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宝业
BAOYE

寶業集團股份有限公司
BAOYE GROUP COMPANY LIMITED*

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 2355)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board (the "**Board**") of directors (the "**Directors**") of Baoye Group Company Limited* (the "**Company**") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2019, together with comparative figures for the corresponding period in 2018. The interim results had been reviewed by the audit committee of the Board and approved by the Board. The following financial information is extracted from the unaudited interim financial information as set out in the Group's 2019 Interim Report.

* *For identification purpose only*

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Unaudited Six months ended 30 June **2019** ***RMB'000***	 2018 *RMB'000*
Revenue	*5*	**11,450,605**	11,483,063
Cost of sales		**(10,604,568)**	(10,576,399)
Gross profit		**846,037**	906,664
Other income		**44,249**	54,590
Other gains – net	*6*	**81,323**	12,336
Selling and marketing costs		**(49,228)**	(42,003)
Administrative expenses		**(349,992)**	(239,403)
Net impairment losses on financial and contract assets		**(26,187)**	(14,746)
Operating profit		**546,202**	677,438
Finance income		**6,929**	–
Finance costs		**(30,440)**	(9,439)
Finance costs-net		**(23,511)**	(9,439)
Share of results of joint ventures		**(4,807)**	(2,527)
Share of results of associates		**(8,388)**	(3,529)
Profit before income tax		**509,496**	661,943
Income tax expense	*7*	**(173,927)**	(207,370)
Profit for the period		**335,569**	454,573
Profit attributable to:			
– Owners of the Company		**331,146**	439,202
– Non-controlling interests		**4,423**	15,371
		335,569	454,573
Earnings per share for profit attributable to the owners of the Company			
– Basic and diluted (expressed in RMB yuan per share)	*8*	**0.59**	0.76

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Profit for the period	**335,569**	454,573
Other comprehensive income for the period, net of tax	**–**	–
Total comprehensive income for the period	**335,569**	454,573
Total comprehensive income attributable to:		
– Owners of the Company	**331,146**	439,202
– Non-controlling interests	**4,423**	15,371
	335,569	454,573

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**Unaudited 30 June 2019** *RMB'000*	Audited 31 December 2018 *RMB'000*
ASSETS			
Non-current assets			
Land use rights	*4(b)*	**–**	616,765
Property, plant and equipment		**2,189,411**	2,077,820
Right-of-use assets	*4(b)*	**640,139**	–
Investment properties		**742,768**	742,768
Goodwill		**16,534**	16,534
Investments in joint ventures	*9(a)*	**258,634**	244,322
Loans to joint ventures	*9(b)*	**458,346**	325,914
Investments in associates	*10(a)*	**44,991**	323,693
Loans to associates	*10(b)*	**228,450**	622,549
Financial assets at fair value through other comprehensive income		**232,801**	232,801
Financial assets at fair value through profit or loss		**9,224**	8,727
Deferred income tax assets		**263,027**	237,224
		5,084,325	5,449,117
Current assets			
Inventories		**262,732**	243,392
Properties under development		**5,607,416**	3,685,492
Completed properties held for sale		**3,104,954**	3,429,544
Contract assets and contract acquisition costs		**4,810,407**	3,681,687
Trade receivables	*11*	**4,351,783**	3,943,479
Other receivables and prepayments		**2,138,592**	4,126,542
Loans to joint ventures	*9(b)*	**608,914**	61,385
Loans to associates	*10(b)*	**11,102**	11,102
Financial assets at fair value through profit or loss		**535,000**	517,820
Restricted bank deposits		**716,517**	628,485
Term deposits with initial term of over three months		**198,603**	85,704
Cash and cash equivalents		**4,770,439**	3,698,252
		27,116,459	24,112,884
Total assets		**32,200,784**	29,562,001

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	**Unaudited 30 June 2019** *RMB'000*	Audited 31 December 2018 *RMB'000*
EQUITY			
Equity attributable to owners of the Company			
Share capital		**562,664**	562,664
Share premium		**481,433**	481,433
Reserves		**205,263**	205,263
Retained earnings		**7,418,592**	7,087,446
		8,667,952	8,336,806
Non-controlling interests		**250,094**	230,734
Total equity		**8,918,046**	8,567,540
LIABILITIES			
Non-current liabilities			
Bank borrowings		**281,000**	434,057
Lease liabilities	*4(b)*	**5,843**	–
Deferred income tax liabilities		**190,286**	143,400
		477,129	577,457
Current liabilities			
Contract liabilities		**7,335,907**	6,522,661
Trade payables	*12*	**6,733,938**	6,934,169
Other payables		**5,313,118**	4,628,528
Lease liabilities	*4(b)*	**7,519**	–
Bank borrowings		**2,784,537**	1,865,430
Current income tax liabilities		**330,819**	466,216
Corporate bonds	*13*	**299,771**	–
		22,805,609	20,417,004
Total liabilities		**23,282,738**	20,994,461
Total equity and liabilities		**32,200,784**	29,562,001

NOTES

1 General information

Baoye Group Company Limited (the "Company") was established as a limited liability company in the People's Republic of China (the "PRC") and the H shares of the Company ("H Share") were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 30 June 2003.

The registered office address of the Company is Yangxunqiao Township, Keqiao District Shaoxing City, Zhejiang Province, the PRC.

The principal activities of the Company and its subsidiaries (collectively the "Group") are the provision of construction services, sale and installation of building materials and development and sale of properties in the PRC.

Unless otherwise stated, this interim financial information for the six months ended 30 June 2019 ("Interim Financial Information") is presented in Renminbi ("RMB"). The Interim Financial Information has not been audited.

2 Basis of preparation

This Interim Financial Information has been prepared in accordance with the Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting". The Interim Financial Information should be read in conjunction with the Company's annual financial statements for the year ended 31 December 2018 ("2018 Financial Statements"), which have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by Hong Kong Institute of Certified Public Accountants ("HKICPA") and disclosure requirements of the Stock Exchange of Hong Kong Limited, and any public announcements made by the Company during the interim reporting period.

