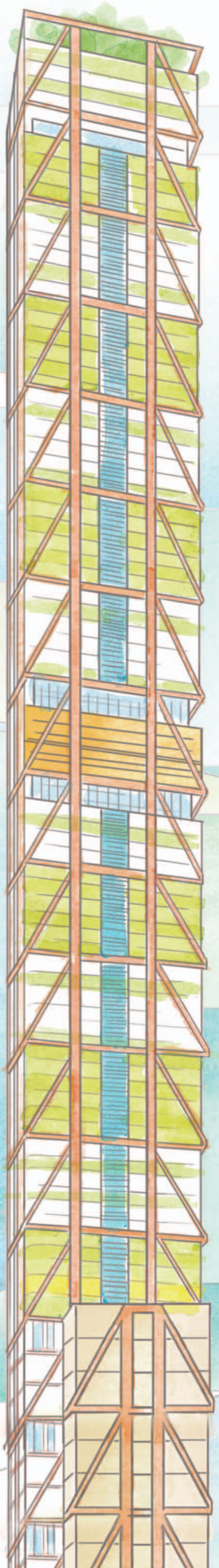
中國建築興業集團有限公司
CHINA STATE CONSTRUCTION DEVELOPMENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 00830

EXPANDING NEW FUTURE

Annual Report 2020

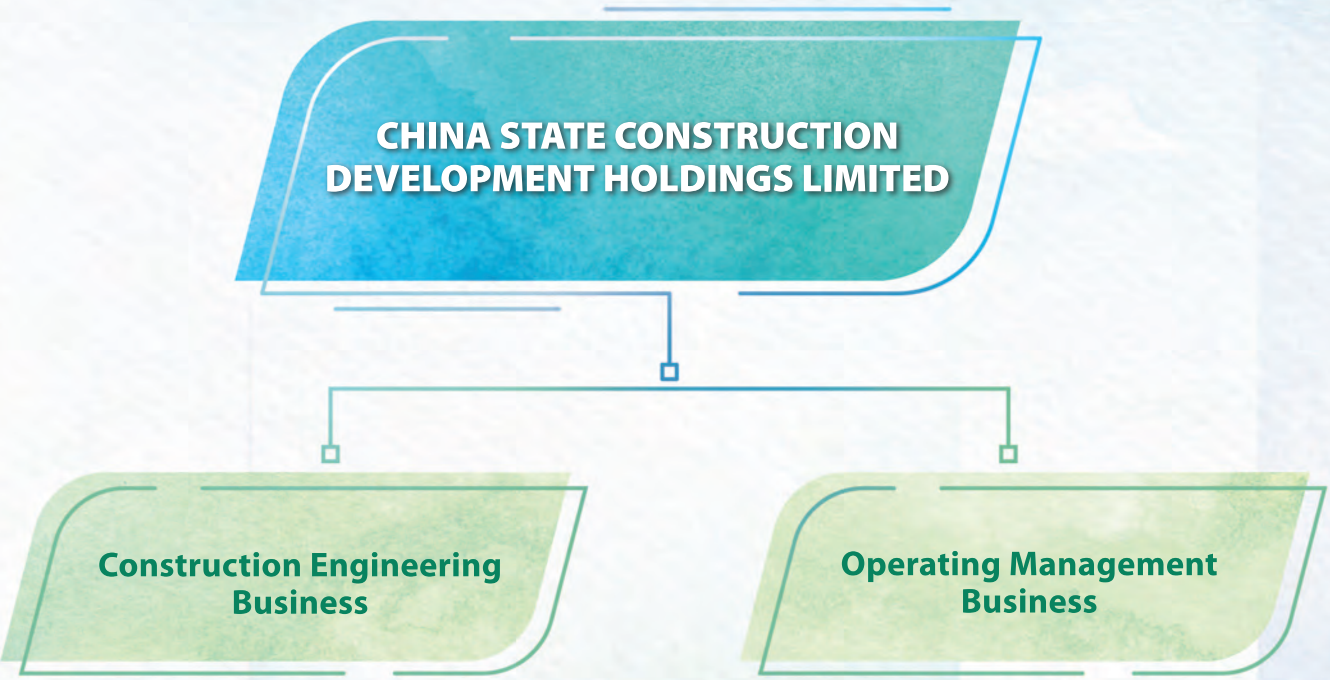


Mission & Vision

China State Construction Development Holdings Limited upholds 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 corporate with traditional curtain wall business and new business in the new era.

Contents

Corporate Structure



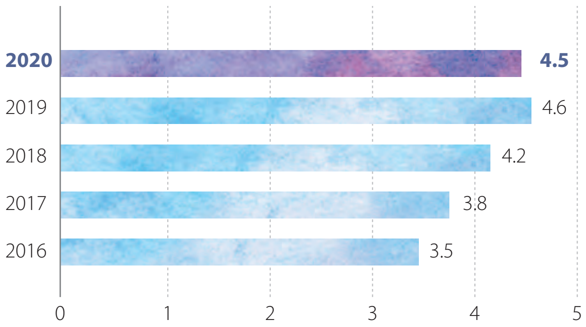
Financial Highlights

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	2016 HK$'000 restated	2017 HK$'000 restated	2018 HK$'000 restated	2019 HK$'000	**2020 HK$'000**
Revenue	3,451,152	3,755,581	4,243,167	4,619,412	**4,535,657**
Profit attributable to owners of the Company	118,900	161,714	182,780	175,560	**194,344**
Total assets	5,810,264	6,437,557	6,739,198	7,053,994	**7,388,898**
Equity attributable to owners of the Company	1,556,796	1,659,658	1,027,564	1,125,325	**1,403,019**
Return on Equity attributable to owners of the Company (%)	7.6	9.7	17.8	15.6	**13.9**
Basic earnings per share (HK cents)	5.52	7.50	8.48	8.14	**9.02**
Dividend (HK cents)	1.6	2.0	2.2	1.2	**3.0**

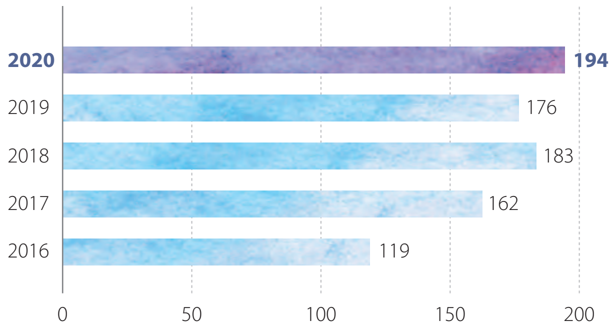
REVENUE

HK$ billion
(restated)



PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

HK$ million
(restated)



2020 REVENUE BY SEGMENTS

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

Major Events of the Year

JANUARY

China State Construction Development Holdings Ltd. ("CSC Development") joined the Community Chest's Walk for Millions (Hong Kong and Kowloon).

FEBRUARY

Netfortune (Shanghai) Aluminium Works., Ltd. supported the completion of part of the glass supply in the reception room of the expansion (temporary) project for the Fourth People's Hospital in Foshan City, Guangdong.

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MARCH

- The Hong Kong Council of Social Service awarded the "Caring Company 5+" label to CSC Development.
- The bending workshop of Far East Heng Fai Facade (Zhuhai) Ltd. was put into operation on March 19. It has the largest tonnage and the highest degree of numerical control in the country, which can meet the production of complex and special-shaped hyperbolic twisting products and enhance the core competition of the enterprise power and influence.
- CSC Development encouraged employees to join the "Earth Hour" event which was held on Mar 28, this event was organized by World Wide Fund.

APRIL

瀋陽皇姑熱電有限公司 EPC project - the 1#-5# furnace denitrification and dust removal upgrading project has been started.

MAY

瀋陽皇姑熱電有限公司 won the 2019-2020 "Excellent Heat Supply Unit", "Advanced Unit for Appeals Management" and "Excellent Heat Exchange Station" issued by the Shenyang Real Estate Bureau.

JUNE

Gamma North America has obtained the certification of the German Passive Construction Professional Committee, and the patent has been submitted in June 2020. At present, the patent is applicable to Hong Kong and North America. It will be the first passive construction patent for glass curtain wall in North America and the first passive unit glass curtain wall patent applied for worldwide.

AUGUST

- Gamma North America's "99 Hudson" project has passed the project acceptance.
- Jiang Youwei, Deputy Secretary of the Shenyang Municipal Party Committee and Mayor, accompanied by the Deputy Mayor Wang Zhongkun and other relevant leaders of the city, came to 瀋陽皇姑熱電有限公司 for investigation and inspection.
- CSC Development and the "Treats" jointly organized an online public welfare activity "Draw no boundaries under the epidemic" for employees, their families and special school students to participate. Participants drew pictures of the places they most want to go and what they want to do during the epidemic for expressing their feelings and let people know more about them.

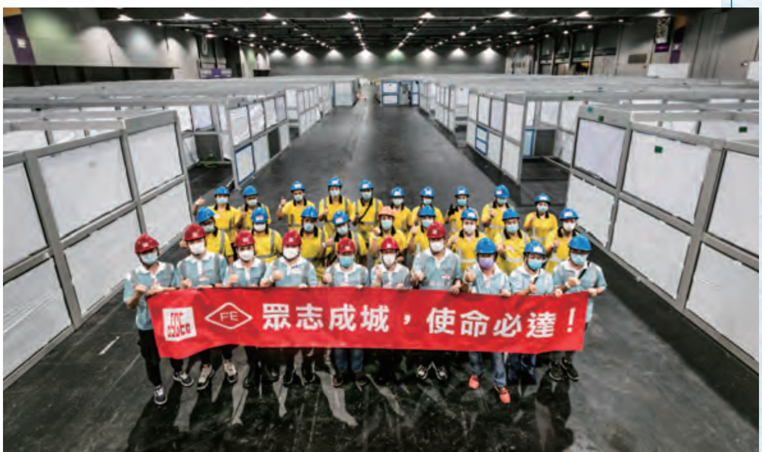
- CSC Development has arranged the "Company Day" event at Chai Wan office with the theme of "Building Happiness and Leading the Trend" to celebrate 51st anniversary of the company, it has injected continuous vitality and healthy development into the company.

SEPTEMBER

- The authoritative magazine "Engineering News Record (ENR)" in the field of engineering construction released the public list which "The Ice District" project that Gamma North America participated in, it has won "The Annual Global Best Engineering" project award (retail and mixed development competition unit).

- CSC Development received the design and production task of The Hong Kong Fangcang Shelter Hospital project on July 31. It immediately assembled an elite team to complete more than 4,100 units within a week, including 40 negative pressure rooms, 729 isolation wards and 29 functional rooms. The company has successfully completed the design and production tasks.

  The Hong Kong Fangcang Shelter Hospital project officially started installation on September 19 and completed the installation of 832 isolation wards within 72 hours. The main structural project was completed 24 hours earlier than planned. The main body was completed on September 22 and passed all the acceptance work on September 30.



OCTOBER

Shenyang Real Estate Bureau, Shenyang Heating Association, and various journalists came to 瀋陽皇姑熱電有限公司 for visiting and inspecting the operating of heating equipment.

NOVEMBER

- World Green Organization issued the "Green Office 5+" and "Eco Healthy Workplace" labels to CSC Development.

- Gamma Windows and Walls International Inc successfully won the bid for "One Square Phillips", which is the tallest commercial and residential building in Montreal.

- Far East Heng Fai Facade (Zhuhai) Ltd.'s automated production line was officially put into operation on November 30. It is the first domestic automatic cutting and machining center for curtain wall aluminum profiles. The production line completely adopts independent research and development and manufacturing mode. It has declared 2 invention patents and 4 utility models.

- China Overseas Supervision Co. Ltd. participated in the construction of the "Fund Building" project (Shenzhen South Boshi Fund Building) was selected as the first batch of "China Construction Project Luban Award" 2020-2021.

DECEMBER

- Wei Shuigang of Netfortune (Shanghai) Design Institute won the honorary title of "Shanghai Model Worker 2020"

- Netfortune (Shanghai) Aluminium Works., Ltd. invested and participated in shares of China State Construction Southwest Institute Wall Material Technology Co., Ltd., was registered and well established.

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

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

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor

LEGAL ADVISOR

Mayer Brown

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
BNP Paribas Hong Kong Branch
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

18 March 2021

Closure of register of members for Annual General Meeting

4–9 June 2021 (both days inclusive)

Annual General Meeting

9 June 2021

Closure of register of members for Final Dividend

17–18 June 2021 (both days inclusive)

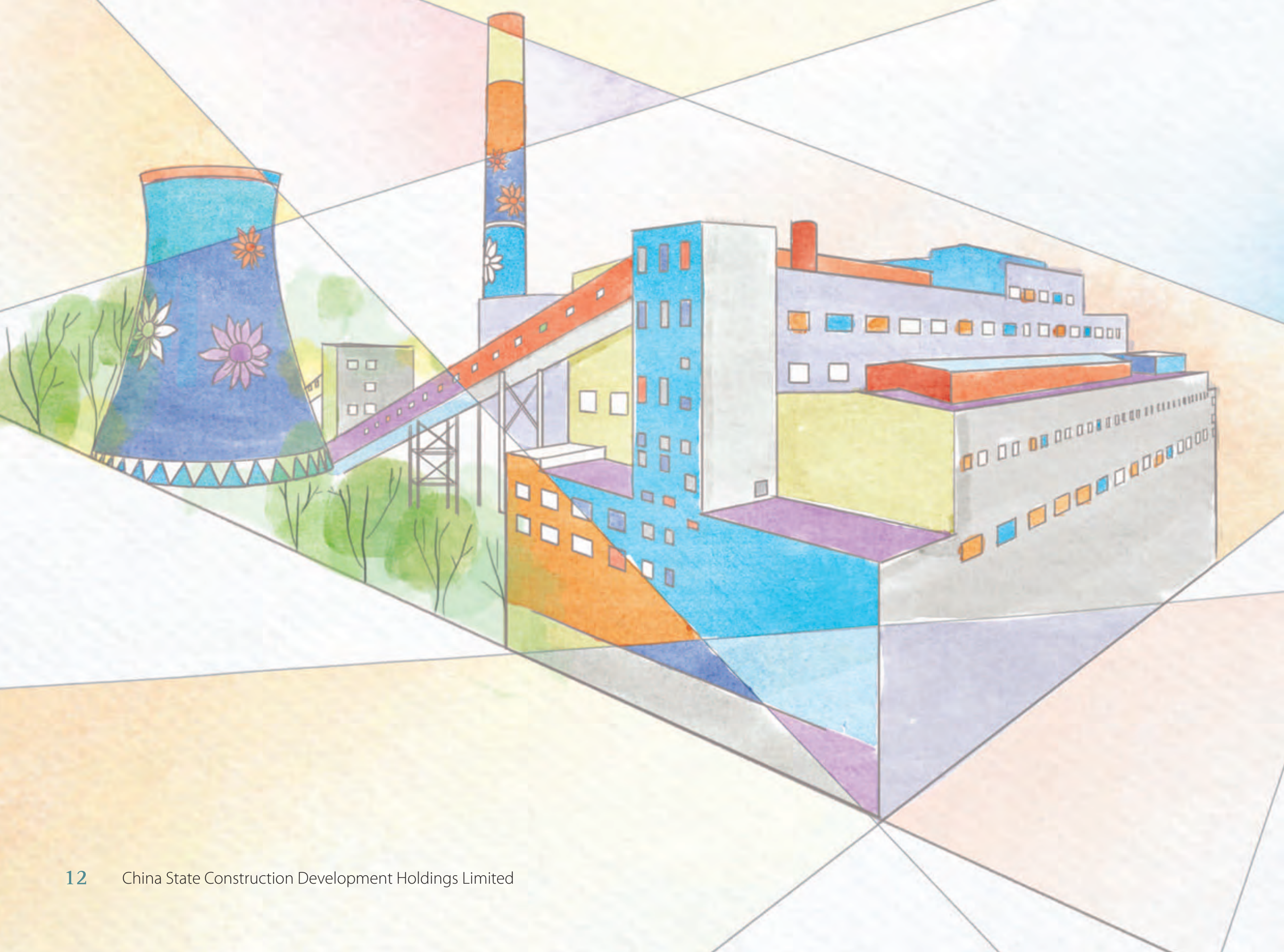
Payment of Final Dividend

6 July 2021

Major Projects in Progress Overview

Project Name	Project Type	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	2021
南山醫院改造工程項目, Shenzhen	Hospital	2021
前海周大福金融大廈, Shenzhen	Commercial	2023
珠澳灣世紀中心項目一期一標段A棟塔樓及裙樓, Zhuhai	Commercial	2023
白雲文化酒店, Guangzhou	Hotel	2023
Hong Kong, Macau & Others		
Lot No. 1–11 Au Pui Wan Street, STTL 576, Fo Tan, Hong Kong	Residential	2022
New Kowloon Inland Lot No. 6556, Kai Tak Area 1F Site 2, Hong Kong	Residential	2021
Office Development at 2 Murray Road, Central, Hong Kong	Commercial	2023
Redevelopment of Kwong Wah Hospital Phase 1, Hong Kong	Hospital	2021
Residential Development of Lot No. 467 at site A of Wong Chuk Hang Station, Hong Kong	Residential	2022
Taikoo Place Phase 2B, Hong Kong	Commercial	2021
Immigration Headquarters, Tseung Kwan O, Hong Kong	Public Building	2022
The Stage, London, UK	Residential	2021
North America		
1568 Broadway, New York, USA	Commercial	2021
Harborside Phase 1 & 1A, New Jersey, USA	Commercial	2021
HEC Montreal, Canada	Public Building	2022
Landmark On Robson, 1400 Robson Street, Vancouver, Canada	Commercial	2021
St Jacques Victoria Sur Le Parc, Montreal, Canada	Residential	2022
Queen's Marque, Halifax, Canada	Commercial	2021
The One, Toronto, Canada	Residential	2021
YUL Condos, Montreal, Canada	Residential	2022
1 Square Phillips, Montreal, Canada	Residential	2023
General Contracting Works		
57–59 Ma Tau Wai Road and 2–20 Bailey Street, KIL, 1151, Hong Kong	Residential	2021
Residential Development at RBL No.1201, Wong Ma Kok Road, Stanley, Hong Kong	Residential	2023

EXPANDING NEW FUTURE

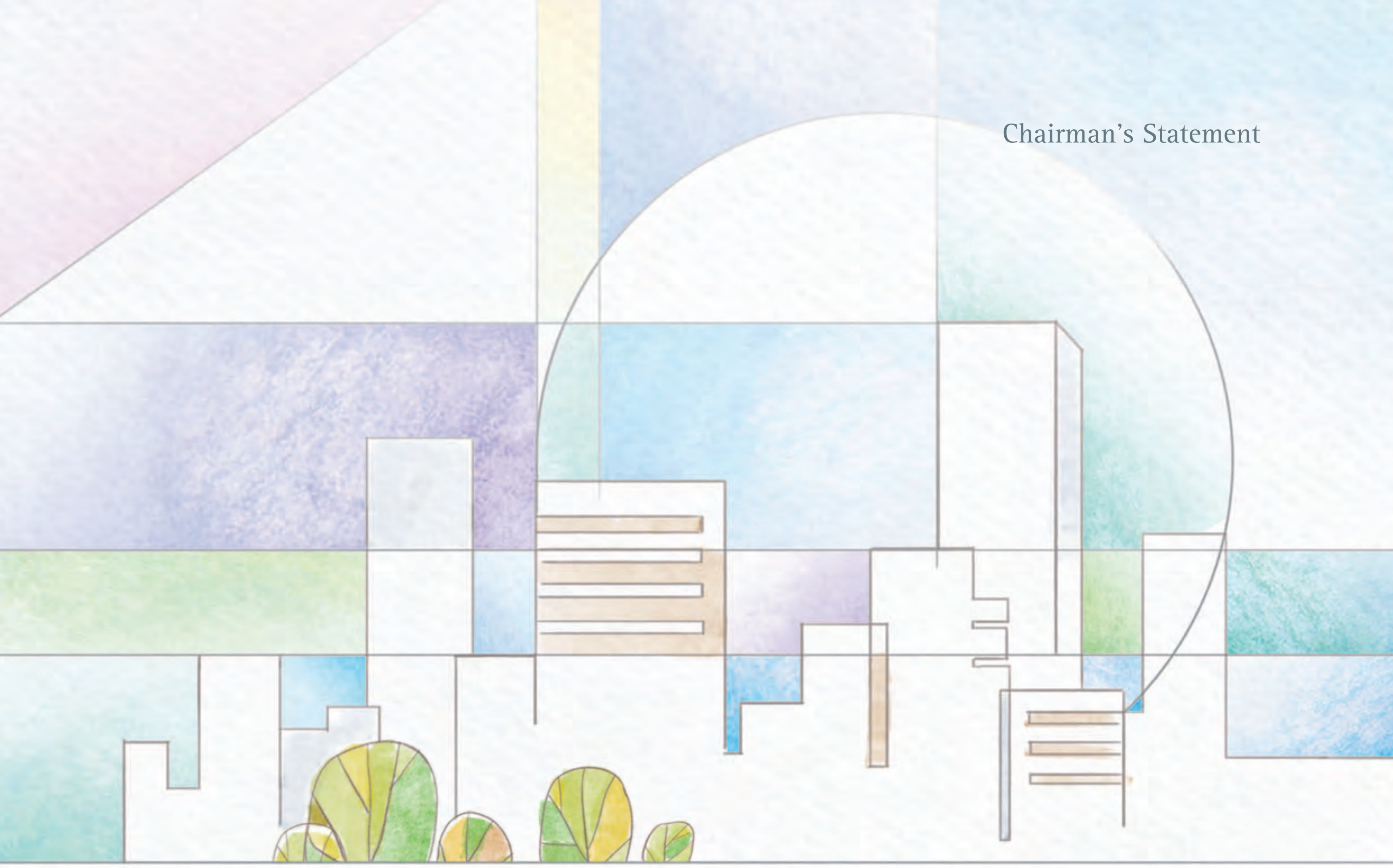


Chairman's Statement

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 traditional and new businesses".

