广东爱得威建设(集团)股份有限公司

ADWAY GUANGDONG ADWAY CONSTRUCTION (GROUP) HOLDINGS COMPANY LIMITED*

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

Stock code: 6189

Annual Report 2019

* For identification purpose only

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. YE Yujing (葉玉敬先生)
Mr. LIU Yilun (劉奕倫先生)
Ms. YE Xiujin (葉秀近女士)
Mr. YE Guofeng (葉國鋒先生)
Mr. YE Niangting (葉娘汀先生)

Non-executive Directors

Ms. LI Yuanfei (黎媛菲女士) *(Appointed on 19 March 2019)*
Mr. TIAN Wen (田文先生) *(Resigned on 19 March 2019)*

Independent Non-executive Directors

Mr. CHEUNG Wai Yeung Michael (張威揚先生)
Ms. ZHAI Xin (翟昕女士) *(Appointed on 11 June 2019)*
Mr. LIN Zhiyang (林志揚先生)
Mr. WANG Zhaowen (王肇文先生) *(Resigned on 11 June 2019)*

SUPERVISORS

Mr. ZU Li (祖力先生)
Mr. YE Weizhou (葉偉周先生)
Mr. TIAN Wen (田文先生) *(Appointed on 19 March 2019)*
Mr. YE Xian (葉縣先生) *(Resigned on 19 March 2019)*

AUDIT COMMITTEE

Mr. CHEUNG Wai Yeung Michael (張威揚先生) *(Chairman)*
Ms. ZHAI Xin (翟昕女士) *(Appointed on 11 June 2019)*
Mr. LIN Zhiyang (林志揚先生)
Mr. WANG Zhaowen (王肇文先生) *(Resigned on 11 June 2019)*

NOMINATION COMMITTEE

Mr. LIN Zhiyang (林志揚先生) *(Chairman)*
Mr. YE Yujing (葉玉敬先生)
Ms. ZHAI Xin (翟昕女士) *(Appointed on 11 June 2019)*
Mr. WANG Zhaowen (王肇文先生) *(Resigned on 11 June 2019)*

REMUNERATION COMMITTEE

Ms. ZHAI Xin (翟昕女士) *(Chairman) (Appointed on 11 June 2019)*
Mr. YE Guofeng (葉國鋒先生)
Mr. CHEUNG Wai Yeung Michael (張威揚先生)
Mr. WANG Zhaowen (王肇文先生) *(Resigned on 11 June 2019)*

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN PRC

3rd Floor, Pengyi Garden Building 1
Bagua No.1 Road
Futian District
Shenzhen, PRC

STRATEGY COMMITTEE

Mr. YE Yujing (葉玉敬先生) *(Chairman)*
Ms. ZHAI Xin (翟昕女士) *(Appointed on 11 June 2019)*
Mr. LIN Zhiyang (林志揚先生)
Mr. LIU Yilun (劉奕倫先生)
Mr. YE Guofeng (葉國鋒先生)
Mr. WANG Zhaowen (王肇文先生) *(Resigned on 11 June 2019)*

AUTHORISED REPRESENTATIVES

Mr. YE Guofeng (葉國鋒先生)
Ms. KOU Yue (寇悦女士)

AUDITOR

PricewaterhouseCoopers

H SHARE REGISTRAR

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

PRINCIPAL BANKS

Bank of China
China Construction Bank
Industrial and Commercial Bank of China
Bank of Beijing

JOINT COMPANY SECRETARIES

Mr. LIU Yilun (劉奕倫先生)
Ms. KOU Yue (寇悦女士) *(FCCA, CPA, MAcc)*

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 2203, Level 22
Office Tower, Langham Place
8 Argyle Street
Mong Kok, Kowloon
Hong Kong

STOCK CODE

6189

COMPANY'S WEBSITE

http://www.aidewei.cn

FINANCIAL SUMMARY

(in RMB million, unless otherwise stated)

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2019	2018	2017	2016	2015
Revenue	**1,542.8**	1,830.8	1,672.8	1,728.5	1,659.7
Gross Profit	**207.9**	253.1	224.2	204.8	197.7
Gross Profit Margin	**13.5%**	13.8%	13.4%	11.8%	11.9%
Profit for the Year	**70.3**	130.7	115.8	107.6	100.7
Net Profit Margin	**4.6%**	7.1%	6.9%	6.2%	6.1%
Basic and diluted earnings per share (RMB)	**30.65 cents**	61.69 cents	54.89 cents	65.82 cents	63.62 cents

CONSOLIDATED ASSETS, LIABILITIES AND EQUITY

	As at 31 December				
	2019	2018	2017	2016	2015
Non-current assets	**131.0**	136.3	148.9	123.2	154.6
Current assets	**2,653.5**	2,475.2	1,969.4	1,442.1	1,180.5
Non-current liabilities	**2.8**	1.7	1.8	1.8	1.3
Current liabilities	**1,503.4**	1,525.0	1,216.3	779.1	860.5
Total equity	**1,278.3**	1,084.7	900.2	784.4	473.4

CHAIRMAN'S STATEMENT

Dear Shareholders:

On behalf of the Board of Directors (the "Board") of Guangdong Adway Construction (Group) Holdings Company Limited, I hereby presented to you the annual report of the Company and its subsidiaries for the year ended 31 December 2019.

1. REVIEW OF THE 2019 RESULTS

In 2019, under the downward pressure of the overall domestic economy, the slowing in market growth in the industry and the increasing market competition, the Group's revenue was 1.54 billion in 2019, representing a decrease in 15.7% as compared to 2018.

Throughout 2019, we strive to overarching the strategic positioning on "Industry + Finance + Technology + Brand", strengthened the Group's competitive edge, market share, social influence and brand impact, leading to our customers' wide respect.

2. 2019 WORK REVIEW

During 2019, the Group had been dedicated to the following:

(1) Remarkable results in strengthening the performance of our branch offices and exploring into the new markets

By implementing the operating strategy "results as king, marketing by all" ("業績為王，全員營銷") and employee incentive mechanism, we involved all our employees in marketing. Branch offices and regional performance, particularly those located in the South China maintained a stable performance. Northern China and Southwest China demonstrated faster growth offices; Southwest region displayed a higher growth in 2019 than in 2018. Except for South China, there is still great growth potential regionally.

(2) Modify internal project categorizations with smart medical decorative work a new growth driver

The Group has modified the project categorization, which were grouped into commercial, residential, curtain wall, hotel, hospital, mechanical and electrical engineering. During 2019, smart medical decorative projects became the new growth driver to the Group with tender awards and commencement of various hospital projects. The Group established the building decoration design institute which composed of interior design, structure and curtain wall design, smart medical decorative work, and innovative development and design management, for the purpose of providing the one-stop solutions which horizontally extended into the entire supply chain.

(3) Continue to cultivate our boutique projects and set the industry benchmark

In the past year, we participated in project bids conducted across the country, and launched substantive projects in full swings all over China after winning the tender bids. Many of our important boutique projects have been progressed or completed as scheduled, such as Guangxiajulong, Shenzhen Jewelry Museum, Shimian Yaan Hotel, Zhengzhou Civic Center, Xipu Building, Chongqing ICBC Main Building, Shandong Linyi Project and so on. A number of these projects had been selected as the National Construction Engineering and Decoration Award.

(4) Green Adway, High-tech Adway and Innovative Adway

In the past year, focusing on the theme "Green Adway, High-tech Adway and Innovative Adway", we continued to develop and explore green and environmental friendly medical and materials, and succeeded in renewing the certificate named "High and New Technology Enterprise (高新技術企業)". Our effort in investing in the research and development of green materials and smart home will provide technological impetus for our future development.

3. THE GROUP'S DEVELOPMENT PROSPECTS IN 2020

Looking forward to 2020, we shall continue building our foundation and strive for well performance by focusing on "performance" + "project management", the two main themes of our Group.

(1) To advance in the Group's business development and project management in all fronts, we shall continue with the Greater Bay Area market, expand new markets, and exploit and induce customer demands.

(2) To further develop the business segments with brand advantages such as the medical, mechanical and electrical, and curtain wall segments.

(3) To optimize project management process and improve service levels, ensure project quality, and strengthen cost management.

(4) To further exploit in great depth the developments in new areas of green medical care, green material research and development, smart home; and to make full use of the Group's expertise in refined technology and brand competitiveness.

(5) To continue in implementing our strategic development in "industry + finance + technology + brand" in all areas, to raise barriers and differential advantages in our field.

(6) To seize the challenges and opportunities arising from "dual zone drive", we stand at the new beginning of the epoch and achieve another leap-forward development.

Led by President Xi Jinping's "new era, new thinking and new journey", Adway is committed to moving forward to grasp the major opportunities ever-since presented by "dual-zone drive" in the Guangdong-Hong Kong-Macao Greater Bay Area and Demonstration Pilot Zone. With the development of major infrastructures in the "dual zone", we, a local enterprise that has grown and prospered in this Economic Special Zone, will seize this opportunity to develop and grow, move forward with courage, to shoulder the heavy burden and in going ahead both of our times and this industry.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank our dedicated employees and management team for their commitment and professionalism. I would also like to express our heartfelt thanks to our Shareholders and partners for their continuing support, trust and care for the Group. We will not forget our original goal and continue to commit to offering international first-class green decoration services.

Ye Yujing
Chairman

DIRECTORS

Executive Directors

Mr. YE Yujing (葉玉敬), aged 54, one of the founders of our Group, has been the Chairman and an executive Director of our Company since its establishment on 18 December 1996. Mr. Ye has been appointed as the chief executive officer since 10 April 2012 and is primarily responsible for our Group's development, strategic planning, positioning and overall operational management. Mr. Ye is the husband of Ms. Ye Xiujin, the father of Mr. Ye Guofeng, and the elder brother of Mr. Ye Xian's father. Mr. Ye completed an education programme in civil engineering offered by China University of Geosciences (中國地質大學) in July 2007 and subsequently obtained his executive master of business administration (EMBA) from Xiamen University (廈門大學) in June 2016. Mr. Ye has over 30 years of experience in the civil engineering and construction industries. Prior to the establishment of our Company, Mr. Ye had worked as a sales executive in the second engineering department of Shenzhen Wenye Decoration Design Engineering Company Limited* (深圳市文業裝飾設計工程有限公司) (currently known as Shenzhen Wenye Decoration Design Engineering Joint-Stock Company Limited* (深圳市文業裝飾設計工程股份有限公司)) from January 1987 to January 1993, and as a manager in the Xincheng decoration department of Shenzhen Bao'an District Decoration Construction Consolidated Company Limited* (深圳市寶安區裝飾工程聯合公司新城裝飾部) from February 1993 to October 1996. Mr. Ye was a member of the sixth and seventh session of the Luhe County Guangdong Province Committee of the Chinese People's Political Consultative Conference (CPPCC) (廣東省陸河縣政協). Mr. Ye currently is a member of the 5th standing committee and the vice president of the Social Committee of the Futian District of Shenzhen Committee of CPPCC (深圳市福田區政協委員會) and is also a member of the 8th Standing Committee of the Luhe County Guangdong Province Committee of CPPCC, a member of the Central Economic Committee of China Democratic League (中國民主同盟), the vice president of the Public Administration Committee and the vice president of Futian Branch of Shenzhen Committee of China Democratic League, and the honourable president of the Hong Kong Shanwei Luhe Overseas Association (香港汕尾市陸河海外聯誼總會), a standing director of the China Building Decoration Association (中國建築裝飾協會), the vice president of Federation of Shenzhen Industries, the vice president of the Shenzhen Decoration Association, the executive vice president of Shenzhen City Fuyi Public Welfare Foundation (深圳市福醫基金會). Mr. Ye was awarded by CBD Association as "National Outstanding Entrepreneur of Building Decoration Industry"* (全國建築裝飾行業優秀企業家) and "National Outstanding Project Manager of Building Decoration Industry"* (全國建築裝飾行業優秀項目經理) in December 2009 and June 2014 respectively. He was qualified as a senior engineer (高級工程師) in May 2009 and acquired the Certificate of Registration of Constructor of the PRC (中華人民共和國一級建造師註冊證書) in February 2009.

Mr. LIU Yilun (劉奕倫), aged 47, was appointed as an executive Director on 19 September 2015. He joined our Company as the general manager of the securities department on 27 April 2015. Mr. Liu is mainly responsible for overseeing our Group's development, strategic planning, positioning and overall operational and risk management. Mr. Liu graduated from Beihang University (北京航空航天大學) with a bachelor's degree in economic management in July 1994 and earned his master's degree in economics from Guangdong Academy of Social Sciences (廣東省社會科學院) in July 2002. He acquired the Securities Qualification Certificate (證券從業資格證書) issued by the Securities Association of China (中國證券業協會) in December 2001. Before joining our Company, Mr. Liu had worked as the general manager of the investment department in Beijing Securities Co. Ltd. Shenzhen Branch* (北京證券有限責任公司深圳業務部) from July 1994 to May 1998 and as the general manager of the securities department in York Point S&T Co., Ltd. Guangdong* (廣東億安科技股份有限公司) (now known as China High-speed Railway Technology Co., Ltd.* (神州高鐵技術股份有限公司), the shares of which are listed on the Shenzhen Stock Exchange with stock code 000008.SZ), from May 1998 to March 2001. Thereafter, Mr. Liu worked as a general manager in Shenzhen Wanlitong Investment Guarantee Company Limited* (深圳市萬利通投資擔保有限公司) from October 2007 to November 2013. He later served as the chief executive officer of Guosen Business Factoring Co., Ltd* (國信商業保理有限公司) from December 2013 to March 2015.

Ms. YE Xiujin (葉秀近), aged 53, was appointed as an executive Director on 1 July 2008. She joined our Company since its establishment and has been primarily responsible for advising on the strategic development and corporate governance of our Company, formulating our Company's corporate and business strategies, and providing assistance to Mr. Ye Yujing. She has also worked in the accounting department of our Company. Ms. Ye is the wife of Mr. Ye Yujing, the mother of Mr. Ye Guofeng, and the sister-in-law of Mr. Ye Xian's father. Ms. Ye acquired the qualification of accountant issued by the Ministry of Finance of the People's Republic of China (中華人民共和國財政部) in May 2000.

Mr. YE Guofeng (葉國鋒), aged 32, was appointed as an executive Director on 30 July 2013. Mr. Ye joined our Company on 15 September 2011 and worked as an assistant to Mr. Ye Yujing starting from April 2012. He was later promoted to the position of marketing director and manager of the procurement department in May 2014. Mr. Ye is currently responsible for advising on strategic development and corporate governance of our Group. Mr. Ye is the son of Mr. Ye Yujing and Ms. Ye Xiujin, and the elder cousin of Mr. Ye Xian. Mr. Ye graduated with an associate degree from Shenzhen Polytechnic (深圳職業技術學院) majored in construction management in June 2011. He later completed the top-up courses in civil engineering (construction) offered by China University of Geosciences (中國地質大學) through online education in July 2014 and obtained a bachelor's degree in engineering in December 2014. Mr. Ye was qualified as a safety officer (安全員) and a decoration construction officer (裝飾施工員) issued by Guangdong Construction Education Association (廣東省建設教育協會) in November 2011. Mr. Ye was also awarded as "Outstanding Entrepreneur of China Building Decoration in the past thirty years* (中國建築裝飾三十年優秀企業家)" by the CBD Association and China Construction Newspaper (中華建築報社) in December 2014.

Mr. YE Niangting (葉娘汀), aged 39, was appointed as an executive Director on 22 May 2014 and is primarily responsible for conducting project evaluation for our construction projects and advising on strategic development and corporate governance of our Group. Mr. Ye joined our Company on 14 October 2008 as deputy manager of the operation department, and was promoted to manager of that department in April 2012. From February 2013 to April 2014, Mr. Ye was the manager of division 1 of the operating department of the Company and the general manager of the operation management centre, directly reporting to Mr. Ye Yujing. He also assists Mr. Ye Yujing in our business expansion and operation management and undertakes responsibility in managing our operation management centre. Since joining our Group in October 2008, Mr. Ye has been involved in a number of construction projects in different capacities and has accumulated substantial experience in areas including project development and project evaluation. In respect of project evaluation, Mr. Ye is responsible for the final approval of our project evaluation reports for all of our potential construction projects, after considering opinions from the supervising business manager and our technical department. Mr. Ye graduated from Dalian University of Technology (大連理工大學) majored in civil engineering in July 2009 through online education. Prior to joining our Company, Mr. Ye was a manager of Beijing branch of Shenzhen Bauing Construction Group Co., Ltd.* (深圳市寶鷹建設集團股份有限公司) from October 2005 to October 2008 where he was responsible for business development in Beijing and surrounding regions. Mr. Ye was appointed as a visiting professor of Shanghai Art & Design Academy (上海工藝美術職業學院) in July 2015 for a term of three years. On 31 December 2019, Shenzhen Gongxiangli is owned as to 8.3951% by Mr. Ye who is its limited partner.

Non-executive Director

Ms. LI Yuanfei (黎媛菲), aged 38, was appointed as an non-executive Director on 19 March 2019. Ms. Li graduated with a bachelor's degree in Economics from the University of Shanghai for Science and Technology (上海理工大學) in 2002 and a master's degree in economics from Fudan University (復旦大學) in 2005. Ms. Li's working experience focuses primarily on securities, fund and finance businesses. From September 2005 to February 2009, she was an associate in the high technology media telecommunications (TMT) group at Merrill Lynch investment banking, where she was responsible for capital operation such as enterprise listing, equity and debt financing, reorganization and merger. From April 2009 to March 2011, she was a vice president in Crimson Capital, a private equity fund, where she was the principal of private equity investment business. From April 2011 to August 2016, she was the executive general manager and the director of large consumer industry group in investment banking department of China International Capital Corporation Limited, an investment bank. Since September 2016 and currently, she is a managing partner of Shenzhen Qianhai Xingwang Investment Management Co., Ltd* (深圳前海興旺投資管理有限公司), which is principally engaged in the business of providing professional fund management services for private equity funds and venture capital investment funds.

Independent Non-executive Directors

Ms. ZHAI Xin (翟昕), aged 45, was appointed as an independent non-executive Director on 16 June 2019. Ms. Zhai graduated from Department of Accounting of Shanxi Finance Institute* (陝西財經學院) in 1993 and a master's degree in business administration from The Hong Kong Polytechnic University in 2005. Ms. Zhai's working experience focuses primarily on financial and accounting businesses. From September 1994 to March 2000, she was an auditor and audit manager of Shenzhen Bao Yong CPA* (深圳市寶永會計師事務所), where she was responsible for audit work for corporations, special audit and verification etc. From March 2000 to January 2005, she was a finance manager and chief financial officer of Shenzhen Nan Sheng De Management Company Limited* (深圳市南晟德管理顧問有限公司), where she was responsible for financial management. From January 2005 to July 2012, she successively served as chief financial officer and vice-president of finance of Shenzhen Xin Hua Shang Zhi Cultural Development Company Limited* (深圳市新華商智文化發展有限公司), where she was responsible for financial management. Since October 2014 and currently, she founded Shenzhen Rui Fu Xing Biological Technology Company Limited* (深圳瑞福興生物科技有限公司) of which she is the legal representative and chief manager, and is responsible for operation of the company. From February 2016 until present, she is the chief manager of Shenzhen Yi Shang Shi Dai Cultural Development Company Limited* (深圳市易商世代文化發展有限公司).

Mr. CHEUNG Wai Yeung Michael (張威揚), aged 45, was appointed as an independent non-executive Director on 20 August 2018. Mr. Cheung obtained a Bachelor of Business Administration in Accounting from the University of Wisconsin — Madison, school of business, Wisconsin, USA in 1997. He has been the chief operating officer of TBWA China from July 2018 to 30 June 2019 and chief financial officer from May 2015 to June 2018. He is also the chief operating officer of TBWA HAKUHODO China since January 2019 and chief financial officer from September 2015 to December 2018. He worked with ThreeSixty Group as the chief financial officer from August 2011 to May 2015. He was an executive director overseeing business operations and finance in media distribution and a regional finance director of The Walt Disney Company (Asia Pacific) Limited during the periods of April 2010 to August 2011 and March 2007 to March 2010 respectively. He worked with STAR Group Limited as a vice president in charge of business operations from September 2004 to March 2007 and as a senior finance manager from July 2002 to August 2004. He was an auditor at Arthur Andersen & Co from July 1997 to June 2002. In addition, Mr. Cheung became a member of the American Institute of Certified Public Accountants on 31 December 1997, and a Chartered Financial Analyst (CFA) charterholder on 13 September 2002. He became a member of the Hong Kong Institute of Certified Public Accountants on 20 February 2012, and a Chartered Global Management Accountant certified by the American Institute of Certified Public Accountants on 1 May 2012.

Mr. LIN Zhiyang (林志揚), aged 64, was appointed as an independent non-executive Director on 21 August 2015 and is mainly responsible for supervising and providing independent viewpoint to our Board. Mr. Lin obtained his bachelors degree, master degree and doctorate degree all in economics from Xiamen University (廈門大學) in February 1980, February 1985 and September 2002, respectively. Mr. Lin had been working in Xiamen University since February 1985. He was appointed as the vice dean of the corporate management department under the business school from October 1987 to October 1996, and was then promoted to the vice president of the management school and the dean of corporate management department from October 1996 to March 1999. From March 1999 to October 2007, he served as the vice president and was appointed as the secretary of the party committee of the management school from October 2007 to January 2013. Mr. Lin was a professor and a PhD tutor in the business school but now retired. Mr. Lin has served as an independent non-executive director in several companies listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange, including Fujian Longxi Bearing (Group) Co., Ltd* (福建龍溪軸承 (集團) 股份有限公司) (stock code: 600592.SH) from April 2008 to March 2014, Fujian Expressway Development Co., Ltd* (福建發展高速公路股份有限公司) (stock code: 600033.SH) from April 2009 to June 2015, San'an Optoelectronics Co., Ltd* (三安光電股份有限公司) (stock code: 6000703.SH) from November 2007 to November 2013 and Fujian Guanfu Modern Household Joint-stock Company Limited* (福建冠福現代家用股份有限公司) (stock code: 002102.SZ) from October 2008 to June 2015. He served as an independent director in Taiya Shoes Co., Ltd.* (泰亞鞋業股份有限公司) (now known as Kingnet Network Co., Ltd.* (愷英網絡股份有限公司)) (stock code: 002517.SZ), a company listed on the Shenzhen Stock Exchange. Mr. Lin is currently acting as an independent director in Fujian Zhangzhou Development Co., Ltd.* (福建漳州發展股份有限公司) (stock code: 000753.SZ), a company listed on the Shenzhen Stock Exchange, in Joeone Co., Ltd.* (九牧王股份有限公司) (stock code: 601566.SH), a company listed on the Shanghai Stock Exchange, Luyan Pharmaceutical Holdings Co., Ltd* (鷺燕醫藥股份有限公司) (stock code: 002788.SZ), and Clenergy (Xiamen) Technology Co., Ltd. (清源科技 (廈門) 股份有限公司) (stock code: 603628).