3 Accounting policies

The accounting policies applied are consistent with those of 2018 Financial Statements, except for the adoption of new and amendments to HKFRSs effective for the financial year beginning 1 January 2019.

A number of new or amended standards became applicable for the current reporting period, and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting HKFRS 16 "Leases" ("HKFRS 16").

The impact of the adoption of the leasing standard and the new accounting policy are disclosed in Note 4.

4 Change in accounting policies

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019 in note 4(a) below.

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

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

The Group leases various warehouses, buildings and land. Rental contracts are typically made for fixed periods of 2 to 50 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.

Until the 2018 financial year, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease; leases of land were classified as land use rights.

From 1 January 2019, leases of property, plant and equipment 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. In addition, leases of land are reclassified as right-of-use for land.

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 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.

(b) 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 of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.27%.

The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

	2019 ***RMB'000***
Operating lease commitments disclosed as at 31 December 2018	**25,305**
Discounted using the lessee's incremental borrowing rate of at the date of initial application	**19,932**
Less: short-term leases recognised on a straight-line basis as expense	**(2,993)**
Lease liability recognised as at 1 January 2019	**16,939**
Of which are:	
Current lease liabilities	**7,140**
Non-current lease liabilities	**9,799**
	16,939
Lease liability recognised as at 30 June 2019	**13,362**
Of which are:	
Current lease liabilities	**7,519**
Non-current lease liabilities	**5,843**
	13,362

The right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. 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 recognised right-of-use assets relate to the following type of assets:

	30 June 2019 ***RMB'000***	1 January 2019 *RMB'000*
Properties	**13,476**	16,939
Land use rights	**626,663**	616,765
	640,139	633,704

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

	RMB'000
Increase in right-of-use assets	**633,704**
Decrease in land use rights	**(616,765)**
Increase in lease liabilities	**(16,939)**

There was no impact on the retained earnings on 1 January 2019.

(i) *Impact on earnings per share*

The impact on earnings per share for the six months to 30 June 2019 as a result of the adoption of HKFRS 16 was immaterial.

(ii) *Practical expedients applied*

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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

5 Segment information

The segment information provided to executive directors for the reportable segments for the six months ended 30 June 2019 and 2018 are as follows:

	Six months ended 30 June 2019				
	Construction	**Property development**	**Building materials**	**Others**	**Group**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Revenue from contracts with customers	**9,744,657**	**723,994**	**1,786,992**	**237,944**	**12,493,587**
Recognised at a point in time	**–**	**457,157**	**1,065,455**	**226,340**	**1,748,952**
Recognised over time	**9,744,657**	**266,837**	**721,537**	**11,604**	**10,744,635**
Revenue from other sources					
Rental income	**–**	**–**	**–**	**54,407**	**54,407**
Total segment revenue	**9,744,657**	**723,994**	**1,786,992**	**292,351**	**12,547,994**
Less: inter-segment revenue	**(656,510)**	**–**	**(305,150)**	**(135,729)**	**(1,097,389)**
Revenue (from external customers)	**9,088,147**	**723,994**	**1,481,842**	**156,622**	**11,450,605**
Operating profit/segment results	**226,981**	**259,329**	**39,046**	**20,846**	**546,202**
Depreciation	**20,469**	**8,756**	**41,344**	**16,228**	**86,797**
Amortisation	**3,922**	**–**	**3,390**	**1,161**	**8,473**
Net impairment losses on financial and contract assets	**17,537**	**837**	**7,048**	**765**	**26,187**

	Six months ended 30 June 2018				
	Construction	Property development	Building materials	Others	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from contracts with customers	8,907,232	1,929,594	1,269,215	70,244	12,176,285
Recognised at a point in time	–	1,576,060	567,657	58,992	2,202,709
Recognised over time	8,907,232	353,534	701,558	11,252	9,973,576
Revenue from other sources					
Rental income	–	–	–	53,266	53,266
Total segment revenue	8,907,232	1,929,594	1,269,215	123,510	12,229,551
Less: inter-segment revenue	(574,074)	–	(165,881)	(6,533)	(746,488)
Revenue (from external customers)	8,333,158	1,929,594	1,103,334	116,977	11,483,063
Operating profit/segment results	246,603	384,923	23,804	22,108	677,438
Depreciation	17,396	4,220	27,275	15,864	64,755
Amortisation	3,820	–	1,911	1,247	6,978
Net impairment losses on financial and contract assets	10,069	3,191	1,371	115	14,746

6 Other gains-net

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Gains on disposal of an associate (Note 10(a))	**48,470**	–
Fair value gains/(losses) from financial assets at fair value through profit or loss	**497**	(1,115)
Gains on disposal of financial assets at fair value through profit or loss	**12,121**	6,784
Government grants and compensation	**9,418**	7,338
(Losses)/gains on disposal of property, plant and equipment	**(217)**	139
Gains on disposal of subsidiaries (Note 9(a))	**5,667**	–
Net foreign exchange gains	**2,788**	1,275
Others	**2,579**	(2,085)
	81,323	12,336

7 Income tax expense

During the period, the Group is subject to the same types of income taxes as those disclosed in 2018 Financial Statements. Income tax expense is determined and accounted for based on management's estimate of the annual income tax rate expected for the full financial year.

The amount of income tax expense charged to the consolidated income statement represents:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Current income tax		
– PRC Corporate Income Tax	**137,140**	109,471
– Land appreciation tax	**15,705**	31,485
	152,845	140,956
Deferred income tax		
– PRC Corporate Income Tax	**4,348**	49,190
– Land appreciation tax	**16,734**	17,224
	21,082	66,414
	173,927	207,370

8 Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2019	2018
Profit attributable to the owners of the Company(RMB'000)	**331,146**	439,202
Weighted average number of ordinary shares in issue during the period (thousands shares)	**562,664**	581,370
Basic earnings per share (RMB yuan)	**0.59**	0.76

The Company had no dilutive potential shares in issue during the six months ended 30 June 2019 and 2018, thus the diluted earnings per share equaled the basic earnings per share.

