BAOYE GROUP COMPANY LIMITED

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

Stock Code: 2355

INTERIM REPORT

2018

OUR MISSION

"From construction to manufacturing", leads construction industry towards industrialisation in China.

CONTENTS

CORPORATE PROFILE

Business Structure

BAOYE GROUP COMPANY LIMITED

Construction Business

- Government and Public Buildings
- Urban Facilities and Infrastructure
- Commercial Buildings
- Residential Buildings
- Industrial Buildings
- Electrical and Electronic Installation
- Fireproof Facilities Installation
- Curtain Wall Installation

Property Development Business

- Shaoxing “Baoye Four Seasons Garden”
- Shaoxing “Baoye Xinqiao Fengqing”
- Wuhan “Guanggu Lidu”
- Wuhan “Baoye Centre”
- Bengbu “Baoye Xuefu Luyuan”
- Taihe “Baoye City Green Garden”
- Kaifeng “Baoye Longhu Yucheng”
- Lishui “Baoye Yihe Yayuan”
- Lishui “Jingang Apartment”
- Lu’an “Baoye Junyue Green Garden”
- Lu’an “Nanhai Jiayuan”
- Wuhan “Xinzhou Project”
- Shaoxing “Xialv Project”

Building Materials Business

- Curtain Wall
- Ready-mixed Concrete
- Furnishings and Interior Decoration
- Wooden Products and Fireproof Materials
- PC Assembly Plate
- Others

Business Network

Construction Business

Zhejiang | Shanghai | Jiangsu | Anhui | Hubei | Hunan | Beijing | Tianjin | Hebei | Henan | Shandong | Shanxi
Liaoning | Sichuan | Chongqing | Xinjiang | Jiangxi | Fujian | Guangdong | Djibouti | Botswana | Seychelles

Property Development Business

Shaoxing | Wuhan | Shanghai | Bengbu | Taihe | Kaifeng | Lishui | Lu'an

Building Materials Business

Zhejiang Building Materials Industrial Park | Anhui Building Materials Industrial Park | Hubei Building Materials Industrial Park | Shanghai Building Materials Industrial Park

CORPORATE INFORMATION

Directors

Executive Directors

Mr. Pang Baogen
(Chairman of the Board)
Mr. Gao Lin
Mr. Gao Jiming
Mr. Gao Jun
Mr. Jin Jixiang

Non-executive Director

Mr. Fung Ching, Simon

Independent Non-executive Directors

Mr. Chan, Dennis Yin Ming
Mr. Li Wangrong
Ms. Liang Jing

Supervisors

Supervisors

Mr. Kong Xiangquan *(Chairman)*
Mr. Wang Jianguo
Mr. Xu Gang

Independent Supervisors

Mr. Zhang Xindao
Mr. Xiao Jianmu

Audit Committee

Mr. Chan, Dennis Yin Ming *(Chairman)*
Mr. Fung Ching, Simon
Mr. Li Wangrong

Remuneration Committee

Mr. Chan, Dennis Yin Ming *(Chairman)*
Mr. Pang Baogen
Ms. Liang Jing

Nomination Committee

Mr. Li Wangrong *(Chairman)*
Mr. Gao Jiming
Ms. Liang Jing

Company Secretary

Mr. Chow Chan Lum

Auditors

International Auditor

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

Statutory Auditor

PricewaterhouseCoopers
Zhongtian LLP
34/F Tower A, Kingkey 100
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Shenzhen, the PRC
Post Code: 518001

Legal Advisers

As to Hong Kong law

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As to PRC law

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Hong Kong

Principal Banks

Agricultural Bank of China Limited
Bank of China Limited
Bank of Communications Company Limited
China Construction Bank Corporation
China Minsheng Banking Corporation Limited
Industrial and Commercial Bank of China Limited
Shanghai Pudong Development Bank Company Limited

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Post Code: 312028

Headquarter Address

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Wanchai, Hong Kong

Authorised Representatives

Mr. Pang Baogen
Mr. Gao Jiming

Stock Code

HKEx (2355)

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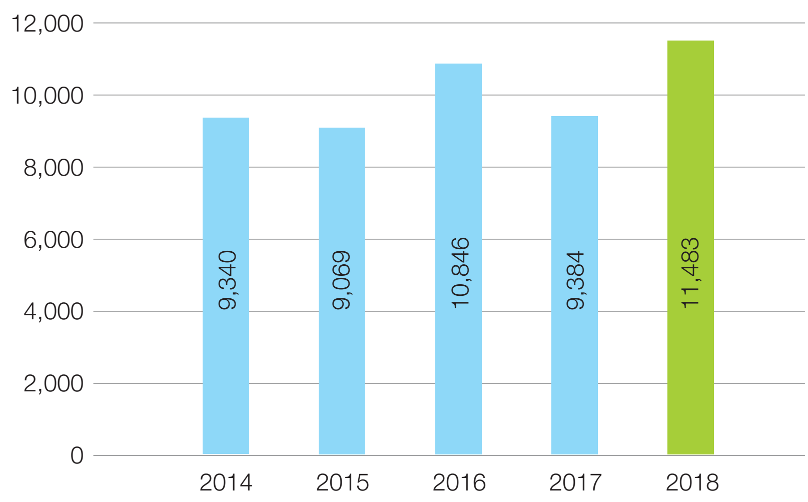
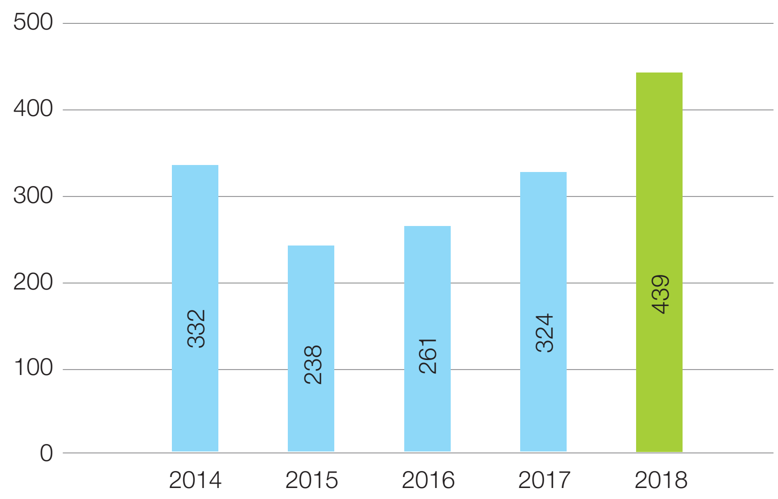
FINANCIAL HIGHLIGHTS

Revenue
(in RMB million)
(For the six months ended 30 June)

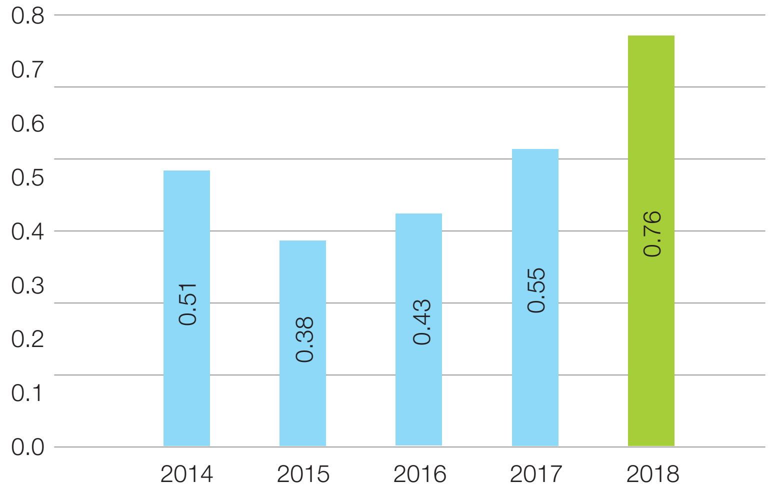


Profit Attributable to the Owners of the Company
(in RMB million)
(For the six months ended 30 June)

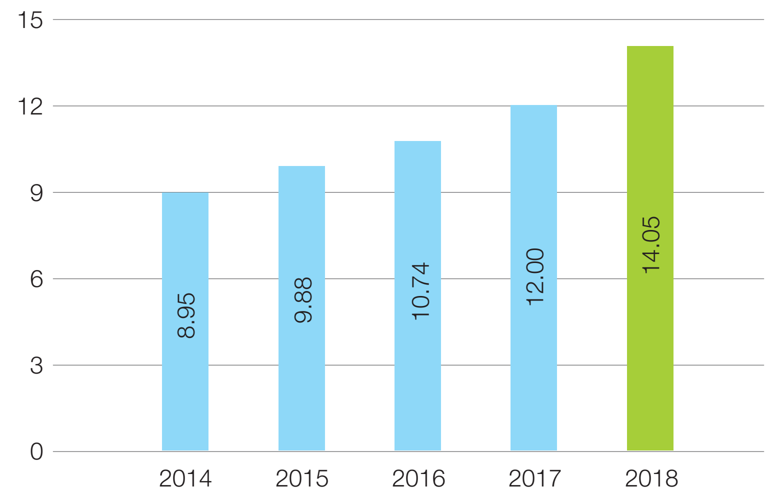


Financial Highlights

Earnings per Share
(in RMB)
(For the six months ended 30 June)



Net Assets Value per Share
(in RMB)
(As at 30 June)



Financial Highlights

	For the six months ended 30 June				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
Revenue	**11,483,063**	9,383,941	10,845,641	9,069,237	9,340,369
Profit Attributable to the Owners of the Company	**439,202**	323,716	261,025	238,285	331,639
Earnings per Share (RMB)	**0.76**	0.55	0.43	0.38	0.51

	As at 30 June				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets and Liabilities					
Total Assets	**27,511,556**	23,138,588	21,029,884	18,510,895	16,643,085
Total Liabilities	**19,414,756**	15,934,344	14,295,060	12,341,500	10,864,895
Total Equity	**8,096,800**	7,204,244	6,734,824	6,169,395	5,778,190

Key Financial Ratios

	As at 30 June	
	2018	2017
Return on Equity	**5.56%**	4.60%
Net Assets Value per Share (RMB)	**14.05**	12.00
Net Cash Ratio	**28.78%**	48.00%
Current Ratio	**1.21**	1.30
Net Cash Generated from/(used in) Operating Activities (RMB'000)	**1,228,650**	(187,445)

MANAGEMENT DISCUSSION AND ANALYSIS

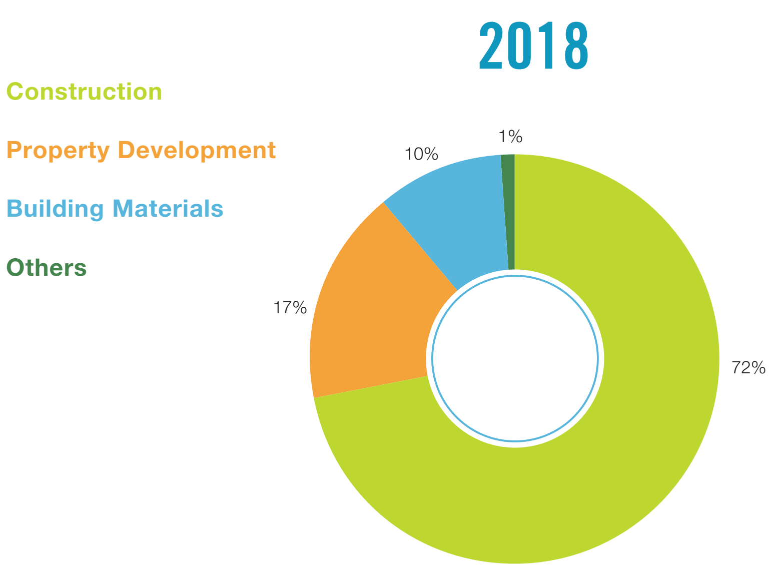
MANAGEMENT DISCUSSION AND ANALYSIS

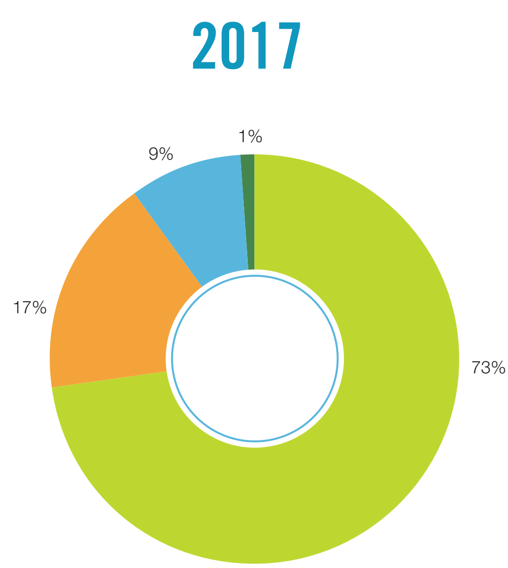
Results Review

For the six months ended 30 June 2018, the Group achieved a revenue of approximately RMB11,483,063,000, which represents an increase of approximately 22% from the corresponding period last year; operating profit amounted to approximately RMB677,438,000, which represents an increase of approximately 30% as compared with the corresponding period last year; profit attributable to the owners of the Company amounted to approximately RMB439,202,000, which represents an increase of approximately 36% compared to the same period last year; earnings per share was RMB0.76, which represents an increase of approximately 38% compared to the same period last year. During the period, the revenue and operating profit of the three main businesses of the Group had all registered substantial increase compared to the same period last year.