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



In 2020, China State Construction Development Holdings Limited and its subsidiaries (collectively the "Group") accurately seized market opportunities, fully capitalised on internal synergy within the Group, carried out the curtain wall construction business in an orderly manner, steadily pushed forward with various operational deployments, continuously promoted technology-driven development, which resolved the adverse effects of the pandemic effectively and achieved remarkable results. The curtain wall business in Hong Kong continued to maintain its leading position in Hong Kong in the current year. The newly awarded contract value of the curtain wall business in Mainland China reached a record high, while the general contracting business developed steadily and the operations in Mainland China progressed smoothly. The investment and operating businesses in the elderly care sector were carried out in an orderly manner as scheduled.

RESULTS

During the year ended 31 December 2020, the audited profit attributable to owners of the Group amounted to HK$194 million, representing an increase of 10.2% from last year. Revenue from principal activities amounted to HK$4,536 million, representing a decrease of 1.8% from last year. Earnings per share were HK9.02 cents, representing an increase of 10.8% from last year.

DISTRIBUTION OF DIVIDENDS

In consideration of the Company's profitability, cash flow level and capital requirements for future development, the Board recommends a final dividend of HK3 cents per share.

BUSINESS REVIEW

Market conditions

In 2020, COVID-19 pandemic impacted global economy severely, the global political and economic conditions wobbled amid intensifying trade protectionism in the US, escalating trade tensions around the globe. The global economy experienced a significant downturn. Financial markets were highly volatile, with the U.S. stock halting four times in 10 days, and central banks such as the Federal Reserve implemented unprecedented ultra-loose monetary policies. The trade dispute between China and the United States has gradually shifted to the battle of science and technology, with wider scope. The pandemic control in the PRC was effective, and the economy gradually recovered through active implementation of measures to resume work and production and a series of policies to promote economic growth.

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

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 pandemic on the project construction, 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 was in sluggish performance as the economy was deeply affected by the pandemic. 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 intra-group coordination. The Group's performance in the Hong Kong and Macau markets were outstanding. The Group has been successively awarded large-scale residential and commercial projects. In 2020, the Group's newly awarded projects in the regions included Immigration Headquarters in Area 67 at Tseung Kwan O, Hong Kong, 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. To control the risk of the pandemic and trade frictions, the Group consciously adjusted its strategy in North America, with focus on finishing on-hand projects. During the year, in Canada, the Group was awarded a project of One Square Phillips in Montreal, Canada. 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 level of management and control 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 2020, the Group leveraged its branding effect to proactively explore strategic high-end clients in Mainland China. Capitalising on the internal synergy, newly awarded contract reached a record high and the Group was awarded a number of premium projects during the year, such as the curtain wall project at Building A (tower plus podium) of Phase I, Bid Section 1 of Zhuao Bay Century Centre project, the curtain wall subcontracting project at Qianhai CTF Finance Tower, Baiyun Cultural Hotel of Curtain Wall Professional Subcontracting Project, Cheung Sha Apple Store, Shanghai Jingan Temple Apple Store, etc.

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 2020, 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. During the year, the Group successfully awarded the bid for the residential project at 128 Wong Ma Kok Road, Stanley. Meanwhile, projects under construction are progressing smoothly, and Hong Kong Henderson Land's project in Ma Tau Wai being conducted in an orderly manner.

2. **Operating Management Business**

Abiding by its "big markets, big landlords, and big projects" operational strategy while enhancing the business synergy within its systems, China Overseas Supervision of the Group was awarded a number of projects, such as the Shenzhen Longhua Zhuyuan Industrial Zone Urban Renewal Project, Shenzhen Zhonghai Jigutian Project, Shenzhen Zhonghai Longhua Project, which further bolstered the advantages of the supervision business.

Huanggu Thermoelectricity, a subsidiary of the Group, continued to strengthen safe operation and explore the room for energy saving and consumption reduction, which provided stable profit and cash flow for the Company during the year.

The investment and operating business in the elderly care sector of the Group was pushed forward in an orderly manner. The investment project involving elderly care apartments in Toronto, Canada was nearly completed construction as scheduled, which represented a step forward in the Group's investment business.

New Projects Awarded

In 2020, the Group undertook 21 projects in total, with an aggregate contract value of HK$5,116 million. Among them, Asia Pacific and Greater China region accounted for HK$4,912, representing 96% of the total; North America region accounted for HK$204 million, representing 4% of the total.

Projects in Progress

As at 31 December 2020, the Group's total contract value of projects in progress amounted to HK$18,467 million, among which the contract value attributable to uncompleted projects on hand amounted to HK$8,885 million.

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-related Contracting Responsibility System Management Methods" (《地盤承包責任制管理辦法》), the "Site-related Integrated Management Appraisal and Incentives Methods" (《地盤綜合管理獎評審獎勵辦法》), "Design Motivation System" (《設計激勵制度》) and the "Production Motivation System"(《生產激勵制度》), and the newly formulated and implemented "Marketing Reward Management Methods" (《市場營銷獎勵管理辦法》) 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 2020, the Group had a total of 3,344 employees.

Social Responsibilities

During the year, the Group is also named a "Caring Company" by virtue of its active participation in and promotion of "Drawing without boundaries under the pandemic" (疫情下畫出無界限) charity event and the "Earth Hour" event, demonstrating its dedication towards the community and contribution to social harmony and stability.

PROSPECTS

Looking forward to 2021, the global pandemic will enter into a new normal, the resumption of work and production will continue, and the ultra-loose monetary policy and fiscal policy will help economic recovery, and the gradual recovery of the global economy will continue. Meanwhile, the general macro-economic outlook remains complicated and volatile, and the risk of recurrence of the pandemic still exists. In the post-pandemic era, the PRC promoted the resumption of work and production in an orderly manner, and further implemented the policies of continuous expansion of domestic demand, economic transformation and upgrading and structural adjustment, the economic growth momentum and potential in the PRC gradually recover.

The impact on the economy was obvious due to the continued deterioration of the U.S. pandemic, and the construction market in North America was sluggish due to the economic downturn. Hong Kong has entered the normalization of the pandemic with stiffer competition. The economy in Macau will start to recover. The continual construction of Guangdong-Hong Kong-Macau Bay Area will usher in ample opportunities for the construction industry in Hong Kong and Macau.

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 Mainland China markets with stability. At the same time, it will prudently explore other overseas markets such as the North America, 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 strengthen research and development and innovation capabilities and 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.

The board of directors is able to discern and face various risks 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, 18 March 2021

Management Discussion and Analysis

A New Voyage, CSC Development Sails to a NEW DIRECTION

OVERALL PERFORMANCE

The outbreak of the COVID-19 pandemic in 2020 created an abnormally volatile operating environment and imposed negative impacts on the construction industry, including supply chain disruptions and work stoppages due to measures imposed by the government. However, the resilient nature of our business, supported by a strong order book, and projects on hand progressed largely on track, resulted in the growth of net profit.

For the year ended 31 December 2020, the Group recorded gross revenue of HK$4,536 million (2019: HK$4,619 million), a decrease of 1.8% as compared to last year. The profit attributable to owners of the Company was HK$194 million (2019: HK$176 million), an increase of 10.2% as compared to last year. The basic earnings per share was HK9.02 cents (2019: HK8.14 cents), an increase of 10.8% as compared to last year. In consideration of the Company's profitability, cash flow level and capital requirements for future development, the Board recommends a final dividend of HK3 cents per share.

Management Discussion and Analysis

Segment Analysis

Facade Contracting Business

The segment's revenue decreased to HK$2,565 million for the year ended 31 December 2020 (2019: HK$2,786 million). The operating profit decreased to HK$35 million for the year ended 31 December 2020 (2019: HK$123 million). Due to the Covid-19 pandemic, commencement of newly-awarded projects was delayed. On-site project progress and building materials supply were disrupted. It also created additional costs in operation during pandemic and extra expenses in work acceleration after disruptions.

General Contracting Business

The segment delivered a steady growth of revenue to HK$1,055 million for the year ended 31 December 2020 (2019: HK$941 million). The segment profit increased to HK$98 million for the year ended 31 December 2020 (2019: HK$47 million) as a results of the increase in construction progress of certain projects.

Operating Management Business

Revenue contribution from the segment remained stable. The segment's revenue increased to HK$916 million for the year ended 31 December 2020 (2019: HK$893 million). The operating profit increased to HK$218 million for the year ended 31 December 2020 (2019: HK$199 million).

Administrative, selling and other operating expenses

As a result of stringent cost control, administrative, selling and other operating expenses decreased by 10.5% to HK$222 million (2019: HK$248 million).

Finance costs

For the year ended 31 December 2020, the Group's finance costs decreased to HK$32 million (2019: HK$39 million) as a result of the decrease in borrowings cost.

New Contracts Awarded and Project in Progress

The Group recorded an accumulated new contract value of HK$5,116 million for the year ended 31 December 2020 and achieved the full year target of 2020.

As of 31 December 2020, the on-hand contract value amounted to approximately HK$18,467 million, among which the backlog was approximately HK$8,885 million.

Business Segments	New Contract Awarded (HK$ million)	Project in Progress	
		Total Value (HK$ million)	Backlog (HK$ million)
Curtain Wall	1,528	12,059	6,112
Building Works	2,670	4,990	2,233
Operating Management	918	1,418	540
Total	5,116	18,467	8,885

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 2020, the Group had cash and cash equivalents of HK$858 million (31 December 2019: HK$827 million), total borrowings of the Group were HK$1,062 million (31 December 2019: HK$868 million). The Group's net gearing ratio (net debt to total net assets) as at 31 December 2020 was approximately 15.4% (31 December 2019: 3.9%). Furthermore, the Group had unutilised banking facilities (including performance guarantee facilities, working capital facilities and loan facilities) of approximately HK$2,414 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 total bank borrowings as at 31 December 2020 and 31 December 2019 are set out as follows:

	31 December 2020 HK$'000	31 December 2019 HK$'000
On demand or within one year	650,710	655,780
More than one year but not exceeding two years	400,524	200,494
More than two years but not more than five years	10,932	11,264
Total bank borrowings	1,062,166	867,538

The portfolio of the currencies of cash and cash equivalents of the Group as at 31 December 2020 and 31 December 2019 is set out as follows:

	31 December 2020 %	31 December 2019 %
Renminbi	69	82
Hong Kong Dollars	24	11
United States Dollars	1	1
Macau Pataca	1	1
Others	5	5

As at 31 December 2020, the Group's equity attributable to owners of the Company amounted to HK$1,403 million (31 December 2019: HK$1,125 million), comprising issued capital of HK$22 million (31 December 2019: HK$22 million) and reserves of HK$1,381 million (31 December 2019: HK$1,103 million).

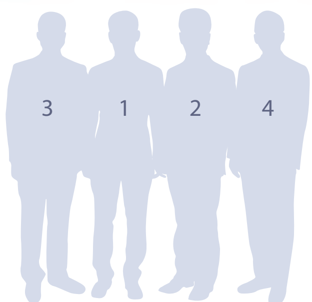
TREASURY POLICY

The Group adopts a conservative treasury policy in cash and financial management. The Group's treasury activities are centralized in order to achieve better risk control and minimize funding cost. 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 2020, the Group employed a total of 3,344 (31 December 2019: 3,197) 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



1. Mr. ZHANG Haipeng
2. Mr. WU Mingqing
3. Mr. WANG Hai
4. Mr. HUANG Jiang

BOARD OF DIRECTORS

Mr. ZHANG Haipeng

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

Aged 45, 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 a director of China Overseas Holdings Limited ("COHL") and an executive director and chief executive officer of CSC. CSCEC, COHL and CSC are controlling shareholders of the Company. Mr. Zhang has over 21 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 56, 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 35 years of experience in financial management, construction engineering, infrastructure investment and project management.

Mr. WANG Hai

Executive Director, Senior Vice President

Aged 48, was appointed as an Executive Director on 15 August 2012. Mr. Wang is also a director of the Company's subsidiaries. He joined the Group in March 2012 and held various senior management positions including Chief Executive Officer and Associate Chief Executive Officer of the Company. Mr. Wang ceased to be Associate Chief Executive Officer on 21 September 2015 when he was reallocated to North America taking charge of North America business. He graduated from Tianjin University and Greenwich University and is a member of the Royal Institution of Chartered Surveyors. Mr. Wang joined CSCEC in 1994 and started getting involved in the operation of certain subsidiaries of CSC since 2003. He has over 27 years of experience in international corporation management in the industry of building and infrastructure investment in North America, Hong Kong and Mainland China.

Mr. HUANG Jiang

Non-executive Director

Aged 46, 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 24 years of experience in contract and project management.

* *for identification purpose only*

Mr. ZHOU Jinsong

Independent Non-executive Director
Chairman of the Audit Committee
Member of the Nomination Committee
Chairman 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. 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 51, 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 21 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 71, 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 43 years of professional experience in the architectural field.

SENIOR MANAGEMENT

Mr. HO Wai Man, Raymond

Senior Vice President

Aged 59, obtained a Bachelor of Science degree in Civil Engineering from the National Cheng Kung University and a Master of Science degree in Civil Engineering from the Queen's University of Belfast. Mr. Ho is a member of Hong Kong Institute of Construction Managers. He joined the CSC Group in 1994 and was seconded to the Group in 2012. Mr. Ho has over 35 years of experience in engineering, construction, contract administration, project management, tendering and business development in Hong Kong and overseas.

Mr. LI Jing

Vice President

Aged 52, graduated from Shanghai University of Finance and economics and University of South Australia with a Bachelor's degree in Economics and a Master's degree in Business Administration, holding the certification of senior accountant. Mr. Li joined CSCEC in 1991 and was seconded to the COHL Group in 1996. He joined the Group in April 2020 and has over 30 years of experience in financial accounting, auditing, internal control and risk management.

Mr. WONG Man Cheung

Chief Financial Officer

Aged 49, graduated from The Hong Kong Polytechnic University with a Bachelor of Arts degree in Accountancy and a Master's degree in Business Administration (Financial Services). Mr. Wong is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and was a fellow of the Association of Chartered Certified Accountants. He joined the Group in November 2020 and has over 24 years of experience in financial management, corporate financing, strategic planning and advisory, business controlling, risk management and investor relations.

Mr. WANG Yapeng

Vice President

Aged 45, 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. Mr. Wang joined CSCEC in 2004 and was seconded to the COHL Group in 2007. He joined the Group in 2018 and has over 22 years of experience in business operation, enterprise management, human resources and administration.

Mr. ZHU Minfeng

Assistant President

Aged 41, graduated from Southeast University and Huazhong University of Science and Technology, and holds a Bachelor's degree and a Master's degree in Engineering. Mr. Zhu joined the CSC Group in 2002 and was seconded to the Group in 2018. He has over 18 years of experience in construction engineering management.

Mr. CHAN Sun Nung

Technical Director

Aged 61, obtained a Master's degree in Construction Engineering and Management from Griffith University, Australia. Mr. Chan is the vice president of Hong Kong Facade Association. He joined the Group in 2003 and has over 40 years of experience in curtain wall design.

Mr. MOK Wai Him

Project Director

Aged 60, graduated from the University of Essex with a Bachelor of Science degree in Applied Physics and obtained a Master's degree in Instrumentation and Analytical Science from the University of Manchester Institute of Science and Technology. Mr. Mok 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. He joined the Group in 1996 and has over 32 years of experience in project management.

Mr. LAU Sai Ying, Alan

Marketing Director

Aged 60, graduated from the University of Manitoba with a Bachelor of Science degree in Civil Engineering. Mr. Lau 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. He joined the Group in 1997 and has over 31 years of construction, engineering and facade system project management and marketing experience in Canada and Hong Kong.

Mr. GAO Fai

Deputy General Manager, Far East Aluminium Works Company Limited

Aged 35, graduated from the Harbin Institute of Technology with Bachelor of Engineering and Bachelor of Science degrees, and holds a Master's degree in Business Administration from Hong Kong Baptist University. Mr. Gao joined the CSC Group in 2009. He joined the Group in September 2020 and has over 12 years of experience in construction management.

Mr. HONG Jianping

General Manager, 瀋陽皇姑熱電有限公司 (Shenyang Huanggu Thermoelectricity Company Limited*)

Aged 55, graduated from Xi'an Institute of Metallurgical Construction with a Bachelor of Engineering degree and obtained a Master's degree in Business Administration from Nankai University. Mr. Hong joined the COHL Group in 1998 and was seconded to the CSC Group in 2008. He joined the Group in 2014 and has over 31 years of experience in investment, mergers and acquisitions, and plant management.

* for identification purpose only

GOVERNANCE FRAMEWORK

The Company is committed to maintaining and upholding high standards of corporate governance. The Board recognises that good corporate governance is crucial to the success of the Company and creating long-term sustainable value for shareholders. The corporate governance principles of the Company emphasize an effective Board, sound risk management and internal control systems, and transparency and accountability to all shareholders.

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 2020.

THE BOARD

The Board has a collective responsibility for promoting the Company's long-term sustainable success and enhancing shareholder value which is achieved by having members with a balanced range of individual skills and experience. The Board is responsible for the stewardship of the Group, directing and guiding strategic objectives, overseeing and monitoring performance, and discharging certain legal responsibilities. The Board delegates the day-to-day operation of the Group to the management under the leadership of the Chief Executive Officer. The Board has established three committees to assist it in discharging certain governance responsibilities. In addition, there is a sustainability committee which is led by the Chief Executive Officer with reports on its activities being made to the Board as appropriate. 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, dividends, external financing, Board appointments, major acquisitions, disposals and certain material contracts, and broad policies; oversight of systems of internal control and risk management (supported by the Audit Committee), sustainability, governance matters, and compliance arrangements.

As at 31 December 2020, the Board comprised seven Directors — two Executive Directors, two Non-executive Directors and three Independent Non-executive Directors. Throughout the year, the number of Independent Non-executive Directors on the Board meets the one-third requirement under the Listing Rules. 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 2020 are set out in the "Board of Directors and Committees" section of this Annual Report and their biographical details are set out on pages 25 to 26.