9 Investments in joint ventures and loans to joint ventures

(a) Investments in joint ventures

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
At 1 January	**244,322**	126,783
Transfer from investments in subsidiaries (i)	**17,000**	–
Other additions	**700**	–
Share of results	**(4,807)**	(2,527)
Adjustment for transactions between the Group and joint ventures	**1,419**	104
At 30 June	**258,634**	124,360
Represented by share of net assets	**258,634**	124,360

(i) During the period, the Group disposed its 66% equity interest in Zhejiang Baohong Construction Industry Co., Ltd and its subsidiaries ("Baohong Group") and as a result of which the Group relinquish control over Baohong Group and the remaining interest in Baohong Group has been reclassified as an investment in a joint venture. The gain resulting from such disposal amounted to RMB5,667,000 (Note 6).

(b) Loans to joint ventures

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
At 1 January	**393,822**	374,453
Additions (i)	**685,792**	13,509
Interest accrued	**1,081**	1,103
	1,080,695	389,065
Less: provision for loss allowance	**(13,435)**	(6,485)
At 30 June	**1,067,260**	382,580
Less: current portion	**(608,914)**	–
Non-current portion	**458,346**	382,580

(i) Additions during the period mainly represented the loans of RMB552,022,000 to Baohong Group, arising from the disposal of Baohong Group at the end of June 2019.

RMB584,492,000 (31 December 2018: RMB54,492,000) of loans to joint ventures are interest-bearing at market lending rates ranging from 4% to 5.28% (31 December 2018: at 4%) with maturity within one year, and the remaining amounts of the loans are interest-free, unsecured and repayable on demand.

10 Investments in associates and loans to associates

(a) Movements of investments in associates are analysed as follows:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
At 1 January	**323,693**	15,547
Additions	**–**	313,090
Disposals (i)	**(270,314)**	–
Share of results	**(8,388)**	(3,529)
At 30 June	**44,991**	325,108
Represented by share of net assets	**44,991**	325,108

(i) During the period, the Group entered into an agreement with Daiwa House Industry Co., Ltd to dispose of its 33% equity interest in Hebao (Nantong) Real Estate Development Co., Ltd ("Hebao") for a cash consideration of RMB307,329,000, which resulted in a disposal gain of RMB37,015,000 and a foreign exchange gain of RMB11,455,000, totaling RMB48,470,000 (Note 6).

(b) Movements of loans to associates are analysed as follows:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
At 1 January	**639,995**	230,939
Additions	**–**	310,991
Repayments (i)	**(401,128)**	–
Interest accrued	**3,048**	6,048
	241,915	547,978
Less: provision for loss allowance	**(2,363)**	(5,480)
At 30 June	**239,552**	542,498
Less: current portion	**(11,102)**	–
Non-current portion	**228,450**	542,498

(i) Repayments during the period mainly represented the repayment of the loan by Hebao, following the disposal of the Group's equity interest in Hebao.

As at 30 June 2019, loans to associates are interest-free, unsecured and repayable on demand.

11 Trade receivables

	30 June 2019 *RMB'000*	31 December 2018 *RMB'000*
Trade receivables	**4,575,758**	4,151,346
Less: provision for loss allowance	**(223,975)**	(207,867)
	4,351,783	3,943,479

Customers are generally granted credit terms of 1 to 3 months for construction business, 1 to 12 months for building materials business and no credit terms are set for property development business.

The ageing analysis of the trade receivables based on invoice date was as follows:

	30 June 2019 *RMB'000*	31 December 2018 *RMB'000*
Within 3 months	**2,032,104**	2,190,293
3 months to 1 year	**1,412,939**	903,253
1 to 2 years	**713,390**	478,874
2 to 3 years	**149,249**	394,229
Over 3 years	**268,076**	184,697
	4,575,758	4,151,346

12 Trade payables

The ageing analysis of the trade payables based on invoice date was as follows:

	30 June 2019 *RMB'000*	31 December 2018 *RMB'000*
Within 3 months	**2,412,413**	2,448,729
3 months to 1 year	**2,486,117**	2,291,515
1 to 2 years	**1,153,301**	1,470,413
2 to 3 years	**383,261**	333,999
Over 3 years	**298,846**	389,513
	6,733,938	6,934,169

13 Corporate bonds

	30 June 2019 *RMB'000*	31 December 2018 *RMB'000*
As at 1 January	**–**	–
Additions (a)	**299,625**	–
Interest expenses	**146**	–
	299,771	–

(a) On 28 March 2019, the Group issued super short-term debentures in aggregate of RMB300,000,000, which bear a coupon interest rate of 5.30% per annum and have a term of 270 days. The net proceeds after deduction of the related issuance costs from the above issue of super short-term debentures was RMB299,625,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Results Review

For the six months ended 30 June 2019, the Group achieved a total revenue of approximately RMB11,450,605,000, which was marginally below the corresponding period last year; operating profit amounted to approximately RMB546,202,000, representing a decrease of approximately 19% compared to the same period last year; profit attributable to the owners of the Company amounted to approximately RMB331,146,000, representing a decrease of approximately 25% compared to the same period last year; earnings per share was RMB0.59, representing a decrease of approximately 22% compared to the same period last year. During the period, the Group's construction business remained relatively stable and achieved a slight growth, building materials business continued its strong growth momentum, however, property development business recorded decline in both revenue and profit primarily attributable to the significant decrease in the recognised gross floor area ("GFA") of property units delivered to buyers as compared to the same period last year.

Revenue

	For the six months ended 30 June				
	2019		2018		**Change**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Construction	**9,088,147**	**79%**	8,333,158	72%	**9%**
Property Development	**723,994**	**6%**	1,929,594	17%	**–62%**
Building Materials	**1,481,842**	**13%**	1,103,334	10%	**34%**
Others	**156,622**	**2%**	116,977	1%	**34%**
Total	**11,450,605**	**100%**	11,483,063	100%	**0%**

Operating Profit

	For the six months ended 30 June				
	2019		2018		**Change**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Construction	**226,981**	**42%**	246,603	36%	**–8%**
Property Development	**259,329**	**47%**	384,923	57%	**–33%**
Building Materials	**39,046**	**7%**	23,804	4%	**64%**
Others	**20,846**	**4%**	22,108	3%	**–6%**
Total	**546,202**	**100%**	677,438	100%	**–19%**

Construction Business

For the six months ended 30 June 2019, the Group's construction business achieved a revenue of approximately RMB9,088,147,000, which represents an increase of approximately 9% compared to the same period last year; operating profit amounted to approximately RMB226,981,000, which represents a decrease of approximately 8% compared to the same period last year. The increase in revenue for the construction business was primarily due to enormous increase in construction contracts in recent years which were recognised as revenue according to the respective progress of project completion during the period. The decline in operating profit was mainly due to a higher proportion of projects with lower profit margin was recognised, which resulted in a slight decline of total operating profit margin for the construction business.