BOARD OF SUPERVISORS

Mr. ZU Li (祖力), aged 60, was appointed as a Supervisor on 31 May 2017. Mr. Zu obtained a bachelor's degree in dyeing works (染化工程) from Zhejiang Silk Textile Institute (浙江絲綢工學院) in July 1985 and worked for Liaoyuan Silk Dyeing and Printing Plant (遼源市絲織 印染廠) from August 1985 to December 1987. From January 1988 to December 1990, he worked for Yuanle Plush Company Limited (中外合資源樂毛絨有限公司) as a vice general manager. He worked for Jilin Liaoyuan Textile Bureau (中國吉林省遼源市紡織局) as a chief of sector from January 1991 to April 1992. From May 1992 to May 1997, he was a general manager of Jilin International Economic and Technology Cooperation Company Limited Shenzhen Branch (中國吉林國際經濟技術合作公司深圳分公司). He was a general manager of Shenzhen Hengduo Trading Company Limited (深圳市恆多貿易有限公司) from May 1997 to December 2001 and a general manager of Ruixin Xingye Investment Consultant (Shenzhen) Company Limited (瑞信興業投資諮詢 (深圳) 有限公司) from January 2002 to the present.

Mr. YE Weizhou (葉偉周), aged 29, was appointed to be a Supervisor as representative of the Company's staff on 8 June 2018. Mr. Ye gained his bachelor's degree in project management from Guangdong Industry University in July 2015. Currently he works as the head of funding in the finance department of the Company. He was granted the certificates of both Quality Control Officer and Safety Officer in May 2015. And he was granted the C level certificates in safety evaluation in September 2015. In July 2017, he was granted the Decoration Quality Officer certificate.

Mr. TIAN Wen (田文), aged 40, was appointed as a non-executive Director of our Company on 12 June 2012 and is mainly responsible for participating in the formulation of our Company's corporate and business strategies. Mr. Tian resigned as a non-executive Director and was appointed as a Supervisor of our Company on 19 March 2019. Mr. Tian graduated from the Faculty of Accounting of the School of Business in Renmin University of China (中國人民大學) with a bachelor's degree in economics in July 2002 and obtained his degree of Master of Business Administration in Finance in November 2012 from the Chinese University of Hong Kong (香港中文大學). Prior to joining our Company, Mr. Tian worked in the assurance department in PricewaterhouseCoopers Zhongtian LLP, Shenzhen office from August 2002 to April 2010, and successively served as junior auditor, senior auditor and deputy manager of the assurance department. Mr. Tian worked in Shenzhen Co-Win Asset Management Co., Ltd.* (深圳同創偉業資產管理股份有限公司) from April 2010 to January 2020. Mr. Tian is currently an executive director of HIGHLIGHT CAPITAL and a director in Shanghai Neoent Industrial Co., Ltd.* (上海紐恩特實業有限公司).

SENIOR MANAGEMENT

Mr. LIU Yilun (劉奕倫), is a vice president appointed on 21 August 2015 and a joint company secretary appointed on 16 September 2015. For biographical details of Mr. Liu, please refer to the paragraph headed "Executive Directors" above in this section.

Mr. YE Guofeng (葉國鋒), is a vice president appointed on 21 August 2015. For biographical details of Mr. Ye, please refer to the paragraph headed "Executive Directors" above in this section.

Mr. YE Niangting (葉娘汀), is a vice president appointed on 22 May 2014. For biographical details of Mr. Ye, please refer to the paragraph headed "Executive Directors" above in this section.

Ms. KOU Yue (寇悅), aged 46, was appointed as a vice president on 21 August 2015, as a joint company secretary and the chief financial officer on 16 September 2015, responsible for the financial management of our Company. Ms. Kou graduated from Tianjin Finance and Economic University (天津財經大學) with a bachelor's degree in international trade in July 1996. Thereafter, she gained a master's degree in banking from City University of Hong Kong (香港城市大學) and a master's degree in accountancy from Chinese University of Hong Kong (香港中文大學) in November 2005 and December 2008, respectively. Ms. Kou is also a member of the Chinese Certified Public Accountant (CICPA), the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Ms. Kou has 20 years of working experience in finance and accountancy. She had worked for Tianda Tiancai Company Limited* (天大天財股份有限公司) (now known as Tianjin Xinmao Science and Technology Co., Ltd.* (天津鑫茂科技投資集團), the shares of which are listed on the Shenzhen Stock Exchange with stock code 000836.SZ) as an accountant from September 1996 to September 1999. From September 1999 to October 2002, she had worked in the Assurance & Business Advisory Department of Ernst & Young, Beijing where she was responsible for pre-listing and post-listing annual auditing for companies listed in Hong Kong and the PRC. Ms. Kou then served as the finance manager in China Data Broadcasting Holding Limited (中華數據廣播控股有限公司) (now known as Changhong Jiahua Holdings Limited (長虹佳華控股有限公司), the shares of which are listed on the Hong Kong Stock Exchange with stock code 3991.HK) from October 2003 to February 2006 and vice president in KASH Strategic Holding Limited (嘉裕策略有限公司) from February 2006 to July 2006. From August 2006 to September 2007, Ms. Kou had served as an audit supervisor in Zhong Yi (Hong Kong) C.P.A. Company Limited (中逸 (香港) 會計師事務所有限公司). Thereafter, she worked as a manager for Thomas Lee & Partners Ltd. (瑞信國際有限公司) from October 2007 to May 2011, as a manager for GDTCPA Limited (嘉信會計師事務所有限公司) from June 2011 to January 2013, and as an audit manager in W. L. Ho & Co., CPA (何慧玲會計師事務所) from October 2013 to June 2015. She joined our Company in August 2015.

* *For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

2019 is a year full of challenges and changes. Pressured by the on-going Sino-U.S. trade war, China's economic growth has slowed down. It inevitably had a major impact on the building decoration industry.

On the other hand, although the Chinese economy is facing a serious challenge, its huge growth potential remains. While the building decoration industry has encountered its development bottlenecks, the solid and strong market demand on which the industrial development relies continues to be strong. There is still room for growth, with opportunities and challenges co-exist. The building decoration industry is shifting from a high-speed growth stage to a quality development stage.

BUSINESS REVIEW

The Group provides professional and comprehensive building decorative services for public and private clients (including state-owned enterprises, government departments and institutions, listed companies, foreign-funded enterprises, property developers and property management companies), mainly covering four areas (i) building decoration works; (ii) electrical and mechanical installation works; (iii) curtain wall engineering works; and (iv) fire safety engineering works. The Group's projects cover a wide range of buildings and properties, including commercial buildings, office buildings, industrial buildings, residential buildings, public buildings and infrastructure as well as hotels.

With over 20 years of operating history, the Group has gained substantial experience and established a solid reputation in the building decoration industry in the PRC, with a broad range of the highest level of qualifications and licences in the building decoration industry.

During the review, the Group showed satisfactory performances in brand-building and business commencement in 2019:

1. Two representative boutique projects of the Group, namely "1st Section of refined decoration of ancillary business hotel to T3 Shenzhen airport" and "Exterior wall decoration of Dongfu Jiuzuo Premises in Chengdu" were awarded National Construction Engineering and Decoration Award (中國建築工程裝飾獎);

2. The Group has obtained one new qualification: Grade III General Contractor of Environmental Protection Engineering;

3. The Group was awarded three grand prizes including "Innovative Environmental Protection Leading Enterprise (創新環保先鋒企業)", "Shenzhen Craftsman Cultivating Model Enterprise (深圳工匠培育示範單位)" and "Shenzhen Enterprise Innovation Record (第十八屆深圳企業創新紀錄)", as well as being ranked the 356th in "Top 500 Guangdong Competitive Enterprises".

As at 31 December 2019, our Group had 22 branch offices and representative offices in 17 provinces, autonomous regions and municipalities.

Throughout 2019, the Group has signed 327 new contracts with a value of more than RMB1 million each, 39 contracts with a value of more than RMB10 million each, and 8 contracts with a value of more than RMB50 million each.

Throughout 2019, the Group carried out 442 projects (each with a contract value of more than RMB1 million). The total contract value is approximately RMB4.8 billion, including 97 projects with a contract value of more than RMB10 million each and 13 projects with a contract value of more than RMB50 million each.

Since 2013, the Company has been awarded the certificate of "High and New-Technology Enterprise (高新技術企業)" ("HNTE") by relevant PRC governmental authorities and has been enjoying a preferential Enterprise Income Tax rate of 15%. The HNTE Certificate of the Company has been renewed in 2019, which is valid for three years from 2019 to 2021.

FINANCIAL REVIEW

Revenue and gross profit margin

The Group's revenue decreased by 15.7% from approximately RMB1,830.8 million for the year ended 31 December 2018 to approximately RMB1,542.8 million for the year ended 31 December 2019. The decrease in revenue was mainly due to decrease in revenue recognized from of higher-valued contract (each with a contract value of more than RMB10 million) in 2019.

The Group's gross profit decreased by 17.9% from approximately RMB253.1 million for the year ended 31 December 2018 to approximately RMB207.9 million for the year ended 31 December 2019. The gross profit margin decreased from 13.8% for the year ended 31 December 2018 to 13.5% for the year ended 31 December 2019, which is mainly due to the fact that slowing down in market growth and severe competition led to lower gross margin in our new projects.

Profit for the year

Profit for the year decreased by 46.2% from approximately RMB130.7 million for the year ended 31 December 2018 to approximately RMB70.3 million for the year ended 31 December 2019. The net profit margin were 4.6% and 7.1% for the years ended 31 December 2019 and 2018, respectively. Such decrease was mainly attributable to (1) the gross profit margin of the new projects decreased due to the slowing growth and increasing competition of building decoration industry; (2) due to the recent economic deterioration and after careful consideration, the Company made further provision in relation to certain large projects of which the settlement or payment process has been delayed.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2019 and 2018, the Group had cash and cash equivalents of approximately RMB254.6 million and approximately RMB180.1 million, respectively. The increase in cash and cash equivalents is primarily due to the increased cash inflow from operating activities for the year ended 31 December 2019.

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

1. Trade receivables and contract assets

The trade receivables increased significantly from approximately RMB589.1 million as at 31 December 2018 to approximately RMB1,255.0 million as at 31 December 2019. The trade receivables are the amounts due from customers in the ordinary course of business. Such increase mainly due to (a) in 2019, we have put in extra effort to urge customers with long due balance to come up into settlement agreements with us; and (b) in 2019, we strictly enforce the settlement clauses in the agreements in recognition of trade receivables.

The contract assets decreased from approximately RMB1,581.8 million as at 31 December 2018 to approximately RMB985.2 million as at 31 December 2019. The level of the amounts due from customers for contract work as at a given reporting date is mainly affected by the duration between our request of interim progress payment and the endorsement on the project progress report. Such decrease was mainly due to the same reasons above-mentioned for the increase in the trade receivables.

2. Trade and other payables

Trade and other payables increased from approximately RMB904.0 million as at 31 December 2018 to approximately RMB956.4 million as at 31 December 2019 primarily due to our negotiation with suppliers for a longer settlement term. As at 31 December 2019, notes payables of RMB50.0 million were secured by the Group's trade receivables and contract assets of totalling RMB56.6 million and guaranteed by certain related parties (2018: nil).

3. Borrowings

As at 31 December 2019, the Group had borrowings amounting to approximately RMB417.2 million (2018: approximately RMB496.0 million) which are mainly interest-bearing bank borrowings and repayable within one year. As at 31 December 2019, the Group did not have any inter-company borrowings. As at 31 December 2019, borrowings were secured by the Group's trade receivables and contract assets of totalling RMB420.9 million (2018: RMB400.7 million) and guaranteed by certain related parties.

4. Gearing ratio

The gearing ratio was 11% as at 31 December 2019 while the ratio as at 31 December 2018 was 23%. The decrease was mainly attributable to a decrease in bank borrowing and an increase in cash and cash equivalents for the year ended 31 December 2019.

Gearing ratio represents net debt divided by total capital. Net debt is calculated as total borrowings plus lease liabilities less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated statement of financial position plus net debt.

5. Capital expenditure

Capital expenditures decreased from approximately RMB4.8 million for the year ended 31 December 2018 to approximately RMB0.4 million for the year ended 31 December 2019 primarily because the Group has endeavoured to control our capital expenditure.

6. Capital commitments

As at 31 December 2019, the Group had no capital commitments (2018: nil).

7. Contingent liabilities

As at 31 December 2019, the Group had no material contingent liabilities (2018: nil).

8. Fluctuation of RMB Exchange Rate and Foreign Exchange Risks

The majority of the Group's business and all bank borrowings are denominated and accounted for in RMB. Therefore, the Group does not have significant exposure to foreign exchange fluctuation. The Board does not expect that the fluctuation of RMB exchange rate and other foreign exchange fluctuations will have material impact on the business operations or financial results of the Group.

The Group currently has no hedging policy with respect to the foreign exchange risks. Therefore, the Group has not entered into any hedging transactions to manage the potential fluctuation in foreign currencies.

USE OF PROCEEDS

1. Use of proceeds from the initial public offering completed in November 2016

The Company's H shares were listed and commenced trading on the Stock Exchange on 25 November 2016, with net proceeds of approximately HK$228.1 million (amounted to approximately RMB203.4 million) after deducting relevant listing expenses. As at 31 December 2019, the net proceeds have been fully utilized, and the use of proceeds as stated in the prospectus dated 15 November 2016 remained unchanged.

The utilization breakdown is as follows:

(i) approximately RMB70.8 million was used to establish an internal online supply chain management platform;

(ii) approximately RMB31.1 million was used to improve and upgrade the Group's internal integrated IT infrastructure for business;

(iii) approximately RMB27.1 million was used to strengthen the Group's research and development capabilities and establish a research and development laboratory;

(iv) approximately RMB40.7 million was used to further expand the geographical coverage of the Group's services and optimise and the Group's branch network;

(v) approximately RMB13.8 million was used to upgrade the Group's design system and recruit more design professionals;

(vi) approximately RMB19.9 million was used for supplementing working capital.

2. Use of proceeds from H shares placing completed in November 2018

On 15 November 2018, in order to optimise and diversify the Shareholder base of the Company and strengthen the financial position of the Company for future investment, the Company entered into a placing agreement with a placing agent whereby the Company conditionally agreed to place, through the placing agent, on a best effort basis, 10,000,000 new H shares of the Company of RMB1.00 each to not less than six and not more than ten independent placees, being professional, institutional or other investors, who and whose ultimate beneficial owners, are independent third parties who are not connected person(s) of the Company and are independent of and not connected with the Company or Directors, chief executive, or substantial Shareholders of the Company or any of its subsidiaries or their respective associates at a price of HK$7.00 per H share pursuant to the general mandate granted to the Directors by the Shareholders at the annual general meeting held on 8 June 2018. The closing price at the date of placing agreement of the Company's Shares was HK$7.48 per H share and the net price per Placing Share is approximately HK$6.77. All the conditions set out in the Company's new H shares placing agreement have been fulfilled and the placing was completed on 30 November 2018, with net proceeds of approximately HK$67.7 million (amounted to approximately RMB60.1 million) after deducting relevant listing expenses.

As at 31 December 2019, the net proceeds have been fully utilized, and the usage of proceeds as stated in the announcement dated 15 November 2018 remained unchanged. The utilization breakdown is as follows:

(i) approximately 25% (approximately RMB15.0 million) was used for working capital of the Company; which includes (i) payment of tender bond (RMB1.0 million), (ii) procurement of project materials (excluding the procurement of raw materials for Procurement Online Platform) (RMB4.0 million), (iii) payment of performance bond (RMB1.9 million), (iv) prepayment of income tax (RMB7.7 million); and (v) payment of administrative and general expenses (RMB0.4 million).

(ii) approximately 20% (approximately RMB12.0 million) was used for repayment of the bank facilities of the Company; and

(iii) approximately 55% (approximately RMB33.1 million) was used for business development of the Company, which was used for sourcing raw materials to be distributed/allocated to the Company's projects through the procurement online platform.

3. Use of proceeds from subscriptions of domestic shares completed in July 2019

Reference is made to the announcements of the Company dated 9 May 2019, 22 May 2019 and 28 May 2019, and the circular of the Company dated 17 June 2019 (the "Subscription Circular") in relation to the subscription of domestic shares under the First Domestic Share Subscription Agreement and Second Domestic Share Subscription Agreements (as amended by the Termination Agreements) (collectively, the "Subscription Agreements"). Capitalised terms used herein shall have the same meanings as defined in the Subscription Circular.

To strengthen the financial position of the Company, the Company entered into First Domestic Share Subscription Agreement and Second Domestic Share Subscription Agreements (as amended by the Termination Agreements) (collectively, the "Subscription Agreements") with details as follows:

(i) 12,580,645 new Domestic shares of the Company of RMB1.00 each to Ningbo Meishan Bonded Area Yingxiang Investment Center (Limited Partnership), a connected person of the Company at a price of RMB6.2 per Domestic share pursuant to the specific mandate granted to the Directors by the Shareholders at the extraordinary general meeting held on 11 June 2019. The net price per Subscription Share is approximately RMB6.18; and

(ii) 7,300,000 new Domestic shares of the Company of RMB1.00 each to not less than six and not more than ten individual investors, who are independent from and not connected with the Company and its connected persons, at a price of RMB6.2 per Domestic share pursuant to the general mandate granted to the Directors by the Shareholders at the annual general meeting held on 8 June 2018. The net price per Subscription Share is approximately RMB6.19.

The Subscription Agreements were completed on 31 July 2019, with net proceeds of approximately RMB123.0 million after deducting related expenses.

As at 31 December 2019, the net proceeds have been fully utilized, and the usage of proceeds as stated in the announcement dated 17 June 2019 remained unchanged.

The utilization breakdown is as follows:

(i) approximately 25% (approximately RMB30.8 million) was used for working capital of the Company; which includes (a) payment of tender bond and performance bond (RMB9.3 million); (b) procurement of project materials (excluding the procurement of raw materials for Procurement Online Platform) (RMB15.4 million); (c) prepayment of income tax (RMB4.6 million); and (d) payment of administrative and general expenses (RMB1.5 million);

(ii) approximately 20% (approximately RMB24.7 million) was used for repayment of the bank facilities of the Company; and

(iii) approximately 55% (approximately RMB67.8 million) was used for business development of the Company, which was used for sourcing raw materials to be distributed/allocated to the Company's projects through the procurement online platform.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Group had no significant investments, or acquisitions and disposals of subsidiaries during the year.

FUTURE DEVELOPMENT PROSPECT AND STRATEGIES

Striving to be a global leading position of comprehensive environmental-friendly decoration service provider, the Group will focus on its core business in 2020, especially in the segment areas and regional markets, and enhance our performance from the longitudinal and lateral points of view. The Group believes that the following strategies will help further enhance its competitiveness and operating results:

1. To pay attention on segmentation of markets and focusing on regional development

The Group will focus on the support and development of the business in medical care and hotel segments, continue to reinforce and highlight our advantage in these segments. We will focus on the development in Guangdong-Hong Kong-Macao Greater Bay Area, and exploring the chance in winning tender bids which align with our corporate development strategies in order to layout ahead of the competitions. We will keep an eye on the development of Hainan free trade zone and planning in advance on the strategies and our market entry.

2. Optimize the project management process and promote management quality and efficiency

The Group will continue to optimize the project management process and improve the efficiency of the project management through business process re-engineering and innovative solution. We will maximize the utilization of the Group's collective purchasing platform and to enhance the economy of scale, in order to ensure the premium quality of our projects.

3 Strengthen the talent pool

The Group will strengthen the corporate culture and improve the cohesive force, communications skills, coordination skills, problem-solving skills of the team, and thrive to build a talent team branded as market-developing, professional, enterprising, transformational and comprehensive in management.

4. Deepen the comprehensive governance of the Group

The Group will focus on maintaining and improving the qualification, improving the research and development skills, maintaining and upgrading the brand value, integrated development in corporate finance and managing with standardized approach in refined segments, so as to promote our competitiveness and influential power.

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is building decoration service that mainly covers four areas, namely (i) building decoration works; (ii) electrical and mechanical installation works; (iii) curtain wall engineering works; and (iv) fire safety engineering works. There were no significant changes in the nature of the Group's principal activities during the year.

The Group's performance by segments is set out in note 5 to the consolidated financial statements.

RESULTS

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

BUSINESS AND FINANCIAL REVIEW

The business and financial review of the Group for the year ended 31 December 2019 and a discussion on the Group's future development are set out in the section head "Management Discussion and Analysis" on pages 10 to 15 of this annual report.

KEY RISKS AND UNCERTAINTIES

Business and Market

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

In addition, the Group is susceptible to the adverse changes in national or local policies related to the PRC real estate industry and construction industry, including those that control the supply of land for property development, project financing, foreign investment and taxation. During the year, the PRC Government implemented various regulations and policies aimed to cool the real estate market and the inflation of property prices. Various property price control policies, including limitations on the purchase of property outside the city of registered residence, restrictions on real estate loans and higher interest rates for second-hand property transactions, have been implemented in recent years. These policies may affect the level of activity in the PRC real estate industry, which in turn affects the number of construction projects available to the Group prices. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Financial

The major financial risks faced by the Group are interest risk, credit risk and liquidity risk. Management of the Group meets regularly to analyse and formulate measures to manage the Group's exposure to these risks. The risk management objectives and policies of the financial risk are set out in the note 3 to the consolidated financial statements.

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

Tax Relief and Exemption

The Directors are not aware of any tax relief and exemption available to the Shareholders in light of their holding of the Company's securities.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

EVENTS AFTER THE REPORTING PERIOD

Pursuant to the announcement issued by the Company on 9 September 2019, the Company is considering applying to the China Securities Regulatory Commission (the "CSRC") for issue of A shares of the Company, and is also considering applying to the Shanghai Stock Exchange or the Shenzhen Stock Exchange for the listing of such A shares. The proposed issue of A shares is in progress and the Company will publish further announcement as and when appropriate. There is no assurance that the proposed issue of A shares will proceed and the proposed issuance is subject to, among other matters, the approvals by the Shareholders of the Company, CSRC and other relevant regulatory authorities. Shareholders and potential investors of the Company are advised to exercise caution when trading in the shares of the Company.

Due to the outbreak of the Coronavirus Disease 2019 (COVID-19) epidemic in the PRC in January 2020, the Group's operational and financial performance, as well as the construction decoration industry in general are expected to be affected by the epidemic in the first half of 2020. Individual projects in Hubei province may be delayed, but the actual impact is still under assessment by the Group. The Group will keep continuous attention on the situation of the COVID-19, assess and react actively to its impacts on the financial position and operating results of the Group. Up to the date of this report, the assessment is still in progress.

Save as disclosed in this report, there is no other event subsequent to 31 December 2019 which requires disclosure in this report.

ENVIRONMENTAL PROTECTION

The environmental protection policy adopted by the Group is set out in the section head "Environmental, Social and Governance Report" on pages 37 to 53 of this annual report.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Directors and management team, comprising experienced professionals that possess extensive technical and industry experience, have a proven record of successfully operating and expanding the business. Therefore, the Group ensures that the remuneration package of Directors and management are reasonable and competitive in the market; and continues to improve and regularly review the policies on remuneration and benefits.

With the efforts of sales and marketing team, the Group have established solid relationships with many of our long-term customers. We continue to maintain such relationships by conducting periodic visits to understand the construction needs of our customers and learn about their new projects.

The Group is in good relationship with its suppliers. The procurement department maintains a list of qualified suppliers, from which project management department procures on an as-needed basis. The qualified suppliers are selected based on various criteria, including price, quality, record of timely delivery, location, supply capacity, credit terms and customer service. The procurement department is responsible to review and update the list of qualified suppliers annually.