Chairman and Chief Executive Officer

The roles of Chairman and Chief Executive Officer are performed by separate individuals in accordance with the CG Code. A distinction is made between the leadership of the Board, which is the Chairman's responsibility, and the executive leadership of the Group's business, which is the Chief Executive Officer's role. The counter balance of responsibilities at Board level is set out below and demonstrates that no one individual has unfettered powers of decision. The Chairman of the Board, Mr. Zhang Haipeng, has responsibility for the effectiveness of the Board in its role of directing the Company and achieves this through promoting a culture of constructive debate and openness among all Board members, both executive and non-executive. To support this, from time to time, the Chairman meets with Independent Non-executive Directors privately without other Directors present. 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 Chairman is also responsible for ensuring that Board meetings are planned and conducted effectively, including setting the agenda for each Board meeting, taking into account, where appropriate, matters proposed by Directors. With the support of the Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues to be deliberated at Board meetings. The Chief Executive Officer, Mr. Wu Mingqing, has responsibility for the day-to-day operation and management of the Group, and implementation of Board decisions, policies and strategies. The Chief Executive officer assumes full accountability to the Board for the overall operation of the Group and has responsibility for overseeing and delivering operational performance of the Group.

Non-executive Directors

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.

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.

Board Process

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. Directors may attend meetings in person, by phone or through other means of electronic communication in accordance with the Company's articles of association. During the year, the Board held four 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 3 days prior to the meeting. For ad hoc meetings, Directors are given as much notice as is reasonable and practicable in the circumstances. Directors are given the opportunity to include matters in the agenda for regular Board meetings and raise other matters that are not on the agenda during the meetings. 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.

Where Directors have not been able to attend a Board or Board 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. In addition to formal Board meetings, the Chairman held a private session with Independent Non-executive Directors without the presence of other Directors in 2020.

Draft version of meeting minutes of the Board and Board committees will be sent to Directors for comment within a reasonable time after the meeting and final version of minutes will be placed on record after approval at the next meeting.

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	4/4	–	2/2	1/1	2/2
Executive Directors					
Wu Mingqing	4/4	–	2/2	1/1	2/2
Wang Hai	4/4	–	–	–	2/2
Chan Sim Wang[Note]	0/0	–	–	–	0/0
Non-executive Director					
Huang Jiang	4/4	–	–	–	2/2
Independent Non-executive Directors					
Zhou Jinsong	4/4	4/4	2/2	1/1	2/2
Hong Winn	4/4	4/4	2/2	1/1	2/2
Kwong Sum Yee Anna	4/4	4/4	2/2	1/1	2/2

Note: Mr. Chan resigned from the Board with effect from 18 March 2020.

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. Directors are expected to attend all meetings of the Board and Board committees of which they are members, as well as the annual general meeting.

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 liability insurance cover in respect of legal action against Directors. The coverage and sum insured under the directors and officers liability insurance are reviewed annually.

Appointment and Re-election

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 are 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. In respect of the Independent Non-executive Director who was eligible for re-election at the 2020 annual general meeting and had served more than nine years, the Board expressed its view in the circular to shareholders as regards his independence. In accordance with the CG Code, the Company had to include its own recommendation in the circular to explain why the Board considered such Director was still independent and should be re-elected.

Development, Information and Support

Directors have access to relevant and timely information, and they can ask for further information if necessary. 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 monthly updates with respect to the operating information and performance of the Group to enable the Directors, individually and collectively, to discharge their legal and regulatory duties.

All Directors 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.

A package, which has been compiled and reviewed by the Company's legal advisers, setting out the duties and responsibilities of directors under the Listing Rules and relevant regulatory requirements, is provided to each newly appointed Director. Guidelines for directors have also been forwarded to each Director for his/her information and ready reference. 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 to the Company records of continuous professional development activities they participated during the year. Based on the records so provided, the participation of individual Directors in the continuing professional development activities during the year is set out as below:

	Attending seminars, conferences, courses or briefings, or giving talks	Reading relevant materials
Directors		
Zhang Haipeng	√	√
Wu Mingqing	√	√
Wang Hai	√	√
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 chairs.

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 solely 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 2020. Chief Financial Officer and Deputy General Manager, Finance & Treasury were regular attendees at the meetings of the committee. External auditors were invited to attend two of those meetings to discuss various accounting issues and audit 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 2019, and for the first quarter, half-year and third quarter of 2020, the annual report and interim report. To aid its review, the committee considered the report from the management and the report from external auditors on the outcomes of the annual audit. The committee also reviewed the continuing connected transactions, internal control, risk management and internal audit matters, approved the audit plan and fee for the 2020 year end audit before audit commencement and made recommendation to the Board on the appointment of Ernst & Young as auditor of the Company in place of PricewaterhouseCoopers who retired at the 2020 annual general meeting.

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 Ernst & Young 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 Ernst & Young and other firms of its worldwide network for the financial year ended 31 December 2020 amounted to approximately HK$2,510,000 and HK$70,000 respectively. The non-audit services mainly related to services for ad hoc projects.

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 2020. 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 reappointment of the retiring Directors at the annual general meeting.

The Company has adopted a policy for nomination of Directors which sets out the principles that guide the committee to identify and evaluate candidates for nomination and the procedures for nomination. The committee will take into account the candidate's character and integrity, qualifications, diversity contributions, independence (for the appointment of Independent Non-executive Director), time commitment and any other relevant factors as may be determined by the committee or the Board from time to time. The committee shall, upon receipt of the proposal on appointment of new Director and the biographical information (or relevant details) of a candidate, evaluate the candidate based on the criteria as set out above. The committee will then recommend to the Board the appointment of the candidate for directorship, if appropriate. The Board decides the appointment based upon the recommendation of the committee.

In assessing the independence of Directors, the 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 duties.

The Board diversity policy sets out the Board's approach to diversity. 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 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 committee held two meetings in 2020. The committee reviewed and approved the Group's policy on salary adjustment and discretionary bonus which applies to Directors and senior management of the Company and the policy has been set to align with the Group's operating performance while taking into account the general economic condition, individual performance and contribution, and remuneration offered by peer companies. 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 2020 is set out in note 10 to the consolidated financial statements.

The remuneration of members of the senior management by band for the year end 31 December 2020 is set out in note 11 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 2020.

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.

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 acknowledged their responsibility for preparing the consolidated financial statements for the year ended 31 December 2020. 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 auditor 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.

To ensure that decisions are taken at the right level within the Group by those best placed to take them, the Company has in place a policy on delegation of authority for expenditure which sets out limits and conditions for the authority afforded to each function and senior individuals. The policy ensures there is a consistency of approach across the business units and allows the business to operate efficiently without creating burdensome processes. The policy will be reviewed from time to time to re-align them with changes to the Group's business structure leading to stronger accountability.

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 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 Company Secretary maintains dialogue with each of them on an individual basis.

The Board is supported by the Company Secretary who ensures that the Board is able to function effectively and efficiently. In addition to making logistical arrangements for meetings, the Company Secretary is responsible for advising the Board on all governance matters, managing the policies and procedures relating to the Board and ensuring that the Directors receive 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 articles of association of the Company, 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 the Company's general meeting 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 various means to 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 2021.

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.

ABOUT THIS REPORT

The Environmental, Social and Governance Report (hereinafter referred to as the "Report") aims to present China State Construction Development Holdings Limited (hereinafter referred to as the "Company") and its subsidiaries' (collectively referred to as the "Group") environmental, social and governance (hereinafter referred to as "ESG") performance in 2020, to respond to the issues related to sustainable development that stakeholders are concerned about. For more information on corporate governance, please refer to the "Corporate Governance Report" section in this Annual Report. The electronic version of the Report can be read and downloaded through the websites of the Company (www.cscd.com.hk) and The Stock Exchange of Hong Kong Limited (hereinafter referred to as "SEHK").

Reporting Boundary

Unless otherwise specified, the time frame of this Report is from 1 January 2020 to 31 December 2020 (hereinafter referred to as the "reporting period"). The disclosure scope of this Report includes on the Group's curtain wall business, general contracting business, supervision business and operating management business, and the operating locations include Hong Kong, Pearl River Delta, Shenyang, Shanghai, United States and Canada, etc. In Comparison with the 2019 ESG report, the Shenyang Huanggu Thermoelectricity Company Limited (hereinafter "Shenyang Huanggu Company"), which was acquired in 2019, has newly joined the operating management business in this reporting period.

Businesses	Subsidiaries covered in the Report
Curtain wall business	Far East Aluminium Works Company Limited (hereinafter referred to as "Far East Aluminium"), Netfortune (Shanghai) Aluminium Works Company Limited (hereinafter referred to as "Netfortune (Shanghai)"), Far East Heng Fai Facade (Zhuhai) Limited (hereinafter referred to as "Far East (Zhuhai)"), Gamma North Corporation, Gamma USA, Inc. and Gamma Windows and Walls International Incorporation Inc.
General contracting business	Treasure Construction Engineering Limited
Supervision business	China Overseas Supervision Company Limited (hereinafter referred to as "China Overseas Supervision")
Operating management business	Shenyang Huanggu Company

Reporting Guideline

The Group prepared the Report with reference to the Environmental, Social and Governance Reporting Guide (hereinafter referred to as the "ESG Guide") issued by SEHK. The Report has complied with all "Comply or Explain" clauses in the ESG Guide and has been prepared in accordance with the four reporting principles of the ESG Guide, namely materiality, quantitative, balance and consistency. Specific compliance with the ESG Guide is summarized in the "Content Index of the Environmental, Social and Governance Reporting Guide" section of this Report.

SUSTAINABILITY GOVERNANCE

The Group has established the Sustainability Governance Committee, which is committed to implementing the concept of sustainable development in the process of business strategy planning, and actively introducing a sustainable operation model. Its main functions include preparing the annual ESG report, coordinating the engagement with stakeholders, assisting the Board of Directors in the governance of ESG issues and reporting to the Board of Directors on the management of ESG issues. The Board of Directors of the Company regularly listens to the report from the Sustainability Governance Committee on the management of ESG issues, and actively reviews the Group's ESG governance policies and strategies, including materiality assessment of ESG issues and ESG-related risk management. In addition, the Group is also preparing for the formulation of ESG targets and will disclose the progress of target management and implementation in the future.

Stakeholder Engagement

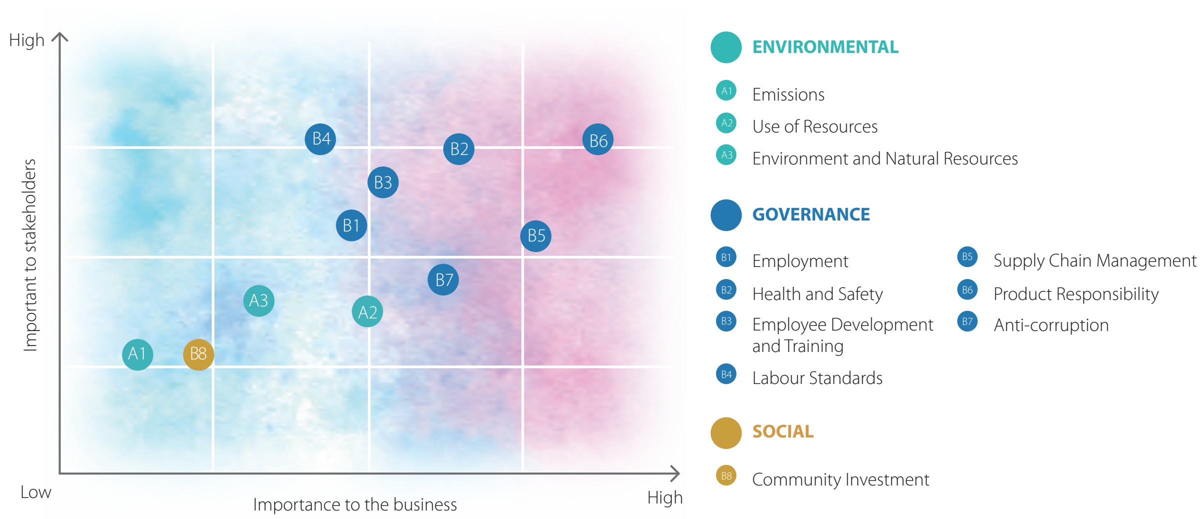
The Group deeply understands that the sustainable development of the Company depends on the support of its stakeholders. In the past year, the Group has been adhered to the spirit of communication and interacted with internal and external stakeholders through diversified communication channels.

Stakeholder groups	Stakeholders	Communication channels and responses
Internal stakeholder	Employees	• Staff training and workshop • Employees' activity and meeting • Employee suggestion box submission and employee forum • Group internal publications
	Board of Directors	• Board meeting
External stakeholder	Clients and Property Owners	• Customer satisfaction survey • Diversified services and customized products • Professional after-sales service
	Suppliers	• Formulate hiring standard and management system • Factory inspection
	Shareholders and Investors	• Shareholders' meeting • Announcement, circular, annual report and financial statement
	Government Agencies	• Implement State policy
	Community	• Actively participate in community affair
	Partners	• Join industry chamber and standard-setting organization
	Peer Enterprises	
	Media	• Announcement, circular, annual report and financial statement

Materiality Assessment

The Group's Sustainability Governance Committee conducted a materiality assessment in 2019 to identify material ESG issues (please see the ESG Issues Materiality Matrix below for details). By reviewing the 2019 ESG Issues Materiality Matrix, the Group added a threshold for determining the importance of the issues. Issues with a score of half or more of the total score on both the "importance to the business" and "importance to stakeholders" dimensions were identified as material issues for the Group. The materiality assessment identified 4 material issues: "Product Responsibility", "Supply Chain Management", "Occupational Health and Safety", and "Employee Development and Training". This Report will focus on disclosing the above four material issues in response to the key concerns of our stakeholders.

ESG Issues Materiality Matrix



OPERATIONAL PRACTICES

Product Responsibility

The Group pursues the core values of "probity, innovation, pragmatism and refinement", and practicing the business philosophy of "quality assurance and value creation" to protect the rights of customers and achieve win-win situation.

The Group designs curtain wall that is complied with the relevant technical requirements of the operating regions to protect the quality, health and safety of the products. The requirements include such as the *Code of Practice on Wind Effects in Hong Kong 2019*, the *Code of Practice for the Structural Use of Steel 2011*, the *Code of Practice for Structural Use of Glass 2018*, the *Product Quality Law of the People's Republic of China*, the *Law of the People's Republic of China on the Protection of the Rights and Interests of Consumers*, etc. Before delivered to the construction sites for installation, all finished products of the Group's factories must pass the inspection process to ensure that the quality is satisfactory. At the same time, the Group attaches great importance to user experience of our customers. The Group strictly verified the sound insulation of curtain walls and the light transmission of glass to prevent noise pollution and light pollution from affecting the physical and mental health of product users. During the reporting period, there were no recalls of sold or shipped products for safety and health reasons.

The Group attaches great importance to the protection and safeguarding of intellectual property rights and actively encourages employees to engage in technological innovation. During the reporting period, China Overseas Supervision issued the *Knowledge Management Control Procedures* to implement uniform and effective control & management of intellectual property rights. Shenyang Huanggu Company has set up an assessment team to regularly assess the completion of the application of national invention patents, utility model patents and other national and regional patents, and to reward and commend employees who have performed outstandingly in technological innovation during their personal assessment. During the reporting period, Gamma Windows and Walls International Incorporation Inc. was certified by the German Passive House Institute and successfully applied for the first passive unit glass curtain wall patent in worldwide and the first passive glass curtain wall patent in North America.

The Group provides various channels for customers' enquiries and complaints to listen to their opinions and ideas, and constantly improves and enhances the quality of its services. Upon receipt of any customer inquiries or complaints, the relevant departments will contact the customer to understand the reason and record it truthfully. The Group adopts different arrangements such as call-back, site visit and on-site maintenance for different requests from customers.

In terms of advertising, the Group strictly complies with laws and regulations such as the *Trade Descriptions Ordinance*. The Group prohibits illegal advertising of products and ensures that all promotional materials, advertisements, and publicity are true and accurate and do not contain any misleading information, thereby eliminate the occurrence of dishonest concealment of the truth. In terms of customer privacy protection, the Group strictly complies with the *Personal Data (Privacy) Ordinance* and secure customer information and personal privacy in strictly confidential. While regularly updating customer contact data to maintain a close relationship, all customer data is stored in the specific server of marketing department.

Supply Chain Management

During the reporting period, the Group updated the *Procedures for Procurement of Materials* to mitigate possible environmental and social risks in the supply chain. The Group's material procurement department evaluates the performance of potential suppliers in terms of project progress, quality, safety, health, and environmental protection while selecting suppliers, thereby establishes a list of approved suppliers. In addition, the procurement department is responsible for conducting a comprehensive evaluation of suppliers' performance in the past year, reviewing and updating the supplier list on a regular basis to reduce the Group's supply chain risks. During the reporting period, the Group has implemented the above-mentioned employment practices to suppliers. In addition, the Group trained its suppliers by providing seminar during the reporting period.

Anti-corruption

The Group strictly complies with anti-corruption-related laws and regulations such as the *Prevention of Bribery Ordinance* and strives to create a clean operating environment within the Company and in the process of cooperation with suppliers. The Group clearly stipulates in the *Code of Ethics and Discipline* that no director or employee shall solicit or accept any benefits when handling the Company's affairs. If employees find any possible violation of the code, they can report to the Group's related department through telephone hotline, e-mail address or post. When any employee violates the relevant policies, the Group will report to the Independent Commission Against Corruption and take disciplinary action against the employee. The Group also provided several training and internal activities for all staff on anti-corruption issues, including a one-day activity themed "China Overseas Anti-corruption Initiative", visiting the probity education base and conducting probity-themed running competition. During the reporting period, the Group had no legal cases regarding corrupt practices.

CARING FOR EMPLOYEES: EMPLOYMENT AND LABOR PRACTICES

Employment System

The Group regards employees as important assets, strictly complies with employment-related laws and regulations, and has formulated a sound human resource management system. The Group strictly abides by the laws and regulations of operational regions that related to compensation and dismissal, recruitment and promotion, working hours, holidays, equal opportunity, diversity, other benefits and welfare and labor standards. The abided laws and regulations of Hong Kong include the *Employment Ordinance*, the *Sex Discrimination Ordinance*, the *Mandatory Provident Fund Schemes Ordinance* and the *Employment of Children Regulations*. The abided laws and regulations of Mainland China include the *Labor Law of the People's Republic of China*, the *Provisions on the Prohibition of Using Child Labor*, the *Prohibition and Immediate Action to Eliminate the Worst Forms of Child Labor Convention*, the *Regulation on the Implementation of the Employment Contract Law of the People's Republic of China*, the *Social Insurance Law of the People's Republic of China*, the *Law of the People's Republic of China on the Protection of Rights and Interests of Women* and the *Law of the People's Republic of China on the Protection of Disabled Persons*. The abided laws and regulations of overseas include *Employment Standards Act* of Canada, Ontario, etc. The Group has formulated a series of internal employment systems such as the *Human Resource Management System* and the *Recruitment Policy for Hong Kong Employed Employees*, thereby protect the rights and interests of the Group and employees.

Employment categories	Specific management policies
Recruitment and promotion	• Providing equal employment opportunities and prohibiting any discrimination. • Establishing a fair and impartial promotion system, announcing the appointment criteria of each position and regularly conducting open selection of personnel.
Job offering	• Conducting annual performance appraisal at the end of each year and assess the performance of employees based on the principle of fairness and justice. The appraisal results will guide the salary adjustment and promotion of employees for the next year. • Employees who work in office have a standard working hour policy, while employees of project department are regulated under a comprehensive calculation working hour policy. • Providing every employee to have at least one rest day per week.
Employee benefits	• Providing social insurance, housing provident fund, high temperature allowance, Mandatory Provident Fund, etc. • In addition to the implementation of the paid annual leave policy, employees are provided with marriage leave, bereavement leave, prenatal examination leave, maternity leave, and adjusted leave, paternity leave, birthday leave, care leave, examination leave etc.
Dismissal	• Performing legal dismissal procedures and providing financial compensation in accordance with the law.
Labor standards	• Completely eliminating child labor or forced labor. • In the recruitment process, applicants are strictly required to provide original Identification card to ensure that the age of employees meets the minimum legal requirements. • The Group explains the definition of work overtime and overtime compensation policy during new employees on-boarding process. The Group had developed internal policy to prevent forced labor by stipulating that each person should not work overtime more than 36 hours of overtime per month. The Group also reasonably arrange employees' working hours and arrange employees' compensatory time off when appropriate. • When violations occur, the Group conduct corrective action immediately. After review and confirmation, the responsible department dismisses employees who do not meet the legal working age, and pursue responsibility for the entire recruitment process. The Group provides corresponding compensation to employees who suffering forced labor. After analyzing and review the violation incident, the Group punishes relevant responsible person and enhance relevant regulations and procedures.