During the period, in the complex situation where the risk and challenges at home and abroad increased significantly, the construction industry, as a pillar industry of the national economy, still maintained steady growth. The Group's construction business adhered to the philosophy of "enhancing brand advantages, deepening contract management control, innovating business models, strengthening risk management, and promoting sustainable, healthy and high-quality development of the enterprise". In the intake of new construction contracts, the Group upholds the selection criteria, secures the quality of the bidding contracts, commences new projects with due diligence care, and controls the inherit risks at source. With respect to construction management, the Group practises Baoye's craftsman spirit and executes process supervision and refines management tools through use of performance indicators, segregation of duties, attaining project management efficiency level, enhancing business model, and increasing the proportion of direct management project, leading to lower operating cost and higher efficiency. The Group also concentrates on integration of the work flow and data information using Internet platform. On the basis of accurate, effective and timely information, such integration work and data changed the project management mode, realized effective supervision, optimized the resources configuration in the pursuit of excellency on refined management for construction projects.

During the period, the contract value of the new construction of the Group's construction business was approximately RMB13.3 billion (corresponding period of 2018: RMB12.8 billion), which was relatively the same level as that of the same period last year. The Group, as a pilot company of the general contracting project, undertook a number of EPC projects such as Shaoxing Children's Welfare Institute Project, School for Deaf-Mutein Shaoxing, Shangyu Urban Construction Group Micro Industrial Park, and the Hangzhou Bay Accounting Academy. In terms of traditional construction business, the Group undertook a number of landmark projects such as Jinghu Meishan Primary School in Yuecheng District, Shaoxing City, the Fengshu Advanced Automobile Parts Manufacturing Industry Project in Wenzhou, the Weilong Liangjiang Logistics Park Project in Chongqing, and the Zhangyan Town Community Health Service Center in Jinshan District, Shanghai, Fengshu Modern Industrial Park Project in Yinchuan and the Yiwu-Yongkang Highway Project.

Property Development Business

Property Sales

For the six months ended 30 June 2019, the revenue of the Group's property development business amounted to approximately RMB723,994,000, which represents a significant decrease of approximately 62% compared to the same period last year. Operating profit amounted to approximately RMB259,329,000, which represents a significant decrease of approximately 33% compared to the same period last year. As the recognised GFA of property units that were delivered to buyers during the period was much less than that of the same period last year, hence the revenue and operating profit of the property development business decreased significantly compared to the same period last year, despite these negatives impacts, gross profit margin was increased primarily due to a higher proportion of revenue recognised from units with higher gross profit during the period as compared to the same period last year.

During the period under review, revenue of property sales was mainly derived from the following projects, details of which are set out below:

Project	**Location**	**Average Selling Price** *(RMB/Sqm)*	**GFA Sold** *(Sqms)*	**Revenue** *(RMB'000)*
Baoye Ido	Shanghai	38,742	7,891	305,713
Baoye Four Seasons Garden	Shaoxing	37,688	3,217	121,241
Baoye Xinqiao Fengqing	Shaoxing	14,148	8,376	118,503
Baoye Guanggu Lidu	Wuhan	15,430	3,836	59,191

For the six months ended 30 June 2019, the Group's property development business achieved a contract sales value of approximately RMB1.23 billion with a total contract sales GFA of approximately 113,724 square metres.

Projects under Development

As at 30 June 2019, projects under development of the Group are tabulated below:

Project Name	Location	Total GFA Under Development *(sqms)*	Equity Interest of the Group
Baoye Four Seasons Garden	Shaoxing	300,000	100%
Baoye Xinqiao Fengqing	Shaoxing	136,000	100%
Xialv Project • Yunxili	Shaoxing	Under Planning	60%
Huajie Fengqing	Lishui	260,363	100%
Jingang Apartment	Lishui	20,784	100%
Xingyu Fu	Wuhan	259,056	100%
Binhu Lvyuan	Mengcheng	201,572	100%
Fuxing Jiayuan	Jieshou	467,293	100%
Baoye Xuefu Luyuan	Bengbu	79,033	63%
Baoye City Luyuan	Taihe	95,770	55%
Baoye Longhu Yucheng	Kaifeng	300,598	60%
Baoye Junyue Green Garden	Lu'an	129,665	100%
Nanhai Jiayuan	Lu'an	305,500	70%
Zhengzhou Project	Zhengzhou	Under Planning	51%

Baoye Four Seasons Garden is located in Kuaijishan Tourist Resort, a provincial tourist resort in Zhejiang Province. With historical culture and spectacular scenery, the area is where ancient civilisation flourished. Other than its profound cultural tradition and being the origin of many myths and folklores, the area also has a large number of historical heritages. Being only 5 kilometres from the downtown of Shaoxing City, it is known as the "natural treasure in the heart of a city". Baoye Four Seasons Garden has a site area of approximately 1,050,000 square metres and a planned GFA of approximately 650,000 square metres for the development of deluxe villas, semi-detached villas, garden villas and terraces. It also contains a series of supporting projects including a golf club, a five-star resort hotel, two parks with artificial mountains, a sport park, a shopping arcade, kindergarten and a central lakeside garden. Construction of Phase I had been completed and parts of units remain unsold. Phase II with a total GFA of approximately 300,000 square meters is under planning. The first town house of Phase II is currently under presale.