Revenue

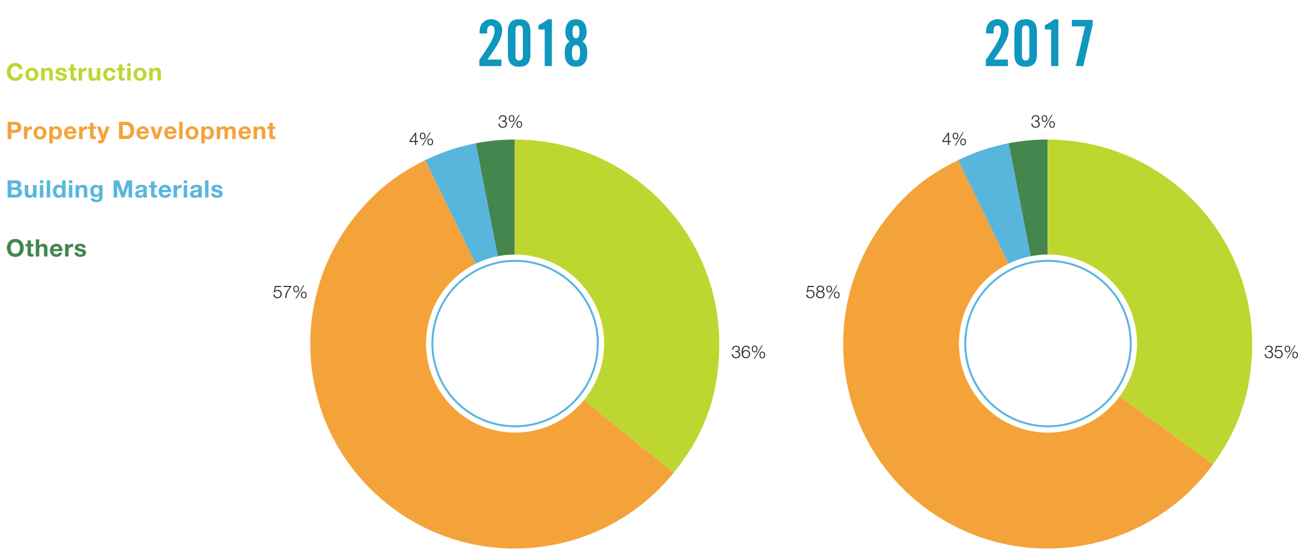
	For the six months ended 30 June				
	2018		2017		**Change**
	RMB'000	**% of total**	RMB'000	% of total	
Construction	**8,333,158**	**72%**	6,824,801	73%	**22%**
Property Development	**1,929,594**	**17%**	1,611,049	17%	**20%**
Building Materials	**1,103,334**	**10%**	879,278	9%	**25%**
Others	**116,977**	**1%**	68,813	1%	**70%**
Total	**11,483,063**	**100%**	9,383,941	100%	**22%**





Operating Profit

	For the six months ended 30 June				Change
	2018		2017		
	RMB'000	% of total	RMB'000	% of total	
Construction	**246,603**	**36%**	185,004	35%	**33%**
Property Development	**384,923**	**57%**	302,375	58%	**27%**
Building Materials	**23,804**	**4%**	18,714	4%	**27%**
Others	**22,108**	**3%**	16,264	3%	**36%**
Total	**677,438**	**100%**	522,357	100%	**30%**


Construction
Property Development
Building Materials
Others
2018
3%
4%
57%
36%
2017
3%
4%
58%
35%

Construction Business

For the six months ended 30 June 2018, the Group's construction business achieved a revenue of approximately RMB8,333,158,000, which represents an increase of approximately 22% over the same period last year; operating profit amounted to approximately RMB246,603,000, which represents an increase of approximately 33% compared to the same period last year. The increase of revenue and operating profit for the construction business was primarily due to the increase of construction contracts intake in 2017 which was recognised during the period.

The construction industry is a pillar industry of the China's national economy. Its rapid development and continuous expansion in scale have not only provided a large number of job opportunities for the economy, but also promoted the co-development opportunities together with a number of chain industries; all of which have collectively steered tremendous contributions to China's urbanization, economic and social development progress. But it was noteworthy to point out that the traditional construction industry is still facing a series of inherited problems such as development scale is large but without strength, out-of-date management organization, and a lack of highly skilled labor force supply. As a prominent member of the construction industry who has been deeply involved in the construction industry for more than 40 years, we have thoroughly grasped the spirit set out on the "Opinions of the State Council on Promoting the Sustainable and Healthy Development of the Construction Industry" and "Several Opinions of the Ministry of Housing and Urban-Rural Development on Promoting the Development and Reform of the Construction Industry" policy documents, and will consistently address and resolve the deficiencies in the areas of management organization, engineering and construction methodologies, project quality and safety, business development, quality and skill set of employees, leveraging on the competitive edges imposed by the "three-in-one" business model of the group, towards the transformation from the traditional model into the new era of a modernized construction industry.

During the period, the Group's construction business adopts the business philosophy of promoting branding, contract management, new business models, and strengthening risk management and control, in the pursuit of a sustainable, healthy and high-quality development of the Group. We saw a market contraction in the traditional construction business sector, hence Baoye will capitalize the full use of its competitive edges in technologies and management talent to align development progress in traditional construction model with industrialization of construction methodology. During the period, the contract value of the new construction of the Group's construction business was approximately RMB12.8 billion (same period of 2017: RMB10.9 billion), an increase of 17% compared to the same period last year. We contracted for a number of high-end projects such as the EPC project of Qingshan Lake Science and Technology City International Business Center, resettlement housing project of A12/14 plot in Wenzhou Sanlang Bridge, the Kunshan Country Garden Project, and the EPC project of the Pinghu Dushan Port E-commerce Industrial Park.

Property Development Business

Property Sales

For the six months ended 30 June 2018, the revenue of the Group's property development business amounted to approximately RMB1,929,594,000, which represents an increase of approximately 20% from the same period last year. Operating profit amounted to approximately RMB384,923,000, which represents an increase of approximately 27% compared to the same period last year. The revenue and operating profit have both registered a significant increase compared to the same period last year which was primarily attributable to the higher selling price and profit margin of delivered sale units that were recognised during the period than those recognised in 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)	Floor Areas Sold (Sqms)	Revenue (RMB'000)
Baoye Wanhuacheng	Shanghai	16,799	28,137	472,687
Baoye Four Seasons Garden	Shaoxing	29,647	14,150	419,507
Baoye Xiaoyao Luyuan	Mengcheng	5,222	67,740	353,760
Baoye Ido	Shanghai	39,740	6,043	240,149
Baoye Taihe City Green Garden	Taihe	5,218	26,659	139,118
Baoye Xinqiao Fengqing	Shaoxing	15,569	4,314	67,157

For the six months ended 30 June 2018, the Group's property development business achieved a contract sales value of approximately RMB1.7 billion with a total contract sales area of approximately 145,000 square metres.

Projects under Development

As at 30 June 2018, projects under development of the Group are tabulated below:

Project Name	Location	Total Floor Area under Development (sqms)	Equity Interest of the Group
Baoye Four Seasons Garden	Shaoxing	374,500	100%
Baoye Xinqiao Fengqing	Shaoxing	136,000	100%
Baoye Guanggu Lidu	Wuhan	46,216	100%
Hubei Baoye Centre	Wuhan	88,000	100%
Baoye Xuefu Luyuan	Bengbu	79,000	63%
Baoye Taihe City Green Garden	Taihe	189,915	55%
Baoye Longhu Yucheng	Kaifeng	140,000	60%
Baoye Yihe Yayuan	Lishui	67,657	100%
Jingang Apartment	Lishui	20,784	100%
Baoye Junyue Green Garden	Lu'an	51,205	100%
Nanhai Jiayuan	Lu'an	305,500	70%
Wuhan Xinzhou Project	Wuhan	Under planning	100%
Xialv Project	Shaoxing	Under planning	60%

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 gross floor area 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, a kindergarten and a central lakeside garden. Phase I's construction had been completed, and had registered satisfactory sales results. Phase II has a planned gross floor area of approximately 300,000 square meters and the detailed development plan is under preparation.

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 gross floor area of approximately 136,000 square metres, aiming to be developed as a 14 high-rise building project with river view, of which 4 buildings will be constructed by PC-manufacture methodology according to plan. Phase I and II has a total saleable area of approximately 64,152 square meters presold in 2017 and are basically being sold out now. Phase III, with a total saleable area of approximately 29,785, is positioned for presale in the latter half of 2018 and is expected to be delivered to buyers in 2019.

Baoye Guanggu Lidu is located in the East Lake New Technology Development Zone in Wuhan City with a total site area of approximately 120,000 square metres and an estimated gross floor area of approximately 300,000 square metres. The project comprises 18 high-rise residential buildings and commercial units, aiming to become reasonably scaled residential units with well-developed facilities, convenient transportation and a rich cultural connotation. The project is developed in three phases, of which phase I and phase II have been sold out. Phase III started sales in June 2018 and had satisfactory sales results in that month.

Hubei Baoye Centre is located at the junction of the first Jianshe Road and Jiangang South Road, Qingshan District, Wuhan City. It has an estimated gross floor area of approximately 88,000 square metres, pursuant to which, approximately 65,600 square metres were above-ground levels and approximately 22,400 square metres were underground levels. All will be developed as office buildings. The project commenced presale in 2017 and had registered satisfactory presale results.

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 gross floor area 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 gross floor area of approximately 79,000 square meters, is under construction and is expected to be delivered to buyers at the end of 2019.

Baoye Taihe City Green Garden is located in Taihe County, Anhui Province with a total gross floor area 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. Physical separate positioning of pedestrian walk and vehicle driveway, personalized design of housing type and equitable distribution of space enable residents to enjoy quality and comfortable living. 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 modernized residential housing. The project will be developed in four phases, of which phase I and II had already been delivered to buyers, phase III with 94,145 square meters is expected to be delivered at the end of 2018 and 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 gross floor area 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 and will be delivered generally in 2019 while Phase III is still under planning.