Employee Development and Training

The Group takes the all-round development of its employees as its top priority and upholds the core idea of "talent and culture are the most precious wealth". It focuses its human resources work on "educating people and employing people" and strives to provide employees with an environment that promotes harmonious interpersonal relationship, challenging tasks, good career prospects, and welfare that satisfy employees. The Group reinforces its talent strategy and systematically balances the common development needs of both the company and its employees. The Group adopts systematic recruitment and training of employees to meet the actual and potential needs of business development and employees. The Group encourages and supports lifelong learning and continuous self-improvement of employees, and provides employees with a wide range of training, covering various aspects such as corporate culture, leadership, management capability, professional skills, and team building.

During the reporting period, the Group organized several induction trainings to deepen new employees' understanding of company's corporate culture, regulatory requirements, management systems and so forth, to help them adapt quickly to the new working environment. Subsidiaries under different businesses of the Group also provide professional training for employees in different job positions. To better cooperate with the epidemic prevention work, the Group has also adopted online remote training.

	List of training program in 2020	Training target audience
Curtain wall business	• Internally planned training courses • New employee training • Externally planned training courses • Special equipment operation training	• All employees • New employees • Company assigned personnel • Employees operating special equipment
Supervision business	• new employee orientation "Sunrise Program" • Bidding process and experience sharing • Continuing education for registered safety engineers • Installation engineering management experience sharing • BIM knowledge training	• New employees • Assistant project managers and above • Registered safety engineers • Installation engineering professionals • Project directors, BIM leaders, mechanical and electrical engineers
Operating management business	• Training for new employees • Training for skilled workers • Training for professional and technical personnel • Training for management personnel	• New employees • All production workers • Technicians and assistant technical professionals and above • Management personnel

Training of professional and technical personnel

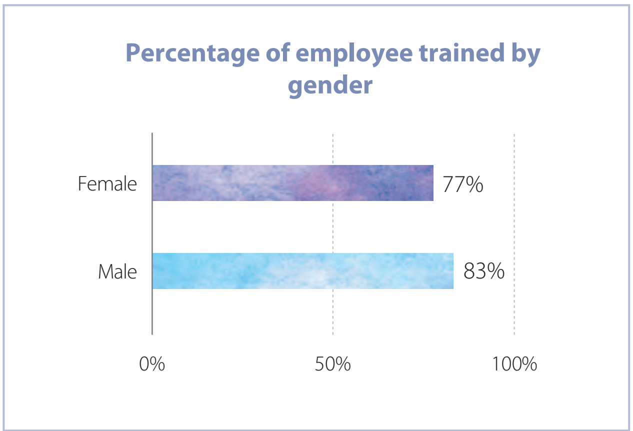
Online job training

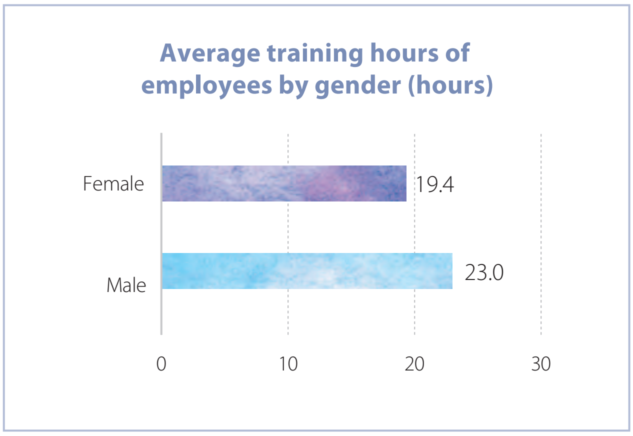
Training of skilled workers

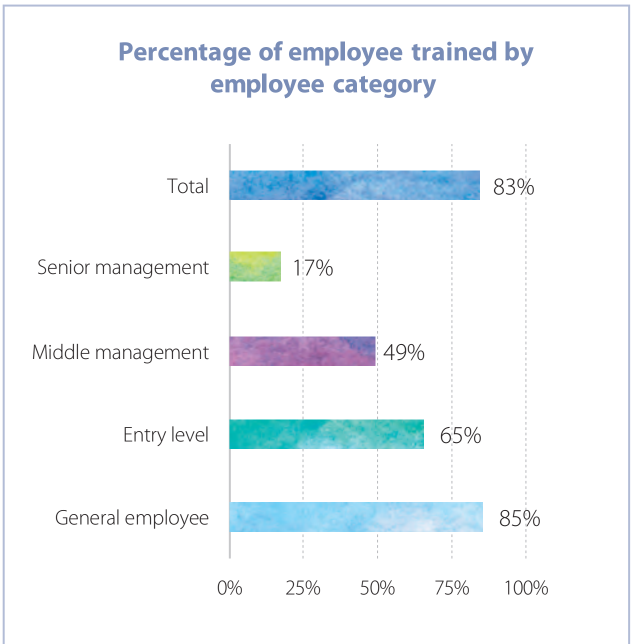
Internal training

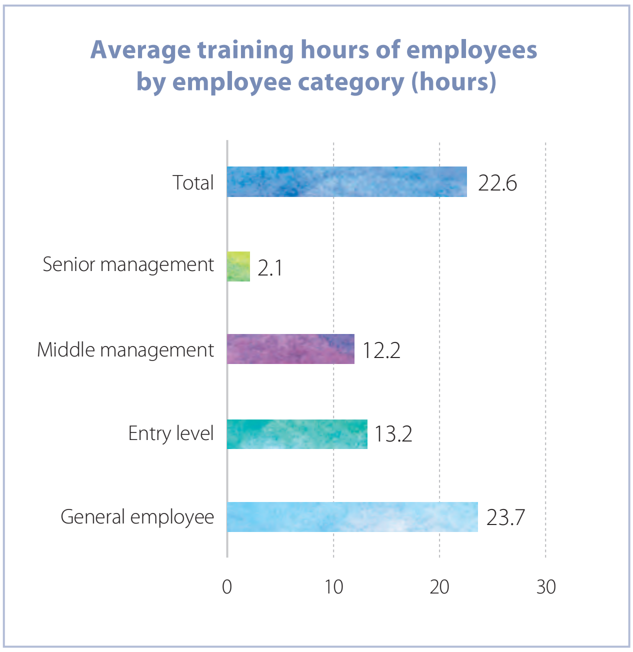
In addition to providing internal training every year, the Group also provides external training course subsidies and exam leave, encouraging employees to participate in external training courses to improve their professional knowledge and skills. Moreover, the Group will also provide employees with professional association membership fee subsidies and special bonus for obtaining professional qualifications to encourage employees to pursue professional qualifications. At the end of each year, the Group arranges an annual employee performance appraisal to solve the difficulties encountered by employees at work, to assist employees in setting career goals, and to understand their expectations for career development.

The Group's employee training percentage and average training hours by gender and employee category are as follows:[1]









1 The percentage of employee training is calculated as: the number of employees trained in that category/total number of employees in that category*100%; the average number of training hours for employees is calculated as: the total number of training hours for employees in that category/total number of employees in that category; the employee training statistics listed below include data related to employees who left the Company during the reporting period.

Health and Safety

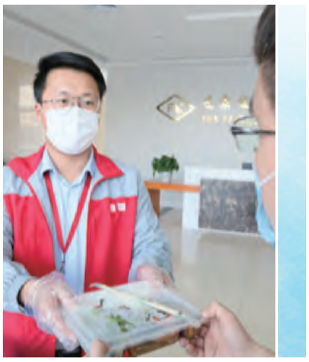
The Group attaches great importance to the health and well-being of employees, and commits to provide employees with a safe, efficient and harmonious working environment. The Group strictly complies with related laws and regulations, such as the *Production Safety Law of the People's Republic of China*, the *Law of the People's Republic of China on the Prevention and Control of Occupational Diseases*, the *Measures for the Administration of Occupational Health Examination*, and the *Technical Specifications for Occupational Health Surveillance*. A safety management committee has been established, and members of the committee meets every 2 to 3 months to review the current internal occupational safety policies and measures. New employees will be provided with safe working environment training by the safety supervisor to enhance their safety awareness, so as to establish a high standard of safe and healthy working environment. The Group also formulated the Company *Safety Management System Manual — Internal Safety Code* and *Safety and Health Policy* to guide employees to pay attention to occupational health and safety. The Group conducted inspections on occupational hazards in workplaces every year and entrusts qualified institutions to regularly conduct occupational health examinations for employees and declare occupational hazards based on the inspection results. The Group also formulated the *Employee Occupational Health and Labor Protection Management Measures* and other systems based on the actual situation of the job positions, and regularly distributed personal protective equipment to production employees in accordance with labor insurance standards and job requirements. The Group's management, production management personnel, safety management personnel, etc. will conduct regular inspections to ensure that employees wear adequate personal protective equipment.

Regarding the curtain wall business, the Group has formulated the *Cranes Safe Operation Regulation — Ten No Lifting Rule*, *Eight Prohibition Rule*, and the *Glass Lifting and Installation Safety Operational Regulation* and other regulatory documents to effectively manage occupational safety issues on construction sites. For Shenyang Huanggu Company under the operating management business, the Group has formulated the *Occupational Hygiene Management System of Shenyang Huanggu Thermoelectricity Company Limited*. The system specifies the protection and management measures conducted in the production process, for example, the maintenance and management of dust-proof and noise-proof facilities must be strengthened to ensure that they are effectively operated in good condition. In response to China Overseas Supervision under the supervision business, the Group has formulated the *Hazard Identification, Evaluation and Update Procedures* and other systems to guide employees to participate in risk assessment and hazard identification activities, to ensure timely and effective occupational hazard assessments. The Group has also provided on the list of major hazards the hazards and risk levels of different activity in detail and their corresponding control measures.

As the novel coronavirus epidemic was raging in 2020, and the Group has actively adopted diversified epidemic prevention measures to ensure the health and safety of employees. The Group arranges for employees to take turns to work at home and work at off-peak hours during severe epidemics to reduce the risk of the spread of the virus. The Human Resources Department checks every day whether any employees live in the same buildings with confirmed cases. If this happens, the department will immediately notify the employees and provide them with full subsidy to perform nucleic acid test. The employees could return to work only after they obtained a negative result. In addition, the Group provided employees with free lunch meals during the severe period of the epidemic to reduce the chance of infection caused by employees going out to eat. The Group also provides anti-epidemic supplies such as masks, rubbing alcohol, air purifiers, etc., frequently disinfects the office, and installs body temperature sensors to require employees to take their body temperature every day.

Epidemic prevention notice

Distribute anti-epidemic masks



Free lunch meals

Resumption of work inspection after the epidemic

CARING FOR THE ENVIRONMENT: ENVIRONMENTAL POLICIES

The Group has always advocated a green operation culture, fulfilled its environmental and social responsibilities, and is committed to the harmony and unity of corporate development and ecological development. The Group complies with the laws and regulations related to the environment where it operates and has set up different guidelines for each stage of operation, integrates the concept of environmental protection into the operation and management process, and strives to reduce the impact on the environment.

Energy Use and Air Pollutants

The Group's primary air pollutant emissions come from the use of boilers in the operating management business and the use of automobiles in subsidiaries of various business. Shenyang Huanggu Company strictly complies with the requirements of the *Coal-fired Power Plant Ultra-Low Emission Retrofit Plan of Liaoning Province* and completed all ultra-low emissions retrofits during the reporting period, such as retrofitted the lower-level economizer of the denitrification equipment, installed denitrification catalytic devices, heightened the dust removal box of the dust removal facility, replaced the filter bag, bag cage, etc. After retrofitting the boiler's denitrification equipment and dust removal facilities, the ultra-low emission limit of 50mg/m^3 and 10mg/m^3 could be achieved for nitrogen oxides and particulate matter respectively. In addition, Shenyang Huanggu Company strictly abides by the *Environmental Protection Law of the People's Republic of China*, the *Law of the People's Republic of China on the Prevention and Control of Air Pollution*, the *Shenyang City's Heavy Polluted Weather Emergency Plan (Revision)* and other laws and regulations. Shenyang Huanggu Company have formulated the *Shenyang Huanggu Company's Emergency Operation Plan for Heavy Polluted Weather* based on actual business conditions. During the red heavy polluted weather signal, it is forbidden to use heavy-duty trucks with China IV emission standard and below for material transportation. To improve the thermal efficiency of boilers and generators and the fuel utilization rate, Shenyang Huanggu Company formulates annual inspection plan and maintenance program and adopted waste heat recovery technology. In addition, the Group actively implements the green office policy, raises employees' environmental awareness, encourages employees to conserve electricity, be a green traveler, use public transportation as much as possible, and use network communications to reduce carbon emissions and air pollutant emissions from long-distance travel.

Water Consumption and Wastewater Discharge

All the operation locations of the Group are located in urban areas, and thus the Group has not encountered any difficulties in water sourcing. The *Green Office Guidelines* published by the Group advocate various water conservation measures, such as conducting regular leakage tests of concealed water pipes and water tank inspections, recommending the installation of automatic faucets and water-saving toilets, and encouraging employees to turn off the faucets manually in order to reduce water consumption. During the reporting period, excluding the newly added Shenyang Huanggu Company, the total water consumption decreased by 16.5% compared with the previous reporting period. The Group's major wastewater discharge come from the flue gas desulfurization wastewater and domestic sewage from the operating management business. The Group's domestic sewage is discharged through the municipal pipe network for standardized treatment, such that no illegal discharge would occur. In respect of flue gas desulfurization wastewater, Shenyang Huanggu Company strictly complies with the requirements of the *Environmental Protection Law of the People's Republic of China*, the *Water Pollution Prevention and Control Law of the People 's Republic of China*, the *Integrated Wastewater Discharge Standard* and the *Integrated Sewage Discharge Standard of Liaoning Province*, and has established a wastewater quality monitoring system and commissioned a professional third party to conduct monthly wastewater quality monitoring to ensure that the heavy metal content of the treated flue gas desulfurization wastewater meets the requirement of standards.

Waste Management

The Group attaches importance on waste management. All wastes are disposed of strictly in accordance with the *Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste* and other laws and regulations. Various measures are adopted to reduce the negative impact of waste on the environment, such as using rechargeable laser pointers to reduce the generation of hazardous waste batteries; actively encouraging employees to reduce the use of single-use and non-recyclable products and setting up recycling bins. To reduce the pollution of e-waste to land, registered waste recyclers are hired to dispose of discarded computers, printers, and other e-waste. A total of 53 pieces of e-waste were recycled during the reporting period. In addition, the Group has also set up storage areas for production waste such as aluminium, glass, and paper for secondary use.

Green Product

The Group adopted low heat reflective glass and performed stringent structural and thermal calculations in the process of facade product design to reduce the energy consumption of the building caused by heating and cooling. Additionally, the Group cooperates with the architectural design to make full use of natural light to reduce electricity consumption for lighting. The Group strictly selects materials during the production process of facade product, and selects aluminium alloy, stainless steel and low-carbon metal with high recycle content. The Group also actively uses environmentally friendly production methods. For example, the Group adopts precise design and standardized manufacturing process of the unitary facade product to significantly reduce waste on-site.

Green Office

To create a green working environment, the Group has set up and implemented *Green Office Environmental Proposal* and *Green Office Guidelines*, which has clearly set out the Group's environmental protection measures for energy, paper, water, disposal of waste, business trips and vehicles usage. In addition, the Group also encourages employees to actively participate in environmental protection activities in its daily operations. The Group has been awarded the "Green Office" label from the World Green Organization for five consecutive years.

Paper saving

Paper cups saving

Electricity saving

CARING FOR THE COMMUNITY: COMMUNITY INVESTMENT

The Group encourages employees to participate in diversified community charity, cultural and environmental promotion activities. This can enhance employee's communication as well as fulfill social responsibilities. During the reporting period, subsidiaries under various business of the Group carried out different community activities. For example, Shenyang Huanggu Company organized activities such as placing shared bicycles, wiping bus stop signs, and answering questions about community heating charges. China Overseas Supervision Company Limited participated in the volunteering activities on "fighting against the COVID-19 pandemic", and carried out the community cleaning activities according to the community guidelines. Netfortune (Shanghai) also participated in the temporary hospital project for the prevention and control of the epidemic in Foshan. After receiving the emergency support call on 13 February 2020, Netfortune (Shanghai) immediately established a temporary emergency project team to complete the glass installation task within three days to ensure that the emergency task was successfully completed. In response to the third wave COVID-19 pandemic in Hong Kong, the Group was tasked to build the Hong Kong version of the Fangcang Hospital. After receiving the task, Far East (Zhuhai) responded quickly and completed the design of the negative pressure ward and the production and installation of the sample within 13 hours. Far East Aluminium worked hard day and night, built 40 negative pressure wards and 792 isolation wards in three days, and passed the acceptance inspection in one go. With the concept of "Union is strength, Mission must reach", the Group fulfilled its corporate social responsibility and made its due contribution to the fight against the epidemic in Hong Kong.

Placing shared bicycles

Answering questions about heating charges in community

Wiping bus stop signs

Volunteering activities on "fighting against the COVID-19 pandemic"

During the reporting period, the "Art for ALL in the time of COVID-19" jointly organized by the company and TREATS, was an online charity event for employees, their families and students of special schools to participate, hoping to express the children's mood and feelings during the epidemic through paintings and express their awareness of environmental protection.

Title of Work: Place that I want to visit most after the epidemic.

The children said, "When the epidemic is over, I want to go to the beach most."

ENVIRONMENTAL PERFORMANCE DATA[2]

Types of air pollutants[3]	Emission in the reporting period (tonne)
Sulphur oxides	237
Nitrogen oxides	342
Particulate matter	15
Carbon monoxide	3

Greenhous gases (GHG) emission		Source of emission	GHG emission in the reporting period (tonne)	
Scope 1:	Direct GHG Emissions[4]	Combustion of fossil fuel — gasoline	236 CO_2e	799,011 CO_2e
		Combustion of fossil fuel — diesel	347 CO_2e	
		Combustion of fossil fuel — liquefied petroleum gas	37 CO_2	
		Combustion of fossil fuel — natural gas	87 CO_2	
		Combustion of fossil fuel — lignite	798,203 CO_2e	
		Refrigerant	101 CO_2e	
Scope 2:	Energy Indirect GHG Emissions[5]	Purchased energy	24,979 CO_2e	24,979 CO_2e
Scope 3:	Other Indirect GHG Emissions[6]	Business trip	108 CO_2	108 CO_2
Total GHG emission				824,097 CO_2e
GHG intensity (tonnes CO_2-e per employee)				246

Types of waste	Total amount (tonne)	Intensity (tonne per employee)
Hazardous waste	0.45	0.0001
Non-hazardous waste	232,860	70

[2] The disclosure scope of environmental performance data of the reporting period is consistent with the disclosure scope of the Report. Compared to the scope of disclosure of the ESG Report 2019, the Shenyang Huanggu Company, which was acquired in 2019, has been added, and therefore most of the environmental data for 2020 has been increased compared to 2019.