SHARE CAPITAL

During the year ended 31 December 2019, 7,300,000 Domestic shares were issued under the general mandate and 12,580,645 Domestic Shares were issued under the specific mandate. For details, please refer to the announcements of the Company dated 9 May 2019, 22 May 2019 and 28 May 2019, and the circular of the Company dated 17 June 2019.

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

Class of Shares	Number of shares	Approximate percentage of the total issued share capital
Domestic Shares	178,167,645	73.9%
H Shares in issue	62,763,000	26.1%
Total	240,930,645	100.0%

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2019.

DIVIDEND POLICY

The Company has established its dividend policy. When the Company records a profit and after taking into account other relevant factors, we would pay dividend to our Shareholders according to the Articles of Association and applicable laws. However, such dividend is non-guaranteed. Our decision on dividend distribution depends on the financial situation of our Company, future market prospects, funding needs the Company and any other relevant factors which the Company thinks fit.

The remaining net profits after dividend payout (if any) would be used for the development of the Company.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from Tuesday, 12 May 2020 to Friday, 12 June 2020, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the aforesaid annual general meeting, all transfers of H Shares together with the relevant share certificates must be delivered to the Company's H Share Registrar Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queens's Road East, Hong Kong no later than 4:30 p.m. on Monday, 11 May 2020. All transfers of Domestic Shares together with the relevant documents must be delivered to the Company's head office at 3rd Floor, Pengyi Garden Building 1, Bagua No. 1 Road, Futian District, Shenzhen, the People's Republic of China no later than 4:30 p.m. on Monday, 11 May 2020.

PUBLIC FLOAT

As at the date of this report, based on the available public information of the Company, so far as the Directors are aware of, the Company has met the requirements of public float under the Rule 8.08 of the Listing Rules.

PROPERTY, PLANT AND EQUIPMENT

For the year ended 31 December 2019, the Group acquired additional property and equipment of approximately RMB0.4 million. Details of the movements are set out in note 15 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2019, there was no purchase, sale or redemption by the Company or any of its subsidiaries of any listed securities of the Company.

RESERVES

Details of the movements in the reserves of the Group during the year ended 31 December 2019 are set out in the section headed "Consolidated Statement of Changes in Equity" on page 62 of this annual report.

DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Company, and of which details of reserves available for distribution to Shareholders are set out in note 29 to the consolidated financial statements. As at 31 December 2019, reserves available for distribution of the Company amounted to RMB612.0 million (2018: RMB570.0 million).

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate amount of revenue from the Group's largest and five largest customers for the year ended 31 December 2019 represented approximately 8.2% (2018: 7.7%) and 22.6% (2018: 18.0%), respectively, of the Group's total revenue.

The aggregate amount of purchases from the Group's largest and five largest suppliers for the year ended 31 December 2019 represented approximately 7.6% (2018: 15.7%) and 33.4% (2018: 36.8%), respectively, of the Group's total purchases.

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

DIRECTORS

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

Executive Directors

Mr. YE Yujing (葉玉敬先生)
Mr. LIU Yilun (劉奕倫先生)
Ms. YE Xiujin (葉秀近女士)
Mr. YE Guofeng (葉國鋒先生)
Mr. YE Niangting (葉娘汀先生)

Non-executive Directors

Ms. LI Yuanfei (黎媛菲女士) *(Appointed on 19 March 2019)*
Mr. TIAN Wen (田文先生) *(Resigned on 19 March 2019)*

Independent Non-executive Directors

Mr. CHEUNG Wai Yeung Michael (張威揚先生)
Ms. ZHAI Xin (翟昕女士) *(Appointed on 11 June 2019)*
Mr. LIN Zhiyang (林志揚先生)
Mr. WANG Zhaowen (王肇文先生) *(Resigned on 11 June 2019)*

BOARD OF SUPERVISORS

Mr. ZU Li (祖力先生)
Mr. YE Weizhou (葉偉周先生)
Mr. TIAN Wen (田文先生) *(Appointed on 19 March 2019)*
Mr. YE Xian (葉縣先生) *(Resigned on 19 March 2019)*

The biographical details of the Directors and Supervisors are disclosed the section headed "Biographical Details of Directors, Supervisors and Senior Management" on pages 6 to 9 in this annual report.

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

As at 31 December 2019, the interests or short positions of the Directors, Supervisors and the chief executive in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) which will be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") to be notified to the Company and the Hong Kong Stock Exchange are as follows:

Director/Supervisor	Nature of interest	Number of shares of the Company	Approximate percentage of shareholdings in the relevant class of Shares of the Company[1]	Approximate percentage of shareholdings in the total share capital of the Company[2]
YE Yujing (葉玉敬) *(Note 3)*	Beneficial Owner	67,694,000	37.99%	28.10%
	Interest of spouse	15,504,000	8.70%	6.44%
YE Xiujin (葉秀近) *(Note 4)*	Beneficial Owner	15,504,000	8.70%	6.44%
	Interest of spouse	67,694,000	37.99%	28.10%
YE Guofeng (葉國鋒) *(Note 5)*	Interest in a controlled corporation	6,075,000	3.41%	2.52%
YE Xian (葉縣) *(Note 6)*	Beneficial Owner	10,336,000	5.80%	4.29%
LI Yuanfei (黎媛菲) *(Note 7)*	Interest in a controlled corporation	22,580,645	12.67%	9.37%

Notes:

1. The calculation is based on the percentage of shareholdings in the Domestic Shares.

2. The calculation is based on the total number of 240,930,645 Shares in issue after the issue of 19,880,645 new Domestic Shares.

3. Mr. Ye Yujing is the husband of Ms. Ye Xiujin. Under the SFO, Mr. Ye Yujing will be deemed to be interested in the same number of Shares in which Ms. Ye Xiujin is interested.

4. Ms. Ye Xiujin is the wife of Mr. Ye Yujing. Under the SFO, Ms. Ye Xiujin will be deemed to be interested in the same number of Shares in which Mr. Ye Yujing is interested.

5. ShenZhen Gong Xiang Li Investment Entity (Limited Partnership) (深圳市共享利投資企業 (有限合夥)) ("Shenzhen Gong Xiang Li"), a limited partnership entity established under the PRC laws, is owned as to 88.15% by Mr. Ye Guofeng, our executive Director. In light of the above, Mr. Ye Guofeng is deemed to be interested in all the Shares held by Shenzhen Gong Xiang LI.

6. Mr. Ye Xian resigned as the Supervisor of the Company on 19 March 2019.

7. Ms. Li Yuanfei is a partner of Shenzhen Qianhai Xingwang Investment Management Co., Ltd (深圳前海興旺投資管理有限公司) ("Shenzhen Qianhai Xingwang"). Shenzhen Qianhai Xingwang is the general partner of Ningbo Meishan Bonded Area Xingwang Yinghua Equity Investment Center (Limited Partnership) (寧波梅山保税港區興旺贏華股權投資中心 (有限合夥)) ("Ningbo Xingwang Yinghua"), and Ningbo Meishan Bonded Area Yingxiang Investment Center (Limited Partnership) (寧波梅山保税港區瀛享投資中心 (有限合夥)) ("Ningbo Yingxiang"), which are interested in 10,000,000 and 12,580,645 domestic shares of the Company respectively.

   In light of the above, Ms. Li Yuanfei is deemed to be interested in all shares held by Ningbo Xingwang Yinghua and Ningbo Yingxiang under the SFO.

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

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

Name of Shareholders	Class of Shares held after the Global Offering	Nature of interest	Number of shares of the Company	Approximate percentage of shareholdings in the relevant class of Shares of the Company[1]	Approximate percentage of shareholdings in the total share capital of the Company[2]
Ningbo Meishan Bonded Area Yingxiang Investment Center (Limited Partnership) (寧波梅山保稅港區瀛享投資中心(有限合夥)) (Note 3)	Domestic Shares	Beneficial Owner	12,580,645	7.06%	5.22%
Ningbo Meishan Bonded Area Xingwang Yinghua Equity Investment Center (Limited Partnership) (寧波梅山保稅港區興旺嬴華股權投資中心(有限合夥)) (Note 4)	Domestic Shares	Beneficial Owner	10,000,000	5.61%	4.15%
Shenzhen Qianhai Xingwang Investment Management Co., Ltd (深圳前海興旺投資管理有限公司) (Note 3) (Note 4)	Domestic Shares	Interest in a controlled corporation	22,580,645	12.67%	9.37%
Shenzhen Qianhai Xingwang Investment Center (Limited Partnership) 深圳前海興旺投資中心 (有限合夥) (Note 3) (Note 4)	Domestic Shares	Interest in a controlled corporation	22,580,645	12.67%	9.37%
Xiong Mingwang (熊明旺) (Note 3) (Note 4)	Domestic Shares	Interest in a controlled corporation	22,580,645	12.67%	9.37%
South China Sea Selected (Tianjin) Equity Investment Fund Limited Partnership Corporation (Limited Partnership) (南海成長精選(天津)股權投資基金合夥企業(有限合夥)) (Note 5)	Domestic Shares	Beneficial Owner	17,000,000	9.54%	7.06%
Shenzhen Co-Win Asset Management Holding Company Limited (深圳市同創偉業資產管理股份有限公司) (Note 5)	Domestic Shares	Interest in a controlled corporation	17,000,000	9.54%	7.06%
Shenzhen Co-Win Venture Capital Investments Limited (深圳市同創偉業創業投資有限公司) (Note 5)	Domestic Shares	Interest in a controlled corporation	17,000,000	9.54%	7.06%
Shenzhen Co-Win Jinxiu Asset Management Limited (深圳同創錦繡資產管理有限公司) (Note 5)	Domestic Shares	Interest in a controlled corporation	17,000,000	9.54%	7.06%
Zheng Wei He (鄭偉鶴) (Note 5)	Domestic Shares	Interest in a controlled corporation	17,000,000	9.54%	7.06%
Huang Li (黃荔) (Note 5)	Domestic Shares	Interest in a controlled corporation	17,000,000	9.54%	7.06%
Ding Bao Yu (丁寶玉) (Note 5)	Domestic Shares	Interest in a controlled corporation	17,000,000	9.54%	7.06%

Notes:

1. The calculation is based on the percentage of shareholdings in the Domestic Shares and H Shares (as the case may be).

2. The calculation is based on the total number of 240,930,645 Shares in issue after the issue of 19,880,645 new Domestic shares.

3. Ningbo Meishan Bonded Area Yingxiang Investment Center (Limited Partnership) ("Ningbo Yingxiang") is a limited partnership incorporated in the PRC on 10 May 2017. As of 31 December 2019, Ningbo Yingxiang is owned as to 12%, 6%, 6%, 6%, 4.8%, 3.96%, respectively by Zhao Anchang, by Cheng Donghai, by Feng Qing, by Gu Qijun, by Cen Yinglan, by Chen Min; as to 3.6% by each of Zhang Linkui, Guo Dong, Qiao Xiuqin, Qiu Yingji, Yang Weiguang, Wang Zeliang, Xia Binquan, Ren Wei, Tang Zhiqing, Jiang Xiaochun, Zhu Weiliang, Sun Yihua, Yu Huagui, Qu Maojuan, Wang Jianping, Xia Liping, Wang Qing; and as to 0.01% by Shenzhen Qianhai Xingwang Investment Management, which is a limited liability company established under PRC law on 15 June 2015 is owned as to 99% by Shenzhen Qianhai Xingwang Investment Center (Limited Partnership) ("Shenzhen Qianhai Xingwang Investment Center") and 1% by Xiong Mingwang. Shenzhen Qianhai Xingwang Investment Center, a limited partnership entity established under PRC law on 1 February 2016 is owned as to 99% by Xiong Mingwang and 1% by Liu Jun.

   In light of the above, Shenzhen Qianhai Xingwang Investment Management, Shenzhen Qianhai Xingwang Investment Center and Xiong Mingwang are deemed to be interested in all shares held by Ningbo Yingxiang under the SFO.

4. Ningbo Meishan Bonded Area Xingwang Yinghua Equity Investment Center (Limited Partnership) ("Ningbo Xingwang Yinghua"), a limited partnership entity established under PRC law on 6 March 2017, is controlled by the general partner, Shenzhen Qianhai Xingwang Investment Management as of 31 December 2019. As of 31 December 2019, Ningbo Xingwang Yinghua is owned as to 31.60%, 15.80%, 9.48%, 7.90%, 7.90%, 7.90%, 6.48%, 6.32%, 4.74%, 1.58% and 0.32%, respectively by Bai Xinliang, by Cui Hegen, by Zhang Yao, by Gu Jianfang, by Zhou Ying, by Wu Mohai, by Liu Jun, by Gu Bin, by Yang Mingjiong, by Liu Qian and by Shenzhen Qianhai Xingwang Investment Management, which is a limited liability company established under PRC law on 15 June 2015 is owned as to 99% by Shenzhen Qianhai Xingwang Investment Center and 1% by Xiong Mingwang. Shenzhen Qianhai Xingwang Investment Center, a limited partnership entity established under PRC law on 1 February 2016 is owned as to 99% by Xiong Mingwang and 1% by Liu Jun.

   In light of the above, Shenzhen Qianhai Xingwang Investment Management, Shenzhen Qianhai Xingwang Investment Center and Xiong Mingwang are deemed to be interested in all shares held by Ningbo Xingwang Yinghua under the SFO.

5. South China Sea Selected (Tianjin) Equity Investment Fund Limited Partnership Corporation (Limited Partnership) ("South China Sea LP"), a limited partnership entity established under PRC laws on 13 April 2011, is controlled by four general partners who were as at 31 December 2019, (i) Shenzhen Co-Win Jinxiu Asset Management Limited ("Shenzhen Co-Win Jinxiu Asset"), (ii) Zheng Wei He; (iii) Huang Li; and (iv) Ding Bao Yu. Shenzhen Co-Win Jinxiu Asset, a limited liability company established under PRC laws on 24 December 2014, is a wholly-owned subsidiary of Shenzhen Co-Win Asset Management Holding Company Limited ("Shenzhen Co-Win Asset"). Shenzhen Co-Win Asset, a company limited by shares established under PRC laws on 27 December 2010 is owned as to 35.01% by Shenzhen Co-Win Venture Capital Investments Limited ("Shenzhen Co-Win Venture Capital"), 15.02% by Zheng Wei He, 14.94% by Huang Li, 10.45% by Shenzhen Co-Win Victory Investment Limited Partnership Corporation (Limited Partnership) (深圳同創創贏投資合夥企業 (有限合夥)) ("Shenzhen Co-Win Victory LP"), 7.13% by Shenzhen Co-Win South China Asset Management Company Limited (深圳市同創偉業南海資產管理有限公司) which is a limited liability company established under PRC laws on 5 February 2013 and is wholly-owned by Shenzhen Co-Win Venture Capital,3.38% by Ding Bao Yu, 1.60% by Xue Xiaoqing, 1.07% by Zhang Wenjun, 1.07% by Duan Yao, 0.89% by Tang Zhongcheng (唐忠誠) as at 31 December 2019, with the remaining 9.44% owned by other shareholders. Shenzhen Co-Win Venture Capital, a limited liability company established under PRC laws on 26 June 2000, is owned as to 45% by Zheng Wei He and 55% by Huang Li. In light of the above, Shenzhen Co-Win Jinxiu Asset, Shenzhen Co-Win Asset, Shenzhen Co-Win Venture Capital, Zheng Wei He, Huang Li and Ding Bao Yu are deemed to be interested in all Shares held by South China Sea LP under the SFO.

PERMITTED INDEMNITY PROVISIONS

At no time during the year ended 31 December 2019, there was or is, any permitted indemnity provision being in force for the benefit of any of the Directors.

CHANGE OF INFORMATION OF DIRECTORS AND SUPERVISORS

As disclosed in the announcement of the Company dated 28 January 2019, Mr. Tian Wen resigned as non-executive Director with effective from 19 March 2019. Ms. Li Yuanfei was appointed as a non-executive Director at the extraordinary general meeting held on 19 March 2019. Ms. Li Yuanfei entered into a letter of appointment with the Company as a non-executive Director of the Company for a term of three years from 19 March 2019.

As disclosed in the announcement of the Company dated 28 January 2019, Mr. Ye Xian resigned as a Supervisor of the Company with effective from 19 March 2019. On the same date, Mr. Tian Wen was redesignated as a Supervisor of the Company.

As disclosed in the announcement of the Company dated 25 April 2019, Mr. Wang Zhaowen resigned as independent non-executive Director, Chairman of Remuneration Committee, a member of the Audit Committee, Nomination Committee and Strategy Committee with effective after the conclusion of the annual general meeting on 11 June 2019. Ms. Zhai Xin was appointed as an independent non-executive Director at the annual general meeting held on 11 June 2019, for a term of three years from on 11 June 2019. Ms. Zhai Xin has been appointed as an independent non-executive Director, Chairman of Remuneration Committee, a member of the Audit Committee, Nomination Committee and Strategy Committee.

Save as disclosed above, there are no other changes to the Directors' and Supervisor's information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

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

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

SERVICE CONTRACTS WITH DIRECTORS AND SUPERVISORS

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

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries, or its parent company was a party and in which a Director or a Supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTION

To strengthen the financial position of the Company, on 9 May 2019, the Company and Ningbo Meishan Bonded Area Yingxiang Investment Center (Limited Partnership) ("Ningbo Yingxiang") entered into a subscription agreement, under which 12,580,645 new Domestic shares of the Company of RMB1.00 each were issued to Ningbo Yingxiang at a price of RMB6.2 per Domestic share, amounting to RMB78 million. For details, please refer to the announcement of the Company dated 9 May 2019 and the circular of the Company dated 17 June 2019.

As disclosed in the circular of the Company dated 17 June 2019, general partner of Ningbo Yingxiang is Shenzhen Qianhai Xingwang Investment Management Co., Ltd. Ms. Li Yuanfei, a Director of the Company, is a partner of and has control over Shenzhen Qianhai Xingwang Investment Management Co., Ltd. Being a controlled entity of Ms. Li Yuanfei, Ningbo Yingxiang is a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules. Accordingly, pursuant to Chapter 14A of the Listing Rules, Ningbo Yingxiang is a connected person of the Company.

RELATED PARTY TRANSACTIONS

During the year ended 31 December 2019, the Group entered into transactions with related parties set out in note 28 to the consolidated financial statements. Some of these related party transactions constituted connected transactions or continuing connected transaction as defined in Chapter 14A of the Listing Rules and the Company have complied with the disclosure requirement thereon.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

No contract of significance has been entered into among the Company and the Controlling Shareholders or any of their associates during the year ended 31 December 2019.

MANAGEMENT CONTRACTS

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

REMUNERATION OF THE DIRECTORS AND SUPERVISORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of the Directors and Supervisors of the Company and five highest paid individuals are set out in Note 8 to the consolidated financial statements.

REMUNERATION POLICY

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

DEED OF NON-COMPETITION

To ensure that competition will not exist in the future, Mr. Ye Yujing and Ms. Ye Xiujin as controlling shareholders (the "Controlling Shareholders") have entered into deed of non-competition (the "Deed of Non-Competition") with the Company to the effect that each of them will not, and will procure their subsidiaries (other than the Company) and their close associate(s) not to, directly or indirectly participate in, or hold any interest or right or otherwise be involved in, the principal business and other businesses.

NON-COMPETITION

The Group entered into the Deed of Non-Competition with the Controlling Shareholders on 16 September 2015 under which the Controlling Shareholders agreed not to, and to procure their subsidiaries and respective close associate(s) (as appropriate) (other than the Group) not to, compete, either directly or indirectly, with the principal business and other businesses, namely the design, survey and consultancy business and civil defense products manufacturing business, and granted to the Group the option for new business opportunities, option for acquisitions and pre-emptive rights.

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

The Company's independent non-executive Directors have reviewed the compliance with the Deed of Non-Competition by the Controlling Shareholders, and were satisfied that the terms of the Deed of Non-Competition had been duly complied with for the period from 1 January 2019 to the date of the annual report. The measures which the Company has adopted to ensure the compliance with the Deed of Non-Competition include:

(1) The Company has enquired with each of the Controlling Shareholders on whether each of the Controlling Shareholders or any of his/her close associates has engaged in any business which may directly or indirectly compete or may compete with the principal business of the Company, other than being a Director or Shareholder of the Company;

(2) The Company and the Board have requested the Controlling Shareholders to confirm to the Company regarding the compliance of the terms of the Deed of Non-Competition and the enforcement of undertakings under the Deed of Non-Competition. The Controlling Shareholders confirmed to the Company that they have complied with the terms of the Deed of Non-Competition for the period from 1 January 2019 to the date of the annual report; and

(3) The Company and the Board are not aware of any breach of the Deed of Non-Competition by the Controlling Shareholders for the period from 1 January 2019 to the date of the annual report.

DIRECTORS' COMPETING INTERESTS

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

AUDITOR

PricewaterhouseCoopers was appointed by the Directors as the auditor of the Company. PricewaterhouseCoopers will retire, and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting. A resolution for their re-appointment as auditor of the Company will be proposed at the forthcoming annual general meeting. The consolidated financial statements for the year ended 31 December 2019 have been audited by PricewaterhouseCoopers.

By order of the Board of Directors
Guangdong Adway Construction (Group) Holdings Company Limited*
Mr. Ye Yujing
Chairman, Executive Director and Chief Executive Officer

Shenzhen, PRC, 30 March 2020

* *For identification purpose only*

SUPERVISORS' REPORT

The current session the Board of Supervisors consists of three Supervisors (namely Mr. ZU Li (祖力), Mr. YE Weizhou (葉偉周先生) and Mr. TIAN Wen (田文先生)).

WORK OF THE BOARD OF SUPERVISORS

During the year ended 31 December 2019, all members of the Board of Supervisors earnestly safeguarded the interest of the Company and Shareholders as a whole, and prudently and honestly performed their duties in compliance with requirements Law of the PRC, relevant regulations and the Articles of Association; Supervisors attended all the Board meetings held in the year and supervised operating activities and financial condition of the Company as well as the performance of duties of Directors and senior management, thereby promoting the Company's standard operation and healthy development.

The annual meeting of the Supervisory Committee was held on 30 March 2020 to consider the 2019 consolidated financial statements of the Group and the report of Supervisory Committee for 2019 and to receive the report on the 2019 results announcement of the Company.

The Supervisory Committee is of the view that since the Listing Date and up to the date of this report, the operation of the Company has been consistent with the provisions of the Company Law of the PRC, the PRC Securities Law and the Articles of Association; that the decision-making process of the Company has been in compliance with the laws, and the Company has established a relatively comprehensible internal control system; and that the Directors and senior management have not violated any law, regulation or the Articles of Association, nor have they acted in a way which is prejudicial to the interests of the Company.

The Supervisory Committee agreed with the audit opinion on the 2019 consolidated financial statements of the Group, and that the consolidated financial statements of the Group have given a true and fair view of the consolidated financial position and the consolidated financial performance of the Group.

The Supervisory Committee considered that the Board earnestly implemented the resolutions approved by the general meetings.

In 2020, the Supervisory Committee will continue to carry out its fiduciary duties to implement effective supervision on the Company, its Directors and senior management in accordance with the relevant provisions of the Company Law of the PRC, the Articles of Association and the Listing Rules; and pay close attention to the operation and management status of the Company as well as any significant development of the Company, so as to facilitate the profit growth of the Company and to dutifully protect the interest of all Shareholders of the Company.