Baoye Yihe Yayuan, located in Liandu District, Lishui City, Zhejiang Province, has a site area of 26,918 square metres and a total gross floor area of 67,657 square metres with 1.8 times plot ratio, of which 35,416 square meters will be purchased by the local government and the remaining 13,037 square meters will be owned and sold by Baoye. The project has adopted PC technology with a 20% prefabricated rate. It is expected to be delivered in August 2018.

Jingang Apartment, located in Liandu District, Lishui City, Zhejiang Province, has a site area of 14,846 square metres and a total gross floor area 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.

Baoye Junyue Green Garden is located in Lu'an city, Anhui Province. Baoye bid the project through judicial auction in September 2017. 80% of the total gross floor area of 51,205 square meters has finished construction when auctioned, while the remaining site area of 36,196 square meters is clean land under development. The project is surrounded by convenient transportation and well-developed facilities including parks, banks and shopping malls. Currently, phase I is under presale.

Nanhai Jiayuan, located in Lu'an City, Anhui Province, has a site area of 125,526 square meters and a total gross floor area of 305,500 square meters. Phase I has completed its main construction in the latter half of 2017, while phase II is under construction. The project is expected to be delivered to the local government in 2019.

Management Discussion and Analysis

Wuhan Xinzhou project, located in Wuhan City, Hubei Province, has a total land area of 129,528.31 square meters. The Group acquired this parcel of land use right in December 2017 at a consideration of RMB780 million. As at the date of this report, the project is under planning.

Xialv Project, located in Shaoxing City, Zhejiang Province, consists of three separate parcels of land with a total cost of RMB511,036,354 and a total land site area of 262,862 square meters, pursuant to which the Group is interested in 60%. The Group acquired the land use rights through public auction in 2017. As at the date of this report, one of the three parcels of land has begun planning.

Land Reserve

In June 2018, a subsidiary of the Group acquired four parcels of land use rights with a total land area of 172,656.3 square meters through public tender and auction at a total consideration of RMB370,348,121 in Jieshou City, Anhui province. 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

Wuxi 2017-21 Land

In December 2017, a subsidiary of the Group and Powerlong Real Estate Holdings Limited, a listed company on the Main Board of the Stock Exchange (stock code: 1238.hk) have jointly invested and developed this parcel of land use right with a total site area of 248,878.8 square meters and a total gross floor area of 429,639 square meters at a total consideration of RMB1,371,940,000. The Group is interested in 33% of this project. This land will be developed in two phases, of which phase I includes subsections of A, B, C parts, while phase II includes subsection D. Subsection A has begun presale on 30 June 2018.

Nantong R17030 Land

In December 2017, a subsidiary of the Group and Daiwa Real Estate Group Company Limited have jointly acquired this land through public tender auction at Nantong, Jiangsu Province with a total site area of 135,544 square meters and gross floor area of 336,000 square meters with 1.7 times plot ratio at a total consideration of RMB1.65 billion. The Group is interested in 33% of the project. This project will adopt the PC technology with over 50% prefabricated rate and will be developed as a safe, comfortable and fully-decorated international community. The project will be developed in two phases, of which phase I will start construction in December 2018 and will be delivered in 2021, and phase II will start construction in October 2019 and be delivered in 2022.

Building Materials Business

For the six months ended 30 June 2018, the revenue of the Group's building materials business was approximately RMB1,103,334,000, which represents an increase of approximately 25% over the same period last year; operating profit was approximately RMB23,804,000, which represents an increase of approximately 27% over the same period last year. During the period under review, the revenue and operation profit achieved a substantial growth primarily attributable to the increase in new contract orders from curtain wall, furnishings and interior decorations, and ready-mixed concrete sectors.

The revenue breakdown of the Group's building materials for the six months ended 30 June 2018 is analysed below:

	For the six months ended 30 June				Change
	2018		2017		
	RMB'000	% the total	RMB'000	% the total	
Curtain Wall	**586,250**	**53%**	472,785	54%	**24%**
Ready-mixed Concrete	**231,937**	**21%**	149,479	17%	**55%**
Furnishings and Interior Decorations	**115,308**	**11%**	115,558	13%	**0%**
PC Assembly Plate	**59,640**	**5%**	41,807	5%	**43%**
Wooden Products and Fireproof Materials	**53,165**	**5%**	39,380	4%	**35%**
Steel Structure	**21,303**	**2%**	23,433	3%	**–9%**
Others	**35,731**	**3%**	36,836	4%	**–3%**
Total	**1,103,334**	**100%**	879,278	100%	**25%**

During the period, as the central and local governments continued to strengthen the environment protection and improvement measures, our products in the areas of green, environmental-friendly and energy saving were well perceived in the market. Simultaneously, the markets in second and third ties cities became very active during the period which sets out a very good development opportunity for the Group's building materials business.

Business Prospect

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

The Meeting of Political Bureau of the CPC Central Committee held in July 2018 summarized the conclusion of economic work in the first half of the year and had made arrangement for the work to be carried out in the second half of the year. The Meeting clarified that the Chinese government will continue to deepen the supply-side structural reforms, adhere to the implementation of a proactive fiscal policy and a prudent monetary policy to maintain the current economic stability and changes, and to withstand new problems and challenges, and the overwhelming changes in external environment. The government will emphasis on stabilizing and managing employment, finance, foreign trade, foreign capital, investment and expectations, and increasing its support for investments in the imbalance infrastructural sectors. The government has since implementing various important policies from 2017 on the future development of the construction industry, mainly comprising the design of top-level program, promotion of technology, and formulation of industry standard, including the cancellation of the bidding agency qualifications, the revision of registered construction engineer management prescription, overhauling changes in the bidding policy, the reduction of the project quality bond, the issuance of the normative documents for PPP projects, the simplification of qualifications of construction enterprises and so on.

Management Discussion and Analysis

The Group's construction business will continue to follow the government's policies and guidelines to conform with the changes in the construction industry. Considering our own position, we will continue to adopt the philosophy of maintaining healthy, stable and high-quality development and acting as general contractor for EPC projects which will form an integral part of our development strategy together with the layout of the Group's industrialization of construction. The Group will continuously renew business models, enhance lean and mean management style, and deepen the use and application of BIM technology, in order to promote and preserve the brand value of the Group's construction business and to prioritize quality over quantity. At the same time, the Group will continue to promote the upbringing of younger management teams. Through the establishment of "Baoye Vocational Skills Training Center" and "Master of Skills Studio", and through "Baoye Construction Order Class" and "Baoye Migrant Worker School" that are co-founded by the respective schools and the Group, our skill work force and prefabricated buildings business have then developed rapidly. By strengthening legal risk prevention and financial management and control, the Group will continue to improve our business capabilities.

Property development business contributes substantial profit to the Group

At the 19th CPC National Congress, General Secretary Xi Jinping once again emphasized: "houses are built for living, not for speculation. We should speed up the establishment of housing policy which is supplied by multi-sources, by multi-channels, and the combination of renting and purchasing simultaneously and ensure that everyone has a house to live in." Throughout the two recent decades of China's real estate industry development, on one hand, because of the flex in financial instruments such as leverage, interest rates, credit, etc., the real estate industry in China has been developed rapidly and improved the living and urban environment; on the other hand, due to the same characteristic of financial instruments such as the increasing credit, low interest rates and high leverage, the real estate industry has gradually moved away from its residential nature and has been emerged in varied nature of properties into by-product of financial products. When the era of credit crunch, rising interest rates, and deleverage comes into play, the government will accurately control the real estate market with "One City, One Policy". When the market tends to run smoothly, we should consider more about the trends and directions of the Chinese real estate market in the future. When housing returns to the very nature of living, only green, healthy, and technologically durable housing can be sustained in the long-term development of the industry. Following this general direction, we can better guide the decision-making of the Group's real estate in different regions, and afford the property development business continue to soar and generate fruitful returns to the Group.

The Group's real estate development business has always featured the "industry, capital, technology", and adopted to the philosophy of "Baoye builds quality houses". In the market where we are familiar with, Baoye has offered high quality construction services for more than 40 years and has applied leading edge technologies in industrialization of construction to real estate projects. From project approval and design to construction and then to maintenance later, our operation runs through the full life cycle of our construction products. In this connection, we can realistically provide our customers with "highly comfortable, low energy consumption and low carbon" housing products which can last for hundred years.

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

Under the current situation, China's demographic dividend has been gradually disappearing; the lack of labor supply and rise in labor costs are prominent; the demand for improving working environment and labor supply intensifies. In the meantime, China's urbanization process is still advancing; the continuous investment in infrastructural construction will still call for a huge demand of construction buildings. Whether national development strategies such as "the State Council's guidelines on facilitating healthy and sustainable development of construction industry", the "Green Building Action Plan" of the State Council, and the standards for prefabricated buildings issued by the Ministry of Housing and Urban-Rural Development, etc., or a series of policies encouraging the development of building industrialization issued by local governments and related departments, they all reflect China's high determination to the development of the construction industrialization. At the same time, a large number of our competitors are also exploring the prospect for the China's construction industrialization. We believe that any arguments on construction industrialization without considering construction and buildings are unrealistic. It is precisely because of the handful experience of the Group amassed during the past 40 plus years in the construction industry and the exploration and research that we have been doing for more than 20 years in the field of construction industrialization, we know more than anyone else about what Chinese construction industry needs in the future and what is the direction of the future.

As a nationwide benchmark in the field of construction industrialization, Baoye has always regarded advancing building industrialization as an important strategy for the future development of the Group. The extensive layout of the industrialization bases has laid a solid foundation for the rapid development of industrialization business, the upstream and downstream construction and real estate business of the Group in the future.

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 optimising 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 29% (same period of 2017: 41%) of the total borrowings. In addition, approximately 62.2% of the total borrowings (same period of 2017: 54.4%) were guaranteed by the Company, approximately 4.0% of the total borrowings (same period of 2017: Nil) were jointly guaranteed by the Company and non-controlling interests 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.

Management Discussion and Analysis

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 2018, the untapped banking facilities of the Group amount to approximately RMB4.8 billion.

Details are analysed below:

	As at 30 June	
	2018	2017
	RMB'000	RMB'000
Cash and cash equivalents	**3,362,411**	3,979,345
Term deposits with initial term of over three months	**119,775**	6,774
Restricted bank deposits	**958,328**	386,846
Less: total borrowings	**(2,165,652)**	(987,560)
Net cash	**2,274,862**	3,385,405
Total equity attributable to the owners of the Company	**7,904,037**	7,032,684
Net cash ratio	**29%**	48%

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

Other Key Financial Ratios

	As at 30 June	
	2018	2017
Return on equity	**5.56%**	4.60%
Net assets value per share (RMB)	**14.05**	12.00
Current ratio	**1.21**	1.30

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 RMB439,202,000, representing an increase of approximately 36%, mainly due to the increase of construction business and property development business. The return on equity and net assets value per share recorded an increase compared to the same period last year. The Group has continued to maintain a net cash position, of which the net cash ratio is approximately 29%, a decrease of approximately 40% mainly due to the increased bank borrowing compared to the same period last year.

Cash Flow Analysis

		For the six months ended 30 June	
		2018	2017
	Note	**RMB'000**	RMB'000
Net cash inflow/(outflow) from operating activities	*(i)*	**1,228,650**	(187,445)
Net cash (outflow)/inflow from investing activities	*(ii)*	**(726,362)**	592,080
Net cash inflow from financing activities	*(iii)*	**283,194**	688,974
Net increase in cash and cash equivalents		**785,482**	1,093,609
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 RMB1,228,650,000 an increase of approximately RMB1,416,095,000 compared to the same period last year, which was mainly due to the sound cash inflow from of the construction and property development businesses.

(ii) During the period under review, the net cash outflow from investing activities was approximately RMB726,362,000, which was mainly attributed by the payments for investments in associates at approximately RMB154,225,000, the loans to associates at approximately RMB310,991,000, and purchase of properties, plants and equipment at approximately RMB238,200,000.