[3] Air pollutants of the reporting period were from the use of the boilers of Shenyang Huanggu Company, the use of vehicles, machineries, diesel generators owned and controlled by the Group and cooking equipment. The air pollutants from the boilers of Shenyang Huanggu Company are derived from monitoring data. The air pollutant emissions from cooking were calculated by referencing the *First National Pollution Source Census Manual of Urban Domestic Source Production and Emission Coefficients, Liquefied Petroleum Gas (GB 11174-2011)* and *Natural Gas (GB 17820-2018)*; the air pollutant emissions from vehicles were calculated by referencing the *EMEP/EEA Air Pollutant Emission Inventory Guidebook*, the *United States Department of Transportation, Estimated U.S. Average Vehicle Emissions Rates per Vehicle by Vehicle Type Using Gasoline and Diesel, the Technical Guide for the Preparation of Air Pollutant Emission Inventory for Road Motor Vehicles (Trial)*; the air pollutant emissions from machineries and diesel generators were calculated by referencing the *Technical Guide for the Preparation of Emission Inventory for Non-road Mobile Sources (Trial)*.

[4] The scope 1 GHG emissions of the reporting period were from the use of fuel in boilers, vehicles, machineries, diesel generators and cooking equipment owned and controlled by the Group, and fugitive emissions from refrigerants. GHG emissions from boilers and cooking equipment were calculated by referencing the *Greenhouse Gas Emission Accounting Methodology and Reporting Guidelines for Enterprises in Other Industries (Trial)* and the *Greenhouse Gas Emission Accounting Methodology and Reporting Guidelines for Enterprises Operating Public Buildings (Trial)*; the GHG emissions from vehicles were calculated by referencing the *Emission Factors for Greenhouse Gas Inventories, Appendix 2: Reporting Guidance on Environmental KPIs, the Greenhouse Gas Emission Accounting Methodology and Reporting Guidelines for On-road Transportation Enterprise (Trial);* the GHG emissions from machineries and diesel generators were calculated by referencing the *Greenhouse Gas Emission Accounting Methodology and Reporting Guidelines for Enterprises in Other Industries (Trial)*; the GHG emissions from refrigerant were calculated by referencing the *Fifth Assessment Report (AR5)*.

[5] The scope 2 GHG emissions of the reporting period were from the electricity purchased by the Group and were calculated by referencing the 2015 National Grid Average Emission Factor from the *Notice on the Development of the 2018 Annual Carbon Emissions Reporting and Verification and Emissions Monitoring Plan,* the *Sustainability Report 2019* from HEC Electricity Investment and HEC Electricity Investment Limited, and the World Resources Institute (2015) GHG Protocol tool for Version 4.7.

[6] The scope 3 GHG emissions of the reporting period were from business travel for the Group's employees. The GHG emissions from business travel were calculated by referencing the ICAO Carbon Emissions Calculator.

Energy consumption[7]	Energy consumption of the reporting period (MWh)
Gasoline	929
Diesel	1,314
Liquefied petroleum gas	168
Electricity	42,745
Lignite	2,249,624
Natural gas	436
Total energy consumption	2,295,215
Energy intensity (MWh per employee)	686
Resource use	
Total water consumption (tonne)	1,862,837
Water consumption intensity (tonne per employee)	557
Total packaging materials (tonne)	86

SOCIAL PERFORMANCE DATA

Category	Total workforce	Employee turnover	Percentage of lost employees to the number of employees in the specified category[8]
Total	3,344	606	15%
By geographical region			
Hong Kong	307	26	8%
Mainland China	2,745	536	16%
United States	117	24	17%
Canada	160	18	10%
Others	15	2	12%
By age			
Below 30	1,075	307	22%
31-40	949	183	16%
41-50	858	68	7%
Above 50	462	48	9%
By employment type			
General employee	3,010	587	16%
Entry level	281	17	6%
Middle management	35	1	3%
Senior management	18	1	5%
By gender			
Male	2,944	541	16%
Female	400	65	14%
By employee category			
Full time	3,341	604	15%
Part time	3	2	40%
Number and rate of work-related fatalities			0%
Lost days due to work injury			744[9]

7 The fossil fuel unit conversion factors of Hong Kong and overseas regions are referenced from the *Energy Statistics Manual*; the fossil fuel unit conversion factors of Mainland China are referenced from the *Greenhouse Gas Emission Accounting Methodology and Reporting Guidelines for On-road Transportation Enterprise (Trial)*, the *Greenhouse Gas Emission Accounting Methodology and Reporting Guidelines for Enterprises in Other Industries (Trial)* and the *Greenhouse Gas Emission Accounting Methodology and Reporting Guidelines for Enterprises Operating Public Buildings (Trial)*.

8 Percentage of lost employees to the number of employees in the category is calculated as: number of employees lost in that category / (total number of employees in that category + number of employees lost in that category) * 100%.

9 The definition of work-related fatalities is determined in accordance with the *Regulation on Work-Related Injury Insurances*, the *Decision on Recognition of Work Injury*, the *Employees' Compensation Ordinance*, the *Human Resources Management System*, etc.

Region		Number of suppliers[10]
China	Liaoning	977
	Guangdong	223
	Hong Kong	65
	Beijing	35
	Shanghai	24
	Jiangsu	18
	Shenzhen	14
	Sichuan	12
	Benxi	9
	Tianjin	8
	Anhui	5
	Changzhou	4
	Hebei	3
	Jiangxi	1
	Fujian	1
	Zhejiang	1
	Wuxi	1
Overseas	Canada	61
	United States	56
	Europe	4
	Thailand	2
	Singapore	1
	Australia	1

CONTENT INDEX OF THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE

A. Environmental General Disclosure & KPI	Description	Relevant Section
Aspect A1: Emissions General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste	Energy Use and Air Pollutants Water Consumption and Wastewater Discharge Waste Management
KPI	A1.1 The types of emissions and respective emissions data	Environmental Performance Data
	A1.2 Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g., per unit of production volume, per facility).	Environmental Performance Data
	A1.3 Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g., per unit of production volume, per facility).	Environmental Performance Data
	A1.4 Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g., per unit of production volume, per facility).	Environmental Performance Data
	A1.5 Description of measures to mitigate emissions and results achieved	Energy Use and Air Pollutants
	A1.6 Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Waste Management

[10] Number of suppliers by geographical region as of December 31, 2020. In determining the location of suppliers, reference is made to the location of the supplier's headquarters the primary location where the supplier provides products/services to the Group.

A. Environmental General Disclosure & KPI	Description		Relevant Section
Aspect A2: Use of Resources			
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.		Energy Use and Air Pollutants Water Consumption and Wastewater Discharge Green Product Green Office
KPI	A2.1	Direct and/or indirect energy consumption by type (e.g., electricity, gas or oil) in total (kWh in '000s) and intensity (e.g., per unit of production volume, per facility).	Environmental Performance Data
	A2.2	Water consumption in total and intensity (e.g., per unit of production volume, per facility).	Environmental Performance Data
	A2.3	Description of energy use efficiency initiatives and results achieved	Energy Use and Air Pollutants
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Water Consumption and Wastewater Discharge
	A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Environmental Performance Data
Aspect A3: The Environment and Natural Resources			
General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources		Green Product
KPI	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Green Product

B. Social General Disclosure & KPI	Description		Relevant Section
Aspect B1: Employment			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare		Employment System
KPI	B1.1	Total workforce by gender, employment type, age group and geographical region.	Social Performance Data
	B1.2	Employee turnover rate by gender, age group and geographical region.	Social Performance Data

B. Social General Disclosure & KPI	Description	Relevant Section
Aspect B2: Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety
KPI	B2.1 Number and rate of work-related fatalities.	Social Performance Data
	B2.2 Lost days due to work injury	Social Performance Data
	B2.3 Description of occupational health and safety measures adopted, how they are implemented and monitored.	Health and Safety
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	Employee Development and Training
KPI	B3.1 The percentage of employees trained by gender and employee category (e.g., senior management, middle management).	Employee Development and Training
	B3.2 The average training hours completed per employee by gender and employee category.	Employee Development and Training
Aspect B4: Labor Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor.	Employment System
KPI	B4.1 Description of measures to review employment practices to avoid child and forced labor.	Employment System
	B4.2 Description of steps taken to eliminate such practices when discovered.	Employment System
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain	Supply Chain Management
KPI	B5.1 Number of suppliers by geographical region	Social Performance Data
	B5.2 Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Supply Chain Management

B. Social General Disclosure & KPI	Description		Relevant Section
Aspect B6: Product Responsibility			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.		Product Responsibility (Labels are not applicable to the Group's business)
KPI	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Product Responsibility
	B6.2	Number of products and service-related complaints received and how they are dealt with.	During the reporting period, the subsidiary China Overseas Supervision received 2 complaints, with a resolved rate of 100%.
	B6.3	Description of practices relating to observing and protecting intellectual property rights.	Product Responsibility
	B6.4	Description of quality assurance process and recall procedures.	Product Responsibility (The Group's business does not involve product recall)
	B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Product Responsibility
Aspect B7: Anti-corruption			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.		Anti-corruption
KPI	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the Reporting period and the outcomes of the cases.	Anti-corruption
	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Anti-corruption
Aspect B8: Community Investment			
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.		Caring for the Community: Community Investment
KPI	B8.1	Focus areas of contribution (e.g., education, environmental concerns, labor needs, health, culture, sport).	Caring for the Community: Community Investment
	B8.2	Resources contributed (e.g., money or time) to the focus area.	Caring for the Community: Community Investment

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 2020.

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 18 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2020 are set out in the consolidated income statement and consolidated statement of comprehensive income on pages 82 and 83 respectively.

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

The Board recommended the declaration of a final dividend of HK3 cents per share payable on 6 July 2021 to shareholders whose names appear on the register of members of the Company on 18 June 2021. As no interim dividend was paid during the year, the full year dividend therefore amounts to HK3 cents per share which represents a total distribution of HK$64,666,000.

BUSINESS REVIEW

A fair review of the Group's business, including a discussion and analysis of the Group's performance during the year, the important events affecting the Group that have occurred since the end of 2020 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 not be currently material but could 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 2020, 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 2020.
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.

Risk	Description	Management Measures
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. 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 Performance	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.
Workplace Safety	The unsafe working environment decrease productivity and the quality of the products and services	The group has formulated safety policies to address the inherent risk in office and job site. Regular risk assessments are performed in order to provide our employees and workers of subcontractors with a healthy and safe working environment.

Risk	Description	Management Measures
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.	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.
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, and construction supervision 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 2020.

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 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 27 to the consolidated financial statements.

RESERVES

Distributable reserves of the Company as at 31 December 2020 amounted to HK$1,083,745,000 (2019: HK$992,806,000). Movements in the reserves of the Company and the Group during the year are set out in note 33 to the consolidated financial statements and the consolidated statement of changes in equity on page 86 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, Mr. Zhang Haipeng, Mr. Wu Mingqing and Mr. Zhou Jinsong 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 10 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 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, property development and related businesses.

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 2020, 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	3,750,000	0.174
Wu Mingqing	Beneficial owner	Personal interest	5,000,000	0.232
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 2020 (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 2020, Mr. Zhang Haipeng had personal interests in 1,298,000 A-shares, representing approximately 0.003% 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 98,000 A-shares, representing approximately 0.000% of the then issued voting shares, in CSCECL held in his capacity as beneficial owner; Mr. Wang Hai had personal interests in 510,000 A-shares, representing approximately 0.001% of the then issued voting shares, in CSCECL 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 29 to the consolidated financial statements).

Save as disclosed above, as at 31 December 2020, 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 2020, 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's share option scheme (the "Scheme") was adopted pursuant to an ordinary resolution passed on 10 March 2010. The Scheme shall be valid and effective for a period of 10 years from 30 March 2010, after which period no further options will be granted. Options granted during the term of the Scheme and remain unexercised immediately prior to the expiry of the Scheme shall continue to be exercisable in accordance with their terms of grant, notwithstanding the expiry of the Scheme. The Scheme has expired on 29 March 2020.

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. 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.

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. As at the date of this Annual Report, no shares are available for issue under the Scheme.

The maximum entitlement for any participant (other than a substantial shareholder of the Company or an Independent Non-executive Director; 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. 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.

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. 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 2020.

As at 1 January 2020, 31 December 2020 and the date of this Annual Report, the Company had no share options outstanding under the Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

Save as disclosed above, at no time during the year ended 31 December 2020 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 66 to 74 and the related party transactions set out in note 32 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 2020, 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 2020 (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 which, in turn, 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 2020, 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 66 to 74.

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$26,427,000. 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

During the year, the respective percentage of purchases attributable to the Group's five largest suppliers combined and the revenue from sales of goods or rendering of services attributable to the Group's five largest customers combined was less than 30% of the total purchases of the Group and total revenue of the Group.

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

PricewaterhouseCoopers retired, and Ernst & Young was appointed, as auditor of the Company at the annual general meeting of the Company held on 28 May 2020.

Save as disclosed above, there was no other change in the auditor of the Company in the past three years.

The consolidated financial statements for the year ended 31 December 2020 have been audited by Ernst & Young who will retire and, being eligible, offer themselves for re-appointment at the 2021 annual general meeting.

On behalf of the Board
China State Construction Development Holdings Limited
Zhang Haipeng
Chairman and Non-executive Director

Hong Kong, 18 March 2021

Connected Transactions

A. CONNECTED TRANSACTIONS

The following transaction constituted connected transaction of the Company under the Listing Rules during the year ended 31 December 2020:

A1. Formation of JV Company in the PRC

On 19 November 2020, 上海力進鋁質工程有限公司 (Netfortune (Shanghai) Aluminium Works Company Limited) ("Netfortune Shanghai", a wholly-owned subsidiary of the Company), 中國建築西南設計研究院有限公司 (China Southwest Architectural Design and Research Institute Corp. Limited*, "CSCSW"), and 中建深圳裝飾有限公司 (China Construction Shenzhen Decoration Company Limited*, "CSCSZ") entered into a joint venture agreement ("JV Agreement") in relation to the formation of a joint venture company ("JV Company") to be established in the People's Republic of China ("PRC") for development and investment in new facade materials. The registered capital of the JV Company is RMB50,000,000 which shall be contributed 70% by CSCSW, 15% by CSCSZ and 15% by Netfortune Shanghai. The first payment of 60% of the registered capital shall be paid up in cash by the parties to the JV Agreement within 30 days after completion of the business registration of the JV Company, and the remaining balance will be paid within 5 years. The respective contributions to the registered capital were determined after arm's length negotiations between the parties with reference to the proposed capital requirements of the JV Company for development and investment in new facade materials and the parties' proportionate interests in the JV Company.

The formation of the JV Company can provide the Group with the opportunity to participate in the development and investment in new construction materials which will benefit the Group by leveraging the expertise and substantial experience of China State Construction Engineering Corporation Limited ("CSCECL") and its subsidiaries (together, the "CSCECL Group") in materials design and production technology.

CSCSW and CSCSZ are wholly-owned subsidiaries of CSCECL which, in turn, is an intermediate holding company of the Company. Accordingly, both CSCSW and CSCSZ are connected persons of the Company and the formation of the JV Company constitutes a connected transaction for the Company under the Listing Rules. Details of the transaction were disclosed in the announcement dated 19 November 2020.

B. CONTINUING CONNECTED TRANSACTIONS

The following transaction constituted continuing connected transaction of the Company under the Listing Rules during the year ended 31 December 2020:

B1. FE-CSCECL Sub-construction Engagement Agreement

On 11 October 2017, the Company entered into an agreement ("FE-CSCECL Sub-construction Engagement Agreement") with CSCECL in relation to the engagement of the Group by the CSCECL Group as sub-contractor for provision of contracting and engineering works, project consultancy service and project management service for the CSCECL Group's construction works ("CSCECL 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.

* *for identification purpose only*

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 price and terms of a tender are subject to the standard and systematic tender submission procedures of the Group which apply to tenders 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.

CSCECL is an intermediate holding company of the Company. Accordingly, members of the CSCECL Group are connected persons of the Company and 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 by the CSCECL Group to the Group under the FE-CSCECL Sub-construction Engagement Agreement during the year ended 31 December 2020 was HK$239,784,000.

As the FE-CSCECL Sub-construction Engagement Agreement would have expired on 31 December 2020, the Company entered into a new agreement ("CSCD-CSCECL Sub-construction Engagement Agreement") with CSCECL on 19 October 2020 whereby the Group may act as sub-contractor of the CSCECL Group for provision of CSCECL Works for a term of three years commencing from 1 January 2021 and ending on 31 December 2023, provided that the total contract sum that may be awarded by the CSCECL Group to the Group under the CSCD-CSCECL Sub-construction Engagement Agreement for each year shall not exceed HK$1,000 million. The CSCD-CSCECL Sub-construction Engagement Agreement was duly approved by the independent shareholders of the Company at the extraordinary general meeting held on 11 December 2020. Details of the transactions were disclosed in the announcement dated 19 October 2020 and the circular dated 20 November 2020.

B2. FE-CSC Sub-construction Engagement Agreement

On 11 October 2017, the Company entered into an agreement ("FE-CSC Sub-construction Engagement Agreement") with China State Construction International Holdings Limited ("CSC") in relation to the engagement of the Group by CSC and its subsidiaries (together, the "CSC Group") as 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") 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.

As the Company anticipated that the Group's business, in particular facade contracting business, will continue to expand, the Company entered into a new agreement ("CSCD-CSC Sub-construction Engagement Agreement") with CSC on 24 March 2020 to supersede and replace the FE-CSC Sub-construction Engagement Agreement with effect from 1 July 2020. Under the CSCD-CSC Sub-construction Engagement Agreement, the CSC Group may engage the Group as its sub-contractor for the CSC Works for a term of three years commencing from 1 July 2020 and ending on 30 June 2023; provided that the total contract sum that may be awarded by the CSC Group to the Group under the CSCD-CSC Sub-construction Engagement Agreement for the period between 1 July 2020 and 31 December 2020, each of the two years ending 31 December 2021 and 31 December 2022, and the period between 1 January 2023 and 30 June 2023 shall not exceed HK$3,000 million, HK$3,500 million, HK$3,500 million and HK$3,000 million, respectively.

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 CSC Group. The price and terms of a tender are subject to the standard and systematic tender submission procedures of the Group which apply to tenders 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 computer 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.

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 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.

CSC is an intermediate holding company of the Company. Accordingly, members of the CSC Group are connected persons of the Company and the transactions contemplated under the CSCD-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 24 March 2020 and the circular dated 17 April 2020. The CSCD-CSC Sub-construction Engagement Agreement was duly approved by the independent shareholders of the Company at the annual general meeting held on 28 May 2020.

The total value of the contracts awarded by the CSC Group to the Group, under the FE-CSC Sub-construction Engagement Agreement during the period between 1 January 2020 and 30 June 2020 was HK$400,000,000, and under the CSCD-CSC Sub-construction Engagement Agreement during the period between 1 July 2020 and 31 December 2020 was HK$1,739,967,000.

B3. FE-CSC Operational Services Agreement

On 11 October 2017, the Company entered into an agreement ("FE-CSC Operational Services Agreement") with CSC in relation to the engagement of the CSC Group by the Group for provision of mechanical and electrical engineering works, leasing of machineries, provision of insurance services and supply of building materials for a term of three years commencing from 1 January 2018 and ending on 31 December 2020.

B3.1 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 2020.

B3.2 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 2020 was HK$4,967,000.

B3.3 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 2020 was HK$17,215,000.

B3.4 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 2020 was HK$3,164,000.

CSC is an intermediate holding company of the Company. Accordingly, members of the CSC Group are connected persons of the Company, and 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.

As the FE-CSC Operational Services Agreement would have expired on 31 December 2020, the Company entered into a new agreement ("CSCD-CSC Operational Services Agreement") with CSC on 19 October 2020 whereby the Group may engage the CSC Group for provision of mechanical and electrical engineering works, leasing of machineries, provision of insurance services and issuance of surety bonds, and supply of building materials for a term of three years commencing from 1 January 2021 and ending on 31 December 2023, provided that the total contract sum that may be awarded by the Group to the CSC Group in respect of the provision of mechanical and electrical engineering works, the total rental payable in respect of the leasing of materials, the total fees payable in respect of provision of insurance services and issuance of surety bonds, and the total sum payable in respect of the supply of building materials, for each year under the CSCD-CSC Operational Services Agreement shall not exceed HK$450 million, HK$25 million, HK$70 million and HK$150 million respectively. The CSCD-CSC Operational Services Agreement was duly approved by the independent shareholders of the Company at the extraordinary general meeting held on 11 December 2020. Details of the transactions were disclosed in the announcement dated 19 October 2020 and the circular dated 20 November 2020.