Baoye Xinqiao Fengqing is located in Beihai community, Yuecheng District, the west of Shaoxing City, supported by convenient transportation, well developed community facility and school resources. The project has a site area of approximately 41,158 square metres and an estimated GFA of approximately 136,000 square metres, aiming to be developed as a 14 high-rise buildings project with river view, of which 4 buildings will be constructed by PC-manufacture methodology. The project has been basically sold out and will be delivered in the second half of 2019.

Xialv Project consists of three separate parcels of land at a total consideration of RMB511,036,000 and a total site area of 262,862 square meters, pursuant to which the Group has 60% equity interest in this project. The Group acquired the land use rights through public auction in 2017. As at the date of this announcement, one of the three parcels Baoye·Yunxili's land has begun planning.

Baoye Huajie Fengqing is located in Liandu District, Lishui City, Zhejiang Province. It covers a site area of 95,794 square meters and has a total GFA of 260,363 square meters. The residential area is 165,516 square meters of which about 106,563 square meters will be repurchased by the government. The remaining 58,953 square meters are owned by Baoye for sale. The project is expected to begin presales in the second half of 2019, and will be delivered in 2021.

Jingang Apartment, located in Liandu District, Lishui City, Zhejiang Province, has a site area of 14,846 square metres and a total GFA of 20,784 square metres with 1.34 times plot ratio, of which 17,652 square meters will be purchased by the local government and the remaining 3,132 square meters will be owned and sold by Baoye. The project is expected to be completed and delivered at the end of 2019.

Xingyu Fu, is located in Xingzhou District,Wuhan City, Hubei Province. The Group acquired this parcel of land use rights in December 2017 at a consideration of RMB780 million. This project has a total site area of 129,528 square meters and a GFA of 259,056 square meters. As at the date of this announcement, the project is under planning.

Binghu Lvyuan, located in Mengcheng County, Anhui Province, has a total land area of 78,640 square meters and GFA of 201,572 square meters of high-rise residential buildings, garden houses, townhouses and commercial housing. The Group acquired this parcel of land use right in August 2018 at a consideration of RMB366 million. The project is expected to begin sales in the second half of 2019.

Fuxing Jiayuan, located in Jieshou City, Fuyang City, Anhui Province, has a total site area of 172,656 square meters and GFA of 467,293 square meters. The Group acquired this parcel of land use right in June 2018 by public tendering at a total consideration of RMB370,348,000. The project has started the construction and is expected to be delivered to owners in 2020. The project will be repurchased by the local government when finished.

Baoye Xuefu Luyuan, is located in Bengbu City, Anhui Province. It has a total site area of approximately 62,600 square metres and an estimated GFA of approximately 199,700 square metres of which approximately 20,000 square metres are resettlement housing. The project comprises 15 buildings. Phase I has been delivered to buyers in 2017. Phase II, with a GFA of approximately 79,033 square meters, is under construction and expected to be delivered to buyers at the end of 2019.

Baoye City Green Garden is located in Taihe County, Anhui Province with a total GFA of 420,000 square metres, comprising of unique and niche residential units, elegant shopping arcade, an international bilingual kindergarten, high-end swimming pool facilities and so on. Scientific separation of pedestrians and vehicles, humanized design of housing type and equitable distribution of space enable residents to enjoy quality and comfortable lives. The project with rich community facilities is closed to an eco-friendly park. Once the project is completed, it will become a principal eco-friendly community in Taihe and set a new model of modern residence. The project will be developed in four phases, of which phase I, II and III has already been delivered to buyers, phase IV with 95,770 square meters is expected to be delivered in 2020.

Baoye Longhu Yucheng is located in a central area of Eastern New City, Kaifeng County, Henan Province. It has a total site area of approximately 648,000 square metres and an estimated GFA of approximately 972,000 square metres. After completion, it will become the city's new business centre and leisure centre. The project is being developed in 5 phases, of which 100,000 square meters of phase I had been delivered to owners, the remaining 70,000 square meters of phase I is still under construction. Phase II with a total of 110,000 square meters sells well while Phase III is still under planning.

Baoye Junyue Green Garden is located in Lu'an city, Anhui Province. Baoye bided the project through judicial auction in September 2017. It has a total site area of approximately 54,220 square metres and an estimated GFA of approximately 129,665 square metres, while the site area of 7,220 square meters is clean land under development. The project is surrounded by convenient transportation and well-developed facilities including parks, banks and shopping malls. The project is being developed in two phases which are under presale.

Nanhai Jiayuan, located in Lu'an City, Anhui Province, has a site area of 125,526 square meters and a total GFA of 305,500 square meters. The project is expected to be delivered to the local government in 2019.

Zhengzhou Project, with a total site area of 336,776 square meters, is located in Zhengzhou City, Henan Province. The Group acquired this parcel of land use right in November 2018 at a consideration of RMB184,660,000. The project is in Jianshan Tourist Resort Zone, with convenient transportation, spectacular scenery and historical culture. The project is under planning currently.

Land Reserve

In February 2019, the Group acquired a parcel of land use rights with a total land area of 111,947 square meters through public tender and auction at a total consideration of RMB221,000,000 in Lu'an City, Anhui province.

In July 2019, the Group acquired a parcel of land use rights with a total land area of 80,945 square meters through public tender and auction at a total consideration of RMB1,885,000,000 in Keqiao District, Shaoxing City, Zhejiang Province.

In July 2019, a subsidiary of the Group acquired seven parcels of land use rights with a total land area of 33,369 square meters through judicial auction at a total consideration of RMB115,278,900 in Xialv town, Keqiao District, Shaoxing City, Zhejiang province. The Group has 60% equity interest in this project.

The Group continues to adopt a prudent but proactive role in land acquisition and business expansion. The Group has land reserve mainly in Zhejiang, Anhui and Henan. The Group will pay close attention to the land auction market and acquire further land reserves at reasonable cost in Zhejiang, Shanghai, Hubei and Anhui.

Investment in Property Development

In June 2019, a joint venture of the Group acquired a parcel of land use rights with a total land area of 73,881 square meters at a total consideration of RMB276,000,000 square meters in Xinzhou District, Wuhan City, Hubei Province. The Group has 49% equity interest in this project.