(iii) During the period under review, the net cash inflow from financing activities was approximately RMB283,194,000, which was mainly driven by increased bank borrowings to ease cash flow demand.

Land Appreciation Tax

The Group has consistently complied with the tax rules and regulations in the PRC and conformed to the Hong Kong Financial Reporting and Accounting Standards in accounting for such 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. For the six months ended 30 June 2018, the Group's land appreciation tax amounted to approximately RMB48,709,000.

Administrative Expense

The Group's administrative expense amounted to approximately RMB239,403,000 for the six months ended 30 June 2018 as compared to approximately RMB232,740,000, which was almost the same with the same period last year.

Financial Cost

For the six months ended 30 June 2018, the Group had registered financing cost of approximately RMB9,439,000 (same period of 2017: Nil).

Financial Guarantee

	30 June 2018 RMB'000	31 December 2017 RMB'000
Guarantees given to banks in respect of mortgage facilities granted for certain purchasers	**666,439**	448,636

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 2018, land use rights, property, plant and equipment and properties under development at a total value of approximately RMB1,388,881,000 (as at 31 December 2017: RMB874,641,000) 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 resolved not to declare any payment of interim dividend for the six months ended 30 June 2018 (same period of 2017: Nil).

Incentive scheme regarding non-tradable and non-listed domestic shares

The Board proposed adoption of the Share Incentive Scheme Regarding Non-tradable and Non-listed Domestic Shares ("Scheme") to motivate the Participants to optimize their active contribution to the Group and to enable the Group to employ and retain high-calibre employees and attract valuable human resources, details of which are set out in the announcement of the Company dated on 23 March 2018. Unless otherwise defined, the capitalized terms set out herein shall have the same meaning as set out in the announcement dated on 23 March 2018.

As at the end of this report, details of the scope of the participants, the Employee Stock Ownership Plans ("ESOP"), the number of incentive shares every year are yet to be confirmed. A circular containing, amongst others, further details of the resolutions relating to the proposed adoption of the Scheme, recommendations of the Board and notices convening the Shareholders' General Meeting, the Class Meetings or the independent shareholders meeting by way of a special resolution will be dispatched to the Shareholders once available.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

The Group is committed to establishing an efficient, orderly and transparent corporate governance mechanism. Since its listing, the Company strives to comply with the Company Law of the PRC, the Listing Rules, the Corporate Governance Code as set out in Appendix 14 to the Listing Rules and other relevant laws and regulations and will regularly review the corporate management activities to enhance corporate value so as to ensure a sustainable development of the Company and to maximise shareholders' returns.

Corporate Governance Practices

As at the date of this report, 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 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.

Board of Directors

The Board formulates overall strategic plans and key policies of the Group, monitors its financial performance, maintains effective oversight over the management, assess risk reasonably, improve and review the Group's policies and practices on corporate governance and delegate the daily operations of the Company to the executive Directors or the management. The Board is committed to making the best interests of both the Company and its shareholders.

The Board consists of nine Directors, including five executive Directors, namely, Mr. Pang Baogen (the chairman of the Board), Mr. Gao Lin, Mr. Gao Jiming, Mr. Gao Jun and Mr. Jin Jixiang; one non-executive Director, namely, Mr. Fung Ching, Simon; and three independent non-executive Directors, namely, Mr. Chan, Dennis Yin Ming, Mr. Li Wangrong and Ms. Liang Jing. Each of Mr. Fung Ching, Simon and Mr. Chan, Dennis Yin Ming, has professional accounting qualifications and possesses rich experience in accounting and financial management, Mr. Li Wangrong has rich experience in law and Ms. Liang Jing has rich experience in project management and audit. The diverse composition of the Board brings the Board different views, and also reflects a balance between effectiveness and independence.

Independent Non-executive Directors

The composition of independent non-executive Directors of the Board complies with Rule 3.10(1) of the Listing Rules. The Company has appointed three independent non-executive Directors, accounting for one third of the Board. The Board considers that all independent non-executive Directors have appropriate and sufficient industry or finance experience and qualifications to carry out their duties so as to protect the interests of the Shareholders.

Board Committees

The Board has established three board committees, namely, audit committee, nomination committee and remuneration committee to strengthen its functions and corporate governance rules. The audit committee, the nomination committee and the remuneration committee perform their specific duties in accordance with their respective terms of reference and operation mode.

Audit Committee

As at the date of this report, 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 2018 had been reviewed by the audit committee before being approved by the Board.

Remuneration Committee

As at the date of this report, the remuneration committee comprises two independent non-executive Directors, namely, Mr. Chan, Dennis Yin Ming, Ms. Liang Jing and one executive Director, namely, Mr. Pang Baogen, with Mr. Chan, Dennis Yin Ming as the chairman of the remuneration committee. The major responsibilities of the remuneration committee are to make recommendation to the Board on the Company's policy and structure for remuneration of the Directors, Supervisors and senior management of the Company, to review and approve the management's remuneration recommendation according to the Board's policy and target, and to take the market forces and comparable industries into consideration when determining the remuneration packages of the Directors, Supervisors and senior management of the Company.

Nomination Committee

As at the date of this report, the nomination committee comprises two independent non-executive Directors, namely, Mr. Li Wangrong, Ms. Liang Jing and one executive Director, namely, Mr. Gao Jiming, with Mr. Li Wangrong as the chairman of the nomination committee. The main duties of the nomination committee are to review the structure, size and composition of the Board of Directors on a regular basis, to make recommendations to the Board regarding any proposed changes and to identify individuals suitably qualified to become board members. It is also responsible for assessing the independence of the independent non-executive Directors and providing recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors and supervisors.

Auditors

The re-appointment of PricewaterhouseCoopers as the Company's international auditor and the re-appointment of PricewaterhouseCoopers Zhongtian Certified Public Accountants ("LLP") as the Company's PRC statutory auditor were approved at the annual general meeting held on 13 June 2018.

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 2018. If any related employee possesses information which may be considered as sensitive to the Company's share price and such information is not public, such employee has to comply with the written guidance, which is as strict as the Model Code.

Investors Relations

The Company believed that it's very important to disclose accurate information timely and effectively for building market confidence, so the Company maintained good relations and communication with investors actively. The Company establishes different communication channels with shareholders and investors, including (i) printed copies of corporate communications (including but not limited to annual reports, interim reports, notices of meetings, circulars and proxy forms) required under the Listing Rules; (ii) the annual general meeting provides a forum for shareholders to raise comments and exchange views with the Board; (iii) updated and key information on the Group is available on the website of the Company; (iv) the Company's website offers a communication channel between the Company and its shareholders and stakeholders; (v) the Company's Hong Kong Share Registrar deals with shareholders for share registration and related matters; and (vi) the Investor Relations Department of the Company handles enquiries from shareholders and investors generally.

Substantial Shareholders of H Shares

As at the end of reporting period, so far as was known to the Directors, the following persons, other than Directors, Supervisors and senior management of the Company, have an interest in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO:

Name	Capacity	Number of H Shares of the Company Held (Long Position)	Approximate Percentage of the Total Issued H Shares of the Company	Approximate Percentage of the Total Registered Share Capital of the Company
Wu Xueqin *(note 1)*	Interest of spouse/ Interest of corporation	29,304,000	13.83%	5.21%
Zhu Yicai *(note 1)*	Interest of spouse/ Interest of corporation	29,304,000	13.83%	5.21%
Top Easy Holdings Limited	Beneficial owner	17,106,000	8.07%	3.04%
Star Ruby Overseas Ltd	Beneficial owner	12,198,000	5.76%	2.17%

1. Top Easy Holdings Limited, wholly owned by Ms. Wu Xueqin, holds a total of 17,106,000 H shares of the Company as the beneficial owner. Star Ruby Overseas Ltd, wholly owned by Mr. Zhu Yicai, holds a total of 12,198,000 H shares of the Company as the beneficial owner. Ms. Wu Xueqin and Mr. Zhu Yicai are couples, are deemed to be interested 29,304,000 H shares.

2. Information disclosed here is based on the information available on the website of Hong Kong Stock Exchange News at www.hkexnews.hk.

3. As at 30 June 2018, the Company has a total of 562,664,053 shares, of which 211,922,000 shares were H shares.

OTHER INFORMATION

Interests of Directors, Supervisors, Chief Executive and Senior Management

As at the end of reporting period, the interests and short positions of Directors, Supervisors, chief executive and senior management of the Company in share of the Company and any of the associated corporations within the meaning of Part XV of the SFO, which are required to be (i) notified to the Company and HKEx pursuant to Division 7 and 8 of Part XV of the SFO; or (ii) entered into the register required to be kept by the Company under Section 352 of Part XV of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Directors/Supervisors/ Senior Management	Relevant Entity	Capacity	Number of Domestic Shares (Long Position)	Number of H Shares (Long Position)	Approximate Percentage of the Total Registered Capital of the Relevant Entity
Directors					
Mr. Pang Baogen	The Company	Individual	193,753,054	–	34.43%
Mr. Gao Jiming	The Company	Individual	12,059,254	–	2.14%
Mr. Gao Lin	The Company	Individual	9,544,775	–	1.70%
Mr. Gao Jun	The Company	Individual	5,794,259	–	1.03%
Mr. Jin Jixiang	The Company	Individual	2,440,527	–	0.43%
Supervisors					
Wang Jianguo	The Company	Individual	5,250,290	–	0.93%
Wang Jianguo	Zhejiang Baoye Curtain Wall Decoration	Individual	8,487,363	–	16.94%
Senior Management					
Mr. Lou Zhonghua	The Company	Individual	4,533,172	–	0.81%
Mr. Wang Rongbiao	The Company	Individual	2,647,911	–	0.47%

Directors' and Supervisors' Rights to Acquire Shares or Debentures

At no time during the period under review, did the Company or any of its subsidiaries make any arrangement to enable the Directors, the Supervisors and their respective spouses or children under 18 years of age, to benefit from acquisition of the shares or debentures of the Company or any other corporation.

Changes of Directors, Supervisors and Senior Management

During the period under review, there was no change of Directors, Supervisors and Senior management.

Human Resources

As at 30 June 2018, the Group had a total of approximately 5,332 permanent employees (as at 30 June 2017: 4,640). Also, there were approximately 71,968 indirectly employed construction site workers (as at 30 June 2017: 67,260). These workers were not directly employed by the Group. For the six months ended 30 June 2018, the total employee benefit expenses amounted to approximately RMB2,407,140,000 (the same period in 2017: RMB1,941,347,000). 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.

Connected Transactions

During the period under review, the Group had no connected transaction that would require disclosure under the Listing Rules.

Purchase, Sale or Redemption of Shares of the Company

During the period under review, the Company has repurchased a total of 23,546,000 H Shares on the Stock Exchange, with the aggregate consideration paid (before expenses) amounting to HK$132,386,100. All the shares being repurchased were subsequently cancelled. As at 30 June 2018, the total number of Shares in issue was 562,664,053 (including 350,742,053 domestic shares and 211,922,000 H shares).

Particulars of the share buy-backs are as follows:

Month	Number of shares bought back	Purchase price per share Highest (HK$)	Lowest (HK$)	Aggregate Consideration (before expenses) (HK$)
April 2018	2,184,000	5.23	4.90	11,060,960
May 2018	14,650,000	5.75	5.17	82,790,880
June 2018	6,712,000	5.75	5.69	38,534,260
Total	23,546,000			132,386,100

Save as disclosed above, during the six months ended 30 June 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the company's listed securities.

The Directors believed that the above share buy-backs should reflect the underlying value of the Company, and signify the Group's confidence in its long term growth prospects.

Litigation and Arbitration

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

Entrusted Deposits and Overdue Time Deposits

As at the date of this report, 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.

