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河北建設集團股份有限公司

**HEBEI CONSTRUCTION GROUP CORPORATION LIMITED**

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

**(Stock Code: 1727)**

**UNAUDITED ANNUAL RESULTS ANNOUNCEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2020**

The auditing process for the annual results of Hebei Construction Group Corporation Limited (河北建設集團股份有限公司) (the “**Company**”) and its subsidiaries (collectively the “**Group**”) has not been completed. The board of directors (the “**Board**”) of the Company hereby announces the unaudited results of the Group for the year ended 31 December 2020 (the “**Reporting Period**”). Please refer to the section headed “Review of Unaudited Annual Results” of this announcement below for the details.

## I. SELECTED FINANCIAL STATEMENTS AND NOTES

### CONSOLIDATED BALANCE SHEET

As at 31 December 2020

Unit: RMB'000

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

**CONSOLIDATED BALANCE SHEET (Continued)***As at 31 December 2020**Unit: RMB'000*

<b>Liabilities and owners' equity</b>	<i>Note</i>	<b>31 December 2020 (Unaudited)</b>	31 December 2019
<b>Current liabilities</b>			
Short-term borrowings		<b>2,269,541</b>	2,250,713
Bills payable		<b>571,443</b>	380,677
Accounts payable	6	<b>35,025,888</b>	35,946,252
Contract liabilities		<b>6,015,490</b>	4,489,727
Employee benefits payable		<b>202,579</b>	185,954
Taxes payable	7	<b>694,775</b>	636,184
Other payables		<b>5,304,087</b>	5,300,272
Non-current liabilities due within one year		<b>964,713</b>	922,400
Other current liabilities		<b>3,323,576</b>	3,016,571
<b>Total current liabilities</b>		<b>54,372,092</b>	53,128,750
<b>Non-current liabilities</b>			
Long-term borrowings		<b>1,959,599</b>	1,864,424
Lease liabilities		<b>22,112</b>	29,825
<b>Total non-current liabilities</b>		<b>1,981,711</b>	1,894,249
<b>Total liabilities</b>		<b>56,353,803</b>	55,022,999
<b>Owners' equity</b>			
Share capital		<b>1,761,384</b>	1,761,384
Capital reserve		<b>1,661,232</b>	1,661,232
Other comprehensive income		<b>141,182</b>	119,557
Surplus reserve		<b>500,912</b>	417,681
Retained profit		<b>2,181,233</b>	1,760,756
<b>Total equity attributable to shareholders of the parent</b>		<b>6,245,943</b>	5,720,610
Minority interests		<b>194,136</b>	182,962
<b>Total owners' equity</b>		<b>6,440,079</b>	5,903,572
<b>Total liabilities and owners' equity</b>		<b>62,793,882</b>	60,926,571

## CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2020

Unit: RMB'000

	Note	2020 (Unaudited)	2019
Operating revenue	8	40,149,925	41,077,029
Less: Operating costs		38,010,238	39,023,724
Taxes and surcharges		113,346	109,276
Selling costs		1,193	10,237
Administrative expenses		501,124	505,448
Research and development costs		94,476	92,895
Finance expenses		322,404	263,642
Including: Interest expenses		363,724	416,985
Interest income		39,167	158,720
Add: Other income		10,759	310
Investment income		86,951	101,756
Including: Gains on investments in joint ventures and associates		3,225	8,572
Gains/ (losses) from changes in fair values		1,950	(2,721)
Credit impairment gains	9	55,392	51,364
Losses on asset impairment		(325,197)	(11,159)
Gains from disposal of assets		214	304
Operating profit		937,213	1,211,661
Add: Non-operating income		2,444	1,490
Less: Non-operating expenses		3,523	4,402
Total profit		936,134	1,208,749
Less: Income tax expenses	11	183,903	445,626
Net profit		752,231	763,123
Including: Net profit of party being acquired prior to business combination under common control		–	37,906

