of HK$12,232,000 (2018: HK$12,183,000) are secured by the Group's land and buildings of HK$17,016,000 (2018: HK$16,980,000) (note 15).

The carrying amounts of the Group's bank borrowings are denominated in the following currencies:

	Hong Kong dollar HK$'000	Canadian dollar HK$'000	United States Dollar HK$'000	Total HK$'000
31 December 2019				
Bank loans	**380,000**	**55,900**	**431,638**	**867,538**
31 December 2018				
Bank loans	280,000	13,071	423,853	716,924

The average bank loans interest rates at 31 December 2019 was 4.19% (2018: 3.82%).

Most bank borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

The carrying amounts of bank and other borrowings approximate the fair value of these balances.

The secured bank loans include the bank loans with assets pledged as security to the banks. The unsecured bank loans include the bank loans with financial undertaking required to be fulfilled by the Group.

26 TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

The analysis of trade payables, other payables and accruals, including the aging analysis of trade payables, based on invoice date, is as follows:

	2019 HK$'000	2018 HK$'000 (restated)
Trade payables:		
0 to 30 days	**800,389**	574,745
31 to 60 days	**21,618**	36,338
More than 60 days	**138,011**	251,655
	960,018	862,738
Retention payables	**249,052**	189,179
	1,209,070	1,051,917
Other payables and accruals	**178,916**	168,132
Trade payables, other payables and accruals	**1,387,986**	1,220,049

26 TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS *(Continued)*

As at 31 December 2019, the amount of retention payables expected to be settled after more than twelve months was approximately HK$131,281,000 (2018: HK$93,124,000).

The carrying amounts of the Group's trade payables, other payables and accruals are denominated in the following currencies:

	2019 **HK$'000**	2018 HK$'000 (restated)
Hong Kong dollar	**824,198**	538,761
Renminbi	**402,453**	492,958
Canadian dollar	**61,366**	78,183
United States dollar	**52,226**	54,021
Macau Pataca	**36,802**	45,657
Great British Pound	**10,099**	9,407
Others	**842**	1,062
	1,387,986	1,220,049

The carrying amounts of trade payables, other payables and accruals approximate the fair value of these balances.

Movement of warranty provisions included in other payables and accruals are as follows:

	2019 **HK$'000**	2018 HK$'000
At 1 January	**35,387**	33,995
Addition	**17,550**	18,798
Exchange differences	**305**	1,582
Utilisation	**(15,612)**	(18,988)
At 31 December	**37,630**	35,387

The Group provides warranties to its customers on façade contracting works in accordance with terms and conditions as stipulated in contracts, under which defective works are rectified or replaced.

The amount of the warranty provision is estimated based on the past experience of the level of defective works and the estimation basis is regularly reviewed and revised where appropriate, and is included in "other payables and accruals".

27 DEFERRED TAXATION

The analysis of the Group's deferred tax liabilities and (assets) is as follows:

	2019 HK$'000	2018 HK$'000 (restated)
Deferred tax liabilities to be crystalised after more than twelve months	**3,036**	3,036
Deferred tax liabilities to be crystalised within twelve months	**4,242**	—
	7,278	3,036
Deferred tax assets to be recovered after more than twelve months	**(126,158)**	(133,345)
Deferred tax assets to be recovered within twelve months	**(48,556)**	(41,958)
	(174,714)	(175,303)

The following are the major deferred tax liabilities and (assets) recognised by the Group.

	Accelerated tax depreciation HK$'000	Revaluation of land and buildings HK$'000	Tax losses HK$'000	Contract liabilities HK$'000 (restated)	Provision HK$'000 (restated)	Undistributed earnings of Mainland China subsidiaries HK$'000	Total HK$'000 (restated)
At 1 January 2018, as previously presented	2,283	753	(96,801)	—	—	—	(93,765)
Effect of combination under common control	—	—	—	(68,750)	(10,498)	—	(79,248)
At 1 January 2018, as restated	2,283	753	(96,801)	(68,750)	(10,498)	—	(173,013)
Exchange difference	—	—	1,411	3,652	526	—	5,589
Credited to consolidated income statement (note 10)	—	—	—	(4,746)	(97)	—	(4,843)
At 31 December 2018, as restated	2,283	753	(95,390)	(69,844)	(10,069)	—	(172,267)
Exchange difference	—	—	(483)	1,077	145	—	739
Credited to consolidated income statement (note 10)	—	—	14,226	(13,176)	(1,200)	4,242	4,092
At 31 December 2019	**2,283**	**753**	**(81,647)**	**(81,943)**	**(11,124)**	**4,242**	**(167,436)**

27 DEFERRED TAXATION *(Continued)*

The following is analysis of net deferred tax balances for statement of financial position purposes:

	2019 HK$'000	2018 HK$'000 (restated)
Deferred tax liabilities	4,535	293
Deferred tax assets	(171,971)	(172,560)
	(167,436)	(172,267)

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK$1,320,085,000 (2018: HK$1,188,408,000) to be carried forward in offsetting future taxable income. The expiry dates of these tax losses are subject to the tax rulings of the respective jurisdictions, which is 10 years in Canada and 20 years in USA.