Appreciation

The Board would like to take this opportunity to express gratitude to our shareholders, 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 PRC
27 August 2018

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

羅兵咸永道

TO THE BOARD OF DIRECTORS OF BAOYE GROUP COMPANY LIMITED
(Incorporated in the People's Republic of China with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 32 to 70, which comprises the interim condensed consolidated balance sheet of Baoye Group Company Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2018 and the interim condensed consolidated income statement, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 August 2018

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INTERIM FINANCIAL INFORMATION

Interim Condensed Consolidated Balance Sheet

	Note	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
ASSETS			
Non-current assets			
Land use rights	9	527,434	491,382
Property, plant and equipment	9	1,648,707	1,473,768
Investment properties	9	617,169	617,169
Goodwill		16,534	16,534
Investments in joint ventures		124,360	126,783
Loans to joint ventures		382,580	374,453
Investments in associates	8	325,108	15,547
Loans to associates	8	542,498	230,939
Financial assets at fair value through other comprehensive income	4,6	232,268	–
Financial assets at fair value through profit or loss	4,6	8,245	–
Available-for-sale financial assets	6	–	241,628
Deferred income tax assets		242,987	343,350
Prepayments for investments in associates		–	158,865
		4,667,890	4,090,418
Current assets			
Inventories		210,430	179,165
Properties under development		4,211,667	4,527,638
Completed properties held for sale		3,293,688	3,559,157
Contract assets	4	3,628,848	–
Due from customers on construction contracts	4	–	3,766,827
Trade receivables	10	3,606,400	3,668,651
Other receivables and prepayments	11	3,068,069	4,598,294
Financial assets at fair value through profit or loss	4,6	384,050	–
Available-for-sale financial assets	4,6	–	249,250
Restricted bank deposits		958,328	658,125
Term deposits with initial term of over three months		119,775	90,199
Cash and cash equivalents		3,362,411	2,575,717
		22,843,666	23,873,023
Total assets		27,511,556	27,963,441
EQUITY			
Equity attributable to owners of the Company			
Share capital	12	562,664	586,210
Share premium	12	481,433	565,872
Reserves	13	200,114	205,633
Retained earnings		6,659,826	5,960,204
		7,904,037	7,317,919
Non-controlling interests		192,763	178,445
Total equity		8,096,800	7,496,364

Interim Condensed Consolidated Balance Sheet (continued)

	Note	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	*15*	**376,067**	70,862
Deferred income tax liabilities		**231,697**	83,834
		607,764	154,696
Current liabilities			
Contract liabilities	*4*	**6,831,344**	–
Trade payables	*14*	**5,962,163**	6,083,747
Other payables		**3,893,878**	3,395,107
Receipts in advance	*4*	**–**	5,246,117
Current income tax liabilities		**330,022**	514,540
Due to customers on construction contracts	*4*	**–**	3,388,705
Borrowings	*15*	**1,789,585**	1,684,165
		18,806,992	20,312,381
Total liabilities		**19,414,756**	20,467,077
Total equity and liabilities		**27,511,556**	27,963,441

The notes on pages 39 to 70 form an integral part of this interim financial information.

Approved by the Board of Directors on 27 August 2018 and were signed on its behalf.

Pang Baogen	**Gao Jiming**
Director	*Director*

Interim Condensed Consolidated Income Statement

		Unaudited Six months ended 30 June	
	Note	**2018 RMB'000**	2017 RMB'000
Revenue	*7*	**11,483,063**	9,383,941
Cost of sales		**(10,576,399)**	(8,644,004)
Gross profit		**906,664**	739,937
Other income	*16*	**54,590**	36,399
Other gains – net	*17*	**12,336**	32,124
Selling and marketing costs		**(42,003)**	(40,521)
Administrative expenses		**(239,403)**	(232,740)
Net impairment losses on financial assets		**(14,746)**	(12,842)
Operating profit	*18*	**677,438**	522,357
Finance costs	*19*	**(9,439)**	–
Share of results of joint ventures		**(2,527)**	(909)
Share of results of associates		**(3,529)**	(605)
Profit before income tax		**661,943**	520,843
Income tax expense	*20*	**(207,370)**	(189,543)
Profit for the period		**454,573**	331,300
Profit attributable to:			
– Owners of the Company		**439,202**	323,716
– Non-controlling interests		**15,371**	7,584
		454,573	331,300
Earnings per share for profit attributable to the owners of the Company			
– Basic and diluted (expressed in RMB per share)	*21*	**0.76**	0.55

The notes on pages 39 to 70 form an integral part of this interim financial information.

Interim Condensed Consolidated Statement of Comprehensive Income

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Profit for the period	**454,573**	331,300
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Transfer of reserves to income statement upon sale of available-for-sale financial assets, net of tax	**–**	(7,093)
Change in fair value of available-for-sale financial assets, net of tax	**–**	7,534
Other comprehensive income for the period, net of tax	**–**	441
Total comprehensive income for the period	**454,573**	331,741
Total comprehensive income attributable to:		
– Owners of the Company	**439,202**	324,157
– Non-controlling interests	**15,371**	7,584
	454,573	331,741

The notes on pages 39 to 70 form an integral part of this interim financial information.

Interim Condensed Consolidated Statement of Changes in Equity

	Unaudited						
	Attributable to the owners of the Company						
	Share Capital RMB'000	Share premium RMB'000	Reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 31 December 2017	586,210	565,872	205,633	5,960,204	7,317,919	178,445	7,496,364
Adjustment on adoption of HKFRS 9, net of tax *(note 4)*	–	–	(5,519)	(13,367)	(18,886)	–	(18,886)
Adjustment on adoption of HKFRS 15, net of tax *(note 4)*	–	–	–	273,787	273,787	13,305	287,092
Restated balance at 1 January 2018	586,210	565,872	200,114	6,220,624	7,572,820	191,750	7,764,570
Comprehensive income							
Profit for the period	–	–	–	439,202	439,202	15,371	454,573
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income for the period	–	–	–	439,202	439,202	15,371	454,573
Transactions with owners in their capacity as owners							
Buy-back and cancellation of shares	(23,546)	(84,439)	–	–	(107,985)	–	(107,985)
Capital contributions by non-controlling interests	–	–	–	–	–	3,150	3,150
Disposal of interests in subsidiaries	–	–	–	–	–	(2,008)	(2,008)
Dividends to non-controlling interests	–	–	–	–	–	(15,500)	(15,500)
Total transactions with owners	(23,546)	(84,439)	–	–	(107,985)	(14,358)	(122,343)
Balance at 30 June 2018	562,664	481,433	200,114	6,659,826	7,904,037	192,763	8,096,800

Interim Condensed Consolidated Statement of Changes in Equity (continued)

	Unaudited							
	Attributable to the owners of the Company							
	Share Capital RMB'000	Share premium RMB'000	Treasury shares RMB'000	Reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2017	612,372	671,665	(13,535)	184,341	5,372,104	6,826,947	170,753	6,997,700
Comprehensive income								
Profit for the period	–	–	–	–	323,716	323,716	7,584	331,300
Other comprehensive income	–	–	–	441	–	441	–	441
Total comprehensive income for the period	–	–	–	441	323,716	324,157	7,584	331,741
Transactions with owners in their capacity as owners								
Buy-back and cancellation of shares	(26,162)	(105,793)	13,535	–	–	(118,420)	–	(118,420)
Capital contributions by non-controlling interests	–	–	–	–	–	–	10,900	10,900
Disposal of interests in subsidiaries	–	–	–	–	–	–	(17,677)	(17,677)
Total transactions with owners	(26,162)	(105,793)	13,535	–	–	(118,420)	(6,777)	(125,197)
Balance at 30 June 2017	586,210	565,872	–	184,782	5,695,820	7,032,684	171,560	7,204,244

The notes on pages 39 to 70 form an integral part of this interim financial information.

Interim Condensed Consolidated Statement of Cash Flows

	Unaudited Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Cash flows from operating activities		
Cash generated from operations	1,603,224	169,088
Interest paid	(49,100)	(9,783)
Income tax paid	(325,474)	(346,750)
Net cash generated from/(used in) operating activities	1,228,650	(187,445)
Cash flows from investing activities		
Payments for investments in joint ventures	–	(47,100)
Loans to joint ventures	(13,509)	–
Payments for investment in associates	(154,225)	(20,000)
Loans to associates	(310,991)	–
Purchase of financial assets at fair value through profit or loss	(384,050)	(304,590)
Proceed from sale of financial assets at fair value through profit or loss	256,034	808,114
Proceed from disposal of subsidiaries	–	34,085
Advance from government for housing demolition and relocation	142,411	–
Dividends received from an associate	–	400
Purchase of available-for-sale financial assets	–	(463,000)
Proceed from sale of available-for-sale financial assets	–	688,047
Purchase of property, plant and equipment	(238,200)	(158,798)
Proceeds from sale of property, plant and equipment	1,335	4,874
Purchase of land use rights	(43,030)	–
Proceeds from sale of land use rights	–	9,600
(Increase)/decrease of term deposits with initial term of over three months	(29,576)	5,151
Interest received	47,439	35,297
Net cash (used in)/generated from investing activities	(726,362)	592,080
Cash flows from financing activities		
Proceeds from borrowings	1,200,725	937,000
Repayments of borrowings	(790,100)	(232,000)
Repurchase of shares	(105,369)	(87,273)
Capital contributions by non-controlling interests	3,150	10,900
Loans from non-controlling interests	–	60,347
Repayments of loans from non-controlling interests	(9,712)	–
Dividends paid to non-controlling interests	(15,500)	–
Net cash generated from financing activities	283,194	688,974
Net increase in cash and cash equivalents	785,482	1,093,609
Cash and cash equivalents at beginning of the period	2,575,717	2,885,736
Exchange gains on cash and cash equivalents	1,212	–
Cash and cash equivalents at end of the period	3,362,411	3,979,345

The notes on pages 39 to 70 form an integral part of this interim financial information.

Notes to the Interim Financial Information

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 address of the Company's registered office 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, development and sale of properties and manufacturing and distribution of building materials in the PRC.

This interim financial information for the six months ended 30 June 2018 ("Interim Financial Information") is presented in Renminbi ("RMB"), unless otherwise stated. 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 2017 ("2017 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").

3 Accounting Policies

The accounting policies applied are consistent with those of 2017 Financial Statements, except for the adoption of new and amendments to HKFRSs effective for the financial year beginning 1 January 2018.

(a) New and revised standards and amendments to existing standards that are effective for the financial year beginning 1 January 2018 do not have a material impact on or are not relevant to the Group, except for HKFRS 9 "Financial Instruments" ("HKFRS 9") and HKFRS 15 "Revenue from Contracts with Customers" ("HKFRS 15").

The Group had to change its accounting policies and make modified retrospective adjustments as a result of adopting HKFRS 9 and HKFRS 15. The impact of the adoption of these two standards are disclosed in Note 4 and the new accounting policies adopted are set out in Note 3(c) and Note 3(d) below.

Notes to the Interim Financial Information (continued)

3 Accounting Policies (continued)

(b) New and revised standards and amendments to existing standards have been issued and relevant to the Group but are not effective for the financial year beginning on 1 January 2018 and have not been early adopted:

		Effective for the financial year beginning on or after
HKFRS 16	Leases	1 January 2019
HKFRIC 23	Uncertainty over income tax treatment	1 January 2019
HKFRS 17	Insurance contract	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associates or joint ventures	To be determined

The Group is yet to assess the impact of the above new and revised standards, amendments and interpretations to existing standards on the Group's consolidated financial statements.

(c) HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018

Financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

3 Accounting Policies (continued)

(c) HKFRS 9 Financial Instruments – Accounting policy applied from 1 January 2018 (continued)

Financial assets (continued)

(ii) Measurement (continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in "other income" using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "other gains – net", together with foreign exchange gains and losses.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in "other gains – net". Interest income from these financial assets is included in "other income" using the effective interest rate method. Foreign exchange gains and losses are presented in "other gains – net".