**CONSOLIDATED INCOME STATEMENT (Continued)**

Year ended 31 December 2020

Unit: RMB'000

	<i>Note</i>	<b>2020</b> <b>(Unaudited)</b>	2019
Classified by business continuity			
Net profit from continuing operations		<b>752,231</b>	725,232
Net profit from discontinued operations		<u>–</u>	<u>37,891</u>
Classified by shareholdership			
Net loss attributable to shareholders of the parent		<b>759,856</b>	770,415
Minority interests		<u>(7,625)</u>	<u>(7,292)</u>
Other comprehensive income, net of tax		<b>66,822</b>	58,657
Other comprehensive income attributable to shareholders of the parent, net of tax		<b>66,822</b>	58,657
Other comprehensive income that cannot be reclassified to profit and loss			
Changes in fair value of other equity instrument investments		<u>78,465</u>	<u>73,100</u>
Other comprehensive income that will be reclassified to profit and loss			
Changes in fair value of accounts receivable financing		<u>(11,643)</u>	<u>(14,443)</u>
Total comprehensive income		<u><b>819,053</b></u>	<u>821,780</u>
Including:			
Total comprehensive income attributable to shareholders of the parent		<b>826,678</b>	829,072
Total comprehensive losses attributable to minority shareholders		<u>(7,625)</u>	<u>(7,292)</u>
Earnings per share ( <i>RMB/share</i> )			
Basic and diluted earnings per share	12	<u><b>0.43</b></u>	<u>0.43</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

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

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

#### **Statement of compliance with the Chinese Accounting Standards and the Hong Kong Companies Ordinance**

The financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises and the requirements of the Hong Kong Companies Ordinance (Chapter 622), which truly and completely reflect the financial position of the Company and the Group as at 31 December 2020, as well as its operating results and cash flow in 2020.

### 2. CHANGES OF ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

#### **Scope of disclosure of related parties**

According to the requirements of the Accounting Standards for Business Enterprises – Interpretation No. 13, since 1 January 2020, the following parties not deemed as related parties previously shall be related parties: joint ventures and their subsidiaries or associates and their subsidiaries of other members (including parent company and subsidiaries) within the same group as the Company. Such change in accounting policies has affected the determination of related parties and disclosure of related party transactions, and no retrospective adjustment to comparative data is required according to the transitional provisions.

#### **Changes in presentation of financial statements**

According to the Q&A of Implementation of Chinese Accounting Standards for Business Enterprises issued by the Ministry of Finance in December 2020, the Group reclassified the impairment loss for contract assets from “credit impairment losses” to “impairment loss for contract assets” in the income statement, and made retrospective adjustment to relevant comparative data. Such change in accounting policies has no effect on the consolidated and the Company’s net profit and owners’ equity.

The main effects on the financial statements of the retrospective adjustments arising from the above changes in accounting policies are as follows:

***The Group***

**2020**

*Unit: RMB'000*

	<u>Before changes of accounting policies</u>	<u>Changes of accounting policies</u>	<u>After changes of accounting policies</u>
	Amount incurred during the year	Effect of change in presentation of other financial statements	Amount incurred during the year
Credit impairment (losses)/gains	(269,805)	325,197	55,392
Asset impairment losses	-	(325,197)	(325,197)

**2019**

*Unit: RMB'000*

	<u>Before changes of accounting policies</u>	<u>Changes of accounting policies</u>	<u>After changes of accounting policies</u>
	Amount incurred during the year	Effect of change in presentation of other financial statements	Amount incurred during the year
Credit impairment gains	40,205	11,159	51,364
Asset impairment losses	-	(11,159)	(11,159)

### 3. ACCOUNTS RECEIVABLE

The accounts receivable of the Group are mainly receivables for construction contracting business. The credit period of accounts receivable is usually 1 to 3 months. All accounts receivable are non-interest-bearing.

The ageing analysis of accounts receivable is as follows:

	<i>Unit: RMB'000</i>	
	<b>2020</b>	2019
	<b>(Unaudited)</b>	
Within 1 year	<b>4,061,800</b>	4,718,478
1 to 2 years	<b>1,039,175</b>	707,684
2 to 3 years	<b>303,467</b>	483,087
Over 3 years	<b>686,242</b>	574,528
	<b>6,090,684</b>	6,483,777
Less: Bad debt allowance on accounts receivable	<b>663,649</b>	735,091
	<b>5,427,035</b>	5,748,686

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

### 4. CONTRACT ASSETS

Changes in the carrying amount of contract assets include (1) impairment of contract assets; (2) rights to contract consideration becoming unconditional right to receive payment (i.e., reclassification of contract assets to accounts receivable); and (3) the addition of contractual obligations that have been fulfilled but not yet settled during the year.