28 SHARE CAPITAL

	Issued and fully paid	
	Number of shares '000	Share capital Amount HK$'000
Ordinary shares of HK$0.01 each		
At 1 January 2018, 1 January 2019 and 31 December 2019	2,155,545	21,555

29 SHARE PREMIUM AND RESERVES

(a) Group

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

(b) Nature and purpose of reserves

(i) Share premium and retained profits

Under the Companies Law of the Cayman Islands, the funds in the share premium and retained profits of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The distributable reserves of the Company amounted to approximately HK$992,806,000 (2018: HK$940,883,000).

(ii) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3.4 to the financial statements.

29 SHARE PREMIUM AND RESERVES *(Continued)*

(b) Nature and purpose of reserves *(Continued)*

(iii) Share-based payments reserve

The share-based payments reserve represents the fair value of the equity instruments granted to directors and employees of the Group, recognised in accordance with the accounting policy adopted for share-based payments in note 3.24 to the financial statements.

(iv) Statutory reserves

The statutory reserves, which are non-distributable, are appropriated from the profit after taxation of the Group's PRC and Macau subsidiaries under the applicable laws and regulations in the PRC and Macau respectively.

(v) Special reserve

On 11 March 2014, the Group acquired 100% of the equity interests in Treasure Construction Engineering Limited from Barkgate Enterprises Limited, a wholly owned subsidiary of China State Construction International Holdings Limited ("CSCIHL"), which is an intermediate holding company of the Company, at a cash consideration of HK$2,000,000. The excess of approximately HK$1,970,000, representing the difference between the fair value of consideration paid for the acquisition and the net asset value of Treasure Construction at the acquisition date, was charged to special reserve.

During 2016, the Group increased its equity interests in its subsidiary, Gamma North America, Inc. by 38.63% through capitalisation of shareholder's loans. The net liability value of Gamma North America, Inc. of HK$287,768,000 has been transferred from non-controlling interests to special reserve in equity.

On 26 June 2018, the Group acquired 100% of equity interests in China Overseas Supervision Limited ("COS") from Shenzhen CS Grand Wealth Investment Company Limited, a wholly owned subsidiary of China State Construction International Holdings Limited ("CSCIHL"), which is the intermediate holding company of the Company, at a cash consideration of RMB70,000,000. HK$180,564,000 represents the excess of consideration paid over the share capital of the COS net of distribution of the former shareholders.

On 30 December 2019, the Group acquired 100% of equity interests in 瀋陽皇姑熱電有限公司 ("Shenyang Huanggu Company") by way of purchase of (i) the entire issued share capital of China Overseas Public Utility Investment Limited ("COPUI") which owns 99.69% of the registered capital of Shenyang Huanggu Company; and (ii) the 0.31% of the registered capital of Shenyang Huanggu Company held by 深圳海豐德投資有限公司 ("Shenzhen Haifengde"), for an aggregate consideration of HK$673,580,000. The excess of approximately HK$673,580,000, representing the difference between the fair value of consideration paid and the share capital value of Shenyang Huanggu Company at the acquisition date, was charged to special reserve.

30 SHARE-BASED PAYMENTS

Pursuant to the A-shares Restricted Stock Incentive Plan (Phase II) (the "Incentive Plan (Phase II)") of CSCECL, an intermediate holding company of the Company, 1,215,000 incentive shares were granted to certain directors and employees of the Company on 29 December 2016 (the "Grant Date (Phase II)") with an exercise price of RMB4.866 per share, subject to a lock-up period of two years' service from the Grant Date (Phase II) (the "Lock-Up Period (Phase II)"). During the Lock-Up Period (Phase II), these shares are not transferrable, nor subject to any guarantee, indemnity or pledge. One-third of the awards are vested each year starting from the beginning of the third year on a time apportionment basis since the Grant Date (Phase II). Subject to CSCECL's achievement of performance conditions and individual's key performance indicators, the restriction over these shares will be removed, otherwise, CSCECL has a constructive obligation to repurchase the ordinary shares in cash if the performance conditions of CSCECL or the individual's key performance indicators are not achieved.