On Behalf of the Supervisory Committee
Mr. ZU Li
Chairman

Shenzhen, PRC, 30 March 2020

The Company is committed to maintain high standards of corporate governance and protect the interests of its Shareholders in an open manner.

The Board comprises five executive Directors, one non-executive Director and three independent non-executive Directors. The Board has adopted the code provisions (the "Code Provisions") of the Corporate Governance Code (the "CG Code") set out in Appendix 14 to the Listing Rules. Throughout the period since the Listing Date to the date of this annual report, the Company has fully complied with the Code Provisions, except for the following deviations.

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

Save as disclosed above, our Company expects to comply with the Corporate Governance Code set out in Appendix 14 to the Listing Rules. Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code each financial year.

BOARD OF DIRECTORS

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

Executive Directors:	Mr. YE Yujing (葉玉敬先生) Mr. LIU Yilun (劉奕倫先生) Ms. YE Xiujin (葉秀近女士) Mr. YE Guofeng (葉國鋒先生) Mr. YE Niangting (葉娘汀先生)
Non-executive Director:	Ms. LI Yuanfei (黎媛菲女士)
Independent Non-executive Directors:	Mr. CHEUNG Wai Yeung Michael (張威揚先生) Ms. ZHAI Xin (翟昕女士) Mr. LIN Zhiyang (林志揚先生)

Their biographical details and (where applicable) their family relationships are set out in the section headed "Biographical Details of Directors, Supervisors and Senior Management" on pages 6 to 9 in the annual report. A list of the Directors identifying their roles and functions and whether they are independent non-executive Directors are available on the Company's website.

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

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

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

According to Code A.1.8 of the CG Code, the Company should arrange appropriate insurance cover in respect of legal action against its directors. The Company has already bought the relevant insurance to cover the liability insurance for the Directors for the year of 2019 and renewed the insurance on 13 November 2019 to cover the period from 14 November 2019 to 13 November 2020.

Directors' Continual Training and Professional Development

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

On 19 December 2019, the Company, together with its legal advisers, organized training sessions to each of the Directors in relation to continual responsibilities of Hong Kong listed company and its directors before and after listing. In addition, briefings and updates on the latest development regarding the Listing Rules and other applicable regulatory requirements are provided to each of the Directors during Board meetings to ensure compliance and enhance their awareness of good corporate governance practices.

	Types of training	
Name of Directors	**Attending in-house training organized by professional organization**	**Reading materials updating on new rules and regulations**
Executive Directors		
Mr. YE Yujing (葉玉敬先生)	✓	✓
Mr. LIU Yilun (劉奕倫先生)	✓	✓
Ms. YE Xiujin (葉秀近女士)	✓	✓
Mr. YE Guofeng (葉國鋒先生)	✓	✓
Mr. YE Niangting (葉娘汀先生)	✓	✓
Non-executive Director		
Ms. LI Yuanfei (黎媛菲女士)	✓	✓
Independent Non-executive Directors		
Mr. CHEUNG Wai Yeung Michael (張威揚先生)	✓	✓
Ms. ZHAI Xin (翟昕女士)	✓	✓
Mr. LIN Zhiyang (林志揚先生)	✓	✓

Independence of Independent Non-Executive Directors

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

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

Each independent non-executive director has submitted annual confirmation of his independence to the Company pursuant to Rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all of the independent non-executive Directors are independent.

Board Committees

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

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

Audit Committee

The Company has established an audit committee on 21 August 2015 with its written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise our financial reporting process and internal control system, nominate and monitor external auditors and to provide advice and comments to the Board.

Our audit committee consists of three members, being Mr. CHEUNG Wai Yeung Michael, Ms. ZHAI Xin and Mr. LIN Zhiyang. Mr. CHEUNG Wai Yeung Michael currently serves as the chairman of our audit committee.

Throughout the year 2019, the meetings of the Audit Committee were held on 28 March 2019 and 28 August 2019. All committee members attended the said meetings during their present term of office.

Pursuant to the meeting of the Audit Committee on 28 March 2019, the Audit Committee has reviewed, among other things, the consolidated financial statements of the Group for the year ended 31 December 2019, including the accounting principles and practices adopted by the Group, report prepared by the external auditor covering major findings in the course of the audit, the risk management and internal control systems and the overall effectiveness of the Company's internal audit function and the adequacy of resources, qualifications and experience of the staff and the accounting and financial reporting matters, and selection and appointment of the external auditor.

Remuneration Committee

The Company has established a Remuneration Committee on 21 August 2015 with its written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee are to evaluate the performance and make recommendations on the remuneration of Directors and our senior management and to recommend members of the Board.

Our Remuneration Committee consists of three members, being Ms. ZHAI Xin, Mr. YE Guofeng and Mr. CHEUNG Wai Yeung Michael. Ms. ZHAI Xin currently serves as the chairman of our Remuneration Committee.

Pursuant to the meeting of the Remuneration Committee on 28 March 2019 of which all members attended during their present term of office, the Remuneration Committee has reviewed the remuneration policy and structure relating to the Directors and senior management of the Company.

Remuneration of Directors, Supervisors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on the remuneration of Directors, Supervisors and senior management of the Group. Details of the remuneration of each of the Directors and Supervisors for the year ended 31 December 2019 are set out in note 8 to the consolidated financial statements.

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

Remuneration band (RMB)	**Number of individuals**
0–1,000,000	4

Note: The 4 individuals include Mr. LIU Yilun, Mr. YE Guofeng, Mr. YE Niangting, and Ms. KOU Yue as members of senior management.

Nomination Committee

The Company has established a Nomination Committee on 21 August 2015 with its written terms of reference in compliance with paragraph A.5 of the Corporate Government Code set out in Appendix 14 to the Listing Rules. The primary duties of the Nomination Committee are to make recommendations to our Board regarding candidates to fill vacancies on our Board and/or in senior management.

Our Nomination Committee consists of three members, being Mr. LIN Zhiyang, Mr. YE Yujing and Ms. ZHAI Xin. Mr. LIN Zhiyang currently serves as the chairman of our Nomination Committee.

Pursuant to the meeting of the Nomination Committee on 28 March 2019 of which all members attended during their present term of office, the Nomination Committee has reviewed the policy for the nomination of Directors the structure, size and composition of the Board and assessed independence of the independent non-executive Directors.

To enhance the quality of the performance of the Board and to achieve diversity on the Board, the Board adopted its Board Diversity Policy, pursuant to which (i) all Board appointments will be based on meritocracy, and candidates will be considered against appropriate criteria, having due regard for the benefits of diversity on the Board; and (ii) selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural background and ethnicity, in addition to educational background, professional experience, skills, knowledge and length of service. If it involves the appointment of an independent non-executive Director of the Board, the Nomination Committee shall also consider the perspectives, skills and experience that the person can bring to the Board, and how the person would contribute to the diversity of the Board. The Company shall take into account its own business model and specific needs, and disclose the rationale for the factors it uses for this purpose. The ultimate decision be based on merit and contribution that the selected candidates will bring to the Board. For the purpose of implementation of the Board Diversity Policy, the following measurable objectives were adopted:

(1) at least one-third of the members of the Board shall be independent non-executive Directors;

(2) at least one of the members of the Board shall have obtained accounting or other professional qualifications;

(3) at least 70% of the members of the Board shall have more than ten years of experience in the industry he/she is specialised in; and

(4) at least two of the members of the Board shall have building decoration-related work experience; and

For the year ended 31 December 2019, the Board has fulfilled the measurable objectives of the Board Diversity Policy.

Strategy Committee

The Company has established a Strategy Committee on 21 August 2015. The primary duties of the Strategy Committee are to (1) research and recommend to the Board the long-term development and strategic plans of the Company; (2) research and recommend to the Board matters that are material to the development of the Company; (3) check the implementation of above-mentioned matters that are approved via Board meetings or Shareholders' meetings; and (4) deal with other strategic matters that are authorised by the Board.

Our Strategy Committee consists of five members, being Mr. YE Yujing, Ms. ZHAI Xin, Mr. LIN Zhiyang, Mr. LIU Yilun and Mr. YE Guofeng. Mr. YE Yujing currently serves as the chairman of our Strategy Committee.

Pursuant to the meeting of the Strategy Committee on 28 March 2019 of which all members attended during their present term of office, the Strategy Committee has researched the long-term development and strategic plans of the Company and recommended to the Board the matters that are material to the development of the Company.

Corporate Governance Functions

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

The Board developed, reviewed and monitored the Company's corporate governance policies and practices, training and continual professional development of Directors and senior management, and the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of Model Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report of Directors' Continual Training and Professional Development, and Independence of Independent Non-Executive Directors.

Attendance Record of Directors

All Directors have access to the advice and services of the company secretary with a view to ensuring the Board procedures are followed. During 2019, a total of 20 Board meetings, three general meetings, (the 2018 Annual General Meeting, the 2019 First Extraordinary General Meeting and the 2019 Second Extraordinary General Meeting,) were held. Attendance of each Director is set out as follows:

			Attendance/Number of Meetings			
Name of Director	**Board**	**Audit Committee(Note)**	**Remuneration Committee(Note)**	**Nomination Committee(Note)**	**Strategy Committee(Note)**	**General Meeting**
Mr. YE Yujing	20/20	N/A	N/A	1/1	1/1	3/3
Mr. LIU Yilun	20/20	N/A	N/A	N/A	1/1	3/3
Ms. YE Xiujin	20/20	N/A	N/A	N/A	N/A	3/3
Mr. YE Guofeng	20/20	N/A	1/1	N/A	1/1	3/3
Mr. YE Niangting	20/20	N/A	N/A	N/A	N/A	3/3
※Mr. TIAN Wen	5/5	N/A	N/A	N/A	N/A	1/1
※Ms. LI Yuanfei	15/15	N/A	N/A	N/A	N/A	2/2
※※Ms. ZHAI Xin	8/8	1/1	N/A	N/A	N/A	2/2
※※Mr. WANG Zhaowen	12/12	1/1	1/1	1/1	1/1	1/1
Mr. CHEUNG Wai Yeung Michael	20/20	2/2	1/1	N/A	N/A	3/3
Mr. LIN Zhiyang	20/20	2/2	N/A	1/1	1/1	3/3

Notes:

※ Mr. TIAN Wen resigned as a non-executive Director on 19 March 2019; Ms. LI Yuanfei was appointed as a non-executive Director on the same date.

※※ Mr. WANG Zhaowen resigned as an independent non-executive Director on 11 June 2019; Ms. ZHAI Xin was appointed as an independent non-executive Director on the same date.

During the year, the Chairman also held a meeting with the independent non-executive Directors without presence of other Directors.

Board Proceedings

Meetings of the Board of Directors shall be held regularly at least four times every year and shall be convened by the chairman of the Board of Directors. Directors shall be notified ten days before the date of the meeting. A quorum will be formed by more than half of the Directors (including the proxies) attending a Board meeting in person. If a Director is unable to attend a Board meeting, he may appoint another Director by a written power of attorney to attend on his behalf. Such a power of attorney shall specify the scope of authorization. Directors attending Board meetings on behalf of other Directors shall exercise their power as Directors within their scope of authorization. If a Director fails to attend a Board meeting and does not appoint an attorney to attend, the Director is deemed to have waived his rights to vote at that meeting. Each Director shall have one vote. Unless specified otherwise in the Articles of Association, resolutions of the Board of Directors must be passed by more than half of all the Directors. Where the numbers of votes cast for and against a resolution are equal, the Chairman shall have the right to cast an additional vote. During 2019, twenty Board meetings were held and all Directors attended the meetings that they were required to attend.

Board of Supervisors

The Board of Supervisors consists of three Supervisors and the non-employee representative Supervisors who are elected by our Shareholders for a term of three years, which is renewable upon re-election and re-appointment. Functions and duties of the Board of Supervisors include reviewing and verifying financial reports, business reports and profit distribution proposals prepared by the Board; and if in doubt, appointing certified public accountants and practicing auditors to re-examine the Company's financial information; monitoring the financial activities of the Company, supervising the performance of the Directors, the president and other senior management members, and monitoring whether they had acted in violation of the laws, regulations and Articles of Association in the performance of their duties; requesting the Directors, the president and senior management members to rectify actions which are damaging to the Company's interests; and exercising other rights given to them under the Articles of Association. Each of the Supervisors has entered into a service contract with our Group.

Model Code for Securities Transactions

The Company has adopted the Model Code as the Company's code of conduct regarding Directors' and Supervisors' securities transactions on terms or less exactly than the requested standard set out in the Model Code. Upon specific enquiries, all Directors and Supervisors confirmed that they have complied with the relevant provisions of the Model Code throughout the period from the Listing Date to the date of this report.

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

COMPANY SECRETARY

The Group has appointed Ms. KOU Yue and Mr. LIU Yilun as our joint company secretaries. Both Ms. KOU Yue and Mr. LIU Yilun were appointed as the joint company secretaries of the Board of Directors since September 2015. Please refer to the paragraphs headed "Directors, Supervisors and Senior Management" for further details on Mr. LIU and Ms. KOU's biography.

The Company confirms that Mr. LIU Yilun and Ms. KOU Yue have complied with Rule 3.29 of the Listing Rules and have attended no less than 15 hours of relevant professional training in 2019.

FINANCIAL REPORTING AND INTERNAL CONTROL

Financial reporting

The Board acknowledges its responsibility to prepare the Company's financial statements which give a true and fair view of the Company's state of affairs, results and cash flows for the year and in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the disclosure requirements of the Hong Kong Companies Ordinance. The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates. The Board considers that the Company has adequate resources to continue in business for the foreseeable future and is not aware of any material uncertainties relating to events or conditions that may affect the business of the Company or cast doubts on its ability to continue as going concern. Responsibilities of PricewaterhouseCoopers, the Company's external auditor, with respect to financial reporting are set out in the section headed "Independent Auditor's Report" in this annual report.

Internal controls and risk management

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

External Auditor

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

For the year ended 31 December 2019, the fees paid and payable to PricewaterhouseCoopers in respect of its review on the interim financial information and annual audit services provided to the Company were approximately RMB2 million and RMB0.42 million respectively.

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

Shareholders' Rights

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

Right to convene extraordinary general meeting

Any Shareholder(s) who individually or jointly hold 10% or more of the Company's issued voting shares at the date of the deposit of the requisition, shall at all times have the right, by written requisition sent to either (i) the head office and principal place of business in PRC or (ii) the Company's principal place of business in Hong Kong as set out in the manner below, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

The written requisition must state the purposes of the meeting, signed by the requisitionist(s) and deposit it to the Board or the company secretary of the Company at either (i) the head office and principal place of business in PRC at 3rd Floor, Pengyi Garden Building 1, Bagua No. 1 Road, Futian District, Shenzhen, PRC or (ii) the Company's principal place of business in Hong Kong at Suite 2203, Level 22 Office Tower, Langham Place, 8 Argyle Street, Mong Kok, Kowloon, Hong Kong, and such may consist of several documents in like form, each signed by one or more requisitionists.

The request will be verified with the Company's branch share registrars in Hong Kong and upon their confirmation that the request is proper and in order, the company secretary of the Company will ask the Board to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered members. On the contrary, if the request which has been verified is not in order, the Shareholders will be advised of this outcome and accordingly, an EGM will not be convened as requested. If within thirty days from the date of the deposit of the requisition the Board fails to proceed to convene such meeting, the requisitionist(s), may convene a meeting 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 by the Company to the requisitionist(s).

According to article 8.5 of the Articles of Association, when the Company convenes a Shareholders' general meeting, written notice of the meeting shall be given forty-five days before the date of the meeting (including the date of the meeting but excluding the date on which the written notice is sent) to notify all Shareholders whose names appear in the share register of the matters to be considered and the date and place of the meeting. A Shareholder who intends to attend the meeting shall deliver to the Company his written reply concerning his attendance at such meeting twenty days before the date of the meeting.

INVESTOR RELATIONS

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

Constitutional Documents

On 19 March 2019, the amendments to the Articles of Association of the Company was approved by the Shareholders of the Company at the extraordinary general meeting, on matters in relation to, among others, "Objectives and scope of business", "Shares and registered capital" and "The Board of directors". For details, please refer to the circular of the Company dated 31 January 2019.

On 26 July 2019, the Shareholders of the Company approved the increase in share capital and the amendment to the Articles of Association at the extraordinary general meeting. The registered share capital was increased from RMB221,050,000 (62,763,000 H Shares and 158,287,000 Domestic Shares respectively) to RMB240,930,645 (62,763,000 H Shares and 178,167,645 Domestic Shares respectively). The amendment to the Articles of Association include "Shares and Registered Capital". For details, please refer to the circular of the Company dated 17 June 2019. The Articles of Association of the Company are available on the websites of the Stock Exchange and the Company.

Environmental, Social and Governance Report

This is the fourth environmental, social and governance report released by the Group pursuant to the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") provided in Appendix 27 to the Listing Rules on the Stock Exchange, which sets out the Company's policies and practices in three aspects namely environmental protection, working environment, and community involvement for the year ended 31 December 2019.

ENVIRONMENTAL PROTECTION

The Group's business operations are subject to a number of environmental protection laws, regulations, policies and standards in the PRC, including the Law of the People's Republic of China on Prevention and Control of Pollution from Environmental Noise《中華人民共和國環境雜訊污染防治法》and the Standards for Indoor Environmental Pollution Control of Civil Building Engineering《民用建築工程室內環境污染控制規範》.

The Group is committed to minimising the adverse impact on the environment resulting from the Group's business activities. In order to promote environmental awareness and ensure compliance with the applicable environmental protection laws, regulations, policies and standards, the Group has established an environmental management system, which has obtained certification to ISO 14001. The Directors are of the view that the annual cost of compliance with the applicable environmental protection laws, regulations, policies and standards was not material during the Track Record Period and the cost of such compliance is not expected to be material going forward.

WORKING ENVIRONMENT

The Group believes that its long-term development depends on the Group's standardized and pragmatic management philosophy and flexible and innovative business ideas, as well as the expertise and work experience of its employees. The salaries and benefits of employees of the Group mainly depend on the type of work, job level, position, number of years and the wage guidance price of the human resources market where the group is located, while referring to the group's operations and benefits. In order to enhance the skills and technical expertise of the employees, the Group provides regular training to them and encourages them to develop various of business and professional learning activities.

The Group mainly recruits through regulated recruitment websites and practice bases for the new graduates in the major counterparts universities. As at 31 December 2019, the Group had total of 325 employees. The following table provides a breakdown of the Group's employees by function:

Function	Number of employees
Administration and management	39
Project management	128
Design	25
Research and development	22
Technical support	4
Procurement	9
Sales and marketing	66
Accounting and finance	32
Total	325

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

Of the 128 project management personnel, 109 are project managers while 19 have duties in other department. And apart from these 22 research and development personnel listed above, 24 of our employees in other departments and 25 design personnel are all involved in our research and development initiatives. In order to avoid double counting, these 49 employees are not counted towards "research and development" in this table.

OCCUPATIONAL HEALTH SAFETY

Safety Management System

The Group is committed to providing a safe and healthy working environment for our employees and workers. The Group has adopted work safety measures to prevent the occurrence of industrial accidents and reduce construction risks, and our occupational health and safety management system has obtained certification to OHSAS 18001. The Group has in place construction safety and fire safety guidelines, and the Group's safety management system includes, among others, safety training to the Group's employees, regular on-site safety inspections, requiring the Group's workers to use safety equipment and ensuring that all technical staff, such as electricians and welders, have received specialised training and possess all necessary licences or qualifications. In respect of projects that are of a larger scale, the project supervision units and local government authorities will monitor and supervise, among other things, the implementation of work safety measures during project implementation.

The Group possesses the Work Safety Licence* (安全生產許可證) issued by the Department of Housing and Urban-Rural Development of Guangdong Province (廣東省住房和城鄉建設廳). Such a licence can only be granted by competent construction administrative authorities at provincial level or above, and to enterprises engaging in construction activities which have satisfied certain work safety requirements. Pursuant to the applicable PRC laws and regulations, the issuing authority of the Work Safety Licence* (安全生產許可證) has the power to, after granting the licence, monitor the implementation of the work safety measures by the relevant company and review the adequacy of such measures.

COMMUNITY INVOLVEMENT

The Group has been committed to fulfilling the corporate social responsibility and has continued to dedicate the internal resources to charitable activities. During 2019, the Group donated approximately RMB11,000 to Shenzhen Futian Charity Association* (深圳福田區慈善會) and RMB10,000 to China Social Welfare Fund Association* (中國社會福利基金會) (in 2018: RMB40,000 donation in Mainland China). Also provided the free construction design services and donated books to the public welfare projects.

I. ABOUT THIS REPORT

Reporting Scope

This report covers the period from 1 January 2019 to 31 December 2019 and describes the Group's environmental and social contribution during 2019. The contents of this report cover the Company and its subsidiaries.

Reporting Standard

This report is prepared in accordance with the Appendix 27 of "Environmental, Social and Governance Reporting Guide" (the "ESG Reporting Guide") of the Hong Kong Stock Exchange Listing Rules. The preparation of the report was in compliance with the principles of materiality, identify the applicable key performance indicators, and establish a data collection mechanism in the aspect of ESG to ensure that the report content is true and accurate for the purpose of responding to the information demands of stakeholders.

Content Description

All data in this Report is derived from the official constitutional documents of the Group, statistical reports or relevant public information.

II. THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONCEPT

Adhering to the corporate vision of "Independent innovation, Brand-building, and Piloting in architectural decoration industry" and the national strategic direction, the Group strictly abides by relevant laws and regulations of the State, advocates and pursues the concept of sustainable development. During business development, the Group also takes the environmental and social benefits into account with its consistent commitment as a corporate citizen which is to care for the natural environment, put emphasis on employee's' development and maintain a fair and healthy operation environment. The Group always implements its commitments as a corporate citizen, and holds on and endeavors together with the stakeholders to achieve sustainable development together.

The Group promises:

"Law-abiding and being truthful and honest" is the responsible attitude for us to employees, our shareholders, and our society.

"Strive for Win-win, Become a leader in building decoration industry" is a lofty mission and a solid foundation for fulfilling our social responsibilities.

"To decorate with love by Adway. Devote more quality. Reach for perfection" is the virtue we adherent for all the time to create a stage with excellence as core.

"To Love in harmony, to get from quality, to be top by development, to create brands", is our spiritual motivation that drives us to protect the environment, conserve the resources, and continuously give back to the society.

The Board of Directors of the Group is ultimately responsible for environmental, social, and governance related matters. These include the formulation and implementation of ESG strategies and targets. It ensures the effective operation of ESG risk management and internal control system, and reviews and officially approves annual ESG report. The group's senior management works as the ESG's leading institute, coordinating ESG management, reviewing ESG important issues and annual reports; the Securities Department of the Group is responsible for the communication and coordination of ESG's daily management, and co-ordinate the preparation of annual reports; the relevant functional centers and departments diligently implement the group's work plan, effectively fulfill their ESG responsibilities, actively carry out sustainable development, and assist in the Information collection and the drafting of the ESG report.

III. STAKEHOLDER COMMUNICATION AND MATERIALITY ASSESSMENT

The Group always values the interchange and communication with the stakeholders. The timely understanding of their appeals and expectations would facilitate us in objective review of the environmental and social impacts of business development, and to reasonably plan and evaluate the Group's work on sustainable development. Considering the different characters of the stakeholders, we launched the questionnaires, interviews, and group discussions to ensure the smooth and efficient communication and response in a timely manner.