	<b>2020 (Unaudited)</b>			2019		
	<b>Book balance</b>	<b>Impairment provision</b>	<b>Carrying amount</b>	Book balance	Impairment provision	Carrying amount
Completed but unsettled	<b>41,008,817</b>	<b>(485,227)</b>	<b>40,523,590</b>	40,678,932	(160,030)	40,518,902
Including:						
Non-current assets	<b>2,131,282</b>	<b>(110,867)</b>	<b>2,020,415</b>	1,332,759	(45,333)	1,287,426



## 5. LONG-TERM RECEIVABLES

The Group's long-term receivables are mainly for provision of build-operate-transfer water supply services. The amounts due to the Group by customers under the construction services for comprehensive renovation projects will be settled in installments during a period from 1 to 25 years.

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

	<i>Unit: RMB'000</i>	
	<b>2020</b>	2019
	<b>(Unaudited)</b>	
Receivables under concession projects	<b>120,894</b>	119,901
Less: Long-term receivables due within one year	<b>35,102</b>	26,061
	<b>85,792</b>	93,840

The ageing of long-term receivables shall be calculated since the date when the budget needed for the completion of concession project is settled. As of 31 December 2020, the management of the Group considers that there is no provision for bad debts for long-term receivables based on lifetime expected credit losses (31 December 2019: nil).

## 6. ACCOUNTS PAYABLE

Accounts payable are non-interest bearing and are generally settled within an agreed period.

The ageing analysis of accounts payable is as follows:

	<i>Unit: RMB'000</i>	
	<b>2020</b>	2019
	<b>(Unaudited)</b>	
Within 1 year	<b>20,476,009</b>	26,760,003
1 to 2 years	<b>11,596,292</b>	7,669,895
2 to 3 years	<b>2,248,033</b>	1,296,826
Over 3 years	<b>705,554</b>	219,528
	<b>35,025,888</b>	35,946,252

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

## 7. TAXES PAYABLE

Unit: RMB'000

	2020 (Unaudited)	2019
Enterprise income tax	670,351	601,766
Value-added tax	17,725	30,986
Personal income tax	2,996	1,231
City maintenance and construction tax	1,958	1,883
Others	1,745	318
	<u>694,775</u>	<u>636,184</u>

## 8. OPERATING REVENUE

The operating revenue is as follows:

Unit: RMB'000

	2020 (Unaudited)	2019
Revenue from major business	39,504,481	40,196,157
Revenue from other business	645,444	880,872
	<u>40,149,925</u>	<u>41,077,029</u>

The operating revenue is as follows:

Unit: RMB'000

	2020 (Unaudited)	2019
Revenue from contracts with customers	40,118,580	41,055,621
Rental income	31,345	21,408
	<u>40,149,925</u>	<u>41,077,029</u>

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

**2020 (Unaudited)**

*Unit: RMB'000*

<b>Reporting segment</b>	<b>Construction</b>	<b>Others</b>	<b>Total</b>
Major operating regions			
China (excluding Hong Kong, Macau and Taiwan)	38,690,419	1,276,690	39,967,109
Other countries and regions	151,471	–	151,471
	<u>38,841,890</u>	<u>1,276,690</u>	<u>40,118,580</u>
Major products			
Building construction	25,992,215	–	25,992,215
Infrastructure construction	7,854,453	1,120,772	8,975,225
Specialized and other construction	4,537,041	–	4,537,041
Sewage and reclaimed water treatment	–	33,755	33,755
Sales of goods and others	458,181	122,163	580,344
	<u>38,841,890</u>	<u>1,276,690</u>	<u>40,118,580</u>
Timing of revenue recognition			
At a point of time			
Sales of goods and others	458,181	122,163	580,344
Within a period of time			
Building construction	25,992,215	–	25,992,215
Infrastructure construction	7,854,453	1,120,772	8,975,225
Specialized and other construction	4,537,041	–	4,537,041
Sewage and reclaimed water treatment	–	33,755	33,755
	<u>38,841,890</u>	<u>1,276,690</u>	<u>40,118,580</u>