Building Materials Business

For the six months ended 30 June 2019, the revenue of the Group's building materials business was approximately RMB1,481,842,000, which represents a significant increase of approximately 34% over the same period last year; operating profit was approximately RMB39,046,000, representing a significant increase of approximately 64% compared to the same period last year. During the period under review, as the central and local government continued to enforce the environment protection and improvement rules, the principal product lines of building materials of the Group were perceived by the market due to its green, environmental friendly and energy saving characteristics. Besides, the steady development of property markets where the Group is covering provide a good prospect for the ready-mixed concrete and PC assembly plate business of the Group. Leveraging on the increase in new contract orders and higher selling prices from ready-mixed concrete and PC assembly plate sectors, the revenue and operating profit for this segment of business marked a substantial increase.

The revenue break-down of the Group's building materials for the six months ended 30 June 2019 is analysed below:

	For the six months ended 30 June				
	2019		2018		**Change**
	RMB'000	***% the total***	*RMB'000*	*% the total*	
Curtain Wall	**588,030**	**40%**	586,250	53%	**0%**
Furnishings and Interior Decorations	**143,095**	**10%**	115,308	11%	**24%**
Ready-mixed Concrete	**500,017**	**34%**	231,937	21%	**116%**
PC Assembly Plate	**134,948**	**9%**	59,640	5%	**126%**
Wooden Products and Fireproof Materials	**51,019**	**3%**	53,165	5%	**–4%**
Steel Structure	**27,865**	**2%**	21,303	2%	**31%**
Others	**36,868**	**2%**	35,731	3%	**3%**
Total	**1,481,842**	**100%**	1,103,334	100%	**34%**

Business Prospect

The Central Political Bureau of the Communist Party of China's meeting held on 30 July 2019 pronounced various important judgments and instructions on the current economic situation and future development of China. The meeting pointed out that there are still many difficulties and obstacles that China are facing with in terms of internal and external economic fallback. Affected by the Sino-US trade disputes, the United States government continues to impose increasing tariffs on China exports to the United States, which shall carry continuing negative impact against China's economy, exports, employment and capital market. In this regard, we must rely on increasing domestic consumption, explore demand driven initiatives, stimulate village economy in an effective manner, and call for domestic consumption by implementing changes. Besides, we must maintain consistent investment in manufacturing, implement revitalization and reconstruction of aged urban areas, urban parking lots, urban and rural cold chain logistics facilities, and other short-range construction projects, and accelerate the construction of new infrastructural projects such as information networks.

Construction business is the platform for the Group's business development

In the midst of facing various challenges, the construction industry will remain its core position as a pillar industry of the national economy due to its sizable volume. Urbanization is the only way for China's modernization, and it is also a powerful engine to maintain sustainable and healthy economic development. China's urbanization will continue to remain a dominant position for a long time and will bring forth a huge construction market demand in the years to come. In the past, the construction industry has maintained a steady growth trend, but there was a fundamental change in quality demand. With the advent of China's aging society and rising labor costs, the construction industry will also change from a labor-intensive industry to an industrialized modern manufacturing industry.

The Group's construction business has been deeply cultivating the Chinese construction market for more than 40 years and has accumulated rich construction experience and established a brand reputation. Since the 1990s, the Group has also explored the development of a "three-in-one" business development model for construction, real estate development and construction industrialization. In the future, the Group will continue to seize the historical opportunity of the country's revitalization and urbanization programs, taking the advantages of the Group's advanced construction methodologies and building industrialization processes to enhance the Group's construction capability and business development model.

Property development business contributes substantial profit to the Group

China's housing system has always been a crucial part of macro-economic regulation. Before 1978, houses were appropriated as part of the people's welfare package. Since 1978, the economic system was changed from a planned economy to a market economy, and the commercialization of housing was then introduced. In 1998, the housing reform made an advanced step forward. In 2003, housing was driven by the demand and supply equilibrium of commercialized housing. "Housing is used for living, not for speculation" was first introduced in 2016. In 2019, the central government reemphasized the point of "housing is for living and not for speculation" for the first time, pursuant to which it specifies that the government shall not use real estate market as an interim short term measure to stimulate the economy and shall adopt real estate long-term effective management mechanism. In the past few years, the rapid advancement of demolition and relocation by cash indemnity have rapidly pushed up housing prices in third- and fourth-tier cities. In the future, under the background of "stabilizing housing prices, land prices and expectations", the real estate industry will bid farewell to short-term stimulation policy and instead will bridge long-term institutional breakthroughs. Each city shall adopt its own development policy as its mainstream, and financial ease policy will continue to be tightened up.

Facing the complicated real estate market, the Group always insists on the initial intention and always adheres to the concept of "Baoye builds good houses". Based on the advantages of the Group's construction industrialization, we always insist on providing comfortable, energy-saving and environmentally-friendly high-tech houses for the community. We always believe that if housing, as a comprehensive common carrier of human lifestyle, has changed, community will change. In the future, Baoye will continue to cultivate the market to which it is familiar and to build century-lasting low-carbon technology housing.

Housing industrialization in an important strategy to sustain continuous growth for the Group

Construction industrialization is to reorganize the traditional construction industry in the form of industrialization and manufacturing. It will greatly improve labor efficiency, improve building quality, and save construction costs. Simultaneously, the industrialization of construction runs through the entire industrial root-chain from construction, building materials to real estate. It will become another 100 billion-size manufacturing industry after automobiles and home appliances. With more than 40 years of accumulation in the construction business and more than 20 years of exploration in the construction industrialization area, the Group has now become one of the benchmark enterprises in the field of construction industrialization. In the future, in order to respond to the national call and adapt to the trend of the times, Baoye will apply the technical achievements of construction industrialization to the construction and real estate development sectors, and play a leading role in promoting the application of construction industrialization in China.

FINANCIAL REVIEW

Financial Policies

The Group has adopted prudent financial policies and exercised tight risk management control over its investment, financing and cash as well as maintaining a sound capital structure. The Group will adjust its investment, financing and capital structure from time to time according to sustainable development and internal resources available, with a view to optimizing the capital structure of the Group.

The Group has established a financial settlement centre, which centralises funding for the Company and all of its subsidiaries at the group level. The Board believes that such policy can achieve better control on the treasury operations, minimise financing risks and lower the average cost of funding.