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within "other gains – net" in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as "other gains – net" when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in "other gains – net" as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Notes to the Interim Financial Information (continued)

3 Accounting Policies (continued)

(c) HKFRS 9 Financial Instruments – Accounting policy applied from 1 January 2018 (continued)

Financial assets (continued)

(iii) Impairment

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

For contract assets and trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(d) HKFRS 15 Revenue from Contracts with Customers – Accounting policies applied from 1 January 2018

Revenue from Contracts with Customers

Revenue is measured at the fair value of the consideration received or receivable for the sales of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of discounts and after eliminating sales with the Group companies. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

Rendering of construction services, sales of properties and sales of building materials

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

- provides all of the benefits received and consumed simultaneously by the customer; or
- creates and enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforce able right to payment for performance completed to date.

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

3 Accounting Policies (continued)

(d) HKFRS 15 Revenue from Contracts with Customers – Accounting policies applied from 1 January 2018 (continued)

Revenue from Contracts with Customers (continued)

Rendering of construction services, sales of properties and sales of building materials (continued)

The progress towards complete satisfaction of the performance obligation is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the contract costs incurred up to the end of reporting period as a percentage of total estimated costs for each contract.

For construction services contracts, the Group's performance creates or enhances an asset or work in progress that the customer controls as the asset is created or enhanced, thus the Group satisfies a performance obligation and recognises revenue over time, by reference to completion of the specific transaction assessed on the basis of the actual costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

For property sales contracts and building materials sales contracts for which the control of the property or the building material is transferred at a point in time, revenue is recognised when the customer obtains the physical possession or the legal title of the completed property or the building material and the Group has present right to payment and the collection of the consideration is probable. When the Group's performance creates or enhances an asset or work in progress that the customer controls as the asset is created or enhanced, thus the Group satisfies a performance obligation and recognises revenue over time, by reference to completion of the specific transaction assessed on the basis of the actual costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

In determining the transaction price, the Group adjusts the promised amount of consideration for the effect of a financing component if it is significant.

4 Change in Accounting Policies

The Group adopted HKFRS 9 and HKFRS 15 from 1 January 2018, which result in changes in accounting policies (new policies are described in Note 3) and adjustments to the amounts recognised in the consolidated financial statements.

In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated. As a consequence, any adjustments to carrying amounts of financial assets or liabilities are recognised at the beginning of the current reporting period, with the difference recognised in opening retained earnings. Provisions for impairment have not been restated in the comparative period, as well.

The Group elected to use a modified retrospective approach for transition which allows the Group to recognise the cumulative effects of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings. The Group elected to apply the practical expedient for completed contracts and did not restate the contracts completed before 1 January 2018, thus the comparative figures have not been restated.

Notes to the Interim Financial Information (continued)

4 Change in Accounting Policies (continued)

4.1 Impact on the financial statements

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. The adjustments are explained in more detail by standard below.

	31 December 2017 As originally presented RMB'000	Reclassifications and adjustments under HKFRS 9 RMB'000	Reclassifications and adjustments under HKFRS 15 RMB'000	1 January 2018 Restated RMB'000
Consolidated balance sheet (extract)				
Loans to joint ventures	374,453	(6,295)	–	368,158
Loans to associates	230,939	(2,309)	–	228,630
Available-for-sale financial assets ("AFS")	490,878	(490,878)	–	–
Financial assets at fair value through other comprehensive income	–	232,268	–	232,268
Financial assets at fair value through profit or loss	–	258,610	–	258,610
Deferred income tax assets	343,350	6,295	(48,884)	300,761
Properties under development	4,527,638	–	(42,554)	4,485,084
Completed properties held for sale	3,559,157	–	(552,934)	3,006,223
Contract assets	–	(3,792)	3,791,828	3,788,036
Due from customers on construction contracts	3,766,827	–	(3,766,827)	–
Trade receivables	3,668,651	(5,895)	–	3,662,756
Other receivables and prepayments	4,598,294	(6,890)	–	4,591,404
Contract liabilities	–	–	7,396,754	7,396,754
Other payables	3,395,107	–	192,382	3,587,489
Receipts in advance	5,246,117	–	(5,246,117)	–
Due to customers on construction contracts	3,388,705	–	(3,388,705)	–
Deferred income tax liabilities	83,834	–	139,223	223,057
Reserves	205,633	(5,519)	–	200,114
Retained earnings	5,960,204	(13,367)	273,787	6,220,624
Non-controlling interests	178,445	–	13,305	191,750

4 Change in Accounting Policies (continued)

4.2 HKFRS 9 Financial Instruments – Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 Financial Instruments ("HKAS 39") that relate to the recognition, classification and measurement of financial assets and financial liabilities; derecognition of financial instruments; impairment of financial assets and hedge accounting. HKFRS 9 also significantly amends other standards dealing with financial instruments such as HKFRS 7 Financial Instruments – Disclosures.

The total impact on the Group's retained earnings and reserves due to classification and measurement of financial instruments as at 1 January 2018 is as follows:

	Notes	Retained earnings RMB'000	AFS Reserve RMB'000
Reclassify investments from AFS to FVPL	*(a)(ii)*	5,519	(5,519)
Increase in impairment provision for trade receivables and contract assets	*(b)*	(9,687)	–
Increase in impairment provision for loans to joint ventures and associates	*(b)*	(8,604)	–
Increase in impairment provision for other receivables	*(b)*	(6,890)	–
Increase in deferred tax assets relating to impairment provisions		6,295	–
Total adjustments from adoption		(13,367)	(5,519)

(a) Classification and measurement

The Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

Financial assets – 1 January 2018	*Notes*	AFS RMB'000	FVOCI RMB'000	FVPL RMB'000
Reclassify bank financial products from AFS to FVPL	*(i)*	(249,250)	–	249,250
Reclassify listed equity securities from AFS to FVPL	*(ii)*	(9,360)	–	9,360
Reclassify unlisted equity securities from AFS to FVOCI	*(iii)*	(232,268)	232,268	–
Total adjustments from adoption		(490,878)	232,268	258,610

Notes to the Interim Financial Information (continued)

4 Change in Accounting Policies (continued)

4.2 HKFRS 9 Financial Instruments – Impact of adoption (continued)

(a) Classification and measurement (continued)

(i) Reclassification from AFS to FVPL for bank financial products

Certain investments in bank financial products were reclassified from AFS to FVPL. They do not meet the HKFRS 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest. There was no material fair value change since 1 January 2018.

(ii) Reclassification from AFS to FVPL for listed equity securities

Certain investments in listed equity securities were reclassified from AFS to FVPL. They do not meet the HKFRS 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest.

Related accumulated fair value gains of RMB5,519,000 were transferred from the AFS reserve to retained earnings on 1 January 2018. During the six months ended 30 June 2018, net fair value losses of RMB1,115,000 relating to these investments were recognised in profit or loss, along with deferred tax expense of RMB279,000.

(iii) Reclassification from AFS to FVOCI for unlisted equity securities

The Group elected to present in other comprehensive income changes in the fair value of all its equity investments in unlisted securities previously classified as AFS, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, equity interest in an unlisted company with a fair value of RMB232,268,000 was reclassified from AFS to FVOCI on 1 January 2018. There was no material fair value change since 1 January 2018.

(iv) Financial liabilities

There is no impact on the Group’s accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

4 Change in Accounting Policies (continued)

4.2 HKFRS 9 Financial Instruments – Impact of adoption (continued)

(b) Impairment of financial assets

The Group has three types of financial assets at amortised cost subject to HKFRS 9's new expected credit loss model:

- trade receivables and contract assets
- loans to joint ventures and associates
- other receivables

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets.

(i) Trade receivables and contract assets

For trade receivables and contract assets, the Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables and contract assets. RMB9,687,000 was recognised in retained earnings as at 1 January 2018 for those trade receivables and contract assets whose credit risk has been assessed as other than low and for which the impairment methodology described in note 6.3 has been applied. Note 6.3 reconciles the loss allowance as at 1 January 2018 to that at the end of the reporting period.

(ii) Loans to joint ventures and associates and other receivables

For loans to joint ventures and associates and other receivables already in place at 1 January 2018, the Group has determined that reliably assessing the probability of default at the initial recognition of each financial asset would result in undue cost and effort. As permitted by HKFRS 9, the credit provision will be determined based on whether credit risk is low only at each reporting date, until the loans or the receivables are derecognised. RMB15,494,000 was recognised in retained earnings as at 1 January 2018 for those loans and receivables whose credit risk has been assessed as other than low and for which the impairment methodology described in note 6.3 has been applied. Note 6.3 reconciles the loss allowance as at 1 January 2018 to that at the end of the reporting period.

Impairment losses of financial assets are presented separately in the income statement. As a result, the Group reclassified impairment losses amounting to RMB12,842,000 recognised under HKAS 39, from "Administrative expenses" to "Net impairment losses on financial assets" in the income statement for the six months ended 30 June 2017.

Notes to the Interim Financial Information (continued)

4 Change in Accounting Policies (continued)

4.3 HKFRS 15 Revenue from Contracts with Customers – Impact of adoption

HKFRS 15 replaces the provisions of HKAS 18 Revenue ("HKAS 18") and HKAS 11 Construction contracts ("HKAS 11") that relate to the recognition, classification and measurement of revenue and costs.

The effects of the adoption of HKFRS 15 are as follows:

Presentation of contract assets and liabilities

Reclassifications were made as at 1 January 2018 to be consistent with the terminology used under HKFRS 15:

- Contract liabilities for progress billings previously presented as due to customers on construction contracts and receipts in advances.

- Contract assets recognised were previously presented as due from customers on construction contracts.

Accounting for revenue recognition of construction service and building materials activities

The adoption of HKFRS 15 has no significant impact on the revenue recognition policies of rendering of construction services and sales of building materials.

Accounting for revenue recognition of property development activities

In prior reporting periods, the Group accounted for all revenue from property development activities when significant risk and rewards of ownership has been transferred to the customers on delivery in its entirety at a single time upon vacant possession and not continuously as construction progresses.

Under HKFRS 15, when the property that has no alternative use to the Group due to contractual reasons and when the Group has an enforceable right to payment from the customer for performance completed to date, the Group recognises revenue as the performance obligation is satisfied over time in accordance with the input method for measuring progress.

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

4 Change in Accounting Policies (continued)

4.3 HKFRS 15 Revenue from Contracts with Customers – Impact of adoption (continued)

Accounting for costs incurred to obtain a contract

Following the adoption of HKFRS 15, stamp duty, sales commissions and other costs directly attributable to obtaining a contract, if recoverable, are capitalised as contract assets.

Accounting for significant financing component

For contracts where the period between the payment by the customer and the transfer of the promised property or service exceeds one year, the transaction price is adjusted for the effects of a financing component, if significant.

The total impact on the Group's retained earnings due to classification and measurement of HKFRS 15 as at 1 January 2018 is as follows:

	RMB'000
Accounting for property development activities	461,894
Increase in deferred tax liabilities	(139,223)
Decrease in deferred tax assets	(48,884)
Adjustment to retained earnings from adoption	273,787

Notes to the Interim Financial Information (continued)

4 Change in Accounting Policies (continued)

4.3 HKFRS 15 Revenue from Contracts with Customers – Impact of adoption (continued)

Details of contract assets are as follows:

	30 June 2018 RMB'000	1 January 2018 RMB'000
Contract assets related to construction contracts *(i)*	**3,215,479**	3,253,884
Contract assets related to sales of building materials *(i)*	**413,933**	512,943
Contract assets related to sales of properties *(i)*	**3,068**	25,001
	3,632,480	3,791,828
Less: provision for loss allowance *(note 6.3)*	**(3,632)**	(3,792)
Total contract assets	**3,628,848**	3,788,036

(i) Contract assets consist of unbilled amounts resulting from sale of properties, rendering of construction service, and sales of building materials when the cost-to-cost method of revenue recognised exceeds the amount billed to the customer.