The fair value of incentive shares on the Grant Date (Phase II) determined using the Black-Scholes valuation model was RMB2.21 per share. The significant inputs into the model include closing price of RMB9.16 per share on the Grant Date (Phase II), exercise price of RMB4.866 per share, share-based payments cap at 40% of the respective employees' remuneration, average volatility of 44%, average dividend yield of 3.32% and an average annual risk-free interest rate of 2.84%. The volatility measured at the standard deviation of continuously compounded share returns is calculated based on statistical analysis of historical daily share prices.

Pursuant to the A-shares Restricted Stock Incentive Plan (Phase III) (the "Incentive Plan (Phase III)") of CSCECL, 2,430,000 incentive shares were granted to certain employees of the Company (including one director and certain senior management) on 26 December 2018 (the "Grant Date (Phase III)") with an exercise price of RMB3.468 per share, subject to a lock-up period of two years' service from the Grant Date (Phase III) (the "Lock-Up Period (Phase III)"). During the Lock-Up Period (Phase III), these shares are not transferrable, nor subject to any guarantee, indemnity or pledge. One-third of the awards are vested each year starting from the beginning of the third year on a time-apportionment basis since the Grant Date (Phase III).

Subject to CSCECL's achievement of performance conditions and individual's key performance indicators, the restriction over these shares will be removed, otherwise, CSCECL has a constructive obligation to repurchase the ordinary shares in cash if the performance conditions of CSCECL or the individual's key performance indicators are not achieved.

The fair value of incentive shares on the Grant Date (Phase III) determined using a comparable generally accepted methodology was RMB2.112 per share. The significant inputs into the methodology include closing price of RMB5.58 per share on the Grant Date (Phase III), exercise price of RMB3.468 per share and share-based payments cap at 30% of respective two years' employees' remuneration.

31 CASH FLOW INFORMATION

Reconciliation of liabilities from financing activities

	Finance leases due within 1 year HK$'000	Finance leases due after 1 year HK$'000	Lease liabilities due within 1 year HK$'000	Lease liabilities due after 1 year HK$'000	Bank borrowings due within 1 year HK$'000	Bank borrowings due after 1 year HK$'000	Loan from a fellow subsidiary HK$'000	Total HK$'000
At 1 January 2018, as previously presented	865	2,499	—	—	401,693	213,185	—	618,242
Effect of combination under common control	—	—	—	—	—	—	33,180	33,180
At 1 January 2018, as restated	865	2,499	—	—	401,693	213,185	33,180	651,422
Cash flows	(93)	(734)	—	—	104,657	(419)	—	103,411
Foreign exchange adjustments	—	—	—	—	(1,172)	(1,020)	—	(2,192)
Other non-cash movements	21	77	—	—	—	—	—	98
At 31 December 2018 and 1 January 2019	793	1,842	—	—	505,178	211,746	33,180	752,739
Effect of adoption of HKFRS 16 (Note 2(a))	(793)	(1,842)	7,931	22,724	—	—	—	28,020
Cash flows	—	—	(11,442)	—	150,091	—	(33,180)	105,469
Foreign exchange adjustments	—	—	—	—	38	485	—	523
Interest on lease liabilities (Note 9)	—	—	1,373	—	—	—	—	1,373
Increase in lease liabilities from entering into new contracts (Note 15(b)(i))	—	—	2,966	14,079	—	—	—	17,045
Other non-cash movements	—	—	6,813	(6,813)	473	(473)	—	—
As 31 December 2019	**—**	**—**	**7,641**	**29,990**	**655,780**	**211,758**	**—**	**905,169**

32 LEASE COMMITMENTS

At 31 December 2019, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2019 HK$'000	2018 HK$'000
Within one year	**3,075**	30,764
In the second to fifth years inclusive	**—**	50,454
After fifth year	**—**	4,707
	3,075	85,925

Operating lease payments represent rentals payable by the Group for certain of its offices, factories and staff quarters. Leases are negotiated for a term ranging from one to ten years and rentals are fixed over the lease terms and do not include contingent rentals.

From 1 January 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases, see note 2 and note 3.6 for further information.

33 COMMITMENTS

At 31 December 2019, the Group had the following commitments contracted but not provided for in the consolidated financial statements:

	2019 HK$'000	2018 HK$'000 (restated)
Contracted but not provided for		
— Construction in progress for property, plant and equipment	30,821	56,230

34 RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with its related parties during the year:

(a) Transactions with related parties

(i) Transactions with fellow subsidiaries

	2019 HK$'000	2018 HK$'000 (restated)
Construction fee received from fellow subsidiaries	1,416,286	933,194
Service income received from fellow subsidiaries	46,613	76,403
Insurance premium paid to fellow subsidiaries	13,084	24,792
Purchase of materials from fellow subsidiaries	5,614	5,452
Leasing of machinery from fellow subsidiaries	6,043	6,998

(ii) Transactions with other state-controlled entities in the Mainland China

Certain of the Group's business is operated in an economic environment currently predominated by entities directly or indirectly owned, controlled or significantly influenced by the government of the Mainland China. In addition, the Group is itself part of a larger group of companies under CSCEC.