2019

*Unit: RMB'000*

Reporting segment	Construction	Others	Total
<b>Major operating regions</b>			
China (excluding Hong Kong, Macau and Taiwan)	39,286,375	1,769,246	41,055,621
<b>Major products</b>			
Building construction	28,699,298	–	28,699,298
Infrastructure construction	6,687,868	1,401,956	8,089,824
Specialized and other construction	3,407,035	–	3,407,035
Sales of commercial housing	–	149,194	149,194
Sales of goods and others	492,174	218,096	710,270
	<u>39,286,375</u>	<u>1,769,246</u>	<u>41,055,621</u>
<b>Timing of revenue recognition</b>			
<b>At a point of time</b>			
Sales of commercial housing	–	149,194	149,194
Sales of goods and others	492,174	185,099	677,273
<b>Within a period of time</b>			
Building construction	28,699,298	–	28,699,298
Infrastructure construction	6,687,868	1,401,956	8,089,824
Specialized and other construction	3,407,035	–	3,407,035
Sewage and reclaimed water treatment	–	32,997	32,997
	<u>39,286,375</u>	<u>1,769,246</u>	<u>41,055,621</u>

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

*Unit: RMB'000*

	2020 (Unaudited)	2019
Building construction	1,883,995	1,894,411
Infrastructure construction	894,187	971,658
Specialized and other construction	561,094	436,489
Sales of commercial housing	–	103,975
	<u>3,339,276</u>	<u>3,406,533</u>

The information related to performance obligations of the Group is as follows:

#### **Construction services**

The performance obligation is fulfilled within the time when the service is provided, and the contract price is usually settled within 90 days after the project payment is invoiced. Generally, the customer retains a certain percentage as the warranty money. The warranty money is usually settled after the warranty period expires, because according to the contract, the Group's right to receive the final payment depends on the customer's satisfaction with the service quality over a period of time.

#### **Sale of goods**

The performance obligation is fulfilled when the goods is delivered to the customer. For old customers, the contract price is usually settled within 90 days of delivery; for new customers, advance payment is usually required.

#### **Real estate sales**

For the real estate sales, after the real estate is completed and accepted, meeting the delivery conditions stipulated in the sales contract, when the customer obtains actual control or legal ownership of the relevant goods, the performance obligation is fulfilled.

#### **Sewage and reclaimed water treatment**

The performance obligation is fulfilled within the period of provision of relevant services. The contract period for sewage and reclaimed water treatment is 25 years. The contract sum is normally paid within 90 days after settlement.

### **9. CREDIT IMPAIRMENT GAINS**

	<i>Unit: RMB'000</i>	
	<b>2020</b>	2019
	<b>(Unaudited)</b>	
Bad debt gains on accounts receivable	<b>(71,442)</b>	(4,724)
Bad debt losses/(gains) on other receivables	<b>7,319</b>	(46,640)
Impairment losses on financial guarantee contracts	<b>8,731</b>	–
	<b><u>(55,392)</u></b>	<b><u>(51,364)</u></b>

## 10. EXPENSES BY NATURE

Unit: RMB'000

	2020 (Unaudited)	2019
Construction costs	38,010,238	38,310,356
Property development costs	–	91,851
Employee benefits for the management and sales staff	298,917	314,096
Research and development costs	94,476	92,895
Depreciation and amortization	10,870	11,383
Audit fees	3,500	3,200
Others	189,030	808,523
	<u>38,607,031</u>	<u>39,632,304</u>

## 11. INCOME TAX EXPENSES

Unit: RMB'000

	2020 (Unaudited)	2019
Current income tax expenses	267,843	406,131
Deferred income tax expenses	(83,940)	39,495
	<u>183,903</u>	<u>445,626</u>

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

Unit: RMB'000

	2020 (Unaudited)	2019
Total profit	936,134	1,208,749
Income tax expenses at the statutory tax rate (Note)	234,033	302,187
Share of profits or losses of joint ventures and associates	(806)	(2,250)
Income not subject to tax	(23,790)	(21,304)
Non-deductible expenses	1,557	2,880
Deductible losses utilized from previous years	(32,147)	(1,799)
Unrecognized deductible temporary differences and deductible losses	14,021	157,738
Adjustment of difference in approved profit rate of subsidiaries	–	(2,728)
Effects on the income tax arising from the waiver of debts from the related parties	–	16,500
Adjustments on the income tax of previous periods	(8,965)	(5,598)
	<u>183,903</u>	<u>445,626</u>
Income tax expense at the Group's effective rate	<u>183,903</u>	<u>445,626</u>

Note: Provision for income tax of the Group has been made at 25% on the estimated taxable profit generated in the PRC.