Details of contract liabilities are as follows:

	30 June 2018 RMB'000	1 January 2018 RMB'000
Contract liabilities related to construction contracts	**3,059,747**	3,064,906
Contract liabilities related to sales of properties	**3,319,244**	3,829,986
Contract liabilities related to sales of building materials	**452,353**	501,862
Total contract liabilities	**6,831,344**	7,396,754

5 Estimates

The preparation of Interim Financial Information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this Interim Financial Information, except for the estimates below, the other significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the 2017 Financial Statements.

Impairment of financial assets

The Group made allowances on financial assets (including loans to joint ventures, loans to associates, trade receivables and other receivables) based on assumptions about risk of default and expected credit loss rates. The Group used judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

Where the expectation is different from the original estimate, such difference will impact the carrying amount of these financial assets and impairment charge in the periods in which such estimate has been changed. For details of the key assumptions and inputs used in the impairment assessment, see Note 6.3 below.

6 Financial risk management

6.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk.

The Interim Financial Information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the 2017 Financial Statements.

There have been no changes in the risk management policies since last year end.

6.2 Foreign exchange risk, interest rate risk and liquidity risk

Compared to 31 December 2017, there was no material change in the balance of monetary assets and liabilities denominated in foreign currencies such as US dollar and Djibouti Franc as at 30 June 2018. With respect to the interest rate of the bank borrowings as at 30 June 2018, there was no material change compared to that at the end of 2017.

In addition, compared to 31 December 2017, there was no material change in the contractual undiscounted cash out flows for financial liabilities as at 30 June 2018.

Notes to the Interim Financial Information (continued)

6 Financial risk management (continued)

6.3 Credit risk

The Group is exposed to credit risk if counterparties fail to make payments as they fall due in respect of:

- loans provided to joint ventures and associates fall due under loan terms.
- payment of trade receivables as invoices fall due under credit terms after being raised.
- payment of other receivables fall due under credit terms.
- recovery of contract assets related to unbilled work in progress.

For financial assets originated from 1 January 2018, the following credit risk modelling applies:

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the borrower
- significant increases in credit risk on other financial instruments of the same borrower
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group and changes in the operating results of the borrower.

6 Financial risk management (continued)

6.3 Credit risk (continued)

(i) Loans to joint ventures and associates

As at 30 June 2018, the Group provides for credit losses against loans to joint ventures and associates as follows:

Expected credit loss rate	Basis for recognition of expected credit loss provision	Basis for calculation of interest revenue
1%-5%	12 month expected losses	Gross carrying amount

No significant change to estimation techniques or assumptions was made during the reporting period.

The loss allowance provision for loans to joint ventures and associates as at 30 June 2018 reconciles to the opening loss allowance for that provision as follows:

	Loans to joint ventures RMB'000	Loans to associates RMB'000	Total RMB'000
At 31 December 2017 (calculated under HKAS 39)	–	–	–
Amounts restated through opening retained earnings	6,295	2,309	8,604
At 1 January 2018 (calculated under HKFRS 9)	**6,295**	**2,309**	**8,604**
Additional loss allowance	**190**	**3,171**	**3,361**
At 30 June 2018 (calculated under HKFRS 9)	**6,485**	**5,480**	**11,965**

As at 30 June 2018, the gross carrying amount of loans to joint ventures and loans to associates were RMB389,065,000 and RMB547,978,000 respectively, and thus the maximum exposure to loss of loans to joint ventures and loans to associates were RMB382,580,000 and RMB542,498,000 respectively.

Notes to the Interim Financial Information (continued)

6 Financial risk management (continued)

6.3 Credit risk (continued)

(ii) Trade receivables and contract assets

The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables and contract assets.

Expected loss rate of contract assets is assessed to be 0.1%.

To measure the expected credit losses of trade receivables, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The loss allowance provision as at 1 January 2018 and 30 June 2018 is determined as follows, the expected credit losses below also incorporate forward looking information.

1 January 2018 Trade receivables due	Within 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Effective expected loss rate	0.5%	1.9%	9.6%	20.0%	31.8%	
Gross carrying amount (RMB'000)	1,802,276	1,197,142	596,405	59,017	160,449	3,815,289
Loss allowance provision (RMB'000)	9,568	23,219	56,980	11,803	50,963	152,533

30 June 2018 Trade receivables due	Within 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Effective expected loss rate	**0.5%**	**2.0%**	**10.5%**	**18.0%**	**31.4%**	
Gross carrying amount (RMB'000)	**1,677,947**	**1,340,383**	**389,317**	**192,489**	**169,846**	**3,769,982**
Loss allowance provision (RMB'000)	**8,030**	**26,425**	**41,041**	**34,672**	**53,414**	**163,582**

6 Financial risk management (continued)

6.3 Credit risk (continued)

(ii) Trade receivables and contract assets (continued)

The loss allowance provision for trade receivables and contract assets reconciles to the opening loss allowance for that provision as follows:

	Trade receivables RMB'000	Contract assets RMB'000	Total RMB'000
At 31 December 2017 (calculated under HKAS 39)	146,638	–	146,638
Amounts restated through opening retained earnings	5,895	3,792	9,687
At 1 January 2018 (calculated under HKFRS 9)	**152,533**	**3,792**	**156,325**
Additional loss allowance	**11,049**	**(160)**	**10,889**
At 30 June 2018 (calculated under HKFRS 9)	**163,582**	**3,632**	**167,214**

As at 30 June 2018, the gross carrying amount of trade receivables and contract assets were RMB3,769,982,000 and RMB3,632,480,000 respectively, and thus the maximum exposure to loss of trade receivables and contract assets were RMB3,606,400,000 and RMB3,628,848,000 respectively.

(iii) Other receivables

Other financial assets at amortized cost include other receivables. Other receivables mainly includes deposits of biddings for land use rights for property development, retention money and others.

The loss allowance provision for other receivables reconciles to the opening loss allowance for that provision as follows:

	Other receivables RMB'000
At 31 December 2017 (calculated under HKAS 39)	–
Amounts restated through opening retained earnings	6,890
At 1 January 2018 (calculated under HKFRS 9)	**6,890**
Additional loss allowance	**496**
At 30 June 2018 (calculated under HKFRS 9)	**7,386**

As at 30 June 2018, the gross carrying amount of other receivables was RMB1,504,527,000, and thus the maximum exposure to loss of other receivables was RMB1,497,141,000.

Notes to the Interim Financial Information (continued)

6 Financial risk management (continued)

6.4 Fair value estimation

The following tables present the Group's financial assets that are measured at fair value at 30 June 2018 and 31 December 2017. See Note 9 for disclosures of the investment properties that are measured at fair value.

	As at 30 June 2018			
	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
FVPL				
– Bank financial products	**–**	**–**	**384,050**	**384,050**
– Listed equity securities	**8,245**	**–**	**–**	**8,245**
FVOCI				
– Unlisted equity securities	**–**	**–**	**232,268**	**232,268**
	8,245	**–**	**616,318**	**624,563**

	As at 31 December 2017			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
AFS				
– Equity securities	9,360	–	232,268	241,628
– Bank financial products	–	–	249,250	249,250
	9,360	–	481,518	490,878

During the period, there were no reclassifications of financial assets, as well as no transfer among Levels 1, 2 and 3.

There were no changes in valuation techniques during the period.

6 Financial risk management (continued)

6.4 Fair value estimation (continued)

The following table presents the changes in level 3 instruments for the period.

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
At 1 January	**481,518**	678,590
Additions	**384,050**	463,000
Disposals	**(256,034)**	(688,047)
Fair value gains recognised in profit or loss	**6,784**	–
Fair value gains recognised in other comprehensive income	**–**	9,457
At 30 June	**616,318**	463,000

6.5 Group's valuation processes

The Group's finance department performs the valuations of financial assets required for financial reporting purpose, including Level 3 fair values. The financial department reports directly to the executive directors. Discussions of valuation results are held between the executive directors and the financial department at least once every six months, in line with the Group's interim and annual reporting dates.

6.6 Fair value of financial assets and liabilities measured at amortised cost

The fair value of financial assets and liabilities measured at amortised cost approximates their carrying amounts.

Notes to the Interim Financial Information (continued)

7 Segment information

The executive directors (chief operating decision-maker) assess the performance of the operating segments based on a measurement of operating profit. This measurement basis excludes financial costs and share of results of joint ventures and associates from the operating segments. Other information provided to the executive directors is measured in a manner consistent with that in the consolidated financial statements. There has been no change in the basis of the segmentation or in the basis of the measurement of the segment profit or loss for the six months ended 30 June 2018 compared to 2017.

Sales between segments are carried out on terms agreed upon by the respective parties. The revenue from external parties reported to the executive directors is measured in a manner consistent with that in the consolidated income statement.

Capital expenditure comprises additions to land use rights, property, plant and equipment and investment properties (note 9).

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

	Six months ended 30 June 2018				
	Construction RMB'000	Property development RMB'000	Building materials RMB'000	Others RMB'000	Group 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	2,183,729
Recognised over time	8,907,232	353,534	701,558	11,252	9,992,556
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	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
Impairment of financial assets	10,069	3,191	1,371	115	14,746
Share of results of joint ventures	1,190	1,414	(77)	–	2,527
Share of results of associates	121	3,769	(361)	–	3,529
Income tax expense	63,645	131,895	6,265	5,565	207,370

7 Segment information (continued)

The segment information provided to executive directors for the reportable segments for the six months ended 30 June 2017 is as follows:

	Six months ended 30 June 2017				
	Construction RMB'000	Property development RMB'000	Building materials RMB'000	Others RMB'000	Group RMB'000
Total segment revenue	7,153,521	1,611,049	997,401	75,323	9,837,294
Less: inter-segment revenue	(328,720)	–	(118,123)	(6,510)	(453,353)
Revenue (from external customers)	6,824,801	1,611,049	879,278	68,813	9,383,941
Operating profit	185,004	302,375	18,714	16,264	522,357
Depreciation	16,039	4,042	23,185	13,621	56,887
Amortisation	3,110	–	2,042	1,204	6,356
Impairment of receivables	11,043	–	1,799	–	12,842
Share of results of joint ventures	769	(3,326)	3,466	–	909
Share of results of associates	–	–	605	–	605
Income tax expense	52,111	128,838	4,889	3,705	189,543

The reconciliation of the operating profit to profit before income tax is shown in the consolidated income statement.

There has been no material change in total assets and total liabilities from the amount disclosed in the 2017 Financial Statements.

Analysis of revenue by category

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Rendering of construction services	**8,333,158**	6,824,801
Sales of properties	**1,929,594**	1,583,088
Sales of building materials	**1,103,334**	879,278
Rental income	**53,266**	37,592
Others	**63,711**	59,182
	11,483,063	9,383,941

Notes to the Interim Financial Information (continued)

8 Investment in associates and loans to associates

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
At 1 January	**15,547**	13,741
Additions *(i)*	**313,090**	–
Share of losses	**(3,529)**	(605)
Dividends received	**–**	(400)
At 30 June	**325,108**	12,736

(i) During the period, the Group entered into an agreement with Daiwa House Industry Co., Ltd in relation to the incorporation of Hebao (Nantong) Real Estate Development Co., Ltd ("Hebao") in the PRC. The Group invested RMB286,830,000 for a 33% equity interest in Hebao which is mainly engaged in property development and agency.

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
At 1 January	**230,939**	–
Additions *(ii)*	**310,991**	–
Interest accrued	**6,048**	–
	547,978	–
Less: provision for loss allowance *(note 6.3)*	**(5,480)**	–
At 30 June	**542,498**	–

(ii) During the period, shareholders of an associate made advances to the associate in proportion to their respective shareholding. These advances were unsecured and the Group does not intend to withdraw the advances in the near future. According to the agreement signed between the Group and the associate, RMB305,574,000 (31 December 2017: Nil) of the loans are with interest bearing at market lending rate, and the remaining amounts of the loans are interest free.