B4. COLI Works Framework Agreement

On 26 June 2018, the Company entered into a framework agreement ("COLI Works Framework Agreement") with China Overseas Land & Investment Limited ("COLI") in relation to the engagement of the Group by COLI and its subsidiaries (together, the "COLI 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 contractor, sub-contractor or service provider (as the case may be) (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 contractor, subcontractor or service provider in accordance with the tendering procedures of the COLI Group. The price and terms of a tender are subject to the standard and systematic tender submission procedures of the Group which apply for tenders 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 computer 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.

China Overseas Holdings Limited ("COHL") is a controlling shareholder of both COLI and the Company. Accordingly, members of the COLI Group are connected persons of the Company and 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 2020 was HK$198,306,000.

B5. 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") in relation to the engagement of the Group by COGO and its subsidiaries (together, the "COGO Group") for provision of 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.

The Group may participate in competitive tender for provision of the COGO Management Services for the property development projects of the COGO Group in the PRC as service provider in accordance with the tendering procedures of the COGO Group. The price and terms of a tender are subject to the standard and systematic tender submission procedures of the Group which apply for tenders 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 computer 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.

COHL is a controlling shareholder of both COGO and the Company. Accordingly, members of the COGO Group are connected persons of the Company and the transactions contemplated under the COGO 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.

The total value of the contracts awarded to the Group under the COGO Framework Agreement during the year ended 31 December 2020 was HK$44,246,000.

B6. 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.

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.

CSC is an intermediate holding company of the Company. Accordingly, members of the CSC Group are connected persons of the Company and 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 2020.

B7. 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.

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 of 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.

COHL is a controlling shareholder of both COLI and the Company. Accordingly, members of the COLI Group are connected persons of the Company and 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.

The total value of the contracts awarded to the Group under the Connection Services Framework Agreement during the year ended 31 December 2020 was HK$29,997,000.

A summary of all related party transactions entered into by the Group during the year ended 31 December 2020 is contained in note 32 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 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 continuing connected transactions entered into by the Group during the year ended 31 December 2020.

In respect of the financial year ended 31 December 2020, 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 (Revised) "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 as set by the Company.

EY 安永

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

OPINION

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 82 to 151, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, 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 are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Revenue recognition from construction works	
For the year ended 31 December 2020, the Group recognised revenue from construction works of HK$3,620 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 liquidated 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. The accounting policies and disclosures in relation to the revenue recognition from construction works are included in notes 2.4, 4(i) and 5 to the consolidated financial statements.	Our audit procedures to assess the revenue recognition from construction works included the following: • understanding and evaluating the Group's process and control over contract revenue recognition and budget estimation; • testing the calculation of the revenue and profit recognised from construction contracts; • discussing with management and the respective project teams about the progress of major projects and the assumptions adopted in the forecast of contract costs, including estimated costs to completion and assessment of potential liquidated damages for major contracts; • testing on a sample basis the actual costs incurred on construction works during the reporting period; • testing the supporting documents of the budgets on a sample basis, which include sub-contracting contracts, material purchase contracts/invoices and price quotations, etc.; and • comparing last year's budget against the current year's budget or actual costs incurred for major contracts on a sample basis.

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Recoverability of trade receivables and contract assets	
As at 31 December 2020, the Group recognised net trade receivables of HK$1,265 million and contract assets of HK$1,452 million, which were significant assets of the Group as of the year end, representing 37% 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, ageing analysis and forecast of future events and economic conditions which may impact the recoverability of trade receivables and contract assets. This area has been identified as a key audit matter due to the judgements applied by management which have a significant impact on the level of provision required for trade receivables and contract assets. The accounting policies and disclosures in relation to the recoverability of trade receivables and contract assets are included in notes 2.4, 4(v), 20 and 21 to the consolidated financial statements.	Our audit procedures to assess the recoverability of trade receivables and contract assets included the following: • understanding, evaluating and validating on a sample basis the design and operating effectiveness of management control over the collection and the assessment of the recoverability of receivables and contract assets; • testing on a sample basis the ageing of trade receivables at year end; • testing 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, inspecting relevant contracts and correspondence with the customers, and assessing 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, assessing whether the customers are experiencing financial difficulties, default or delinquency in interest or principal payments, and assessing the probability that the customers will enter bankruptcy with reference to publicly available information, where applicable; and • evaluating the level of provisions made by management for trade receivables and contract assets using forward-looking and historical information.

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the 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.	
As of 31 December 2020, the Group carried goodwill, net of impairment, of HK$130 million from the acquisition of a 55% equity interest in Gamma North America, Inc. The Group has also recognised deferred tax assets of HK$63 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 2020, 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. An impairment of goodwill of HK$8,500,000 and write down of deferred tax assets of HK$10,920,000 were recognised in profit or loss during the year. 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. As the assessments involve significant judgements and estimates, this is identified as a key audit matter. The accounting policies and disclosures in relation to the assessment of the carrying amount of deferred tax assets and impairment of goodwill are included in notes 2.4, 4(iii), 4(iv), 9, 17 and 26 to the consolidated financial statements.	Our audit procedures to assess the carrying amount of deferred tax assets of Gamma USA, Inc. and impairment of the goodwill on acquisition of Gamma North America, Inc. included the following: • understanding and evaluating the design and operating effectiveness of management control over the review of the financial budgets; • assessing 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; • involving our internal valuation experts to assess the valuation methodology and comparing the discount rates applied by management to other comparable companies in the same industry; • assessing 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 • comparing the market inputs used by management to available market information.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. CHUNG, Ho Ling.

Ernst & Young
Certified Public Accountants
Hong Kong
18 March 2021

Consolidated Income Statement

For the year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
REVENUE	5	4,535,657	4,619,412
Costs of sales	7	(4,047,197)	(4,075,348)
Gross profit		488,460	544,064
Other income and gains, net	6	21,864	19,640
Administrative, selling and other operating expenses	7	(222,463)	(248,104)
Finance costs	8	(31,569)	(38,687)
PROFIT BEFORE TAX		256,292	276,913
Income tax charge	9	(73,432)	(109,173)
PROFIT FOR THE YEAR		182,860	167,740
Profit/(loss) for the year attributable to:			
Owners of the Company		194,344	175,560
Non-controlling interests		(11,484)	(7,820)
		182,860	167,740
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Earnings per share			
Basic and diluted	13	HK9.02 cents	HK8.14 cents

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	2020 HK$'000	2019 HK$'000
PROFIT FOR THE YEAR	182,860	167,740
OTHER COMPREHENSIVE INCOME/(LOSS)		
Items that may be reclassified to profit or loss:		
Exchange differences arising on translation of foreign operations	82,910	(26,664)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX OF NIL	82,910	(26,664)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	265,770	141,076
Total comprehensive income/(loss) for the year attributable to:		
Owners of the Company	277,101	148,880
Non-controlling interests	(11,331)	(7,804)
	265,770	141,076

Consolidated Statement of Financial Position

As at 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	2,107,754	1,957,144
Interests in infrastructure project investments	16	132,892	193,890
Goodwill	17	129,649	138,149
Deferred tax assets	26	175,119	171,971
		2,545,414	2,461,154
CURRENT ASSETS			
Interests in infrastructure project investments	16	61,080	54,010
Inventories	19	137,186	98,524
Contract assets	20	1,451,792	1,017,935
Trade and other receivables	21	1,321,016	1,633,535
Deposits and prepayments		127,518	133,429
Tax recoverable		2,326	874
Amounts due from fellow subsidiaries	22	864,074	824,232
Amounts due from related companies	22	20,338	3,725
Cash and cash equivalents	23	858,154	826,576
		4,843,484	4,592,840
CURRENT LIABILITIES			
Bank borrowings	24	650,710	655,780
Contract liabilities	20	778,041	685,696
Trade payables, other payables and accruals	25	1,464,870	1,387,986
Lease liabilities	15	12,088	7,641
Deposits received		37,695	38,685
Current tax payables		148,733	175,610
Amount due to an intermediate holding company	22	2,755	–
Amounts due to fellow subsidiaries	22	1,550,247	1,795,833
Amount due to a related company	22	1,547	1,475
		4,646,686	4,748,706
NET CURRENT ASSETS/(LIABILITIES)		196,798	(155,866)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,742,212	2,305,288

As at 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
CAPITAL AND RESERVES			
Share capital	27	21,555	21,555
Share premium and reserves	28	1,381,464	1,103,770
Equity attributable to owners of the Company		1,403,019	1,125,325
Non-controlling interests		(78,143)	(66,812)
		1,324,876	1,058,513
NON-CURRENT LIABILITIES			
Contract liabilities	20	755,970	770,912
Bank borrowings	24	411,456	211,758
Loan from an intermediate holding company	22	230,000	–
Amount due to a fellow subsidiary	22	–	229,580
Lease liabilities	15	15,709	29,990
Deferred tax liabilities	26	4,201	4,535
		1,417,336	1,246,775
		2,742,212	2,305,288

On behalf of the Board

Zhang Haipeng
Director

Wu Mingqing
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Attributable to owners of the Company									
	Share capital HK$'000 (note 27)	Share premium HK$'000 (note 28)	Special reserve HK$'000 (note 28)	Share-based payment reserve HK$'000 (note 28)	Foreign currency translation reserve HK$'000 (note 28)	Statutory reserves HK$'000 (note 28)	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2019	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 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 29)	–	–	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
At 1 January 2020	21,555	898,654	(1,165,142)	4,636	49,637	96,727	1,219,258	1,125,325	(66,812)	1,058,513
Profit/(loss) for the year	–	–	–	–	–	–	194,344	194,344	(11,484)	182,860
Exchange differences on translation of foreign operations	–	–	–	–	82,757	–	–	82,757	153	82,910
Total comprehensive income/(loss) for the year	–	–	–	–	82,757	–	194,344	277,101	(11,331)	265,770
Capital contribution relating to share-based payment borne by an intermediate holding company (note 29)	–	–	593	–	–	–	–	593	–	593
Transfer to statutory reserves	–	–	–	–	–	21,556	(21,556)	–	–	–
At 31 December 2020	21,555	898,654*	(1,164,549)*	4,636*	132,394*	118,283*	1,392,046*	1,403,019	(78,143)	1,324,876

* These reserve accounts comprise the consolidated reserves of HK$1,381,464,000 (2019: HK$1,103,770,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		256,292	276,913
Adjustments for:			
Finance costs	8	31,569	38,687
Bank interest income	6	(3,024)	(2,737)
(Gain)/loss on disposal of property, plant and equipment	6	(6)	423
Warranty provisions, net	7	26,726	17,550
Depreciation	7	14,735	16,846
Impairment of goodwill	7	8,500	–
Provision of trade and other receivables, net	21	10,721	5,287
Share-based payment borne by an intermediate holding company		593	615
		346,106	353,584
(Increase)/decrease in inventories		(38,662)	28,854
(Increase)/decrease in contract assets/liabilities, net		(226,091)	126,142
(Decrease)/increase in deposits received		(990)	3,280
Decrease/(increase) in trade and other receivables		301,798	(351,759)
Decrease/(increase) in deposits and prepayments		5,911	(62,945)
Increase in amounts due from related companies		(16,613)	(3,725)
Increase in trade payables, other payables and accruals		50,175	150,082
Cash generated from operations		421,634	243,513
Income tax paid, net		(100,321)	(34,901)
Net cash generated from operating activities		321,313	208,612

For the year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(196,448)	(104,813)
Proceeds from disposals of items of property, plant and equipment		459	2,856
Payment for interests in infrastructure project investments		(119,395)	(177,605)
Progress payment of outstanding consideration for acquisition of subsidiaries in the prior year		(444,000)	–
Decrease in amounts due from fellow subsidiaries		577,481	379,338
Interest received		3,024	2,737
Net cash flows (used in)/generated from in investing activities		(178,879)	102,513
CASH FLOWS FROM FINANCING ACTIVITIES			
Finance costs paid		(28,097)	(39,361)
Interest paid on lease liabilities	30	(2,967)	(1,373)
Drawdown of bank loans	30	625,797	203,668
Repayment of bank loans	30	(434,156)	(53,577)
Repayment of a loan from a fellow subsidiary	30	–	(33,180)
Drawdown of a loan from an intermediate holding company	30	230,000	–
Decrease in amounts due to fellow subsidiaries		(475,166)	(185,030)
Increase in amount due to a related company		72	1,475
Payment of principal portion of lease liabilities		(17,693)	(10,069)
Dividends paid		–	(51,734)
Net cash flows used in financing activities		(102,210)	(169,181)
NET INCREASE IN CASH AND CASH EQUIVALENTS		40,224	141,944
Cash and cash equivalents at beginning of year		826,576	696,736
Effect of foreign exchange rate changes, net		(8,646)	(12,104)
CASH AND CASH EQUIVALENTS AT END OF YEAR		858,154	826,576
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		858,154	826,576
Cash and cash equivalents as stated in the consolidated statement of financial position		858,154	826,576

For the year ended 31 December 2020

1. CORPORATE AND GROUP INFORMATION

China State Construction Development Holdings 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 Company's 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.

The Company's 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.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of consolidated 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 English name is a translated name and is for identification purpose only.

For the year ended 31 December 2020

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	*Definition of a Business*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*
Amendments to HKAS 1 and HKAS 8	*Definition of Material*

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

(b) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

(c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

(d) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	*Reference to the Conceptual Framework*[3]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform — Phase 2*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[5]
Amendment to HKFRS 16	*Covid-19 Related Rent Concessions*[1]
HKFRS 17	*Insurance Contracts*[4]
Amendments to HKFRS 17	*Insurance Contracts*[4,7]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current*[4,6]
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[3]
Amendments to HKAS 37	*Onerous Contracts — Cost of Fulfilling a Contract*[3]
Annual Improvements to HKFRSs 2018–2020	*Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16 and HKAS 41*[3]

1 Effective for annual periods beginning on or after 1 June 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective for annual periods beginning on or after 1 January 2022
4 Effective for annual periods beginning on or after 1 January 2023
5 No mandatory effective date yet determined but available for adoption
6 As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion
7 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

For the year ended 31 December 2020

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

The Group had certain interest-bearing bank borrowings and loan from an intermediate holding company denominated in Hong Kong dollars and foreign currencies based on the Hong Kong Interbank Offered Rate and various Interbank Offered Rates as at 31 December 2020. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings when the "economically equivalent" criterion is met and expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively. The amendment is not expected to have any significant impact on the financial position and performance of the Group as the Group did not have any lease payments being reduced or waived as a result of the covid-19 pandemic during the year.

Amendments to HKAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

Annual Improvements to HKFRSs 2018–2020 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

Subsidiaries are entities (including structured entities) 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 the control is transferred to the Group. They are deconsolidated from the date that control ceases.

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 shares acquired or disposed of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to or acquisition from non-controlling interests of partial interests are also recorded in equity.

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 the income statement or equity as appropriate.

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 Combination". 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.

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Subsidiaries *(Continued)*

Business combinations — acquisition method

The Group applies the acquisition method to account for business combinations other than common control 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 consolidated income statement.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree 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 consolidated income statement.

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

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.

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.

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 gains, net' and 'administrative, selling and other operating expenses' respectively.

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.

(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.

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currency translation *(Continued)*

(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.

Property, plant and equipment

Land and buildings comprise mainly factories and offices. All other items of property, plant and equipment are 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.

Depreciation on other assets are 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
Buildings	Over the shorter of the term of the relevant lease of the leasehold land or 50 years
Right-of-use assets	Over the term of the relevant leases
Heat and electricity supply facilities	Over the shorter of the licence operation period or 20 years
Leasehold improvements	4 years
Plant and machinery	5 years
Furniture, fixtures and equipment	5 years
Motor vehicles	4 to 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.

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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

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 stated at amortised cost using effective interest method. The carrying amount of such interests is reduced to recognise any identified impairment losses of individual investments.

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 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.

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.

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

(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 fair value through profit or loss, 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 21 for further details.

For other financial assets which have been classified as financial assets at amortised cost under HKFRS 9, the Group applies the general approach and 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. Provision for impairment of receivables 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 12-month 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 will be recognised as equal to lifetime expected losses.

General approach

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

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

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed in note 21.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

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.

If the Group performs by transferring goods or provide services to a customer before the customer pays consideration or before payment is due, retention receivables are recognised for the earned consideration that is conditional.

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 "Financial assets" note above for further information about the Group's accounting for trade receivables and description of the Group's impairment policies.

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.

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.

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 prepayment 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.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in income statement.

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 income statement in the period in which they are incurred.

Deferred income

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

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.

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

(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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

The Group provides for warranties in relation to the provision of construction services for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Leases, the Group as a lessee

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 payments 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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, e.g. 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.

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.

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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 construction contracts is recognised when or as the construction projects are transferred to the customer. Depending on the terms of the contracts and the laws that are applicable to the contracts, control of the construction projects may transfer over time or at a point in time. If (a) the Group creates or enhances an asset that the customer controls as the asset is created or enhanced, or (b) construction projects have no alternative use to the Group contractually and the Group has an enforceable right to payment from the customers for performance completed to date, the Group satisfies the performance obligation over time and therefore, recognises revenue over time in accordance with the input method for measuring progress.

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from contracts with customers *(Continued)*

(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 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 licence of the relevant entities.

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 with 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.

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.

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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 contract assets if the Group has the right to consideration in exchange for goods and services transferred to the customers. Contract assets are transferred to receivables when the rights become unconditional. Conversely, the contract is a liability and recognised as contract liabilities if the cumulative payments made by customers exceeds the revenue recognised in income statement.

Contract assets are assessed for impairment under the simplified approach. 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 capitalised and presented as contract related assets, if the Group expects to recover those costs, and are subsequently amortised 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 recognises 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

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

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

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

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

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group; (If the Group is itself such a plan) and the sponsoring employers of the post-employment benefit plan;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

For the year ended 31 December 2020

3. FINANCIAL RISK MANAGEMENT

Financial instruments by category

	2020 HK$'000	2019 HK$'000
Financial assets		
Financial assets at amortised cost		
Interests in infrastructure project investments	193,972	247,900
Amounts due from fellow subsidiaries	864,074	824,232
Amounts due from related companies	20,338	3,725
Trade and other receivables	750,885	1,002,539
Deposits	14,222	39,001
Cash and cash equivalents	858,154	826,576
	2,701,645	2,943,973
Financial liabilities		
Financial liabilities at amortised cost		
Trade payables, other payables and accruals	1,384,581	1,294,531
Amount due to an intermediate holding company	2,755	–
Amounts due to fellow subsidiaries	1,550,247	2,025,413
Amount due to a related company	1,547	1,475
Bank borrowings	1,062,166	867,538
Deposit received	37,695	38,685
Loan from an intermediate holding company	230,000	–
Lease liabilities	27,797	37,631
	4,296,788	4,265,273

The group's exposure to various risks associated with the financial instruments is discussed below. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

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.

For the year ended 31 December 2020

3. FINANCIAL RISK MANAGEMENT *(Continued)*

Financial risk factors *(Continued)*

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.

At 31 December 2020, if the Hong Kong dollar had weakened/strengthened 5% against the Renminbi, Macau Pataca and the Australian dollar with all other variables held constant, the consolidated profit for the year would have been HK$166,000 lower/higher (2019: Nil), HK$202,000 lower/higher (2019: Nil) and HK$351,000 lower/higher (2019: HK$303,000 lower/higher), respectively.

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 borrowings and loan from an intermediate holding company. 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 2020 and 2019, 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 bank borrowings and loan from an intermediate holding company. 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 (2019: 50) basis points increase or decrease representing management's assessment of the reasonably possible change in interest rates is used.

At 31 December 2020, if interest rates at that date had been 50 (2019: 50) basis points higher/lower with all other variables held constant, consolidated profit for the year would have been HK$2,379,000 lower/higher (2019: HK$3,044,000 lower/higher), arising mainly as a result of higher/lower interest expense on bank borrowings and loan from an intermediate holding company, netting off against bank interest income.