## 12. EARNINGS PER SHARE

	<i>Unit: RMB'000</i>	
	<b>2020</b>	2019
	<b><i>RMB per share</i></b>	<i>RMB per share</i>
	<b>(Unaudited)</b>	
Basic earnings per share		
Continuing operations	<b>0.43</b>	0.42
Discontinued operations	—	0.01
	<u>0.43</u>	<u>0.43</u>

Basic earnings per share are calculated by dividing the net profit for the period attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue. The number of newly issued ordinary shares is determined according to the specific terms of the issue contract and calculated from the date of consideration receivable (normally the stock issue date).

The calculation of the basic earnings per share and diluted earnings per share is as follows:

	<i>Unit: RMB'000</i>	
	<b>2020</b>	2019
	<b>(Unaudited)</b>	
Earnings		
Net profit for the period attributable to ordinary shareholders of the Company		
Continuing operations	<b>759,856</b>	744,916
Discontinued operations	—	25,499
	<u>759,856</u>	<u>770,415</u>
Shares		
Weighted average number of ordinary shares in issue of the Company	<b>1,761,383,500</b>	1,761,383,500

The Company had no dilutive potential ordinary shares, therefore diluted earnings per share equals to basic earnings per share.

### 13. DISCONTINUED OPERATIONS

The management of the Group decided to dispose of all interests in the subsidiaries engaged in the real estate development business in June 2019.

The profits or losses from the discontinued operations are as follows:

	<i>Unit: RMB'000</i>
	2019
Revenue	149,194
Costs and expenses	<u>110,014</u>
Total profit	39,180
Income tax expenses	<u>1,289</u>
Net profit	37,891
Net profit from discontinued operations	37,891
Including: Net profit from discontinued operations attributable to shareholders of the parent	<u><u>25,499</u></u>

Cash flow of the discontinued operations is as follows:

	<i>Unit: RMB'000</i>
	2019
Net cash flow used in operating activities	(115,968)
Net cash flow used in investing activities	(13,424)
Net cash flow from financing activities	7,428

### 14. COMPARATIVE FIGURES

According to the Q&A of Implementation of Chinese Accounting Standards for Business Enterprises issued by the Ministry of Finance in December 2020, the Group reclassified the impairment loss for contract assets from “credit impairment losses” to “impairment loss for contract assets” in the income statement, and made retrospective adjustment to relevant comparative data. Such change in accounting policies has no effect on the consolidated and the Company’s net profit and owners’ equity.



## II. MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

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

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

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

New contract value (by region):

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

New contract value (by segment):

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

## BUILDING CONSTRUCTION BUSINESS

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

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

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

## Infrastructure Construction Business

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

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

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

### Specialized and Other Construction Contracting Business

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

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

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

## **FINANCIAL REVIEW**

The global outbreak of novel coronavirus (the “**COVID-19**”) pandemic since the beginning of 2020 impacted the economy in many regions of China throughout the year. Lockdown was imposed in Wuhan since the outbreak of COVID-19 in the beginning of 2020 and was ended on 8 April 2020. The pandemic remained volatile in many areas of China. In particular, confirmed cases were reported in Fengtai District and Daxing District of Beijing in June 2020, in Qingdao on 12 October 2020, in Inner Mongolia and Shanghai in December 2020, and in Hebei on 2 January 2021. As of March 2021, all cases in medium risk areas in China were cleared. Due to the impact of the pandemic, many countries or regions have required local businesses to restrict or suspend their operations and have implemented travel restrictions and quarantine measures. These measures and policies have had (or are expected to have) an adverse impact on the operations of many businesses, particularly in sectors such as tourism, hospitality, transportation, retailing and entertainment industries where the adverse impact of the pandemic was more immediate and pronounced, while other sectors such as manufacturing and finance are also expected to be affected. As the pandemic is still ongoing, it is difficult to predict at present the scope and duration of the business and economic impact of the pandemic in the future.