9 Land use rights, property, plant and equipment and investment properties

	Land use rights RMB'000	Property, plant and equipment RMB'000	Investment properties RMB'000
Six months ended 30 June 2018			
At 1 January 2018	**491,382**	**1,473,768**	**617,169**
Additions	**43,030**	**240,890**	**–**
Disposals	**–**	**(1,196)**	**–**
Amortisation/depreciation	**(6,978)**	**(64,755)**	**–**
At 30 June 2018	**527,434**	**1,648,707**	**617,169**
Six months ended 30 June 2017			
At 1 January 2017	498,057	1,304,910	597,079
Additions	–	158,798	–
Disposals	(11,067)	(2,047)	–
Disposal of subsidiaries	–	(3,744)	–
Amortisation/depreciation	(6,356)	(56,887)	–
At 30 June 2017	480,634	1,401,030	597,079

The valuations of investment properties at 30 June 2018 and 30 June 2017 were carried out by the management, using discounted cash flow projections based on significant unobservable inputs. The fair value measurement of the investment properties is categorised within level 3 of the fair value hierarchy. The key assumptions used in the valuation are rental cash inflows, capitalisation rates and discount rates.

There was no significant indication of impairment for non-financial assets during the period.

10 Trade receivables

	30 June 2018 RMB'000	31 December 2017 RMB'000
Trade receivables	**3,769,982**	3,815,289
Less: provision for loss allowance *(note 6.3)*	**(163,582)**	(146,638)
	3,606,400	3,668,651

Notes to the Interim Financial Information (continued)

10 Trade receivables (continued)

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 for property development business (except for installment arrangements).

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

	30 June 2018 RMB'000	31 December 2017 RMB'000
Within 3 months	**1,677,947**	1,802,276
3 months to 1 year	**1,340,383**	1,197,142
1 to 2 years	**389,317**	596,405
2 to 3 years	**192,489**	59,017
Over 3 years	**169,846**	160,449
	3,769,982	3,815,289

11 Other receivables and prepayments

	30 June 2018 RMB'000	31 December 2017 RMB'000
Prepayments for land use rights for properties development	**1,379,394**	1,947,794
Deposits of biddings for land use rights for properties development	**20,000**	1,081,000
Retention money and project deposits	**1,067,796**	1,027,172
Prepaid taxes	**114,973**	121,333
Prepayments for buy-back of shares	**2,266**	4,882
Other prepayments	**81,681**	65,375
Others receivables	**409,345**	350,738
	3,075,455	4,598,294
Less: provision for loss allowance *(note 6.3)*	**(7,386)**	–
	3,068,069	4,598,294

12 Share capital and premium

	Number of shares (thousands)	Ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
At 1 January 2018				
– Domestic shares	350,742	350,742	–	350,742
– H shares	235,468	235,468	565,872	801,340
	586,210	586,210	565,872	1,152,082
Buy-back and cancellation of shares				
– H shares	(23,546)	(23,546)	(84,439)	(107,985)
At 30 June 2018				
– Domestic shares	350,742	350,742	–	350,742
– H shares	211,922	211,922	481,433	693,355
	562,664	562,664	481,433	1,044,097

	Number of shares (thousands)	Ordinary shares RMB'000	Share premium RMB'000	Treasury shares RMB'000	Total RMB'000
At 1 January 2017					
– Domestic shares	350,742	350,742	–	–	350,742
– H shares	261,630	261,630	671,665	(13,535)	919,760
	612,372	612,372	671,665	(13,535)	1,270,502
Buy-back and cancellation of shares					
– H shares	(26,162)	(26,162)	(105,793)	13,535	(118,420)
At 30 June 2017					
– Domestic shares	350,742	350,742	–	–	350,742
– H shares	235,468	235,468	565,872	–	801,340
	586,210	586,210	565,872	–	1,152,082

All shares are of RMB1 each.

Notes to the Interim Financial Information (continued)

13 Reserves

	AFS reserve RMB'000	Statutory surplus reserve RMB'000	Others RMB'000	Total RMB'000
Six months ended 30 June 2018				
At 1 January 2018	5,519	206,720	(6,606)	205,633
Adjustment on adoption of HKFRS 9 *(note 4)*	(5,519)	–	–	(5,519)
Restated balance at 1 January 2018 and at 30 June 2018	–	206,720	(6,606)	200,114

	AFS reserve RMB'000	Statutory surplus reserve RMB'000	Others RMB'000	Total RMB'000
Six months ended 30 June 2017				
At 1 January 2017	5,022	185,925	(6,606)	184,341
Transfer of reserves to income statement upon sale of available-for-sale financial assets	(9,457)	–	–	(9,457)
Transfer of reserves to income statement upon sale of available-for-sale financial assets – tax	2,364	–	–	2,364
Revaluation of available-for-sale financial assets	10,045	–	–	10,045
Revaluation – tax	(2,511)	–	–	(2,511)
At 30 June 2017	5,463	185,925	(6,606)	184,782

14 Trade payables

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

	30 June 2018 RMB'000	31 December 2017 RMB'000
Within 3 months	**2,188,196**	2,742,953
3 months to 1 year	**2,766,293**	2,305,769
1 to 2 years	**585,539**	616,744
2 to 3 years	**219,197**	285,813
Over 3 years	**202,938**	132,468
	5,962,163	6,083,747

15 Borrowings

	30 June 2018 RMB'000	31 December 2017 RMB'000
Non-current liabilities		
Long-term bank borrowings		
– Secured *(a)*	**580,800**	334,000
– Unsecured with guarantee *(b)*	**87,067**	71,862
Less: current portion	**(291,800)**	(335,000)
	376,067	70,862
Current liabilities		
Short-term bank borrowings		
– Secured *(a)*	**50,000**	50,000
– Unsecured with guarantee *(b)*	**1,346,100**	1,198,000
– Guarantee by the companies within the Group	**101,685**	101,165
Current portion of non-current liabilities	**291,800**	335,000
	1,789,585	1,684,165
	2,165,652	1,755,027

Notes to the Interim Financial Information (continued)

15 Borrowings (continued)

Movements in borrowings are analysed as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
At 1 January	**1,755,027**	282,560
Additions	**1,200,725**	937,000
Repayments	**(790,100)**	(232,000)
At 30 June	**2,165,652**	987,560

(a) As at 30 June 2018, secured bank borrowings of the Group were secured by properties under development of RMB1,340,868,000 (31 December 2017: RMB825,188,000), land use rights of RMB30,327,000 (31 December 2017: RMB30,733,000), and property, plant and equipment of RMB17,686,000 (31 December 2017: RMB18,720,000).

(b) These loans were guaranteed by:

	30 June 2018 RMB'000	31 December 2017 RMB'000
The Company	**1,346,100**	1,198,000
The Company and non-controlling interests (jointly)	**87,067**	71,862
	1,433,167	1,269,862

(c) All the carrying amounts of bank borrowings are mainly denominated in RMB. The weighted average effective interest rate of borrowings at 30 June 2018 was 4.64% per annum (31 December 2017: 4.62% per annum).

16 Other income

Other income represents interest income from bank deposits, loans to joint ventures and associates and loans to project managers.

17 Other gains – net

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Fair value (losses)/gains from financial assets at fair value through profit or loss	**(1,115)**	11,845
Gains on disposals of available-for-sale financial assets	**–**	9,457
Gains on disposals of financial assets at fair value through profit or loss	**6,784**	–
Government grants and compensation	**7,338**	7,112
Gains on disposals of property, plant and equipment	**139**	2,827
Losses on disposals of subsidiaries	**–**	(3,335)
Net foreign exchange gains	**1,275**	–
Others	**(2,085)**	4,218
	12,336	32,124

18 Operating profit

The following items have been charged to operating profit during the period.

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Depreciation of property, plant and equipment	**64,755**	56,887
Amortisation of land use rights	**6,978**	6,356
Employee benefit expenses	**2,407,140**	1,941,347
Cost of construction contracts	**5,965,548**	4,870,703
Cost of properties sold	**1,467,918**	1,255,112
Changes in inventories of finished goods and work in progress	**19,090**	2,011
Raw materials and consumables used	**793,551**	670,118
Operating leases of buildings	**8,051**	4,337

Notes to the Interim Financial Information (continued)

19 Finance costs

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Interest on borrowings	**49,100**	9,783
Less: interest capitalised in properties under development	**(35,759)**	(9,783)
Less: interest capitalised in constructions in progress	**(2,690)**	–
	10,651	–
Net foreign exchange gains	**(1,212)**	–
	9,439	–

20 Income tax expense

During the period, the Group is subject to the same types of income taxes as those disclosed in 2017 Financial Statements. Income tax expense is recognised 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	
	2018	2017
	RMB'000	RMB'000
Current income tax		
– PRC Corporate Income Tax	**109,471**	107,374
– Land appreciation tax	**31,485**	70,611
Deferred income tax		
– PRC Corporate Income Tax	**49,190**	11,558
– Land appreciation tax	**17,224**	–
	207,370	189,543

21 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	
	2018	2017
Profit attributable to the owners of the Company (RMB'000)	**439,202**	323,716
Weighted average number of ordinary shares in issue during the period (thousands shares)	**581,370**	593,802
Basic earnings per share (RMB)	**0.76**	0.55

The Company had no dilutive potential shares in issue, thus the diluted earnings per share is the same as the basic earnings per share.

22 Dividends

The Board did not recommend any payment of interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

23 Financial guarantees

	30 June 2018 RMB'000	31 December 2017 RMB'000
Guarantees given to banks in respect of mortgage facilities granted for certain purchasers	**666,439**	448,636

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

Notes to the Interim Financial Information (continued)

24 Related-party transactions

Apart from those related party transactions disclosed above in Note 8 and Note 15(b), the Group have the following transactions and balances with related parties:

(a) Purchase of goods and services

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Purchase of goods		
– A joint venture	**9,556**	1,683
Purchase of services		
– A joint venture	**709**	253
	10,265	1,936

(b) Period-end balances arising from purchase of goods and services

	30 June 2018	31 December 2017
	RMB'000	RMB'000
Trade payables		
– A joint venture	**11,796**	24,690

DEFINITIONS

In this interim report, unless the context otherwise requires, the following expressions have the following meanings:

Anhui Baoye	Baoye Anhui Company Limited, a subsidiary of the Company
Baoye Construction	Zhejiang Baoye Construction Group Company Limited, a subsidiary of the Company
Baoye Industrialisation	Zhejiang Baoye Building Materials Industrialisation Company Limited, a subsidiary of the Company
Baoye Real Estate	Zhejiang Baoye Real Estate Group Company Limited, a subsidiary of the Company
Board	the board of Directors
Building materials business	the activities of research and development, production and sale of building materials conducted by the Group
Company Law	the Company Law of the People's Republic of China
Construction business	the activities of undertaking and implementation of construction projects conducted by the Group
Director(s)	the director(s) of the Company
H share	Overseas listed foreign share of nominal value RMB1.00 each in the registered capital of the Company, which are listed on the Stock Exchange and subscribed for in Hong Kong dollars
HKEx	Hong Kong Exchanges and Clearing Limited
HKFRS	Hong Kong Financial Reporting Standards
Hubei Baoye	Baoye Hubei Construction Group Company Limited, a subsidiary of the Company
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
Property development business	the activities of development of real estate conducted by the Group
SFO	Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong

Definitions

Stock Exchange	The Stock Exchange of Hong Kong Limited
Supervisor(s)	the supervisor(s) of the Company
Supervisory Committee	the Supervisory Committee of the Company
The Company/Baoye	Baoye Group Company Limited, a joint stock limited company incorporated in the PRC and listed on the main board of the Stock Exchange
The Group/Baoye Group	the Company and its subsidiaries
The Period	the six months ended 30 June 2018