For the year ended 31 December 2020

3. FINANCIAL RISK MANAGEMENT *(Continued)*

Financial risk factors *(Continued)*

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.

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 2020, the expected credit loss rates for these trade receivables from thermoelectricity business were ranging from 3.5% to 100%.

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.

The credit quality of financial assets measured at amortised cost is considered to be "normal" as they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. They are all classified under Stage 1 for measurement of expected credit losses except for trade receivables and contract assets that do not contain a significant financing component which apply simplified approach in calculating expected credit losses.

For the year ended 31 December 2020

3. FINANCIAL RISK MANAGEMENT *(Continued)*

Financial risk factors *(Continued)*

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 2020					
Trade payables, other payables and accruals, excluding warranty provision	1,290,734	142,745	–	–	1,433,479
Loan from and amount due to an intermediate company	2,755	233,197	–	–	235,952
Amounts due to fellow subsidiaries	1,550,247	–	–	–	1,550,247
Amount due to a related company	1,547	–	–	–	1,547
Bank borrowings	665,924	410,356	11,702	–	1,087,982
Lease liabilities	14,343	9,100	7,904	1,140	32,487
	3,525,550	795,398	19,606	1,140	4,341,694
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
Amount due to a related company	1,475	–	–	–	1,475
Bank borrowings	663,891	208,586	12,324	–	884,801
Lease liabilities	8,869	8,349	20,444	3,095	40,757
	3,768,839	268,520	32,768	3,095	4,073,222

For the year ended 31 December 2020

3. FINANCIAL RISK MANAGEMENT *(Continued)*

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 bank borrowings (including "current and non-current bank borrowings" as shown in the consolidated statement of financial position) less cash and cash equivalents. Net assets are 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:

	2020 HK$'000	2019 HK$'000
Bank borrowings	1,062,166	867,538
Less: Cash and cash equivalents	(858,154)	(826,576)
Net debt	204,012	40,962
Net assets	1,324,876	1,058,513
Gearing ratio	15.4%	3.9%

The increase of net gearing ratio from 3.9% to 15.4% was resulted by an increase in bank borrowings.

Fair value estimation

The fair values 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 an intermediate holding company, fellow subsidiaries and related companies
- Trade payables, other payables and accruals
- Bank borrowings
- Lease liabilities

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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 2.4. 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. Further details are disclosed in note 17 to the financial statements.

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.

For the year ended 31 December 2020

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

(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 considers 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.

For the year ended 31 December 2020

5. 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:

— Facade Contracting Works

— General Contracting Works

— Operating Management

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

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 2020 and 2019 are as follows:

	Revenue		Gross profit		Segment result	
	2020 HK$'000	2019 HK$'000	**2020 HK$'000**	2019 HK$'000	**2020 HK$'000**	2019 HK$'000
Facade Contracting Works	**2,564,630**	2,785,753	**131,294**	233,623	**34,597**	123,001
General Contracting Works	**1,055,353**	940,564	**101,571**	56,594	**97,706**	47,410
Operating Management	**915,674**	893,095	**255,595**	253,847	**218,148**	199,284
Total	**4,535,657**	4,619,412	**488,460**	544,064	**350,451**	369,695
Unallocated corporate expenses					**(67,701)**	(52,810)
Other income and gains, net					**5,111**	(1,285)
Finance costs					**(31,569)**	(38,687)
Profit before tax					**256,292**	276,913

Segment revenue of Facade Contracting Works comprises revenue from Greater China, Asia and other region amounting to HK$2,226,210,000 (2019: HK$2,314,407,000) and revenue from North America region amounting to HK$338,420,000 (2019: HK$471,346,000). Segment revenue of General Contracting Works and Operating Management represent revenue from Greater China region.

For the year ended 31 December 2020

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

An analysis of the Group's revenue for the year is as follows:

	2020 HK$'000	2019 HK$'000
Revenue from contracts with customers		
Timing of revenue recognition		
— Over time	4,470,273	4,537,106
— At a point in time	39,527	49,502
	4,509,800	4,586,608
Revenue from other source		
— Interest income generated from infrastructure projects	25,857	32,804
	4,535,657	4,619,412

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

	Depreciation of property, plant and equipment		(Gain)/loss on disposal of property, plant and equipment	
	2020 HK$'000	2019 HK$'000	2020 HK$'000	2019 HK$'000
Facade Contracting Works	13,768	12,719	(50)	2
General Contracting Works	384	774	–	–
Operating Management	583	3,353	44	421
	14,735	16,846	(6)	423

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

	Non-current assets*		Addition to property, plant and equipment	
	2020 HK$'000	2019 HK$'000	2020 HK$'000	2019 HK$'000
North America	498,584	366,913	143,434	38,318
Greater China, Asia and Others	1,738,819	1,728,380	55,264	68,544
	2,237,403	2,095,293	198,698	106,862

* Other than deferred tax assets and interests in infrastructure project investments.

For the year ended 31 December 2020

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

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

For the year ended 31 December 2020, no customer contributed revenue more than 10 per cent of the Group's total revenue (2019: one customer in Facade Contracting Works contributed revenue of approximately HK$778,574,000 which represented more than 10 per cent of the Group's total revenue).

6. OTHER INCOME AND GAINS, NET

	2020 HK$'000	2019 HK$'000
Bank interest income	3,024	2,737
Exchange gain, net	3,495	7,355
Insurance claim received	1,942	653
Rental income	2,602	3,001
Service income	3,388	2,191
Sundry income	7,407	4,126
Gain/(loss) on disposal of items of property, plant and equipment	6	(423)
	21,864	19,640

For the year ended 31 December 2020

7. EXPENSES BY NATURE

Profit for the year has been arrived at after charging/(crediting):

	2020 HK$'000	2019 HK$'000
Cost of sales		
Cost of contracting works performed	3,539,396	3,570,306
Cost of supply of heat, steam and electricity	481,075	487,492
Warranty provisions, net	26,726	17,550
	4,047,197	4,075,348
Administrative, selling and other operating expenses		
Staff costs, including directors' emoluments:		
Salaries, bonuses and allowances	797,327	826,602
Retirement benefits scheme contributions	26,427	59,932
Less: amounts included in cost of sales	(699,514)	(728,736)
	124,240	157,798
Depreciation of property, plant and equipment, excluding right-of-use assets	126,195	168,285
Less: amounts included in cost of sales	(120,101)	(162,594)
	6,094	5,691
Depreciation of right-of-use assets	18,683	13,516
Less: amounts included in cost of sales	(10,042)	(2,361)
	8,641	11,155
Expenses relating to short-term leases	28,423	30,927
Less: amounts included in cost of sales	(27,351)	(20,049)
	1,072	10,878
Auditor's remuneration		
Audit services	2,510	2,787
Non-audit services	70	1,424
	2,580	4,211
Provision of trade and other receivables, net	10,721	5,287
Impairment of goodwill	8,500	–
Others	60,615	53,084
	222,463	248,104

Note: Wage subsidies of HK$12,225,000 and HK$14,087,000 granted from the Employment Support Scheme under Anti-Epidemic Fund in Hong Kong and the "Canada Emergency Wage Subsidy" had been received during the year ended 31 December 2020 (2019: Nil). The amounts were recognised in cost of sales and administrative, selling and other operating expenses and had been offset against the employee benefit expenses. There are no unfulfilled conditions or contingencies relating to these grants.

For the year ended 31 December 2020

8. FINANCE COSTS

	2020 HK$'000	2019 HK$'000
Interest on bank loans and overdrafts	28,097	39,363
Interest on lease liabilities	2,967	1,373
Interest on loan from an intermediate holding company	2,755	–
	33,819	40,736
Less: amounts capitalised in property, plant and equipment	(2,250)	(2,049)
	31,569	38,687

9. INCOME TAX CHARGE

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

	2020 HK$'000	2019 HK$'000
Current tax — Hong Kong profits tax		
Provision for the year	20,669	44,560
(Over)/underprovision in prior years	(2,873)	20
	17,796	44,580
Current tax — Mainland China and overseas		
Provision for the year	65,098	60,494
(Over)/underprovision in prior years	(11,119)	7
	53,979	60,501
Deferred tax		
Write-down of deferred tax assets	10,920	11,661
Credit for the year	(9,263)	(7,569)
	1,657	4,092
Income tax charge for the year	73,432	109,173

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%.

For the year ended 31 December 2020

9. 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:

	2020 HK$'000	2019 HK$'000
Profit before tax	256,292	276,913
Taxation at Hong Kong profits tax rate at 16.5%	42,288	45,691
Effect of different taxation rates in other countries	(6,756)	6,807
Income not subject to taxation	(3,656)	(666)
Expenses not deductible for taxation purposes	2,072	24,356
Temporary differences not recognised	626	(628)
Write-down of deferred tax assets	10,920	11,661
Tax losses not recognised	41,930	21,925
(Over)/underprovision in prior years	(13,992)	27
Income tax charge	73,432	109,173

10. 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 2020

	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$'000	Salary and allowance HK$'000	Discretionary bonuses HK$'000	Employer's contribution to benefit scheme HK$'000	Total HK$'000
Zhang Haipeng	–	–	–	–	–
Wu Mingqing	–	2,136	4,310	18	6,464
Wang Hai	–	1,779	2,674	–	4,453
Chan Sim Wang (Note i)	–	792	–	5	797
Huang Jiang	–	–	–	–	–
Zhou Jinsong	180	–	–	–	180
Hong Winn	150	–	–	–	150
Kwong Sum Yee Anna	150	–	–	–	150
	480	4,707	6,984	23	12,194

For the year ended 31 December 2020

10. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

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

For the year ended 31 December 2019

Name	Emoluments paid or payable in respect of a person's services as a director whether of the Company or its subsidiary undertaking				
	Fees HK$'000	Salary and allowance HK$'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 (Note i)	–	1,293	413	18	1,724
Huang Jiang	–	–	–	–	–
Zhou Jinsong	180	–	–	–	180
Hong Winn	150	–	–	–	150
Kwong Sum Yee Anna	150	–	–	–	150
	480	5,409	6,440	36	12,365

Note:

(i) Mr. Chan Sim Wang resigned as an executive director of the Company with effect from 18 March 2020.

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.

Five highest paid individuals

The five highest paid individuals in the Group during the year included two (2019: two) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining three (2019: three) individuals are set out below:

	2020 HK$'000	2019 HK$'000
Basic salaries and allowances	**3,023**	3,552
Discretionary bonuses	**6,756**	4,021
Retirement benefit scheme contributions	**32**	132
	9,811	7,705

For the year ended 31 December 2020

10. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(b) The emoluments fell within the following bands:

	2020 No. of employees	2019 No. of employees
HK$2,000,001 to HK$2,500,000	**–**	1
HK$2,500,001 to HK$3,000,000	**1**	2
HK$3,000,001 to HK$3,500,000	**1**	–
HK$3,500,001 to HK$4,000,000	**1**	–
	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.

11. SENIOR MANAGEMENT EMOLUMENTS

The emoluments of the senior management (excluding directors and chief executive) for the years ended 31 December 2020 and 2019 were as follows:

	2020 HK$'000	2019 HK$'000
Salaries and other benefits	**21,485**	15,743
Contributions to retirement benefit schemes	**308**	300
	21,793	16,043

The emoluments of the senior management for the years ended 31 December 2020 and 2019 were within the following bands:

	2020 No. of employees	2019 No. of employees
HK$1,000,000 or less	**1**	–
HK$1,000,001 to HK$1,500,000	**2**	–
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,000,001 to HK$2,500,000	**4**	4
HK$2,500,001 to HK$3,000,000	**1**	2
HK$3,000,001 to HK$3,500,000	**1**	–
HK$3,500,001 to HK$4,000,000	**1**	–
	10	7

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12. DIVIDENDS

	2020 HK$'000	2019 HK$'000
No interim dividend paid (2019: HK1.2 cents per share)	–	25,867
Proposed final dividend of HK3 cents per share (2019: Nil)	64,666	–
	64,666	25,867

The final dividend proposed after 31 December 2020 was not recognised as a liability at 31 December 2020 and is subject to approval by shareholders in the forthcoming annual general meeting.

13. 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:

	2020 HK$'000	2019 HK$'000
Earnings		
Profit attributable to owners of the Company, used in the basic and diluted earnings per share calculation	194,344	175,560
Number of shares	'000	'000
Weighted average number of ordinary shares used in basic and diluted earnings per share calculation	2,155,545	2,155,545
Basic and diluted earnings per share (HK cents)	9.02	8.14

The Company did not have any dilutive potential ordinary shares during the year ended 31 December 2020 (2019: Nil).

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14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000	Leasehold improve-ments HK$'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 2019	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 and 1 January 2020	863,978	5,642	76,992	2,029,951	77,324	17,324	48,590	3,119,801
Exchange difference	35,454	152	2,434	99,528	2,190	690	8,672	149,120
Additions	19,468	47	8,340	2,120	7,905	1,390	159,428	198,698
Disposals	–	(78)	–	–	(6,223)	(2,149)	–	(8,450)
Transfers	1,390	–	2,310	14,693	(12)	12	(18,393)	-
At 31 December 2020	920,290	5,763	90,076	2,146,292	81,184	17,267	198,297	3,459,169
Accumulated depreciation and impairment								
At 1 January 2019	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 and 1 January 2020	237,010	3,372	36,760	1,042,420	58,261	14,049	–	1,391,872
Exchange difference	12,243	117	883	50,693	1,853	582	–	66,371
Charge for the year	30,851	890	7,125	78,555	8,074	700	–	126,195
Disposals	–	(78)	–	–	(6,046)	(1,873)	–	(7,997)
Transfers	–	–	–	–	(9)	9	–	–
At 31 December 2020	280,104	4,301	44,768	1,171,668	62,133	13,467	–	1,576,441
Net book value as at								
At 31 December 2020	640,186	1,462	45,308	974,624	19,051	3,800	198,297	1,882,728
At 31 December 2019	626,968	2,270	40,232	987,531	19,063	3,275	48,590	1,727,929

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

	2020 HK$'000	2019 HK$'000
Located in:		
Hong Kong	50,645	50,645
Mainland China	723,803	673,307
Canada, freehold	145,842	140,026
	920,290	863,978

For the year ended 31 December 2020

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

As at 31 December 2020, certain land and buildings of the Group situated in Mainland China, with an aggregate carrying amount of HK$92,249,000, did not have the property certificates registered under the name of a subsidiary of the Group.

In the opinion of the Company's directors, the risk of the Group not being able to obtain the legal titles for the relevant land and buildings is low and the Group will continue the ownership registration of the land and buildings.

At 31 December 2020, the carrying amount of the Group's land and buildings pledged as security for the Group's banking facilities was HK$16,664,000 (2019: HK$17,016,000) (note 24).

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

	2020 HK$'000	2019 HK$'000
Property, plant and equipment	1,882,728	1,727,929
Right-of-use assets (note 15(a))	225,026	229,215
	2,107,754	1,957,144

15. LEASES

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

The carrying amount of property, plant and equipment shown on the consolidated statement of financial position includes the following amounts relating to leases:

	2020 HK$'000	2019 HK$'000
Right-of-use assets		
Prepaid land lease payment*	167,517	162,091
Buildings	57,136	66,531
Motor vehicles	373	593
	225,026	229,215

	2020 HK$'000	2019 HK$'000
Lease liabilities		
Current	12,088	7,641
Non-current	15,709	29,990
	27,797	37,631

Additions to the right-of-use assets during the year ended 31 December 2020 were HK$7,551,000 (2019: HK$17,045,000).

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

For the year ended 31 December 2020

15. LEASES *(Continued)*

(b) Amounts recognised in the consolidated income statement

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

	2020 HK$'000	2019 HK$'000
Depreciation charge of right-of-use assets		
Prepaid land lease payment	2,321	2,361
Buildings	16,142	10,935
Motor vehicles	220	220
	18,683	13,516
Interest expense (included in finance cost)	2,967	1,373
Expenses relating to short-term leases (included in cost of sales and administrative, selling and other operating expenses)	28,423	30,927
	31,390	32,300

The total cash outflow for leases during the year ended 31 December 2020 was approximately HK$49,083,000 (2019: HK$47,735,000).

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

The Group leases various offices, warehouses 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

	2020 HK$'000	2019 HK$'000
Interests in infrastructure project investments	193,972	247,900
Less: portion due within one year included in current assets	(61,080)	(54,010)
Portion due after one year	132,892	193,890

On 7 January 2019, 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 CSCIHL at a total consideration of HK$295,000,000.

Interests in infrastructure project investments represent funding denominated in Renminbi ("RMB") for 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 yield on the infrastructure project investments ranged from 10.2% to 10.7% (2019: 10.2% to 10.7%) per annum. The interests in infrastructure project investments were not past due as at 31 December 2020.

The directors of the Company reviewed individually the infrastructure projects' operations and financial positions as at 31 December 2020 based on the present values of estimated future cash flows from those investments, discounted at their respective original effective interest rates.

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17. GOODWILL

	HK$'000
At 1 January and 31 December 2019:	
Cost	159,707
Accumulated impairment	(21,558)
Net carrying amount	138,149
Cost at 31 December 2019 and 1 January 2020, net of accumulated impairment	138,149
Impairment during the year	(8,500)
Net carrying amount at 31 December 2020	129,649
At 31 December 2020:	
Cost	159,707
Accumulated impairment	(30,058)
Net carrying amount	129,649

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 has 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 of 6% (2019: 16%–24%) and extrapolating the average revenue growth rate of 3% (2019: 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 19.28%–19.53% (2019: 25.58%–26.60%).

During the year ended 31 December 2020, an impairment loss of HK$8,500,000 (2019: Nil) has been provided for the Gamma Group CGU as the recoverable amount of this CGU has reduced to HK$158,652,000 at the end of the reporting period. The impairment loss was as a result of the less than satisfactory past and expected performance of the Gamma group CGU.

With all other variables held constant, if the revenue growth rates used in the value-in-use calculation was decreased by 0.95% or the discount rate used in the value-in-use calculation had been increased by 1.00% than the management estimates as at 31 December 2020, the recoverable amount would be further reduced by HK$3,798,000 (i.e. additional impairment loss of HK$3,798,000).