Financial Resources and Liabilities

With the support of steady increase in cash flow, sound credit record and excellent reputation in the industry, the Group preserved the AAA credit rating by a credit rating institution recognised by the People's Bank of China. Such excellent credit rating will benefit the Group's financing activities and allow the Group to continue to enjoy the prime rate offered by the banks. During the period under review, the Group maintained part of its borrowings on an unsecured basis. The amount of secured debt accounted for approximately 18.4% (same period of 2018: 29%) of the total borrowings (including bank borrowings and corporate bonds). In addition, approximately 66.3% of the total borrowings (same period of 2018: 62.2%) were guaranteed by the Company, approximately 1.7% of the total borrowings (same period of 2018: 4.0%) were jointly guaranteed by the Company and non-controlling interests, approximately 1.5% of the total borrowings (same period of 2018: Nil) were jointly guaranteed by the chairman of the Board, Mr. Pang Baogen and the Company to the lending banks. Leveraging on its excellent credit rating, the Group intends to continue to obtain its borrowings on an unsecured basis, which will be supplemented by project financing when necessary.

The Group's objectives of the management of capital and financial resources are to safeguard the sustainable development of the Group 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.

On 28 March 2019, the Company issued the first tranche of super short-term debentures for the year of 2019 with a total amount of RMB300 million. The net proceeds after deduction of the related issuance cost from the above issue of super short-term debentures was RMB299,625,000. The debentures were issued under the National Association of Financial Market Institutional Investors of the People's Republic of China (中國銀行間市場交易商協會). For further details of the issuance of the debentures, please refer to the announcement of the Company dated 28 March 2019.

The Group's financial position has been satisfactory and has continued to maintain a net cash position. The Group has sufficient capital resource to expand its business. As at 30 June 2019, the untapped banking facilities of the Group amounted to approximately RMB5.4 billion.

Details of which are analysed below:

	As at 30 June	
	2019	2018
	RMB'000	*RMB'000*
Cash and cash equivalents	**4,770,439**	3,362,411
Term deposits with initial term of over three months	**198,603**	119,775
Restricted bank deposits	**716,517**	958,328
Less: total borrowings	**(3,365,308)**	(2,165,652)
Net cash	**2,320,251**	2,274,862
Total equity attributable to the owners of the Company	**8,667,952**	7,904,037
Net cash ratio	**27%**	29%

Net cash ratio	=	net cash/total equity attributable to the owners of the Company

Material Disposal

During the period, the Group has disposed of its 33% equity interest in Hebao (Nantong) Real Estate Development Co., Ltd for reallocating the Group's financial resources to more familiar and experienced areas. Please refer to the announcement of the Company dated 29 March 2019 and the related financial information in note 10(a) "Investments in associates" of this interim result announcement.

Other Key Financial Ratios

	As at 30 June	
	2019	2018
Return on equity	**3.82%**	5.56%
Net assets value per share (RMB yuan)	**15.41**	14.05
Current ratio	**1.19**	1.21

Return on equity	=	profit attributable to the owners of the Company/total equity attributable to the owners of the Company
Net assets value per share	=	total equity attributable to the owners of the Company/ number of issued shares at the end of the period
Current ratio	=	current assets/current liabilities

During the period under review, the profit attributable to the owners of the Company achieved approximately RMB331,146,000, representing a decrease of approximately 25% compared to the same period last year, mainly due to the decrease of recognised GFA of property units compared to the same period last year. The return on equity decreased by 31% compared with the same period last year while net assets value per share represented an increase of 10%. As at 30 June 2019, the Group has continued to maintain a net cash position, of which the net cash ratio is approximately 27%.

Cash Flow Analysis

		For the six months ended 30 June	
		2019	2018
	Note	***RMB'000***	*RMB'000*
Net cash inflow from operating activities	*(i)*	**239,948**	1,228,650
Net cash outflow from investing activities	*(ii)*	**(351,653)**	(726,362)
Net cash inflow from financing activities	*(iii)*	**1,183,892**	283,194
Net increase in cash and cash equivalents		**1,072,187**	785,482
Exchange gains on cash and cash equivalents		**–**	1,212

Note:

(i) During the period under review, the net cash inflow from operating activities was approximately RMB239,948,000, representing a decrease of approximately RMB988,702,000 compared to the same period last year, which was mainly due to the decrease in presale cash inflow from property projects.

(ii) During the period under review, the net cash outflow from investing activities was approximately RMB351,653,000, which was mainly attributed by capital expenditure on property, plant and equipment of approximately RMB317,319,000.

(iii) During the period under review, the net cash inflow from financing activities was approximately RMB1,183,892,000, which was mainly attributed by increased bank borrowings to meet cash demand.

Other gains – net

Other gains – net amounted to approximately RMB81,323,000 for the six months ended 30 June 2019, representing a significant increase of approximately RMB68,987,000 from the same period last year, which was primarily affributable to the gains of RMB48,470,000 and RMB5,667,000 generated from the disposals of equity interest in Hebao and Baohong Group respectively.

Administrative Expenses

The Group's administrative expenses amounted to approximately RMB349,992,000 for the six months ended 30 June 2019 as compared to approximately RMB239,403,000 for the same period last year, representing an increase of 46%, which was primarily due to the increase in employees' salaries and benefits and depreciation and amortisation charges attributable to the expansion of the Group's construction materials business.

Finance Costs – Net

For the six months ended 30 June 2019, the Group had recorded net financing costs of approximately RMB23,511,000 (same period of 2018: 9,439,000), representing an increase of approximately RMB14,072,000 compared to the same period last year, mainly due to increased borrowings to meet cash demand of the Group's property development and construction materials business.

Income tax expense

For the six months ended 30 June 2019, income tax expense comprised of PRC corporate income tax of RMB141,488,000 (same period of 2018: RMB158,661,000) and PRC land appreciation tax of RMB32,439,000 (same period of 2018: RMB48,709,000), representing a total decrease of approximately RMB33,443,000 compared to the same period last year, which was mainly due to the decrease in profit before tax.