Stakeholder Communication Mechanism

Stakeholder Category	Aspirations and Expectations	Communication and Response
Government and regulatory authorities	Implementation of national policy	Operate according to laws and regulations
	Legal compliant operations	Respond to relevant national policy requirements
	Project cooperation	Questionnaires and supervision
		Drive employment
Investors and shareholders	Financial performance	Improve performance
	Corporate transparency	Daily information disclosure and performance disclosure
	Enterprise sustainable profit	Convene shareholders' meeting
		Maintain Investor relationships
Clients	Product and service quality	Optimize product and service quality
	Stable relationship	Improve customer service system
	Customer information protection	Strengthening cyber security
	Responsible marketing	Legally compliant marketing
		Establish a customer communication mechanism
Staff	Protection of employees' rights	Improve the compensation system and welfare guarantee system
	Promote employee development	Optimize career promotion mechanisms
	Pay attention to employee safety and health	Implementation of health and safety management system
	Listen to employees	Establish a multi-channel communication platform

Stakeholder Category	Aspirations and Expectations	Communication and Response
Suppliers and partners	Cooperation in good faith	Conduct reviews and evaluation
	Win-win	Creating a responsible supply chain
	Fair and just	Carry out project cooperation
		Promote daily communication
Industry associations and media	Comply with industry standards	Participate in industry seminars and exchanges
	Drive industry innovation	Join industry organizations to promote industry innovation
	Transparent and open information	Improve news disclosure mechanism and optimize public opinion feedback mechanism
Community	Support social welfare	Actively participate in social welfare activities
	Caring for the poor	Targeted poverty alleviation

ESG Issue Materiality Assessment

Materiality assessment

In order to better understand the opinions and expectations of the stakeholders on the Group's sustainable development performance, in 2019, the Group hired a third-party professional consultant to chair the annual important issues assessment. The specific work steps are as follows:

- Combining the existing business of the group and reviewing the list of ESG issues of the group according to the ESG reporting guidelines of the Stock Exchange
- Stakeholders are invited to evaluate the importance of the issue, and explain their suggestions and expectations for the Group's sustainable development work through open questions
- Carry out importance assessment analysis, discuss with management and determine the importance assessment results, and the key points for improving sustainable development performance in the future

The materiality matrix of the Group's ESG topics and the important topics of 2019 are as follows:

The list covers a total of 18 topics with high relevance to the Group's business development and stakeholders' concerns in the four categories of "employment and labor regulations", "operational regulation", "environmental protection" and "social investment".

Based on the outcome of this year's materiality assessment, we will, in this report, strengthen the disclosure of the Group's work in relevant areas accordingly, and regard this result as an important reference basis for the next year's ESG plan. Meanwhile we will consolidate and improve our Stakeholder communication mechanism to keep abreast of the opinions and suggestions of the parties on the work of the Group ESG in to continuously improve the related management and work performance.

IV. REFINED QUALITY TECHNOLOGY FIRST

With the mission of "inheriting the classics of craftsmanship of Luban, improving the quality through advance in technology", the group is committed to becoming an internationally leading integrated green decoration service provider of the smart home, creating the boutiques projects embodying the spirit of the times and the sense of value, turning the tide of the industry, leading the future in decoration field and improving the humane environment, and interpreting the "craftsmanship" in the practice.

Quality Control

Adhering to the "quality always be the top priority" management concept, the Group establishes and implements a standardized quality management system to ensure the delivery of the high-quality project, and continually promotes the group's project management level. The group has been certified to the ISO 9001 system — a quality management system.

Improve management system

The Group thoroughly implements the national quality management policies, laws, and regulations, and has enacted the clear guidelines for the whole chain of material inspection, engineering construction, and completion and delivery. In 2019, based on the original quality management system, the company formulated "Project On Site Management System" and "Civilized Construction and Sanity Management System", etc., to subdivide the management duties, implement various management systems under the framework of the eight quality management work systems, and comprehensively control project quality.

Implement the quality management responsibility system

The Group established a leading group on quality control at the headquarters. Quality control supervisors have been assigned in each branch and project department. They are responsible for on-site supervision and reporting of project quality, organizing and promoting the various quality improvement activities and sticking to the implementation of the quality assessment system, and to put in place "every step is under strict control, so that every person bears his own responsibilities, everything is evidence based, operations are based on standards, and supervision applies at all levels".

Full cycle quality management

- ***Before construction***

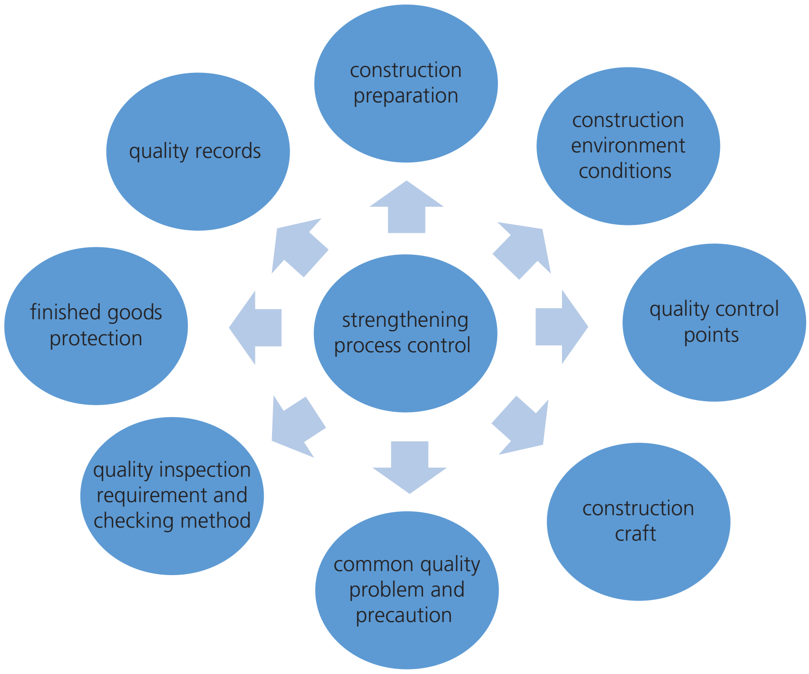
  Develop the construction plans in accordance with quality standards and regulations, diligently screen and select the suppliers and qualified labor agencies; meanwhile strengthen the inspection of raw materials to ensure they meet the project requirements, technical regulations and quality standards.

- ***Under construction***

  Continue to implement the model system and the triple inspection system. Each process produces prototypes according to design requirements, specifications and quality standards. The prototypes are set as the benchmark. If the project quality cannot reach this benchmark during construction, it is deemed to be defective and must be reworked to safeguard the quality of large-scale construction project. To solidify the dynamic safety management on site, the project manager is responsible for closely monitoring the construction situation and progress, and strengthening the daily safety inspection efforts to improve the quality risk control level.

- ***Project delivery***

  The Group strictly implements the delivery inspection process, conducts a comprehensive assessment of the finished project in accordance with the dimensions and requirements of the delivery inspection evaluation, early warning of risks, and timely rectification of the inspection results, strictly controls the quality of the delivery, and ensures the acceptance of the final inspection by the customer or the designated supervision unit.



Implement quality training

As an important part of cultivating the "quality first" culture, the Group attaches a great importance to the training and publicity over quality issues. Through thematic training and annual "quality and safety month" activities, it continues to consolidate the quality management capabilities and the management consciousness of the project personnel, and jointly implements "dedication to quality, to the best" brand concept.

Safety Management

Safety production is the cornerstone of the building construction enterprises, the lifeblood of development, and the premise of various work of the enterprise. While fully committed to building the boutique project, the Group continues to enforce the safety management mechanisms, strictly implement the safe and civilized on-site engineering construction, and rigorously practice the close inspection on safe and civilized construction for the purpose of risk prevention and guarding against the accidents. No work-related injuries or deaths happened during the Reporting Period.

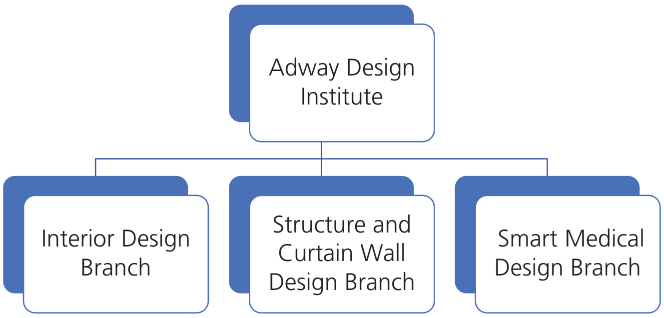
The Group regards the safety education on project implementation as a key part of safety management and control, consolidates the idea of "safety first, prevention first and comprehensive management", and implements it in daily construction and production. In October 2019, a safety education session for construction industry named as "lecturing in building site" sponsored by Shenzhen Housing and Construction Bureau, co-organized by the Shenzhen Decoration Industry Association and the Shenzhen Decoration Industry Association Training Center, and assisted by the Group was held at the building site of Shenzhen Jewelry Museum. This training was conducted by speakers from the Shenzhen Decoration Industry Association. All the workers at the project construction site participated in this training.

This safety education training session adopted a digital project management method on the site. Workers participating in the training session signed in through a face recognition system installed in a builder application. During the 2-hour training session, the lecturer focused on elaborating a series of examples of safety accidents occurred during the recent years, and lectured to emphasize that safety production must meet the "five in place: safety responsibility, safety complaints, safety training, safety management and emergency response", then strengthen the idea of safety production with pertinence and practicability.

Deepening Innovative Research and Development ("R&D")

Innovation research and development is the source of sustainable development of an enterprise. The Group actively responds to the national macro policy direction, is determined to innovate, and takes energy saving, environmental protection and intelligence as the development direction, and vigorously invests in the research and development of new crafts and new technologies to consolidate the core competitive edge of the Group.

In 2019, based on the strategic idea of "new era, new opportunities, new models, a new platform in the making", the Group integrated the various design departments and formally established Adway Building Decoration Design Institute which will make the design chain extended horizontally to improve the design team's market competitiveness and serve customers in better way.



Among them, the Smart Medical Design Branch is the first design institute in Shenzhen that focuses on the research of digital multi-application technology in the field of smart medical. With the deep integration of 5G era, big data, internet, artificial intelligence and applications in various industries, smart medical will gradually evolve into an important link in the massive healthcare industry chain. Patient-centered smart hospitals are the development trend, a new smart medical multi-connected platform, and a practical carrier of the digital economy. The smart medical design branch will practice the In-depth innovation in the field of smart hospitals design, laboratory special design and industrial clean room design. Meanwhile, it actively introduces Taiwan and Germany advanced technology to China to occupy the summit of the building decoration industry.

Intellectual Property Protection

While investing heavily in R&D and innovation, the Group complies with laws and regulations such as the Intellectual Property Law of the People's Republic of China, the Trademark Law, and the Copyright Law, formulates and implements the Intellectual Property Management System, and gradually builds a standardized intelligent property management system. We set aside funds for intellectual property projects, establish patent information databases for our major products (technologies) to promote R&D and innovation, and to protect the group's intellectual property from infringement.

The Group's intellectual property management runs through the entire process of innovative research and development. Before initiating the research tasks, or launching the new technology and the new product, it is necessary to conduct retrieves and searches for new patents and non-patent documents, submit search reports and provide the feasibility proposals from an intellectual property perspective to avoid repeated research and development and unnecessary infringement disputes; during the research and development phase, the project leader shall keep the technical information of the entire process of the project confidential; after the project is completed, transfer the technical information to the research and development department for intellectual property declaration, and to ensure the security of technical data. When cooperating with outsider entities in research and development, sign a written cooperation agreement and a confidentiality agreement to clarify the percentage of intellectual property obtained by both parties respectively; when transferring, sign a transfer contract in accordance with laws and regulations to clarify the title, quantity, and license period of property rights.

As of 31 December 2019, the Group owned 87 utility model patents, 33 computer software patents and 7 invention patents. During 2019, the Group filed 25 patent applications and obtained some patent certificates.

Reasonable Promotion and Marketing

The Group strictly abides by the Advertising Law of PRC and other relevant laws and regulations, formulates and implements the marketing and promotion-related rules and regulations, strictly manages promotion-related issues such as advertising and promotional materials, and strives to be honest and responsible, fair and open for the purpose of effectively protecting the legitimate rights and interests of customers.

In 2019, the Group further deepened the promotion-related compliance management and strictly implemented the step-by-step approval process of "Department head", "Division leader", "Vice president", "President" to ensure the authenticity, accuracy and effectiveness of publicity materials.

Customer Information and Privacy Protection

The Group implements strict information confidentiality regulations, and sets corresponding viewing permissions based on the level of data confidentiality; timely updates permissions settings according to job changes to ensure the security of information. At the same time, we continuously maintain the security of information platforms and protect information systems from viruses, hackers and information leakage incidents.

The Group attaches great importance to the information security code of conduct. Employees must properly keep computer user passwords, work notes and other information, are prohibited from divulging confidential information to others or external entities in any way, and are prohibited from bringing the confidential information outside the office area. In the event of leakage, the Group shall immediately organize personnel to conduct investigations and take countermeasures to prevent or reduce economic or reputation losses caused by leaks, and severely penalize any violations of the confidentiality system.

Degree of Satisfaction and Industry Recognition

While ensuring the delivery of high-quality projects, the Group values the customers' opinions and suggestions, continuously communicates to gain the customer insights, and endlessly endeavors to go beyond the customers' expectations on the performance. The Group has now established the strategic partnerships with many enterprises. Based on this, we will further consolidate quality management, deepen research and development innovation, and construct a long-term and stable cooperative relationship based on its advantages in technology and quality.

The Group's persistent pursuit of quality has won the industry wide recognition and reputation. In 2019, many projects have been awarded industry boutique engineering awards.

China Construction Engineering and Decoration Award 2019

Project Name: 1st Section of refined decoration of ancillary business hotel to T3 Shenzhen Airport

The hotel project is located on the southwest side of Terminal 3 of Shenzhen Airport and on the west side of GTC. The project functions as a hotel and social parking lot. The project covers an area of 38,139.49 square meters and a total construction area of 118,894.04 square meters.

The overall decoration of this project is based on the principle of "from inside to outside, from top to bottom"; the principle for room decoration is "top goes first to be followed by wall surface, and ground being the last".

Under the premise of ensuring the quality and safety of the project, with the optimized function and the shortest construction period, the construction of the project has met the expected requirements of the construction unit and the design unit. In each stage of the construction, each professional project closely cooperates with the "planar flow, three-dimensional crossover" operation method and cross-processes.

The hotel's "mirage" art installation, like a sea of clouds, forms an illusory romanticism. The white ceilings stacked in the lobby are virtual and real. It interprets the cloud scenes of light and shadow rhythm for guests. The cafe is inspired by the traditional Lingnan market and integrated into the local Shenzhen historical and cultural elements; the design style of the lobby lounge presents the Cantonese residence scene; the bar on the 3rd floor is dominated by dark wood and blends modern cool industrial elements, to make guests feel relaxed and comfortable in the real time. Meanwhile the guests would enjoy their moments in the flow of flight information and airport dynamics without fear of itinerary changes.

Project Name: Exterior wall decoration of Dongfu Jiuzuo Premises in Chengdu

The curtain wall project of Dongfu Jiuzuo Premises is located at 33 Dongfu Street, Jinjiang District, Chengdu, with a total construction area of 44,695.81 square meters.

The large area of this project mainly uses stone, glass, aluminum plate (aluminum louver) curtain wall interspersed with decoration. It covers a large decorative area. There is a large number of cross operations, more mutual closure, especially in the decoration of the facade and the back facade with many columns and stone. The installation is a back-bolt connection method, which demands the very high technical requirements on the level and the accuracy of the construction process. During this process, the team strictly followed the technical specifications, implemented the technical disclosure, paid close attention to the quality of the project, and handled the details to ensure the aesthetics of the finished product. Sparing no efforts to meet the requirements of the design and Party A, we live up to the trust of customers.

V. PEOPLE-ORIENTED FOR GROWTH

The Group regards talents as valuable resources for the sustainable development of the enterprise. In accordance with relevant labor laws and regulations such as the Labor Law and the Labor Contract Law of the People's Republic of China, it strengthens the building of internal manpower management systems, effectively protects the legitimate rights and interests of employees, and establishes a career development platform to create an atmosphere of equality, mutual trust, collaboration and tolerance, and strives to achieve the common development of the employees and the Group.

Staff Recruitment and Team Building

The Group strictly abides by relevant laws and regulations such as the Labor Law of the People's Republic of China and the Labor Contract Law of the People's Republic of China, establishes a standardized and efficient recruitment and employment system, and adheres to the principles of fairness, justice, and openness. The Group draws on a wild range of talents through a collaborative approach (including campus recruitment, social recruitment and other channels etc.)

In 2019, based on the concept of "talents are core competitiveness", the Group's human resource department analyzed its talents base and improved the overall planning of the talent-cultivation and echelon construction, formulated the corresponding annual talent team construction and the training plans for reserve talent to strength the human resource management. The talents foundation was already laid down for the Group's business development.

Performance Management and Career Development

The Group adheres to the principles of objectivity, openness and fairness, strengthens performance evaluation management, and regularly conducts employee performance evaluations. The evaluation results serve as an important basis for bonus distribution and job promotion. The Group emphasizes performance process management to help employees improve their personal capabilities and effectively promote and enhance employees' conscientiousness, guarantee the timely completion of the daily work of all departments, orient the management direction and goals, in order to achieve the coordinated development of individuals and enterprises.

The Group is committed to building a comprehensive and multi-channel career development platform for employees, perfecting career promotion channels and assessment standards, in order to motivate employees to fully realize their potential and achieve the effective allocation of talents within the enterprise.

The Group has established a scientific and transparent salary and remuneration management system in accordance with the law. It implements the principle of "performance as priority with the due consideration given to equity". It regularly conducts industry salary surveys to ensure that employees are provided with reasonable, fair, and competitive remuneration packages. Meanwhile, a reward mechanism has been established to confirm the outstanding performance of employees, reflects their own value and fully motivates employees.

The Group contributes to "social insurance and housing fund" in full and on time, arranges the working time properly, guarantees the paid leave and continuously improves the welfare system. The company's trade union, funded by the Company, organized Chinese new year dinner, women's day benefits, Dragon Boat Festival tea party, Mid-autumn moon cakes and greeting cards distribution, and National Day theme party, etc.

Women's Day benefits

Dragon Boat Festival tea party

Group building hiking activities

Team building tourism activities

Talent Training Mechanism

The Group is committed to improving its internal talent training mechanism. Through the training system which is covering all ranks and positions, it continuously solidifies the accumulation of employees' professional knowledge, enhances their overall personal capabilities, and helps them to realize their personal career aims.

The Group formulates annual training plans and conducts training activities at multiple levels. In 2019, the Group organized 9 new employee orientation trainings, 3 management skills trainings, 3 professional knowledge trainings, and 5 general knowledge trainings; the total person-times of participants in the training was 509, with an average attendance rate of 91%.

Occupational Health and Employee Care

Staying sound of body and mind is a basic element for employees in defending their rights and interests, and is also an essential condition for the sustainable development of the Group. Our Group attaches great importance to employee's health management, formulates and strictly implements the internal management provisions on occupational health protection, encourages employee to take more exercise through various activities, and organizes physical examination for all staff in 2019. In order to strength the ideal of harmonious and healthy life and work of employees in various departments and popularize employees' awareness on public safety, the Group held a public safety and health training session named as "Harmonious Life, Healthy Chinese" on 9 July 2019. The training content is rich, including four first-aid techniques (traumatic hemostasis, wound dressing, fracture fixation, wounded handling); CPR on-site emergency rescue knowledge (such as artificial respiration, high-temperature heat stroke first aid and other self-help and mutual rescue and "CPR dummy" simulation demonstration); prevention and improvement of common occupational injuries; and detailed explanation on employee mental health protection.

To further enhance employees' fire safety consciousness and popularize fire safety knowledge, on 25 June 2019, the Group conducted the fire safety training, and invited experts from the Fire Safety Consulting Center to explain in detail to the employees the firefighting against initial fire, the fire escape self-rescue and the use of fire extinguishers. They lectured the importance of fire prevention for corporations. This training improved the employees' fire safety knowledge, aroused their awareness on the awareness and initiatives on daily fire safety regime, which provides a safe working environment.

Employee Rights And Equal Participation

The Group highly values the rights and interests of employees. The Group also strictly prohibits child labor and forced labor in any form. According to our Group's human resources management system and staff manual, if the working hours have to be extended due to operational need, employees are entitled to the shift leave. The work-life balance is also advocated in the Group.

In daily work, the Group actively listens to employees' appeals. If the employee experienced any negative emotions in daily work or life, the Human Resources Department would communicate with relevant employees at any appropriate opportunities, understand the causes of problems, and design reasonable solutions to eliminate conflicts and improve understanding to actively common solve problems. In 2019, the Human Resources Department handled 47 employees' communication requests, such as rank relationships, salary adjustments, promotions, job adjustments, and conflicts among colleagues, and did ideological work 126 times. It basically solved the ideological problems of employees, stabilized their thinking, and laid the foundation for the company's harmonious operation.

The Group implements the principle of equality regardless of the employee's genders, ages, nationalities, races and religious beliefs. Each employee has the equal chances for employment and benefits. Discrimination in any form is strictly prohibited to ensure a fair, justice and open work environment.

VI. WORKING WITH PARTNERS FOR COMMON DEVELOPMENT

The Group attaches the great importance to the supply chain management and strictly implements the access and evaluation of suppliers to ensure the quality of the Group's products and services. At the same time, it actively communicates with suppliers and strives to maintain mutually beneficial and win-win cooperation with mutual trust and assistance.

Supplier Management Mechanism

Supplier access: The Group's clear supplier access standards, supplier investigation procedures, and other requirements have been used as the criteria for selecting suppliers. It evaluates the candidate suppliers by the dimensions of supplier qualification certificates, operating conditions, and quality assurance systems to ensure that selected suppliers have performance capabilities matching the Group's quality standards. In addition, the Group requires suppliers to comply with environmental regulations and labor standards or regulations.

Supplier evaluation management: The Group's purchasing department leads, the engineering management department participating in, the assessment of major suppliers on a quarterly and annual basis, including assessment of delivery capacity, quality status, pre-sales service and after-sales service, and technical support. The "Supplier Post-purchase Evaluation System" regularly evaluates suppliers. For those listed as unqualified suppliers, transactions cannot be conducted within one year.

Supply Chain Responsibility Communication

The Group attaches great importance to communication with suppliers. On daily operation, it maintains telephone communication with suppliers once or twice a week and ascertains as much as possible the personnel changes, storage status, production situation, machinery and equipment etc. to keep abreast with the fact that whether the next batch of orders can be fulfilled per our schedule.

The Group requires all suppliers to sign the Commercial Anti-Bribery Agreement which regulates commercial cooperation such as bidding, procurement, and infrastructure, prevents and combats unfair competition, and reflects the spirit of fair cooperation between the two parties.

The Group encourages suppliers to report suspicious corruption, build an external monitoring mechanism, maintain a fair and open procurement environment, and safeguard against any potential corruption and fraud in the supply chain.

VII. ADHERE TO INTEGRITY AND UNCORRUPT NORMS

The Group strictly abides by relevant anti-corruption laws and regulations, establishes and implements the Anti-Corruption and Reporting System, delineates red lines for disciplinary actions, improves internal control monitoring measures, promotes the level of internal risk management, and implements measures such as disciplinary penalties to continuously consolidate the Group's anti-corruption initiative. During 2019, no anti-corruption-related lawsuits were filed or concluded against the group or employees.