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

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

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

### **Operating income, operating cost and gross profit**

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

In particular:

**(1) Segment Operating Results of Construction Contracting Business**

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

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

- (1) The revenue from building construction business, being the largest revenue contributor to construction contracting business, decreased by RMB2,707 million for the year as compared with that of 2019, which was mainly due to the fact that the projects undertaken in 2019 and previous years carried out large-scale construction in 2019, which led to less revenue recognized in the current year for projects undertaken in previous years.
- (2) The revenue from infrastructure construction business increased by RMB885 million for the year as compared to last year, which was mainly due to the fact that the new projects undertaken by the Group in recent years are more quality-oriented with higher gross profit for infrastructure construction projects, thus the Group has undertaken more such projects in recent years, resulting in an upward trend in revenue from the infrastructure construction business of the Group.
- (3) The revenue from specialized and other construction business for 2020 increased slightly as compared with that of 2019, which was within normal range of business fluctuation without significant overall change.

### **Selling Expenses**

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

### **Administrative Expenses**

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

### **Research and Development Costs**

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

### **Credit Impairment Gains**

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

### **Asset Impairment Losses**

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

### **Investment Income**

Investment income amounted to RMB90 million in 2020, representing a decrease of RMB0.15 million as compared with that of 2019, which was mainly due to the losses from the Group's long-term equity investment under equity method.

### **Income Tax Expenses**

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

## **Net Profit**

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

## **Liquidity, Financial Sources and Capital Structure**

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

## **Currency Funds**

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

## **Financial Policy**

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

## **Accounts Receivable Financing**

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

## **Long-term Equity Investments**

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

### **Accounts Receivable**

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

### **Other Receivables**

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

### **Contract Assets and Contract Liabilities**

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

### **Other Equity Instrument Investment**

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

### **Borrowings**

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

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

### **Bills and Accounts Payable**

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



## Capital Expenditures

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

## Capital Commitment

As at 31 December 2020, the Group has no capital commitment.

## Financial Ratios

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

### Notes:

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

## Significant Acquisition or Disposal

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

## Contingent Liabilities

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

### **RMB Exchange Rate Fluctuations and Exchange Risk**

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

### **Acquisitions and Disposals of Subsidiaries**

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

### **Employee and Remuneration Policies**

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

### **Significant Subsequent Events**

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

## OUTLOOK

The year 2021 is important for the Company to make a good start and lay a solid foundation for implementing the “14th Five-Year Plan” and celebrating the magnificent 70 years of history of new China. In 2021, to respond to the opportunities and challenges and fight for glory amid adversities, we will continue to adhere to the strategy of “foundation strengthening, business upgrade, further innovation and sustainable development”. Centering on the performance excellence model and focusing on efficiency, we will pursue various goals with information technology and innovative measures, while the Project Department will be guided by the operation manual to provide strong support. With the dual growth drivers of construction segment and diversified operation, we will make a good start and lay a solid foundation in order to fully achieved all the goals under the “14th Five-Year Plan”.

### **1. Improving the Standards and Spreading “Two Wings” to Facilitate Corporate Development**

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

### **2. Adhering to Strategic Leadership and Strengthening Organizational Construction**

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

1. We will establish an “intelligent headquarter” to exert its leading function with focus on developing “Two Service Providers”, namely leading comprehensive construction service provider and leading municipal service provider. At headquarter level, we will put emphasis on platform establishment, operation and management.
2. We will develop “subsidiaries and branches with great strength” to form a powerful fleet of business. A shareholding-like system will be implemented at subsidiary and branch level to build a community of common benefits and undertaking among the core backbone teams of our subsidiaries and branches, thereby stimulating their entrepreneurial spirit and forming an atmosphere of co-creation and share of interests and responsibilities.
3. We will cultivate “competent project management entities” and facilitate healthy competition among these entities with a goal of establishing one thousand stable project management entities by the end of the “14th Five-Year Plan” period, thereby providing organizational support to meet the ultimate goal of reaching RMB100 billion of revenue.

### **3. Focusing on Key Development Sectors to Strengthen Market Position**

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

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

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

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

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

### **5. Strengthening Operation Management to Prevent Operational Risks**

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

### **6. Maintaining System Rigidity and Strengthening Financial Management**

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

## 7. Giving Back to the Society with Gratitude

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

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

## III. OTHER INFORMATION

### DIVIDEND

The accumulative distributable reserve of the Company as of 31 December 2020 was RMB2,180 million (unaudited). Upon completion of the auditing process, the Company will issue the audited annual results for the year ended 31 December 2020 and announce the decision of proposed payment of final dividend by the Board (if any) for the year ended 31 December 2020.