Apart from transactions with its fellow subsidiaries, the Group has transactions with other state-controlled entities, mainly interest income.

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-controlled.

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2019 HK$'000	2018 HK$'000
Short term employee benefits	28,072	24,468
Post-employment benefits	336	340
	28,408	24,808

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

35 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of financial position of the Company

	Note	2019 HK$'000	2018 HK$'000
Non-current Asset			
Interests in subsidiaries		**1,822,816**	996,049
Current Assets			
Deposits, prepayments and other receivables		**1,218**	1,729
Amounts due from subsidiaries		**50,000**	50,000
Cash and cash equivalents		**1,741**	1,210
		52,959	52,939
Current Liabilities			
Bank borrowings		**180,000**	80,000
Amount due to a fellow subsidiary		**444,000**	—
Other payables and accruals		**1,067**	487
Current tax payables		**256**	167
		625,323	80,654
Total Assets less Current Liabilities		**1,250,452**	968,334
Capital and Reserves			
Share capital		**21,555**	21,555
Share premium and reserves	(note (a))	**999,317**	946,779
		1,020,872	968,334
Non-current Liabilities			
Amount due to a fellow subsidiary		**229,580**	—
		229,580	—
		1,250,452	968,334

On behalf of the Board

Zhang Haipeng
Director

Wu Mingqing
Director

35 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

Note (a) Reserve movement of the Company

	Share premium HK$'000	Share-based payments reserve HK$'000	Special reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2018	898,654	4,636	615	41,235	945,140
Profit for the year	—	—	—	44,104	44,104
Capital contribution relating to share-based payment borne by an intermediate holding company	—	—	645	—	645
2017 final dividend paid	—	—	—	(21,555)	(21,555)
2018 interim dividend paid	—	—	—	(21,555)	(21,555)
At 31 December 2018 and 1 January 2019	898,654	4,636	1,260	42,229	946,779
Profit for the year	—	—	—	103,657	103,657
Capital contribution relating to share-based payment borne by an intermediate holding company	—	—	615	—	615
2018 final dividend paid	—	—	—	(25,867)	(25,867)
2019 interim dividend paid	—	—	—	(25,867)	(25,867)
At 31 December 2019	**898,654**	**4,636**	**1,875**	**94,152**	**999,317**

36 SUBSEQUENT EVENT

As the coronavirus disease (COVID-19) has spread across China and other countries during the first quarter in 2020, the business and economic activities have been affected. The Group will keep monitoring the situation, assess and react promptly to its impacts on the Group's business operations. Up to the date of approval of the consolidated financial statements, the related financial impact on the Group could not be reasonably estimated.

FIVE-YEAR FINANCIAL SUMMARY

The table set out below summarizes the results and the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the Group's published consolidated financial statements of the respective years and restated/reclassified as appropriate. This summary is not part of the audited consolidated financial statements.

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2015	2016	2017	2018	**2019**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
	(restated)	(restated)	(restated)	(restated)	
Revenue	3,151,779	3,451,152	3,755,581	4,243,167	**4,619,412**
Gross profit	516,175	370,245	517,708	486,073	**544,064**
Profit before tax	286,937	153,490	279,003	252,208	**276,913**
Income tax expense, net	82,098	162,087	127,085	73,519	**109,173**
Profit/(Loss) for the year	204,839	(8,597)	151,918	178,689	**167,740**
Profit/(Loss) for the year attributable to:					
Owners of the Company	265,483	118,900	161,714	182,780	**175,560**
Non-controlling interests	(60,644)	(127,497)	(9,796)	(4,091)	**(7,820)**
Basic earnings per share (HK cents)	12.32	5.52	7.50	8.48	**8.14**
Diluted earnings per share (HK cents)	12.32	5.52	7.50	8.48	**8.14**

CONSOLIDATED NET ASSETS

	For the year ended 31 December				
	2015	2016	2017	2018	**2019**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
	(restated)	(restated)	(restated)	(restated)	
Non-current assets	1,926,134	2,106,816	2,220,230	2,315,494	**2,461,154**
Current assets	3,566,830	3,703,448	4,217,327	4,423,704	**4,592,840**
Current liabilities	2,409,109	3,330,301	3,793,060	4,069,372	**4,748,706**
Non-current liabilities	742,032	968,425	1,039,040	1,701,270	**1,246,775**
Net assets	2,341,823	1,511,538	1,605,457	968,556	**1,058,513**

中國建築興業集團有限公司
CHINA STATE CONSTRUCTION DEVELOPMENT HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)
Stock Code: 00830