The Group has established channels (such as mailboxes and hotlines) for reporting complaints about integrity, and published them in employee manuals, anti-commercial bribery agreements and other documents, and actively accepts the joint supervision of internal and external parties such as employees, customers, suppliers, etc. The information about the whistleblower will be kept strictly confidential. Any retaliation against them would be severely dealt with.

After receiving the complaint report, the Group's audit department will handle it immediately, and according to the rank of the personnel involved, reports the issue to the general manager or the board of directors to determine the follow-up investigation plan; and reports the investigation results to the audit committee on a weekly basis. After that, the group will discipline the relevant personnel accordingly, and transfer the accused to the judicial authorities for legal violations. At the same time, the Group will take timely remedial measures within the group, conduct internal control assessments of relevant business units, formulate and implement relevant rectification measures, and improve then strengthen the internal control system.

The Group attaches great importance to the training and education of anti-corruption, regulates the integrity of employees' clean employment practices, and is committed to creating a clean working atmosphere. On 15 March 2019, all employees of the Group participated in special training on anti-fraud and whistle blowing systems, and systematically studied anti-fraud laws and rules that regulate the Group's anti-fraud work objectives, the concept of fraud and the attribution of anti-fraud duties, the reporting of fraud cases, the processing procedures, the internal penalties and remediation mechanisms, etc., The training further consolidated employees' awareness of integrity in the profession for the purpose of working together to maintain a corporate culture of integrity.

VIII. GREEN ENVIRONMENTAL PROTECTION AND LOW CARBON OPERATION

The Group has strictly abides by national and regional environmental protection laws and regulations including Environmental Protection Law of the People's Republic of China. The Group adheres to the principle of "green construction" and continuously improves its environmental management system as an environmentally friendly corporate. The design and construction of Group's architectural decoration project, mechanical and electrical equipment safety engineering contracting and related management activities have passed GB/T24001/ISO14001 environmental management system certification. During the reporting period, the Group did not violate any environmental laws and regulations.

Green Construction

The Group strictly complies with the Regulation on Environmental Protections of Construction Project, implements the operating requirements of the environmental management system, formulates and implements safe and civilized construction management systems and inspection standards, strengthens the inspection management of engineering sites, monitors the effective implementation of safe and civilized construction measures, and minimizes the impact of construction on the natural environment.

The main control points of the Group's managing the environmental implication of construction site are listed as below:

- Dust reduction: In the process of mixing or transporting and using the mortar bulk material, do not spill, leak, or leave, and there must be containers or pads in the place of use. If there are spills or leaks, clean up in time; earthwork, etc. Materials need to be covered; monitoring of dust at the construction site;

- Noise: Strictly manage the construction operation time; actively adopt low-noise machinery and equipment; set up mufflers and sound insulation enclosures for large-scale equipment;

- Waste: construction waste generated during construction is strictly prohibited to be thrown away and landfilled at will; temporary storage points are set up at appropriate locations, and containers such as woven bags for construction waste are regularly transported outside. Recyclable metal waste is recycled and reused. Ordinary construction waste is collected strictly in accordance with local cityscape management regulations. The small amount of chemical hazardous waste generated need to be cleared and handled by a qualified professional company to be compliance with the regulations;

- Energy saving and consumption reduction: strengthen the management and maintenance of electrical equipment, increase the power factor of electric power systems, and improve energy efficiency.

Green Office

The Group advocates a "low-carbon office" model, actively implements various energy-saving and consumption-reduction measures, encourages employees to practice green environmental protection behaviors, eliminate waste, and is committed to creating a green operation model that is energy-saving and environmentally friendly.

In 2019, the Group's main practices in green office include:

- Strictly control the lighting time in the office area, turn off the lights and unnecessary air conditioning in time to reduce the waste of electricity;

- Strengthen equipment maintenance, extend equipment life and improve equipment efficiency;

- Promote green conferences and encourage remote conferences through such as telephone and video to reduce travel costs and to cut gas emission and greenhouse emissions from fuel use during travel;

- Promote paperless office, strengthen the OA system approval, and reduce the paper printing. According to statistics, during 2019, the group initiated a total of 51,608 processes, each of which saves approximately 2 pieces of paper, amounting to more than 100,000 pieces saving;

- Post signs in the prominent position of office: save paper, turn off the light when leaving, etc., and ask employees to do it accordingly;

- Strengthen the management of office supplies and reduce the consumption of office resources;

- Actively comply with local government regulations on waste sorting and collection & transport waste to designated garbage stations for unified treatment to avoid community environmental pollution caused by unprofessional and untimely treatment methods.

Key Environmental Performance Summary for 2019[1]

Indicators		Key Performance[2]	Unit	Use/emission
A1.1	Emission	Sulfur dioxide	kilogram	0.38
		Hydrogen nitride	kilogram	16.41
		Particulates	kilogram	1.21
A1.2	Greenhouse gas emission	Greenhouse gas emissions (Scope 1)	CO_2 equivalent	70.14
		Greenhouse gas emissions (Scope 2)	CO_2 equivalent	9,493.59
		Greenhouse gas emissions (Scope 1 + Scope 2)	CO_2 equivalent	9,563.74
		Greenhouse gas emission intensity	CO_2 equivalent/ RMB1,000 of revenue	0.01
A1.3	Hazardous waste	Waste drum unit	Ton	0.02
A1.4	Non-hazardous waste	Mental waste	Ton	78.30
		Construction waste	Ton	11,160.35
		Office waste	Ton	1.23
A2.1	Energy consumption	Direct energy Consumption	Giggio	808.88
		Indirect energy consumption	Giggio	38,241.63
		Total energy consumption	Giggio	39,050.91
		Energy consumption intensity	Giggio/RMB1,000 of revenue	0.03
		Electricity used	KWh	10,622,675.00
		Petrol	Liter	25,904.12
A2.2	Water resource usage[3]	Water consumption	cubic meter	345,849.00
		Water consumption intensity	cubic meter/RMB1,000 of revenue	0.28

Notes:

1. All the data in the above list generated during the period from 1 January 2019 to 31 December 2019. The environmental data collection scope includes the Group's headquarters office area and 114 projects under construction during 2019 (The income of 114 projects accounts for 78.77% of the Group's total revenue this year).

2. The atmospheric coefficients were accounted for with reference to the ESG Environmental Data Reporting Guidelines issued by Hong Kong Stock Exchange. In particular, the greenhouse gas emission factor of purchased electricity was accounted for with reference to the 2017 China Regional Grid Baseline Emission Factor (《2017中國區域電網基準線排放因子》) issued by the Chinese Ministry of Ecological Environment. Energy consumption coefficient were accounted for with reference to "GB2589–2008T General rules for comprehensive energy consumption calculation".

3. The Company's water resources mainly come from municipal water supply. There is no shortage of water supply.

4. The Company's major business activities do not involve using any packaging material. Indicator A2.5 is not applicable, hence it is not disclosed.

IX. RIGHTEOUSNESS BUILDS THE FUTURE TOGETHER

The Group is well aware of its corporate citizenship responsibilities, continues to participate in social welfare undertakings, is enthusiastically engaged in poverty alleviation, and is committed to the concept of social responsibility in building a harmonious society and the shared community.

Poverty Alleviation and Relief for the Poor

The Group has been actively responded to the call for "precision poverty alleviation", donated money and materials for various public welfare undertakings, donated to the elderly activity center of the Daluo Village Committee of Heshui Town, Heping County, Guangdong Province, installed the road lights and the passing bay for free in Daluo village, designed for the building decoration renovation project of the elementary school of Daluo village for free, for the purpose of supporting the work of Heshui Town Government. And we initiated the book donation activities within the company, participated in Heping County's event "Poverty Alleviation, Helping Students To Realize Dreams" by donating books to the students.

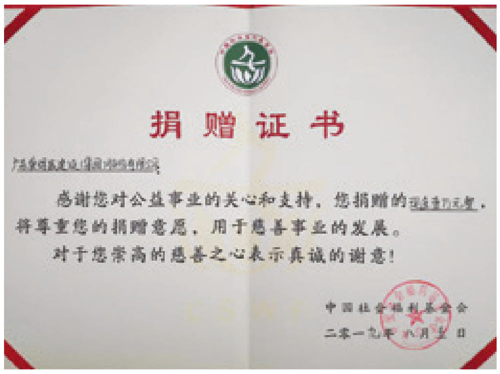
On 28 June 2019, the Group actively responded to the "Guangdong Poverty Alleviation Day" event and launched a fund-raising event within the company. Many employees enthusiastically donated, for the purpose of contributing to poverty alleviation and rural rejuvenation through their own petty contribution. A total of RMB11,030 was raised for the event. The donation object was the Shenzhen Futian Charity Association.

"Love 'Benefit' Up"

In 2019, the Group's "Love 'Benefits'" activity was launched. The group joined the China Social Welfare Foundation's warm current program charity fund to launch a charity "step to donation" activity on the Tencent charity platform to support the "sending sports packages to rural elementary schools" charity activities, focusing on children's sports activities in remote rural areas. At the same time, the event called for the donations through "healthy life + steps to donation", the group actively motivated and encouraged employees to exercise and walk every day, and participate in social welfare activities in a healthy way.

Since the event was launched, more than 1,000 participants have participated in donating steps. The total number of donations in the event reached 13,128,545 steps, entirely matched with the quota for the donation. The group has donated the relevant cost to the China Social Welfare Foundation's warm current program charity fund for the purpose of supporting the charity activity "Sending Sports Bags to Rural Elementary Schools" while showing the love to the sports activities of children in remote rural areas.

Upon the completion of this event, the Group continues the carrying out of the warm current program, extends our care, support and love through "Happy Sports Bags" in consolidating love and power to support sports education in rural areas.



pwc 羅兵咸永道

To the Shareholders of Guangdong Adway Construction (Group) Holdings Company Limited
(incorporated in the People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of Guangdong Adway Construction (Group) Holdings Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 59 to 104, which comprise:

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

Our opinion

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

BASIS FOR OPINION

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

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

Independence

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

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KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current 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.

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

1. Revenue recognition of construction contracts

2. Recoverability of trade receivables and contract assets

Revenue recognition of construction contracts	How our audit addressed the Key Audit Matter
Refer to Note 2.24(i) for the accounting policy of revenue recognition of construction contracts, Note 4(a) for the critical accounting estimates and judgements involved and Note 6 to the consolidated financial statements. The Group recognised revenue from construction contracts amounted to RMB1,497,150,000 for the year ended 31 December 2019, representing approximately 97% of the Group's total revenue. Contract revenue is recognised over the contract period by referencing to the stage of completion. The stage of completion is determined by the aggregated cost for the individual contract incurred at the end of the reporting period compared with the estimated budget cost. We focused on this area because the recognition of revenue from construction contracts involved judgements by management, which mainly included determination of the stage of completion and the estimated budget cost.	We understood, evaluated and validated the design and operating effectiveness of the controls over revenue recognition of construction contracts. Those controls included management's review on the budget cost and the stage of completion of contracts, as well as controls over the aggregated cost incurred and the variation orders. We selected revenues recognised from construction contracts using sampling technique and tested the aggregated cost incurred by examination of project documentation, including construction agreements, payment records, receipt notes of materials and labour cost records. With respect to the budget cost for the samples selected, we examined the detailed budget prepared by management and examined the additional variation orders. We tested the percentage of completion by performing recalculation, comparing the aggregated cost incurred for the individual contract to the estimated budget cost with management's calculation. Based on our audit procedures, we found management's judgements and estimates used in the revenue recognition of construction contracts were supported by available evidence.

Recoverability of trade receivables and contract assets	How our audit addressed the Key Audit Matter
Refer to Note 2.12 and 3.1.2 for the accounting policy of impairment of financial assets and contract assets, Note 4(b) for the critical accounting estimates and judgements involved, Note 5(a) and Note 19 to the consolidated financial statements. As at 31 December 2019, the net book value of trade receivables and contract assets amounted to RMB1,255,004,000 and RMB985,212,000 respectively, accounted for approximately 80% of the Group's total assets in aggregate. Management performed periodic review on the status of construction projects and individual credit evaluations on significant customers. These evaluations focused on the customer's settlement history and current and future ability to pay, and took into account the information specific to the customer as well as pertaining to the current and future economic environment in which the customer operates. For trade receivables and contract assets which were not subject to individual evaluations or individually assessed as not impaired, management collectively assessed expected credit losses taking into account of the nature of customers, the ageing analysis and historical bad debt losses incurred in respect of those group of customers. Expected credit losses are estimated by grouping the remaining trade receivables based on shared credit risk characteristics and collectively assessed for likelihood of recovery. The historical loss rates are adjusted to reflect current and forward-looking information affecting the ability of the customers to settle the receivables. We focused on this area because management made judgements over the assessment of impairment for trade receivables and contract assets and the estimation of the amount of any such impairment.	We understood, evaluated and validated the design and operating effectiveness of the controls over impairment assessment of trade receivables and contract assets. Those controls related to the identification of events that triggered the provision for impairment of receivables from construction contracts and estimation of the impairment provisions. We obtained a breakdown of individual significant customer recoverability assessment from management. Where impairment was individually provided, we tested the receivables and assets from construction contracts on a sampling basis to check the impairment was evidenced in relation to the time and extent of the provision provided. In addition, we examined on a sample basis the individual significant customer which had not been identified by management as potentially impaired and performed audit procedures to assess the recoverability. Our procedures included examination of the construction progress, independent research on public available information and examination of payment records in the past and current years. In respect of the collective assessment, we reviewed the underlying information referenced by management through validation of the ageing reports and comparison with the collection records and average industry provision rate. We also evaluated whether the historical loss rates were appropriately adjusted based on current and forward-looking information. Based on our audit procedures, we found management's judgement and estimates used in assessing the recoverability of trade receivables and contract assets from construction contracts were supported by available evidence.

OTHER INFORMATION

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

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

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. Chow Shiu Hay Antonio.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 March 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2019 RMB'000	2018 RMB'000
Revenue	6	**1,542,807**	1,830,783
Cost of sales	7	**(1,334,955)**	(1,577,729)
Gross profit		**207,852**	253,054
Selling and marketing expenses	7	**(10,271)**	(11,624)
Administrative expenses	7	**(45,045)**	(41,023)
Net impairment losses on financial and contract assets	3.1.2	**(60,539)**	(20,126)
Other income — net	9	**7,637**	6,488
Operating profit		**99,634**	186,769
Finance income		**1,258**	2,442
Finance costs		**(27,224)**	(40,194)
Finance costs — net	10	**(25,966)**	(37,752)
Profit before income tax		**73,668**	149,017
Income tax expense	11	**(3,369)**	(18,304)
Profit for the year		**70,299**	130,713
Other comprehensive income		**—**	—
Total comprehensive income for the year		**70,299**	130,713
Total profit and comprehensive income attributable to:			
Owners of the Company		**70,299**	130,713
Earnings per share			
— Basic and diluted (RMB)	12	**30.65 cents**	61.69 cents

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

	Note	As at 31 December 2019 RMB'000	2018 RMB'000
ASSETS			
Non-current assets			
Property and equipment	15	**58,352**	74,427
Right-of-use-assets	16	**11,322**	—
Lease prepayments — land use rights	16	**—**	9,646
Investment properties		**689**	732
Intangible assets	17	**1,779**	3,545
Deferred income tax assets	18	**35,945**	26,976
Other receivables	20	**22,961**	20,941
		131,048	136,267
Current assets			
Inventories		**1,684**	—
Contract assets	5(a)	**985,212**	1,581,757
Trade receivables	19	**1,255,004**	589,087
Prepayments and other receivables	20	**144,647**	117,113
Restricted cash	22	**12,330**	7,160
Cash and cash equivalents	21	**254,591**	180,059
		2,653,468	2,475,176
Total assets		**2,784,516**	2,611,443
EQUITY			
Equity attributable to owners of the Company			
Share capital	23	**240,931**	221,050
Share premium	23	**321,977**	218,598
Other reserves	24	**106,110**	77,448
Retained earnings		**609,271**	567,634
Total equity		**1,278,289**	1,084,730

	Note	As at 31 December 2019 RMB'000	2018 RMB'000
LIABILITIES			
Non-current liabilities			
Lease liabilities	16	**1,180**	—
Deferred revenue		**1,628**	1,701
		2,808	1,701
Current liabilities			
Trade and other payables	25	**956,361**	903,976
Contract liabilities	5(a)	**117,673**	107,856
Borrowings	26	**417,158**	496,021
Lease liabilities	16	**793**	—
Current income tax liabilities		**11,434**	17,159
		1,503,419	1,525,012
Total liabilities		**1,506,227**	1,526,713
Total equity and liabilities		**2,784,516**	2,611,443

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

The financial statements on pages 59 to 104 were approved by the board of directors on 30 March 2020 and were signed on its behalf.

YE Yujing	**YE Guofeng**
Director	*Director*

	Share capital RMB'000 (Note 23)	Share premium RMB'000 (Note 23)	Other reserves RMB'000 (Note 24)	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2018	211,050	168,472	63,538	457,163	900,223
Comprehensive income					
— Profit for the year	—	—	—	130,713	130,713
Total comprehensive income	—	—	—	130,713	130,713
Issuance of ordinary shares	10,000	52,135	—	—	62,135
Share issuance costs	—	(2,009)	—	—	(2,009)
Transfer to statutory reserve	—	—	13,014	(13,014)	—
Transfer of safety reserve	—	—	896	(896)	—
Dividends for the year ended 31 December 2017	—	—	—	(6,332)	(6,332)
Balance at 31 December 2018	221,050	218,598	77,448	567,634	1,084,730
Balance at 1 January 2019	**221,050**	**218,598**	**77,448**	**567,634**	**1,084,730**
Comprehensive income					
— Profit for the year	**—**	**—**	**—**	**70,299**	**70,299**
Total comprehensive income	**—**	**—**	**—**	**70,299**	**70,299**
Issuance of ordinary shares (Note 23)	**19,881**	**103,379**	**—**	**—**	**123,260**
Transfer to statutory reserve	**—**	**—**	**4,666**	**(4,666)**	**—**
Transfer of safety reserve	**—**	**—**	**23,996**	**(23,996)**	**—**
Balance at 31 December 2019	**240,931**	**321,977**	**106,110**	**609,271**	**1,278,289**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Cash generated from operations	27	**128,374**	19,699
PRC enterprise income tax paid		**(18,063)**	(17,895)
Net cash inflow from operating activities		**110,311**	1,804
Cash flows from investing activities			
Purchases of property and equipment		**(425)**	(1,023)
Purchase of intangible assets		**(7)**	(3,727)
Proceeds from disposal of property		**13,420**	—
Interest received		**1,258**	2,442
Net cash inflow/(outflow) from investing activities		**14,246**	(2,308)
Cash flows from financing activities			
Proceeds from the issuance of ordinary shares		**123,260**	62,135
Payment of share issuance costs		**—**	(2,009)
Dividends paid to company's shareholders		**—**	(6,332)
Proceeds from borrowings		**506,825**	564,316
Repayments of borrowings		**(573,935)**	(755,944)
Repayments of lease liabilities		**(951)**	—
Interest paid		**(27,221)**	(39,318)
Repayment of deposits for share subscription		**(78,000)**	—
Deposits for share subscription		**—**	78,000
Payment for listing expenses		**—**	(1,537)
Net cash outflow from financing activities		**(50,022)**	(100,689)
Net increase/(decrease) in cash and cash equivalents		**74,535**	(101,193)
Cash and cash equivalents at beginning of the year		**180,059**	281,750
Exchange losses on cash and cash equivalents		**(3)**	(498)
Cash and cash equivalents at end of the year	21	**254,591**	180,059

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1. GENERAL INFORMATION

Guangdong Adway Construction (Group) Holdings Company Limited (the "Company") was incorporated in the People's Republic of China (the "PRC") on 18 December 1996. On 3 December 2007, the Company was converted into a joint stock company with limited liability with registered capital of RMB30,800,000. Subsequently, with a series of capital injection in cash and share premium transferred as capital, registered capital of the Company was increased to RMB158,287,000.

The Company's H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 25 November 2016 with the total share capital increased to RMB211,050,000. The Company issued additional 10,000,000 H shares on 30 November 2018 and 19,881,000 Domestic shares on 31 July 2019, and the total share capital increased to RMB240,931,000.

The principal place of business of the Company is 3rd Floor, Pengyi Garden Building 1, Bagua No.1 Road, Futian District, Shenzhen, the PRC.

The Company and its subsidiaries (together the "Group") are principally engaged in provision of interior and exterior building decoration and design services in the PRC.

Mr. Ye Yujing ("Mr. Ye") and Mrs. Ye Xiujin ("Ms. Ye"), the wife of Mr. Ye, have been the controlling shareholders of the Group since its establishment.

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. Except for the new and amended standards as disclosed below, the policies have been consistently applied to all the years presented.

2.1 Basis of preparation

(i) Compliance with Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Companies Ordinance (Cap. 622)

The consolidated financial statements of the Group have been prepared in accordance with HKFRS and the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

(ii) Historical cost convention

The consolidated financial statements have been prepared under the historical cost convention.

(iii) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing on 1 January 2019:

HKFRS 16	Leases
Amendments to HKFRS 9	Prepayment features with negative compensation
Amendments to HKAS 19	Plan amendment, curtailment or settlement
Amendments to HKAS 28	Long-term interests in associates and joint ventures
Annual improvements to HKFARS 2015–2017 cycle	Amendments to HKFRS 3, HKFRS11, HKAS 12 and HKAS 23
HK(IFRIC) 23	Uncertainty over income tax treatments

The Group had to change its accounting policies and make certain adjustments following the adoption of HKFRS 16. The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(iv) New standards, amendments to standards and interpretations not yet adopted

The following new standards, amendments to standards and interpretations have been published but are not mandatory for 31 December 2019 reporting period and have not been early adopted by the Group.

		Effective for annual periods beginning on or after
Amendments to HKAS 1 and HKAS 8	Definition of material	1 January 2020
Amendments to HKFRS 3	Definition of a business	1 January 2020
HKFRS 17	Insurance contracts	1 January 2021
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKAS 39, HKFRS 7 and HKFRS 9	Hedge accounting (Amendment)	1 January 2020
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

2.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 "Leases" on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2019 in Note (b) below.

As disclosed in Note 2.1 above, the Group has adopted HKFRS 16 "Leases" retrospectively from 1 January 2019, applied the simplified transition approach and has not restated comparatives for the 2018 reporting period. Right-of-use assets were measured at the amount of the lease liabilities on adoption. There was no impact to the opening retained earnings. The reclassifications and adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 January 2019.

(a) Adjustments recognised on adoption of HKFRS 16

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 January 2019.

Under the simplified transition approach, the associated right-of-use assets were measured at the amount equal to the initial measurement of lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018, if any. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The lease prepayments — land use rights are reclassified to right-of-use assets as at 31 December 2019 and 1 January 2019, respectively.

The recognised right-of-use assets mainly relate to property and land use rights.

The changes in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets — increase by RMB1,244,000 of properties and RMB9,646,000 of land use rights
- lease liabilities — increase by RMB1,244,000
- land use rights — decrease by RMB9,646,000

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in accounting policies *(Continued)*

(b) Accounting policies adopted since 1 January 2019

The Group leases office. Rental contracts are typically entered into for fixed period of 2 to 6 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, but leased assets may not be used as security for borrowing purposes.