### THE CORPORATE GOVERNANCE CODE

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

The Company recognizes the vital importance of good corporate governance to its success and sustainability. The Company studied relevant regulations thoroughly pursuant to the guidelines as stipulated in the Listing Rules, and introduced corporate governance practices appropriate for business operation and growth.

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

## **SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors and has formulated and adopted the code of conduct for dealing in securities by Supervisors and employees. Based on specific enquiry made to all Directors and Supervisors, each of them has confirmed that he/she has complied with the required standards as set out in the Model Code for the year ended 31 December 2020.

The Company is not aware of any non-compliance with the Model Code by the Directors, Supervisors or employees for the year ended 31 December 2020.

## **REPURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

For the year ended 31 December 2020, the Company and the Group did not repurchase, sell or redeem any of the Company’s listed securities.

## **RESURGENCE OF NOVEL CORONAVIRUS (COVID-19) PANDEMIC**

In early January 2021, the COVID-19 pandemic resurged in Shijiazhuang, Hebei Province, and the local government adopted preventive and control measures such as working from home, travel restriction and quarantine to prevent and control the outbreak until the end of January when the risk level gradually decreased in Shijiazhuang (except Gaocheng District), but travel and work restrictions were still not completely lifted until the end of February when it returned to normalcy. The risk level in Gaocheng District only gradually decreased from early March. As certain important construction projects of the Group are located in Shijiazhuang, the above quarantine measure caused certain impact on the Group’s audit work on annual results to a certain extent and the audit process was delayed as compared to previous years.

The current overall operations of the Group are stable. The Group will continue to closely monitor the progress of the outbreak of COVID-19 and the suspension of some construction projects caused by the outbreak of COVID-19, and evaluate its impact on the financial position, cash flow and operating performance of the Group in a timely manner.

## **REVIEW OF UNAUDITED ANNUAL RESULTS**

The auditing process for the annual results for the year ended 31 December 2020 has not been completed due to above-mentioned restrictions in force in Hebei Province to combat the COVID-19 outbreak. The unaudited annual results contained herein have not been agreed with the Company’s auditors. An announcement relating to the audited results will be made by the Company when the auditing process has been completed in accordance with Auditing Standards for Chinese Certified Public Accountants issued by The Chinese Institute of Certified Public Accountants. Such announcement shall include (including but not limited to) the audited results for the year ended 31 December 2020 as agreed by the Company’s auditors and the material differences (if any) as compared with the unaudited annual results contained herein.

In addition, the Company will issue further announcement as and when necessary if there are other material developments and findings during the completion of the auditing process.

The unaudited annual results contained herein have been reviewed by the audit committee of the Company and the Board.

## **PUBLICATION OF THE UNAUDITED ANNUAL RESULTS ANNOUNCEMENT, FURTHER ANNOUNCEMENT(S) AND ANNUAL REPORT**

This unaudited annual results announcement will be published on the HKEXnews website of The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of the Company at [www.hebjs.com.cn](http://www.hebjs.com.cn).

Following the completion of the auditing process, the Company is expected to issue further announcement(s) on or before mid April 2021 in relation to, among others, (i) the audited results for the year ended 31 December 2020 as agreed by the Company’s auditors and the material differences (if any) as compared with the unaudited annual results contained herein, (ii) the decision of proposed payment of final dividend by the Board (if any); (iii) the proposed date on which the forthcoming 2020 annual general meeting will be held, and (iv) the period during which the register of members holding ordinary shares will be closed in order to ascertain shareholders’ eligibility to attend and vote at the said meeting, as well as arrangements for payment of proposed dividend. In addition, the Company will issue further announcement as and when necessary if there are other material development in the completion of the auditing process.

The annual report of the Company for 2020 is expected to be published and dispatched to the Company’s H shareholders on or before 30 April 2021 and will be published on the aforesaid website of the HKEXnews of the Hong Kong Stock Exchange as well as the website of the Company.

**The financial information contained herein in respect of the annual results of the Group have not been audited and have not been agreed with the auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.**

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

Hebei, the PRC  
31 March 2021

*As of the date of this announcement, the executive Directors are Mr. LI Baozhong, Mr. SHANG Jinfeng, Mr. LIU Yongjian and Mr. ZHAO Wensheng; the non-executive Directors are Mr. LI Baoyuan and Mr. CAO Qingshe; and the independent non-executive Directors are Ms. SHEN Lifeng, Ms. CHEN Xin and Mr. CHAN Ngai Sang Kenny.*