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18. SUBSIDIARIES

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest 2020	Percentage of ownership interest 2019	Principal activities
Far East Global Group Limited	British Virgin Islands/ Hong Kong	6,000 ordinary shares of US$1 each	100%	100%	Investment holding
Far East Facade (UAE) Limited	British Virgin Islands	10,000 ordinary shares of US$1 each	100%	100%	Investment holding
Venture Synergy Limited	British Virgin Islands	1 ordinary share of US$1	100%	100%	Investment holding
Netfortune Enterprise Limited	British Virgin Islands	1 ordinary share of US$1	100%	100%	Investment holding
Willbert Limited	British Virgin Islands/ Hong Kong	1 ordinary shares of US$1	100%	100%	Property holding
FEA Investments Limited	British Virgin Islands	1 ordinary share of US$1	100%	100%	Investment holding
Fuller Sky Enterprises Limited	British Virgin Islands	1 ordinary share of US$1	100%	100%	Investment holding
Value Idea Investments Limited	British Virgin Islands	1 ordinary share of US$1	100%	100%	Investment holding
China Overseas Public Utility Investment Limited	British Virgin Islands	1 ordinary share of US$1	100%	100%	Investment holding
Far East Facade Investments Limited	British Virgin Islands	10,000 ordinary share of US$1each	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

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18. SUBSIDIARIES *(Continued)*

Information about subsidiaries *(Continued)*

Name of subsidiary	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest 2020	Percentage of ownership interest 2019	Principal activities
Treasure Construction Engineering Limited	Hong Kong	2 ordinary shares of HK$2	100%	100%	Building constructions
Heng Fai International Limited	Hong Kong	1 ordinary share of HK$1	100%	100%	Investment holding
Netfortune Limited	Hong Kong	500,000 ordinary shares of HK$500,000	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 Aluminium Works (Guangzhou) Company Limited	Hong Kong	2 ordinary shares of HK$2	100%	100%	Property 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
China Construction Think Tank Limited	Hong Kong	1,000,000 ordinary shares of HK$1,000,000	100%	100%	Consultancy Service
中建興業投資(湖南)有限公司 (1)	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 (1)	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 (1)	The People's Republic of China	Registered capital of RMB10,000,000	100%	100%	Design service
中海監理有限公司 (1)	The People's Republic of China	Registered capital of RMB50,000,000	100%	100%	Provision of project consultancy service

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18. SUBSIDIARIES *(Continued)*

Information about subsidiaries *(Continued)*

Name of subsidiary	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest 2020	Percentage of ownership interest 2019	Principal activities
瀋陽皇姑熱電有限公司[(1) (2)]	The People's Republic of China	Registered capital of RMB680,660,000	100%	100%	Generation and supply of heat and electricity and investment holding
瀋陽皇姑粉煤灰建材有限公司[(1)]	The People's Republic of China	Registered capital of RMB8,000,000	100%	100%	Trading of coal
上海力進鋁質工程有限公司[(1)]	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
遠東幕牆制品(深圳)有限公司[(1)]	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
遠東恆輝幕牆(珠海)有限公司[(1)]	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[(1)]	The People's Republic of China	Registered capital of RMB8,000,000	100%	100%	Provision of project consultancy service
Netfortune Engineering (FEA) Macau Limited	Macau	Registered capital of MOP25,000	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
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

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18. SUBSIDIARIES *(Continued)*

Information about subsidiaries *(Continued)*

Name of subsidiary	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest 2020	Percentage of ownership interest 2019	Principal activities
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 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
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
Hygate Development Corp.	Canada	100 common shares of CAD1 each	100%	100%	Business development
Hygate Investment Corp.	Canada	1 common shares of CAD1 each	100%	100%	Investment holding
Hygate Property Corp.	Canada	1 common shares of CAD1 each	100%	100%	Property holding
Hygate Management Services Corp.	Canada	100 common shares of CAD1 each	100%	100%	Provision of management service

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18. SUBSIDIARIES *(Continued)*

Information about subsidiaries *(Continued)*

Name of subsidiary	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest 2020	Percentage of ownership interest 2019	Principal activities
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
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 Aluminium Works (Singapore) Pte Limited[3]	Singapore	700,000 ordinary share of SGD700,000	–	100%	Installation of curtain walls, aluminium windows and other related products

Notes:

(1) Limited liability company registered in the PRC

(2) Registered as sino-foreign joint venture enterprise

(3) Dissolved in 2020.

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.

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18. SUBSIDIARIES *(Continued)*

(a) Material non-controlling interests

The negative non-controlling interest as at 31 December 2020 of HK$78,143,000 (2019: HK$66,812,000) 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	
	2020 HK$'000	2019 HK$'000
Current		
Assets	472,814	420,172
Liabilities	(1,771,479)	(1,554,424)
Total current net liabilities	(1,298,665)	(1,134,252)
Non-current		
Assets	82,754	96,745
Liabilities	(11,618)	(12,139)
Total non-current net assets	71,136	84,606
Net liabilities	(1,227,529)	(1,049,646)

Summarised income statement

	Gamma Group	
	2020 HK$'000	2019 HK$'000
Revenue	338,420	471,346
Loss before tax	(168,742)	(111,011)
Income tax charge	(11,539)	(11,750)
Other comprehensive income	2,398	253
Total comprehensive loss	(177,883)	(122,508)
Total comprehensive loss allocated to non-controlling interests	(11,331)	(7,804)

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18. SUBSIDIARIES *(Continued)*

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

Summarised cash flow

	Gamma Group	
	2020 HK$'000	2019 HK$'000
Operating cash flows		
Cash from/(used in) operations	**324,784**	(25,859)
Interest paid	**5,310**	22,981
Net cash from/(used in) operating activities	**330,094**	(2,878)
Net cash used in investing activities	**(430)**	(3,115)
Net cash (used in)/from financing activities	**(327,509)**	6,231
Net increase in cash and cash equivalents	**2,155**	238
Cash and cash equivalents at beginning of year	**3,598**	3,360
Cash and cash equivalents at end of year	**5,753**	3,598

The information above is before inter-company eliminations.

19. INVENTORIES

	2020 HK$'000	2019 HK$'000
Raw materials	**137,186**	98,524

The cost of inventories recognised as expense and included in 'cost of sales' amounted to approximately HK$508,970,000 (2019: HK$462,904,000).

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20. CONTRACT ASSETS AND CONTRACT LIABILITIES

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

	Notes	31 December 2020 HK$'000	31 December 2019 HK$'000	1 January 2019 HK$'000
Contract assets related to construction services	(i)	1,451,792	1,017,935	967,471
Contract liabilities related to construction services		(309,603)	(278,459)	(299,857)
Contract liabilities related to thermoelectricity business	(ii)	(1,224,408)	(1,178,149)	(1,145,100)
		(1,534,011)	(1,456,608)	(1,444,957)
Less: current portion		778,041	685,696	664,328
Non-current portion		(755,970)	(770,912)	(780,629)

Notes:

(i) Contract assets related to the Group's right to consideration for construction work completed but yet to be certified by surveyors appointed by the customers as at the reporting date. Contract assets are transferred to receivables when the rights become unconditional.

(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:

	2020 HK$'000	2019 HK$'000
Revenue recognised that was included in the contract liability balance at the beginning of the year:		
— Construction services	238,721	266,483
— Thermoelectricity business	524,309	535,474
	763,030	801,957
Revenue recognised from performance obligations satisfied/partially satisfied in previous periods:		
— Construction services	106,822	38,752

The following table shows the amount of unsatisfied performance obligations:

	2020 HK$'000	2019 HK$'000
Expected to be recognised within one year	4,347,866	3,146,543
Expected to be recognised after one year	4,137,296	3,231,015
	8,485,162	6,377,558

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.

21. TRADE AND OTHER RECEIVABLES

	2020 HK$'000	2019 HK$'000
Trade receivables	756,447	982,555
Retention receivables	579,258	639,496
	1,335,705	1,622,051
Less: provision for impairment	(70,944)	(60,818)
	1,264,761	1,561,233
Other receivables	56,255	72,302
Trade and other receivables	1,321,016	1,633,535

The Group's trade receivables mainly represent progress billing receivables from facade 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 ageing 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.

Trade receivables include balances with related companies amounting to approximately HK$296,865,000 (2019: HK$315,086,000), which are unsecured, interest-free and repayable in accordance with the terms of relevant agreements.

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

	2020 HK$'000	2019 HK$'000
Trade receivables:		
0 to 30 days	500,862	725,353
31 to 60 days	28,305	24,506
61 to 90 days	30,393	28,388
More than 90 days	135,070	151,990
	694,630	930,237
Retention receivables	570,131	630,996
	1,264,761	1,561,233
Other receivables	56,255	72,302
Trade and other receivables	1,321,016	1,633,535

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 (2019: 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.

For the year ended 31 December 2020

21. TRADE AND OTHER RECEIVABLES *(Continued)*

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and retention 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 2020, trade and retention receivables of approximately HK$11,575,000 (2019: HK$11,575,000) 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.

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

	2020 HK$'000	2019 HK$'000
At 1 January	60,818	56,543
Addition of provisions	10,721	5,287
Amount written-off as uncollectible	(3,108)	–
Exchange differences	2,513	(1,012)
At 31 December	70,944	60,818

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

	2020 HK$'000	2019 HK$'000
Hong Kong dollar	622,628	980,478
Renminbi	376,337	291,449
United States dollar	120,548	161,000
Canadian dollar	120,714	108,247
Macau Pataca	55,699	63,945
Great British Pound	21,456	15,397
United Arab Emirates Dirham	74	9,558
Others	3,560	3,461
	1,321,016	1,633,535

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 values of these balances.

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22. AMOUNTS/LOAN DUE FROM/TO AN INTERMEDIATE HOLDING COMPANY/ 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 an intermediate holding company of HK$230,000,000 as at 31 December 2020 was unsecured, interest-bearing at HIBOR+1.7% per annum and repayable in 2022 and denominated in HKD.

Amounts due from related companies were trade related. The analysis of amounts due from related companies, including the ageing analysis, based on invoice date, and net of provisions, is as follows:

	2020 HK$'000	2019 HK$'000
Trade receivables:		
0 to 30 days	5,642	336
31 to 60 days	2,410	379
61 to 90 days	1,297	1,874
More than 90 days	10,989	1,136
	20,338	3,725

The amounts are billed and repayable in accordance with the terms of the relevant agreements.

23. CASH AND CASH EQUIVALENTS

Cash and cash equivalents of the Group are cash and bank balances denominated in the following currencies:

	2020 HK$'000	2019 HK$'000
Renminbi	589,237	677,865
Hong Kong dollar	207,184	94,555
Great British Pound	17,136	33,555
Australian dollar	8,408	7,266
Canadian dollar	23,006	5,573
Macau Pataca	4,585	4,215
United States dollar	8,386	3,065
United Arab Emirates Dirham	178	434
Others	34	48
	858,154	826,576

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.

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24. BANK BORROWINGS

	2020 HK$'000	2019 HK$'000
Bank loan, secured	11,958	12,232
Bank loans, unsecured	1,050,208	855,306
	1,062,166	867,538
The borrowings are repayable as follows:		
On demand or within one year	650,710	655,780
In the second year	400,524	200,494
In the third to fifth years, inclusive	10,932	11,264
	1,062,166	867,538
Less: current portion	(650,710)	(655,780)
Non-current portion	411,456	211,758

At 31 December 2020, a bank loan of HK$11,958,000 (2019: HK$12,232,000) is secured by the Group's land and buildings of HK$16,664,000 (2019: HK$17,016,000) (note 14).

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 2020				
Bank loans	780,000	281,340	826	1,062,166
31 December 2019				
Bank loans	380,000	55,900	431,638	867,538

The average bank loan interest rate at 31 December 2020 was 2.62% (2019: 4.19%) per annum.

Most bank borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

The carrying amounts of bank borrowings approximate the fair value of these balances.

The secured bank loan includes the bank loan with assets pledged as security to the bank. The unsecured bank loans include the bank loans with financial undertaking required to be fulfilled by the Group.

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25. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

The analysis of trade payables, other payables and accruals, including the ageing analysis of trade payables, based on invoice date, is as follows:

	2020 HK$'000	2019 HK$'000
Trade payables:		
0 to 30 days	827,777	800,389
31 to 60 days	26,273	21,618
More than 60 days	139,579	138,011
	993,629	960,018
Retention payables	276,518	249,052
	1,270,147	1,209,070
Other payables and accruals	194,723	178,916
Trade payables, other payables and accruals	1,464,870	1,387,986

As at 31 December 2020, the amount of retention payables expected to be settled after more than twelve months was approximately HK$142,745,000 (2019: HK$131,281,000).

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

	2020 HK$'000	2019 HK$'000
Hong Kong dollar	640,993	824,198
Renminbi	663,030	402,453
Canadian dollar	90,766	61,366
United States dollar	35,513	52,226
Macau Pataca	28,502	36,802
Great British Pound	5,040	10,099
Others	1,026	842
	1,464,870	1,387,986

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:

	2020 HK$'000	2019 HK$'000
At 1 January	37,630	35,387
Addition	26,726	17,550
Exchange differences	(17)	305
Utilisation	(32,948)	(15,612)
At 31 December	31,391	37,630

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25. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS *(Continued)*

The Group provides warranties to its customers on facade 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".

26. DEFERRED TAXATION

The analysis of the Group's deferred tax liabilities and (assets) is as follows:

	2020 HK$'000	2019 HK$'000
Deferred tax liabilities to be crystalised after more than twelve months	3,036	3,036
Deferred tax liabilities to be crystalised within twelve months	3,908	4,242
	6,944	7,278
Deferred tax assets to be recovered after more than twelve months	(146,872)	(126,158)
Deferred tax assets to be recovered within twelve months	(30,990)	(48,556)
	(177,862)	(174,714)

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	Provision HK$'000	Undistributed earnings of Mainland China subsidiaries HK$'000	Total HK$'000
At 1 January 2019	2,283	753	(95,390)	(69,844)	(10,069)	–	(172,267)
Exchange difference	–	–	(483)	1,077	145	–	739
Charged/(credited) to consolidated income statement (note 9)	–	–	14,226	(13,176)	(1,200)	4,242	4,092
At 31 December 2019 and 1 January 2020	2,283	753	(81,647)	(81,943)	(11,124)	4,242	(167,436)
Exchange difference	–	–	(128)	(4,384)	(627)	–	(5,139)
Charged/(credited) to consolidated income statement (note 9)	–	–	10,962	(7,399)	(1,572)	(334)	1,657
At 31 December 2020	2,283	753	(70,813)	(93,726)	(13,323)	3,908	(170,918)

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26. DEFERRED TAXATION *(Continued)*

The following is analysis of net deferred tax balances for statement of financial position purposes:

	2020 HK$'000	2019 HK$'000
Deferred tax liabilities	4,201	4,535
Deferred tax assets	(175,119)	(171,971)
	(170,918)	(167,436)

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$1,568,577,000 (2019: HK$1,320,085,000) 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 20 years in Canada and available indefinitely for offsetting against future taxable profits in USA.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2020, deferred tax of HK$3,908,000 has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the Company's directors, the rest of the unremitted earnings will not be distributed by the Group's subsidiaries in the foreseeable future. The aggregate amount of temporary differences associated with investments in these subsidiaries in Mainland China for which deferred tax liabilities have not been recognised amounted to HK$808,640,000 as at 31 December 2020 (2019:HK$636,499,000).

27. 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 2019, 1 January 2020 and 31 December 2020	2,155,545	21,555

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28. 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.

(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 2.4 to the financial statements.

(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 2.4 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 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 CSCIHL, 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"), at 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.

29. 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 payment 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.

Pursuant to the A-shares Restricted Stock Incentive Plan (Phase IV) (the "Incentive Plan (Phase IV)") of CSCECL, 5,490,000 incentive shares were granted to certain employees of the Company (including two directors and certain senior management) on 23 December 2020 (the "Grant Date (Phase IV)") with an exercise price of RMB3.06 per share, subject to a lock-up period of two years' service from the Grant Date (Phase IV) (the "Lock-Up Period (Phase IV)"). During the Lock-Up Period (Phase IV), 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 IV).

Subject to CSCECL's achievement of performance conditions and individual's key performance indicators, the restriction over incentive shares will be removed, otherwise, CSCECL has constructive obligations 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 IV) determined using a comparable generally accepted methodology was RMB1.94 per share. The significant inputs into the methodology include closing price of RMB5 per share on the Grant Date (Phase IV), exercise price of RMB3.06 per share and share-based payments cap at 30% of respective two years' employees' remuneration.

For the year ended 31 December 2020

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOW

(a) Major non-cash transactions

During the year ended 31 December 2019, an 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 and Value Idea was settled through amounts due to fellow subsidiaries.

(b) Reconciliation of liabilities from financing activities

	Lease liabilities HK$'000	Bank borrowings HK$'000	Loan from a fellow subsidiary HK$'000	Loan from an intermediate holding HK$'000	Total HK$'000
At 1 January 2019	30,655	716,924	33,180	–	780,759
Cash flows	(11,442)	150,091	(33,180)	–	105,469
Foreign exchange adjustments	–	523	–	–	523
Interest on lease liabilities (Note 8)	1,373	–	–	–	1,373
Increase in lease liabilities from entering into new contracts (Note 15(a))	17,045	–	–	–	17,045
As 31 December 2019 and 1 January 2020	37,631	867,538	–	–	905,169
Cash flows	(20,660)	191,641	–	230,000	400,981
Foreign exchange adjustments	308	2,987	–	–	3,295
Interest on lease liabilities (Note 8)	2,967	–	–	–	2,967
Increase in lease liabilities from entering into new contracts (Note 15(a))	7,551	–	–	–	7,551
At 31 December 2020	27,797	1,062,166	–	230,000	1,319,963

31. COMMITMENTS

At 31 December 2020, the Group had the following commitments contracted but not provided for in the consolidated financial statements:

	2020 HK$'000	2019 HK$'000
Contracted but not provided for		
— Construction in progress for property, plant and equipment	163,256	30,821
— Investment in a joint venture	8,886	–

For the year ended 31 December 2020

32. 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

	2020 HK$'000	2019 HK$'000
Construction fees received from fellow subsidiaries	1,796,474	1,416,286
Service income received from fellow subsidiaries	88,779	46,613
Insurance premium paid to fellow subsidiaries	17,215	13,084
Purchases of materials from fellow subsidiaries	3,164	5,614
Leasing of machinery from fellow subsidiaries	4,967	6,043

These related party transaction also constitutes continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

(ii) Transactions with other state-controlled entities in the Mainland China

Certain of the Group's businesses are 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 businesses 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:

	2020 HK$'000	2019 HK$'000
Short term employee benefits	33,656	28,072
Post-employment benefits	331	336
	33,987	28,408

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

For the year ended 31 December 2020

33. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of financial position of the Company

	2020 HK$'000	2019 HK$'000
Non-current asset		
Interests in subsidiaries	1,686,522	1,822,816
Current assets		
Deposits, prepayments and other receivables	662	1,218
Amounts due from subsidiaries	50,000	50,000
Tax recoverable	300	–
Cash and cash equivalents	17,855	1,741
	68,817	52,959
Current liabilities		
Bank borrowings	180,000	180,000
Amount due to an intermediate holding company	2,755	–
Amount due to a fellow subsidiary	229,580	444,000
Other payables and accruals	600	1,067
Current tax payables	–	256
	412,935	625,323
NET CURRENT LIABILITIES	(344,118)	(572,364)
TOTAL ASSETS LESS CURRENT LIABILITIES	1,342,404	1,250,452
Capital and reserves		
Share capital	21,555	21,555
Share premium and reserves (note (a))	1,090,849	999,317
	1,112,404	1,020,872
Non-current liabilities		
Loan from an intermediate holding company	230,000	–
Amount due to a fellow subsidiary	–	229,580
	230,000	229,580
	1,342,404	1,250,452

On behalf of the Board

Zhang Haipeng
Director

Wu Mingqing
Director

For the year ended 31 December 2020

33. 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 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 and 1 January 2020	898,654	4,636	1,875	94,152	999,317
Profit for the year	–	–	–	90,939	90,939
Capital contribution relating to share-based payment borne by an intermediate holding company	–	–	593	–	593
At 31 December 2020	898,654	4,636	2,468	185,091	1,090,849

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 March 2021.

Five-Year Financial Summary

The table set out below summarizes the results and the assets, liabilities and non-controlling 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				
	2016 HK$'000 (restated)	2017 HK$'000 (restated)	2018 HK$'000 (restated)	2019 HK$'000	**2020** **HK$'000**
Revenue	3,451,152	3,755,581	4,243,167	4,619,412	**4,535,657**
Gross profit	370,245	517,708	486,073	544,064	**488,460**
Profit before tax	153,490	279,003	252,208	276,913	**256,292**
Income tax expense, net	162,087	127,085	73,519	109,173	**73,432**
Profit/(loss) for the year	(8,597)	151,918	178,689	167,740	**182,860**
Profit/(loss) for the year attributable to:					
Owners of the Company	118,900	161,714	182,780	175,560	**194,344**
Non-controlling interests	(127,497)	(9,796)	(4,091)	(7,820)	**(11,484)**
Basic earnings per share (HK cents)	5.52	7.50	8.48	8.14	**9.02**
Diluted earnings per share (HK cents)	5.52	7.50	8.48	8.14	**9.02**

CONSOLIDATED NET ASSETS

	For the year ended 31 December				
	2016 HK$'000 (restated)	2017 HK$'000 (restated)	2018 HK$'000 (restated)	2019 HK$'000	**2020** **HK$'000**
Non-current assets	2,106,816	2,220,230	2,315,494	2,461,154	**2,545,414**
Current assets	3,703,448	4,217,327	4,423,704	4,592,840	**4,843,484**
Current liabilities	3,330,301	3,793,060	4,069,372	4,748,706	**4,646,686**
Non-current liabilities	968,425	1,039,040	1,701,270	1,246,775	**1,417,336**
Net assets	1,511,538	1,605,457	968,556	1,058,513	**1,324,876**

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