Until the year ended 31 December 2018, leases of properties were classified as operating leases. Payments made under operating leases were recognised as an expense on a straight-line basis over the lease term.

From 1 January 2019 onwards, 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. Each lease payment is allocated between the liability 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. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight line basis.

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

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

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.

Payments associated with short-term leases and 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 12 months or less.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Principles of consolidation and equity accounting

(i) Subsidiaries

Subsidiaries are all 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany 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. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies.

(ii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Group.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is re-measured to its fair value 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 profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRS.

2.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost 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 a dividend 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.

2.5 Segment reporting

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 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 RMB, 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 at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other income or other expenses.

2.7 Property and equipment

Property 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 any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation on property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	30 years
Building improvements	5 years
Machinery	10 years
Motor vehicles	5 years
Furniture and office equipment	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.

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and included in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Investment properties

Investment properties, principally comprising buildings, is held for long-term rental yields and is not occupied by the Group. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. The Group adopts the cost model for subsequent measurement of investment properties. Buildings are depreciated to their estimated net residual values over their estimated useful lives. The estimated useful lives, the estimated net residual values that are expressed as a percentage of cost and the annual depreciation rates of investment properties are as follows:

Buildings	30 years

The carrying amount of investment properties shall be reduced to the recoverable amount if the recoverable amount is below the carrying amount.

2.9 Lease prepayments

Lease prepayments represent upfront prepayment made for the land use rights and are expensed in the consolidated income statements on a straight-line basis over the period of the lease which is 39 years. Lease prepayments are carried at cost less accumulated amortisation and impairment losses. As explained in note 2.2 above, the lease prepayments — land use rights are reclassified to right-of-use assets as at 31 December 2019 and 1 January 2019 as a result of adopting the new leasing standard, respectively.

2.10 Intangible assets

Acquired computer software are capitalised on the basis of costs incurred to acquire and bring to use the specific software.

The Group amortises intangible assets with a limited useful life of 3 to 5 years using the straight-line method.

2.11 Impairment of non-financial assets

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 of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting period.

2.12 Investments and other financial assets

(i) Classification

The Group classifies its financial assets only in the category of assets 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.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on the 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Investments and other financial assets *(Continued)*

(iii) Measurement

At initial recognition, the Group measures a financial asset at 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.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The only measurement category into which the Group classifies its debt instruments is at amortised cost. Under this category, assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

(iv) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

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 3.1.2 for further details.

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position where the Group currently has 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 group company or the counterparty.

2.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.15 Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade 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.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See note 2.12 for further information about the Group's accounting for trade receivables and for a description of the Group's impairment policies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.16 Cash and cash equivalents

In the consolidated statements of cash flows, cash and cash equivalents include cash in hand and at bank. Bank deposits which are restricted to use are included in "Restricted cash". Restricted cash are excluding from cash and cash equivalents included in the consolidated statements of cash flows.

2.17 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.

2.18 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade payables are classified as current liabilities unless payment is not due within 12 months after the reporting period.

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

2.19 Borrowings

Borrowings are initially recognised 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 profit or loss 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 12 months after the end of the reporting period.

2.20 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get 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.

Other borrowing costs are expensed in the period in which they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

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 and its 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.

Deferred income tax

Deferred income tax is provided in full, 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. 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 balance sheet date 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 if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, 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.

2.22 Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Employee benefits *(Continued)*

(ii) Pension obligations

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries, subject to certain ceiling.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The Group's contributions to these plans are expensed as incurred.

(iii) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits.

(iv) Housing funds, medical insurances and other social insurances

Employees of the group companies in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each year.

(v) Bonus entitlements

The expected cost of bonus payments are recognised as a liability when the Group has a present contractual or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

2.23 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property and equipment are included in non-current liabilities as deferred revenue and are credited to the consolidated income statement on a straight-line basis over the expected lives of the related assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Revenue recognition

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

- Provides all of the benefits received and consumed simultaneously by the customer; or
- Creates and enhances an asset that the customer controls as the Group performs; or
- Do 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.

When control of goods and services is transferred over time, the progress towards complete satisfaction of performance obligation is measured based on one of the following methods that best depicts the Group's performance in satisfying the performance obligation:

- Direct measurements of the value of individual services transferred by the Group to the customer (output method); or
- The Group's efforts or inputs to the satisfaction of the performance obligation (input method).

(i) Construction contracts

The Group generates revenue by providing interior and exterior building decoration and design services under construction contracts. The Group determines that revenue from construction contracts satisfies the performance obligation over time, for the performance of construction contracts creates or enhances an asset that the customer controls as the asset is created or enhanced. The Group recognises revenue over time based on the percentage of completion, using input method as measured by the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs in accordance with HKFRS 15.

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

Upon the completion of construction work, normally 5% to 10% of the contract price will be retained by customers as quality guarantee and will be refunded after one or two year's warranty period. The Group does not intend to give a financing to the customer through retention. The Group makes efforts to collect such retention and timely monitor the credit risk.

There is no material contract fulfilment cost or cost of obtaining contracts incurred by the Group.

(ii) Rendering of services

The Group provides design services to external parties. Design fee is recognised as revenue in the accounting period in which the services are rendered, by reference to the amount provided in the service period stipulated in the contract.

(iii) Sales of goods

Sales of goods are recognised when the Group has delivered products to the customer; the customer has accepted the products and collectability of the related receivables is reasonably assured.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.25 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Group, excluding any costs of servicing equity other than ordinary shares

- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.26 Interest income

Interest income on financial assets at amortised cost which calculated using the effective interest method is recognised in the statement of profit or loss as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see note 10 below. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.27 Leases

(a) Accounting policies adopted from 1 January 2019

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group is the lessee

As explained in note 2.2 above, the group has changed its accounting policy for leases where the group is the lessee. The new policy and the impact of the change is described in note 2.2.

The Group is the lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to the ownership of an underlying asset to the customer, are classified as operating lease arrangements. The respective lease assets are included in the consolidated statements of financial position based on the nature of the assets. Lease income is recognised in the profit or loss on a straight-line basis over the period of the lease. The group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.28 Research and development

Research expenditures are recognised as expenses or cost of sales as incurred. Costs incurred on development projects (relating to the design and developing of new or improved utility models and utility patents) are recognised as intangible assets if, and only if, the Group can demonstrate all of the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Other development expenditures that do not meet these criteria are recognised as expenses or cost of sales when incurred. Development costs previously recognised as expenses or cost of sales are not recognised as an asset in a subsequent period.

2.29 Dividend distribution

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

2.30 Change in accounting estimates

The Group has been improving its management of receivables continuously according to accumulative knowledge and experience. The Group had an accounting estimate change regarding the expected loss rates and customer groups used for receivables after considering the industry characteristics and the accounting treatment of other listed companies within the same industry. The change mentioned above has become effective since 1 July 2019. The change in the accounting estimate resulted in the decrease in the net profit for the year ended 31 December 2019 by RMB42,102,000, and please refer to Note 3.1.2 and Note 19 for more details.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the financial department under policies approved by the board of directors.

3.1.1 Market risk

(i) Foreign exchange risk

The Group operates in the PRC with most transactions being settled in RMB, which is the functional currency of the group companies. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities of the group company that are denominated in a currency that is not the entity's functional currency, primarily with respect to Hong Kong dollars ("HKD"). The Group currently does not have a foreign currency hedging policy and manages its foreign currency risk by closely monitor the movement of the foreign currency rates.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.1 Market risk *(Continued)*

(i) Foreign exchange risk (Continued)

At 31 December 2019, if RMB had weakened/strengthened by 5% against the HKD, while all other variables had been held constant, the Company's post-tax profit for the year would have been approximately RMB1,000 higher/lower (2018: RMB62,000 higher/lower) as a result of net foreign exchange gains/losses in HKD denominated cash at bank.

(ii) Interest rate risk

The Group's interest rate risk mainly arises from borrowings. The Group regularly seeks the most favourable interest rates available for borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Information relating to the interest rates and terms of the Group's borrowings are disclosed in Note 26. As at 31 December 2019, if the market interest rates had been 0.5% higher with all other variables held constant, post-tax profit for the year would have been RMB1,773,000 lower (2018: RMB2,108,000 lower), mainly as a result of higher interest expense on borrowings. The directors consider the interest rate risk related to cash at bank is not material to the Group.

The Group has not entered into any interest rate swaps to hedge its exposure to interest rate risks.

3.1.2 Credit risk

Credit risk arises from cash and cash equivalents, trade receivables, contract assets and deposits and retention receivables recorded as other receivables.

The carrying amount of these balances in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to its financial and contract assets. Management has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis.

(i) Risk management

Majority of the Group's cash and cash equivalents are placed in those banks incorporated in the PRC which are reputable local listed commercial banks or state-owned bank. Management does not expect any losses from non-performance by these banks as they have no default history in the past.

In respect of trade receivables, contract assets and deposits and retention receivables, which related to the construction customers, periodical credit evaluations are performed taking into account the customers' financial position, past experience and other factors. Credit limits are also set based on internal risk assessment results for individual customer. The Group generally requires customers to settle progress billings in accordance with contracted terms and other debts in accordance with agreements. Normally, the Group does not obtain collateral from customers.

(ii) Impairment of financial assets

The Group has three types of assets that are subject to the expected credit loss model:

- Trade receivables,
- Contract assets relating to construction contracts, and
- Deposits and retention receivables relating to construction contracts recorded as other receivables.

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.2 Credit risk *(Continued)*

(ii) Impairment of financial assets (Continued)

To measure the expected credit losses of trade receivables and contract assets, individual credit evaluation on significant customers is performed by management. These evaluation focused on the customer payment history and current and future ability for payment taking into account the information specific to the customer as well as pertaining to the current and future general economic environment in which the customer operated.

For those not subject to individual credit evaluation or individually assessed as not impaired, management collectively assessed the expected credit losses taking into account the ageing analysis and the history of bad debt losses in respect of those groups of customers. The historical loss rates are adjusted to reflect current and forward-looking information affecting the ability of the customers and debtors to settle the receivables.

Impairment on deposits and retention receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

For other receivables, the Group makes periodic collective assessments as well as individual assessment on the recoverability based on past experience and forward-looking information.

The closing loss allowances for trade receivables, contract assets and other receivables as at 31 December 2019 reconcile to the opening loss allowances as follows:

	Trade receivables RMB'000	**Contract assets RMB'000**	**Other receivables RMB'000**	**Total RMB'000**
At 1 January 2019	**57,000**	**99,586**	**16,329**	**172,915**
Net impairment loss/(reversal of provision)	**113,420**	**(54,801)**	**1,920**	**60,539**
Written off	**(24)**	**—**	**—**	**(24)**
At 31 December 2019	**170,396**	**44,785**	**18,249**	**233,430**

The closing loss allowances for trade receivables, contract assets and other receivables as at 31 December 2018 reconcile to the opening loss allowances as follows:

	Trade receivables RMB'000	Contract assets RMB'000	Other receivables RMB'000	Total RMB'000
At 1 January 2018	49,772	90,053	15,623	155,448
Net impairment loss	7,514	9,533	3,079	20,126
Written off	(286)	—	(2,373)	(2,659)
At 31 December 2018	57,000	99,586	16,329	172,915

Trade receivables, contract assets and other receivables are written off when there is no reasonable expectation of recovery. Subsequent recoveries of amounts previously written off are credited into profit or loss.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.3 Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with debt covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from banks and other financial institutions to meet their liquidity requirements in the short and longer term.

Management devotes to tighten its credit terms to customers and fasten its collection of debtors by available means in order to maintain sufficient cash to meet the obligations. Moreover, the Group continues to explore its available funding through different financial facilities to maintain sufficient flexibility in funding as well. The Group closely monitors its policies to maintain sufficient cash flows and ensure they are effective. Management considers that there is no significant liquidity risk as the Group has sufficient committed facilities to fund their operations.

The table below analyses the Group's non-derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the consolidated balance sheets date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year RMB'000	Over 1 year RMB'000	Total RMB'000
As at 31 December 2019			
Borrowings	**428,846**	**—**	**428,846**
Trade and other payables (excluding other tax payable and payroll payable)	**805,064**	**—**	**805,064**
Lease liabilities	**885**	**1,276**	**2,161**
	1,234,795	**1,276**	**1,236,071**
As at 31 December 2018			
Borrowings	506,530	—	506,530
Trade and other payables (excluding other tax payable and payroll payable)	777,040	—	777,040
	1,283,570	—	1,283,570

3.2 Capital 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 the shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings and lease liabilities less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated statement of financial position plus net debt.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital management *(Continued)*

During the years ended 31 December 2019 and 2018, the Group's strategy was to maintain the gearing ratio at a reasonable level. The gearing ratios at 31 December 2019 and 2018 were as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Total borrowings (Note 26)	**417,158**	496,021
Lease liabilities (Note 16)	**1,973**	—
Less: cash and cash equivalents (Note 21)	**(254,591)**	(180,059)
Net debt	**164,540**	315,962
Total equity	**1,278,289**	1,084,730
Total capital	**1,442,829**	1,400,692
Gearing ratio	**11%**	23%

The Group has complied with the loan covenants throughout the reporting period.

3.3 Fair value estimation

The Group's financial assets and financial liabilities are mainly receivables and payables, respectively, which are carried at amortised cost. The fair values of these financial instruments approximate their carrying amounts.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Recognition of revenue

The Group recognises the revenue over time based on the percentage of completion, using input methods in accordance with HKFRS 15. The percentage of completion is determined by the aggregated cost for the individual contract incurred at the end of the reporting period compared with the estimated budgeted cost. Because of the nature of the activity 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 period. The Group reviews and revises the estimates of contract revenue, contract costs, variation orders and contract claims prepared for each construction contract as the contract progresses and regularly reviews the progress of the contracts.

(b) Impairment of trade receivables and contract assets

The expected credit losses for trade receivables and contract assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's assessment on customer payment history and current and future ability for payment taking into account the information specific to the customer as well as pertaining to the current and future general economic environment in which the customer operated. Details of management's credit risk assessment are disclosed in the tables in Note 3.1.2.

(c) Income taxes and deferred taxation

The Group is subject to income taxes in the PRC. Judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the year in which such determination is made.

5 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors of the Company.

The Group is principally engaged in provision of interior and exterior building decoration and design services in the PRC. Management reviews the operating results of the business as one segment to make decisions about resources to be allocated. Therefore, the board of directors of the Company regards that there is only one segment which is used to make strategic decisions. Revenue and profit before income tax are the measures reported to the executive directors for the purpose of resources allocation and performance assessment.

All of the operating entities of the Group are domiciled in the PRC. Accordingly, all of the Group's revenue is derived in the PRC during the years ended 31 December 2019 (2018: same).

As at 31 December 2019, all of the non-current assets were located in the PRC (2018: same).

(a) Assets and liabilities related to contracts with customers

The Group has recognised the following assets and liabilities related to contracts with customers:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Contract assets relating to construction contracts	**1,029,997**	1,681,343
Loss allowance (Note 3.1.2)	**(44,785)**	(99,586)
Total contract assets	**985,212**	1,581,757
Contract liabilities relating to construction contracts	**(117,673)**	(107,856)

Significant changes in contract assets and liabilities

Contract assets have decreased as the Group has provided less services ahead of billing for certain construction contracts.

Contract liabilities represented the billing progress in excess of the construction works performed and the advance payment made by customers. Contract liabilities has increased by RMB9,817,000 as the negotiation of larger billing for certain construction contracts.

Revenue recognised in relation to contract liabilities

Revenue recognised in the current reporting period which related to carried-forward contract liabilities was RMB23,039,000.

As at 31 December 2019, contract assets of RMB266,918,000 were pledged for notes payable (Note 25) and borrowings (Note 26) (2018: RMB383,580,000).

6 REVENUE

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Revenue from construction contracts	**1,497,150**	1,759,227
Sales of goods	**24,181**	54,690
Design and other income	**21,476**	16,866
Total	**1,542,807**	1,830,783

No customer individually accounted for more than 10% of the Group's revenue during the year ended 31 December 2019 (2018: nil).

7 EXPENSES BY NATURE

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Raw materials and consumables used	**730,556**	878,865
Remuneration paid or payable to work forces engaged by the Group	**571,750**	633,832
Trading merchandise consumed	**20,556**	49,200
Staff costs (including directors' emoluments) (Note 8)	**28,995**	33,363
Consulting and professional fee	**11,180**	2,991
Depreciation and amortisation expenses	**7,602**	11,840
Other taxes	**5,715**	6,462
Auditor's remuneration	**2,420**	2,380
Travelling expenses	**2,025**	1,690
Entertainment expenses	**1,888**	2,311
Insurance fee	**1,247**	733
Advertising fee	**353**	2,595
Miscellaneous	**5,984**	4,114
Total cost of sales, selling and marketing expenses and administrative expenses	**1,390,271**	1,630,376

Research and development expenses during the year ended 31 December 2019 were RMB62,634,000(2018: RMB70,634,000), which mainly included materials consumed and related staff costs. No research and development expenses had been capitalised for the year ended 31 December 2019 (2018: nil).

8 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Salaries, wages and bonuses	**24,658**	28,407
Housing funds, medical insurances and other social insurances	**1,587**	1,882
Pension costs — defined contribution plans	**1,709**	2,027
Other welfare and allowance	**1,041**	1,047
	28,995	33,363

8 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

(a) Directors', supervisors' and chief executive's emoluments

The remuneration of each director, supervisor and chief executive for the year ended 31 December 2019 is set out below:

Name	Fees RMB'000	Salaries and other benefits RMB'000	Contribution to pension scheme RMB'000	Total RMB'000
Executive directors				
Mr. Ye (i)	—	696	35	731
Mr. Liu Yilun	—	420	35	455
Mr. Ye Niangting	—	397	35	432
Mr. Ye Guofeng	—	433	35	468
Ms. Ye	—	146	—	146
Non-executive directors				
Mr. Tian Wen (ii)	17	—	—	17
Mrs. Li YuanFei (ii)	63	—	—	63
Independent non-executive directors				
Mr. Lin Zhiyang	80	—	—	80
Mrs. Zhai Xin (ii)	44	—	—	44
Mr. Wang Zhaowen (ii)	36	—	—	36
Mr. Cheung Wai Yeung, Michael	80	—	—	80
Supervisors				
Mr. Tian Wen (ii), (iii)	—	—	—	—
Mr. Ye Xian (ii)	—	23	3	26
Mr. Zu Li (iii)	—	—	—	—
Mr. Ye Weizhou	—	90	10	100
	320	2,205	153	2,678

8 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

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

The remuneration of each director, supervisor and chief executive for the year ended 31 December 2018 is set out below:

Name	Fees RMB'000	Salaries and other benefits RMB'000	Contribution to pension scheme RMB'000	Total RMB'000
Executive directors				
Mr. Ye (i)	—	672	40	712
Mr. Liu Yilun	—	410	40	450
Mr. Ye Niangting	—	380	40	420
Mr. Ye Guofeng	—	361	38	399
Ms. Ye	—	134	—	134
Non-executive director				
Mr. Tian Wen (ii)	80	—	—	80
Independent non-executive directors				
Mr. Lin Zhiyang	80	—	—	80
Mr. Tang Wai Man, Raymond	51	—	—	51
Mr. Wang Zhaowen (ii)	80	—	—	80
Mr. Cheung Wai Yeung, Michael	30	—	—	30
Supervisors				
Mr. Wu Hanguang	—	59	7	66
Mr. Ye Xian (ii)	—	84	10	94
Mr. Zu Li (iii)	—	—	—	—
Mr. Ye Weizhou	—	50	6	56
	321	2,150	181	2,652

(i) Mr. Ye is also the chief executive of the Company.

(ii) On 19 March 2019, Mr. Ye Xian, supervisor, resigned, Mr. Tian Wen was appointed as supervisor and Mrs. Li YuanFei was appointed as non-executive director accordingly. On 11 June 2019, Mr. Wang Zhaowen, independent non-executive director, resigned and Mrs. Zhai Xin, was appointed as independent non-executive director accordingly.

(iii) During the year ended at 31 December 2019, Mr. Zu Li and Mr. Tian Wen, supervisors of the Company waived their fees as for supervisor (2018: same).

(iv) The aggregate emoluments paid to or receivable by directors in respect of their services as directors of the company for the year ended 31 December 2019 were RMB320,000(2018: RMB321,000). The aggregate emoluments paid to or receivable by directors in respect of their other services in connection with the management of the affairs of the company for the year ended 31 December 2019 were RMB2,232,000 (2018: RMB2,115,000).

During the year, no retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable (2018: same). No consideration was provided to or receivable by third parties for making available directors' services (2018: same). There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2018: same).

No director of the Company and their connected entities had a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Company's business to which the Company was or is a party that subsisted at the end of the year or at any time during the year (2018: same).

8 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

(b) Five highest paid individuals

For the year ended 31 December 2019, the five individuals whose emoluments were the highest in the Group included four directors (2018: four), whose emoluments are reflected in the analysis presented above. The emoluments paid to the remaining individual during the years ended 31 December 2019 and 2018, are as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Salaries and other benefits	**243**	243
Contribution to pension scheme	**31**	31
	274	274

The emoluments of these remaining individuals of the Group fell within the following bands:

	Year ended 31 December	
	2019	2018
Emolument bands		
Nil to HKD1,000,000	**1**	1

9 OTHER INCOME — NET

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Government grants (a)	**5,843**	6,128
Rental income from investment properties	**232**	90
Gains on disposal of property, plant and equipment	**1,501**	—
Others	**104**	288
	7,680	6,506
Outgoings related to rental income	**(43)**	(18)
	7,637	6,488

(a) Government grants are under no unfulfilled conditions or other contingencies attaching to these grants. The Group did not benefit directly from any other forms of government assistance.

10 FINANCE COSTS — NET

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Finance income		
— Interest income derived from bank deposits	**1,258**	2,442
Finance costs		
— Interest expenses on borrowings	**(24,588)**	(37,181)
— Expense for factoring arrangement	**(2,513)**	(2,515)
— Interest expenses for lease liabilities	**(120)**	—
— Net foreign exchange losses	**(3)**	(498)
	(27,224)	(40,194)
	(25,966)	(37,752)

11 INCOME TAX EXPENSE

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Current income tax		
— PRC enterprise income tax	**12,338**	21,102
Deferred income tax (Note 18)	**(8,969)**	(2,798)
	3,369	18,304

Current taxation primarily represented the provision for PRC Enterprise Income Tax ("EIT") for companies operating in the PRC. These companies are subject to EIT on their taxable income as reported in their respective statutory financial statements adjusted in accordance with the relevant tax laws and regulations in the PRC.

Pursuant to the PRC Enterprise Income Tax Law ("EIT Law"), the EIT rate for domestic enterprises and foreign invested enterprises is 25%. The company was recognised as High and New Technology Enterprise and thus enjoyed a preferential CIT rate of 15% for the year ended 31 December 2018. On 9 December 2019, the Company renewed the High and New Technology Enterprise Certificate which is effective for three years commencing on 1 January 2019. The applicable income tax rate is 15% for the years from 2019 to 2021. Assuming that there is no change to the relevant laws and regulations, the directors consider that the Company will continue to be granted the preferential tax treatment through an application of renewal, and accordingly, tax rate of 15% has been applied when considering the deferred income tax. All the other PRC entities of the Group are subject to EIT at a rate of 25% (2018: 25%) in accordance with EIT Law.