The Group has consistently complied with the tax rules and regulations in the PRC and conformed to the Hong Kong Financial Reporting Standards in accounting for PRC land appreciation tax provision, and has also prepaid the land appreciation taxes based on the sale values multiplied by certain assessed rates determined by the respective local tax authorities where the properties are located.

Financial Guarantees

	30 June 2019 *RMB'000*	31 December 2018 *RMB'000*
Guarantees given to banks in respect of mortgage facilities granted for certain purchasers	**869,182**	913,832

The Group had issued performance guarantees in respect of mortgage facilities granted by a number of banks relating to the mortgage loans arranged for certain purchasers of property projects developed by the Group. The banks will release such guarantees upon the delivery of the building ownership certificates of such properties to the banks as securities.

Details of the Charges on the Group's Assets

As at 30 June 2019, right-of-use for land (as at 31 December 2018: land use rights), property, plant and equipment, completed properties held for sale and properties under development with an aggregate carrying value of approximately RMB1,155,547,000 (as at 31 December 2018: RMB567,419,000) were pledged to banks as security in securing bank borrowings.

Capital Expenditure Plan

The Group adopts a prudent approach in capital expenditure spending to ensure the security of the capital chain. The Group will pay more attention to market changes and will increase its investments in acquisition of land and relevant businesses at appropriate time with reasonable costs.

Fluctuation of RMB Exchange Rate and Foreign Exchange Risks

The majority of the Group's business and most of bank borrowings are denominated and accounted 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.

Dividends

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2019 (same period of 2018: nil).

Connected Transactions

During the period under review, the Group had no connected transaction that would require disclosure under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Purchase, Sale or Redemption of Shares of the Company

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period under review.

Litigation and Arbitration

As at the date of this announcement, the Group had no material litigation and arbitration.

Entrusted Deposits and Overdue Time Deposits

As at the date of this announcement, the Group did not have any entrusted deposits placed with financial institutions in the PRC. All of the Group's cash and cash equivalents were deposited in commercial banks in accordance with the applicable laws and regulations. The Group had no bank deposits which cannot be withdrawn upon maturity.

Human Resources

As at 30 June 2019, the Group had a total of approximately 5,726 permanent employees (as at 30 June 2018: 5,332). Also, there were approximately 71,765 indirectly employed construction site workers (as at 30 June 2018: 71,968). These workers were not directly employed by the Group. For the six months ended 30 June 2019, the total employee benefit expenses amounted to approximately RMB2,331,940,000 (the same period in 2018: RMB2,407,140,000). Employee benefit expenses include salaries, insurance and other benefits. Remuneration is determined by reference to market terms as well as the performance, qualification and experience of individual employee. The Group is subject to social insurance contribution plans organised by the PRC local government. In accordance with relevant national and local labor and social welfare laws and regulations, employee benefits provided by the Group include pension and medical insurance coverage, injury insurance, maternity insurance and unemployment insurance. The Group highly values human resources management, and is devoted to establishing a high quality team to support its long term business development. The Group is continuously working on devising, revising and implementing a more effective employee incentive plan and training plan to encourage superior performance of employees to fit into the Group's long term development plan.

Corporate Governance Practices

As at the date of this announcement, the Company has complied with all the code provisions as set out in the Corporate Governance Code as set out in Appendix 14 of the Listing Rules (the "**CG Code**"), except for deviation of provisions of the CG Code as mentioned below:

Code Provision A.2.1 provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company deviates from this provision because Mr. Pang Baogen has been performing both the roles of chairman and chief executive officer. The Group has appointed three general managers to oversee and manage the three main business activities (construction, property development and building materials) of the Group respectively, each of whom has shared the duty of the chief executive officer to which they manage. The Board believes that the current arrangement has installed a proper segregation of duties mechanism and adequately streamlined the responsibility well and a simple management structure can enhance the communication amongst staff at different levels as well as enabling execution of the Group's policies efficiently. Therefore, the Board endorsed the position of chief executive officer to be assumed by the chairman of the Board.

The Board will regularly review the management structure to ensure that it meets the business development requirements of the Group.

Model Code for Securities Transactions by Directors and Supervisors

The Board and the Supervisory Committee have adopted the Model Code for Securities Transaction by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "**Model Code**") as its own code of conduct for securities transactions by the Directors and Supervisors. Specific enquiries have been made by the Company and all the Directors and Supervisors have confirmed that they have complied with the Model Code throughout the six months ended 30 June 2019. If any related employees possess information which may be considered as sensitive to the Company's share price and such information is not public, such employees have to comply with the written guidance, which is as strict as the Model Code.

Audit Committee

As at the date of this announcement, the audit committee of the Company consists of two independent non-executive Directors, namely, Mr. Chan, Dennis Yin Ming and Mr. Li Wangrong and one non-executive Director, Mr. Fung Ching, Simon, with Mr. Chan, Dennis Yin Ming as the chairman of the audit committee. The audit committee held two meetings, and discussed the accounting policies as well as critical accounting estimates and assumptions with the management and discussed with the auditors on the audit plan and key audit areas. The audit objectives of internal audit department of the Group were also discussed. The interim results of the Group for the six months ended 30 June 2019 had been reviewed by the audit committee before being approved by the Board.

Publication of Interim Report

The full text of the Group's 2019 Interim Report for the six months ended 30 June 2019 will be sent to the shareholders of the Company and posted on the websites of the Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.baoyegroup.com) respectively in due course.

Appreciation

The Board would like to take this opportunity to express its gratitude to the shareholders of the Company, customers, suppliers, banks, intermediaries and employees of the Group for their continuous patronage and support.

By order of the Board
Baoye Group Company Limited*
Pang Baogen
Chairman

Zhejiang, the People's Republic of China
23 August 2019

As at the date of this announcement, the Board comprises five executive Directors, namely, Mr. Pang Baogen, Mr. Gao Lin, Mr. Gao Jiming, Mr. Gao Jun and Mr. Jin Jixiang; one non-executive Director, Mr. Fung Ching, Simon and three independent non-executive Directors, namely, Mr. Chan, Dennis Yin Ming, Mr. Li Wangrong and Ms. Liang Jing.

* *For identification purpose only*