11 INCOME TAX EXPENSE *(Continued)*

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to profit of the consolidated entities as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Profit before income tax	**73,668**	149,017
Calculated at applicable tax rate	**10,991**	22,317
Expenses not deductible for tax purposes	**175**	539
Unrecognised temporary difference	**149**	90
Additional deduction on research and development expenses (a)	**(7,946)**	(4,642)
	3,369	18,304

(a) The additional deduction on research and development expenses are claimed directly in the annual EIT filing and recognised upon approval of the in-charge tax authority during the year.

12 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the years ended 31 December 2019 and 2018.

	Year ended 31 December	
	2019	2018
Profit attributable to owners of the Company (RMB'000)	**70,299**	130,713
Weighted average number of ordinary shares in issue (thousand shares)	**229,384**	211,899
Basic earnings per share (RMB)	**30.65 cents**	61.69 cents

The Company did not have any potential ordinary shares outstanding during the year ended 31 December 2019. Diluted earnings per share for the year ended 31 December 2019 was the same as the basic earnings per share (2018: same).

13 DIVIDENDS

The board of directors did not recommend the payment of any final dividend in respect of the year ended 31 December 2019 (2018: nil).

14 SUBSIDIARIES

Subsidiaries of the Group as at 31 December 2019 are set out as below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

Name	Type of legal status	Place of incorporation/ establishment	Principal activities and place of operation	Registered/ paid up capital	Proportion of ordinary shares directly held by parent
Jingdi Industrial (Shenzhen) Company Limited (景帝實業(深圳)有限公司)	Limited liability company	Shenzhen, the PRC	industrial and commercial investments(specific programs to be separately applied for);supply chain management; export and import trade；the PRC	RMB10,100,000	100%
Huidong Yip's Development Limited Company (惠東葉氏實業發展有限公司)	Limited liability company	Huizhou, the PRC	Development and construction of industrial park; the PRC	RMB500,000	100%
Huidong Shikuan Decorative Furniture Creative Culture Company Limited (惠東士寬裝飾傢俬創藝文化有限公司)	Limited liability company	Huizhou, the PRC	Design and sale of mobile and fixed furniture suitable for the use of construction decoration works, soft decoration product; the PRC	RMB500,000	100%
Adway Constructional Engineering Design (Shenzhen) Company Limited (愛得威建築工程設計(深圳)有限公司)	Limited liability company	Shenzhen, the PRC	Design of decoration projects and related whole industry chain integrated services; the PRC	RMB10,000,000	100%
Adway Construction (Hong Kong) Limited (愛得威建設(香港)有限公司)	Limited liability company	Hong Kong	Building decoration, construction material import and export; Hong Kong	HKD10,000	100%

15 PROPERTY AND EQUIPMENT

	Buildings RMB'000	Building improvements RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Furniture and office equipment RMB'000	Total RMB'000
At 1 January 2018						
Cost	79,568	25,128	31	13,864	6,842	125,433
Accumulated depreciation	(10,936)	(20,887)	(31)	(5,558)	(4,835)	(42,247)
Net book amount	68,632	4,241	—	8,306	2,007	83,186
Year ended 31 December 2018						
Opening net book amount	68,632	4,241	—	8,306	2,007	83,186
Additions	—	—	—	655	368	1,023
Depreciation	(2,545)	(4,241)	—	(1,806)	(1,190)	(9,782)
Closing net book amount	66,087	—	—	7,155	1,185	74,427
At 31 December 2018						
Cost	79,568	25,128	31	14,519	7,140	126,386
Accumulated depreciation	(13,481)	(25,128)	(31)	(7,364)	(5,955)	(51,959)
Net book amount	66,087	—	—	7,155	1,185	74,427
Year ended 31 December 2019						
Opening net book amount	**66,087**	**—**	**—**	**7,155**	**1,185**	**74,427**
Additions	**—**	**—**	**—**	**62**	**363**	**425**
Disposal	**(11,919)**	**—**	**—**	**—**	**—**	**(11,919)**
Depreciation	**(2,184)**	**—**	**—**	**(1,911)**	**(486)**	**(4,581)**
Closing net book amount	**51,984**	**—**	**—**	**5,306**	**1,062**	**58,352**
At 31 December 2019						
Cost	**64,853**	**25,128**	**31**	**14,581**	**7,503**	**112,096**
Accumulated depreciation	**(12,869)**	**(25,128)**	**(31)**	**(9,275)**	**(6,441)**	**(53,744)**
Net book amount	**51,984**	**—**	**—**	**5,306**	**1,062**	**58,352**

Depreciation of the property and equipment has been charged to profit or loss as follows:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Selling and marketing expenses	**25**	184
Administrative expenses	**4,556**	9,598
	4,581	9,782

16 LEASES

(a) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	At 31 December 2019 RMB'000	At 1 January 2019 RMB'000
Right-of-use assets		
Lease prepayments — land use rights (i)	**9,360**	9,646
Properties	**1,962**	1,244
	11,322	10,890
Lease liabilities		
Current	**793**	487
Non-current	**1,180**	757
	1,973	1,244

(i) The balance represented prepaid operating lease payment for one piece of land located in the PRC for a lease term of 39 years.

(ii) Additions to the right-of-use assets during the 2019 financial year were RMB1,680,000.

(b) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Depreciation charge of right-of-use assets		
Lease prepayments — land use rights	**286**	—
Properties	**962**	—
	1,248	—
Interest expense (included in finance cost)	**120**	—

17 INTANGIBLE ASSETS

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
At 1 January		
Cost	**5,317**	5,299
Accumulated amortisation	**(1,772)**	—
Net book amount	**3,545**	5,299
For the year		
Opening net book amount	**3,545**	5,299
Addition	**7**	18
Amortisation	**(1,773)**	(1,772)
Closing net book amount	**1,779**	3,545
At 31 December		
Cost	**5,324**	5,317
Accumulated amortisation	**(3,545)**	(1,772)
Net book amount	**1,779**	3,545

Amortisation charges were expensed in the following category in the consolidated statements of comprehensive income.

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Administrative expenses	**1,773**	1,772

18 DEFERRED INCOME TAX ASSETS

(a) The analysis of deferred income tax assets is as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Deferred income tax assets		
— to be recovered after more than 12 months	**26,941**	25,406
— to be recovered within 12 months	**9,004**	1,570
	35,945	26,976

The gross movements on the deferred income tax assets are as follows:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
At 1 January	**26,976**	24,178
Tax credited to the consolidated income statement	**8,969**	2,798
At 31 December	**35,945**	26,976

(b) The movements in deferred income tax assets during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Provisions RMB'000	**Deferred revenue** RMB'000	**Accruals** RMB'000	**Total** RMB'000
At 1 January 2018	23,317	266	595	24,178
Tax credited/(charged) to the consolidated statement of comprehensive income	2,620	(11)	189	2,798
At 31 December 2018	25,937	255	784	26,976
Tax credited/(charged) to the consolidated statement of comprehensive income	9,077	(11)	(97)	8,969
At 31 December 2019	**35,014**	**244**	**687**	**35,945**

18 DEFERRED INCOME TAX ASSETS *(Continued)*

(c) Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The tax losses with no deferred tax assets recognised carried forward are as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Year of expiry of tax losses		
2020	**1,401**	1,401
2021	**567**	567
2022	**504**	504
2023	**360**	360
2024	**596**	—
	3,428	2,832

19 TRADE RECEIVABLES

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Trade receivables (a)	**1,404,849**	624,025
Less: provision for impairment of trade receivables	**(170,396)**	(57,000)
Trade receivables — net	**1,234,453**	567,025
Notes receivable (b)	**20,551**	22,062
	1,255,004	589,087

Ageing analysis of trade receivables based on revenue recognition date is as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Within 6 months	**777,519**	342,481
6 months to 1 year	**405,689**	76,777
1 year to 2 years	**89,599**	82,616
2 years to 3 years	**60,730**	64,806
3 years to 4 years	**43,160**	28,564
4 years to 5 years	**16,222**	10,648
Over 5 years	**11,930**	18,133
	1,404,849	624,025

Majority of the Group's revenues are generated through construction contracts with the credit terms of 15 days according to terms specified in the contracts governing the relevant transactions.

19 TRADE RECEIVABLES *(Continued)*

(a) Credit loss allowance of trade receivables

As at 31 December 2019, the credit loss allowance of trade receivables is as follows:

	Less than 1 year	1 year to 2 years	2 years to 3 years	3 years to 4 years	4 years to 5 years	Over 5 years	Total
Collectively assessed:							
Governments and public institutions							
— Expected loss rate	0.20%	2.00%	5.00%	10.00%	15.00%	40.00%	
— Gross carrying amount (RMB'000)	247,713	1,528	5,656	307	194	—	255,398
— Loss allowance (RMB'000)	(495)	(31)	(283)	(31)	(29)	—	(869)
State-owned and municipal investment enterprises							
— Expected loss rate	1.00%	6.00%	15.00%	50.00%	80.00%	100.00%	
— Gross carrying amount (RMB'000)	176,116	13,323	9,074	9,483	744	—	208,740
— Loss allowance (RMB'000)	(1,761)	(799)	(1,361)	(4,742)	(595)	—	(9,258)
Well-known and high credit-rating enterprises							
— Expected loss rate	1.00%	3.00%	7.00%	12.00%	30.00%	50.00%	
— Gross carrying amount (RMB'000)	290,402	36,913	1,635	—	—	—	328,950
— Loss allowance (RMB'000)	(2,904)	(1,107)	(114)	—	—	—	(4,125)
Other enterprises							
— Expected loss rate	3.00%	15.00%	30.00%	70.00%	80.00%	100.00%	
— Gross carrying amount (RMB'000)	399,657	37,835	42,686	18,198	2,256	—	500,632
— Loss allowance (RMB'000)	(11,990)	(5,675)	(12,806)	(12,739)	(1,805)	—	(45,015)
Total collectively assessed:							
— Gross carrying amount (RMB'000)							1,293,720
— Loss allowance (RMB'000)							(59,267)
Individually assessed:							
— Gross carrying amount (RMB'000)							111,129
— Loss allowance (RMB'000)							(111,129)
Total							
— Gross carrying amount (RMB'000)							1,404,849
— Loss allowance (RMB'000)							(170,396)
							1,234,453

19 TRADE RECEIVABLES *(Continued)*

(a) Credit loss allowance of trade receivables *(Continued)*

As at 31 December 2018, the credit loss allowance of trade receivables is as follows:

	Less than 1 year	1 year to 2 years	2 years to 3 years	3 years to 4 years	4 years to 5 years	Over 5 years	Total
Collectively assessed:							
— Expected loss rate	0.00%	10.00%	30.00%	50.00%	80.00%	100.00%	
— Gross carrying amount (RMB'000)	156,619	15,928	10,473	10,290	71	—	193,381
— Loss allowance (RMB'000)	—	(1,593)	(3,142)	(5,145)	(57)	—	(9,937)
Individually assessed:							
— Gross carrying amount (RMB'000)							430,644
— Loss allowance (RMB'000)							(47,063)
Total							
— Gross carrying amount (RMB'000)							624,025
— Loss allowance (RMB'000)							(57,000)
							567,025

(b) As at 31 December 2019, notes receivable of the Group were mainly commercial acceptance notes, with due period less than 12 months (2018: same).

(c) The carrying amounts of trade receivables and notes receivable approximate their fair values due to their short term maturities. The Group's trade receivables are denominated in RMB.

(d) As at 31 December 2019, trade receivables of RMB210,594,000 were pledged for notes payable (Note 25) and borrowings (Note 26) (2018: RMB17,117,000).

20 PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Prepayments	**97,736**	65,389
Deposits (a)	**43,878**	41,980
Retention receivables (a)	**18,942**	26,676
Other receivables (b)	**7,052**	4,009
	167,608	138,054
Less: non-current portion		
Deposits	**(2,962)**	(6,591)
Retention receivables	**(19,999)**	(14,350)
	(22,961)	(20,941)
	144,647	117,113

20 PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

(a) Deposits represented tender and performance deposits due from customers. Retention receivables represented amounts due from customers upon completion of the construction work which will be refunded after one or two years by the end of the free maintenance period. All of the deposits and retention receivables are dominated in RMB.

(b) The carrying amounts of other receivables approximate their fair values due to their short term maturities. The Group's other receivables are denominated in RMB.

21 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Denominated in RMB		
— Cash at bank	**254,541**	178,593
— Cash on hand	**18**	18
	254,559	178,611
Denominated in HKD		
— Cash at bank	**32**	1,448
Total	**254,591**	180,059

22 RESTRICTED CASH

As at 31 December 2019 and 2018, restricted cash were mainly bank deposits for insurance of bank acceptance notes and restricted deposits to protect the construction workers engaged by the Group in respect of certain projects.

23 SHARE CAPITAL AND SHARE PREMIUM

	Number of Shares ('000)	Share Capital RMB'000	Share Premium RMB'000	Total RMB'000
Issued and fully paid:				
At 1 January 2018	211,050	211,050	168,472	379,522
Issuance of ordinary shares	10,000	10,000	52,135	62,135
Share issuance costs	—	—	(2,009)	(2,009)
At 31 December 2018	221,050	221,050	218,598	439,648
At 1 January 2019	221,050	221,050	218,598	439,648
Issuance of ordinary shares (a)	19,881	19,881	103,379	123,260
At 31 December 2019	240,931	240,931	321,977	562,908

(a) On 31 July 2019, 19,880,645 Domestic shares of RMB1.00 each were issued by the Company at a price of RMB6.20 per share for a total cash consideration of RMB123,260,000.

24 OTHER RESERVES

	Statutory reserve RMB'000	Safety reserve RMB'000	Capital reserve RMB'000	Total RMB'000
At 1 January 2018	62,445	—	1,093	63,538
Transfer to statutory reserve	13,014	—	—	13,014
Transfer to safety reserve	—	896	—	896
At 31 December 2018	75,459	896	1,093	77,448
At 1 January 2019	75,459	896	1,093	77,448
Transfer to statutory reserve	4,666	—	—	4,666
Transfer to safety reserve	—	23,996	—	23,996
At 31 December 2019	**80,125**	**24,892**	**1,093**	**106,110**

(a) Statutory reserve

In accordance with relevant rules and regulations in the PRC and the Company's Articles of Association, the company is required to transfer no less than 10% of their profit after taxation calculated under PRC accounting standards and regulations to the statutory reserve fund, until the accumulated total of the fund reaches 50% of their registered capital. The statutory reserve fund can only be used, upon approval by the relevant authority, to offset previous years' losses or to increase the capital of respective companies.

(b) Safety reserve

Pursuant to certain regulations issued by the Ministry of Finance and the State Administration of Work Safety, the Group is required to set aside an amount to a safety reserve at different rates ranging from 1.5% to 2% of the total construction contract revenue recognised for the years ended 31 December 2019 and 2018. The reserve can be utilised for improvements of safety on the construction work, and the amounts are generally expenses in nature and charged to the consolidated income statement as incurred.

25 TRADE AND OTHER PAYABLES

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Trade payables (a)	**688,442**	676,356
Notes payable (b)	**103,500**	14,000
	791,942	690,356
Other tax payable	**140,707**	116,347
Deposits for share subscription to be refunded	**—**	78,000
Payroll payable	**10,590**	10,589
Other payables	**13,122**	8,684
	956,361	903,976

(a) Ageing analysis of trade payables based on invoice date is as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Within 6 months	**398,285**	541,037
6 months to 1 year	**137,297**	85,618
1 year to 2 years	**106,147**	45,469
2 years to 3 years	**42,987**	4,232
Over 3 years	**3,726**	—
	688,442	676,356

(b) As at 31 December 2019, notes payable of RMB50,000,000 were secured by the Group's trade receivables and contract assets of totalling RMB56,607,000 and guaranteed by certain related parties (Note 28(b)) (2018: nil).

26 BORROWINGS

	As at 31 December	
	2019 **RMB'000**	2018 RMB'000
Bank borrowings — secured	**401,928**	470,000
Bank borrowings — unsecured	**—**	10,000
Other borrowings — secured	**15,230**	16,021
	417,158	496,021

As at 31 December 2019 and 2018, all of the Group's borrowings are repayable within one year and denominated in RMB.

The weighted average effective interest rate as at 31 December 2019 was 5.82% (2018: 5.95%) per annum.

As at 31 December 2019, borrowings were secured by the Group's trade receivables and contract assets of totalling RMB420,905,000 (2018: RMB400,697,000) and guaranteed by certain related parties (Note 28(b)).

27 CASH FLOW INFORMATION

(a) Cash generated from operations

Reconciliation of profit before income tax to cash generated from operations is as follows:

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Profit before income tax	**73,668**	149,017
Adjustments for:		
— Depreciation of property and equipment and investment properties	**4,624**	9,825
— Depreciation of right-of-use assets	**1,248**	—
— Amortisation of intangible assets	**1,773**	1,772
— Amortisation of land use rights	**—**	286
— Provision of financial and contract assets	**60,539**	20,126
— Financial costs — net	**25,966**	37,752
— Gain on disposal of property, plant and equipment	**(1,501)**	—
— Amortisation of deferred revenue	**(73)**	(73)
	166,244	218,705
Changes in working capital:		
— Inventories	**(1,684)**	—
— Contract assets	**651,346**	(335,950)
— Contract liabilities	**9,817**	11,791
— Trade receivables, prepayments and other receivables	**(822,564)**	(313,922)
— Trade and other payables	**130,385**	445,474
— Changes of restricted cash on operating activities	**(5,170)**	(6,399)
Cash generated from operations	**128,374**	19,699

27 CASH FLOW INFORMATION *(Continued)*

(b) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the years presented.

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Cash and cash equivalents	**254,591**	180,059
Borrowings — repayable within one year	**(417,158)**	(496,021)
Lease liabilities	**(1,973)**	—
Net debt	**(164,540)**	(315,962)
Cash and cash equivalents	**254,591**	180,059
Gross debt — fixed interest rates	**(136,203)**	(76,021)
Gross debt — variable interest rates	**(282,928)**	(420,000)
Net debt	**(164,540)**	(315,962)

	Cash	**Borrowings due within 1 year**	**Leases**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
Net debt as at 31 December 2017	281,750	(721,000)	—	(439,250)
Cash flows	(101,193)	224,979	—	123,786
Foreign exchange adjustments	(498)	—	—	(498)
Net debt as at 31 December 2018	180,059	(496,021)	—	(315,962)
Recognised on adoption of HKFRS 16 (see note 2.2)	—	—	(1,244)	(1,244)
	180,059	(496,021)	(1,244)	(317,206)
Cash flows (i)	74,535	78,863	951	154,349
Acquisition — leases	—	—	(1,680)	(1,680)
Foreign exchange adjustments	(3)	—	—	(3)
Net debt as at 31 December 2019	**254,591**	**(417,158)**	**(1,973)**	**(164,540)**

(i) Cash flows of borrowings due within 1 year include movements of receipt of bills discounted amounting to RMB11,753,000 presented as operating cash flows in the statement of cash flows.

28 RELATED PARTY TRANSACTIONS

(a) Key management compensation

	Year ended 31 December 2019 RMB'000	2018 RMB'000
Salaries and other benefits	**2,767**	2,713
Contribution to pension scheme	**154**	212
Total	**2,921**	2,925

(b) The Group's borrowings of RMB417,158,000 and notes payable of RMB50,000,000 as at 31 December 2019 have been guaranteed by the controlling shareholders, Mr. Ye and Mrs. Ye and certain shareholders of the Group (The Group's bank borrowings of RMB420,000,000 as at 31 December 2018 have been guaranteed by the controlling shareholders, Mr. Ye and Mrs. Ye and certain shareholders of the Group).

29 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Statement of financial position of the Company

	As at 31 December 2019 RMB'000	2018 RMB'000
ASSETS		
Non-current assets		
Investments in subsidiaries	**10,335**	10,504
Property and equipment	**57,817**	73,855
Right-of-use-assets	**1,962**	—
Investment properties	**689**	732
Intangible asset	**1,779**	3,545
Deferred income tax assets	**35,945**	26,976
Other receivables	**22,961**	20,941
	131,488	136,553
Current assets		
Inventories	**1,684**	—
Contract Assets	**985,212**	1,581,757
Trade receivables	**1,255,004**	589,087
Prepayments and other receivables	**144,647**	117,034
Amounts due from subsidiaries	**11,842**	11,842
Restricted cash	**12,330**	7,160
Cash and cash equivalents	**254,365**	179,880
	2,665,084	2,486,760
Total assets	**2,796,572**	2,623,313

29 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

(a) Statement of financial position of the Company *(Continued)*

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
EQUITY		
Equity attributable to owners of the Company		
Share capital	**240,931**	221,050
Share premium (b)	**321,977**	218,598
Other reserves (b)	**106,090**	77,428
Retained earnings (b)	**612,048**	570,052
Total equity	**1,281,046**	1,087,128
LIABILITIES		
Non-current liabilities		
Lease liabilities	**1,180**	—
Deferred revenue	**1,628**	1,701
	2,808	1,701
Current liabilities		
Trade and other payables	**956,349**	903,976
Contract liabilities	**117,673**	107,856
Borrowings	**417,158**	496,021
Lease liabilities	**793**	—
Amounts due to subsidiaries	**9,311**	9,472
Current income tax liabilities	**11,434**	17,159
	1,512,718	1,534,484
Total liabilities	**1,515,526**	1,536,185
Total equity and liabilities	**2,796,572**	2,623,313

The statement of financial position of the Company was approved by the board of directors on 30 March 2020 and was signed on its behalf.

Ye Yujing	**Ye Guofeng**
Director	*Director*

29 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

(b) Reserve movement of the Company

	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2018	168,472	63,518	459,256	691,246
Comprehensive income				
— Profit for the year	—	—	131,038	131,038
Total comprehensive income	—	—	131,038	131,038
Issuance of ordinary shares	52,135	—	—	52,135
Share issuance costs	(2,009)	—	—	(2,009)
Transfer to statutory reserve	—	13,014	(13,014)	—
Utilisation of safety reserve	—	896	(896)	—
Dividends for the year ended 31 December 2017	—	—	(6,332)	(6,332)
Balance at 31 December 2018	218,598	77,428	570,052	866,078
Balance at 1 January 2019	218,598	77,428	570,052	866,078
Comprehensive income				
— Profit for the year	—	—	70,658	70,658
Total comprehensive income	—	—	70,658	70,658
Issuance of ordinary shares	103,379	—	—	103,379
Transfer to statutory reserve	—	4,666	(4,666)	—
Utilisation of safety reserve	—	23,996	(23,996)	—
Balance at 31 December 2019	**321,977**	**106,090**	**612,048**	**1,040,115**

30 SUBSEQUENT EVENTS

Due to the outbreak of the Coronavirus Disease 2019 (COVID-19) epidemic in China in January 2020, the Group's operational and financial performance, as well as the construction decoration industry in general are expected to be affected by the epidemic in the first half of 2020. Individual projects in Hubei province may be delayed, but the actual impact is still under assessment by the Group. The Group will keep continuous attention on the situation of the COVID-19, assess and react actively to its impacts on the financial position and operating results of the Group. Up to the date of issue of these consolidated financial statements, the assessment is still in progress.

Save as disclosed in other notes to these financial statements, there were no other significant subsequent events after 31 December 2019 which would have a material impact on these financial statements.