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寶業集團股份有限公司

BAOYE GROUP COMPANY LIMITED*

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

(Stock Code: 2355)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

The board of directors (the "Board") of Baoye Group Company Limited* (the "Company") is pleased to announce the audited annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2017 prepared in accordance with Hong Kong Financial Reporting Standards, together with comparative figures for the year ended 31 December 2016. The following financial information is extracted from the audited consolidated financial statements as set out in the Group's 2017 Annual Report.

* *For identification purposes only*

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Revenue	*2*	**18,978,200**	18,196,134
Cost of sales		**(17,697,062)**	(17,031,690)
Gross profit		**1,281,138**	1,164,444
Other income	*3*	**107,936**	118,799
Other gains – net	*4*	**51,105**	39,370
Selling and marketing costs		**(84,457)**	(85,166)
Administrative expenses		**(483,446)**	(471,356)
Operating profit		**872,276**	766,091
Finance costs		**(4,891)**	–
Share of results of joint ventures		**3,256**	(1,070)
Share of results of associates		**(1,094)**	(478)
Profit before income tax		**869,547**	764,543
Income tax expense	*5*	**(262,812)**	(230,133)
Profit for the year		**606,735**	534,410
Profit attributable to:			
– Owners of the Company		**608,895**	526,933
– Non-controlling interests		**(2,160)**	7,477
		606,735	534,410
Earnings per share for profit attributable to the owners of the Company	*6*		
– Basic and diluted (expressed in RMB per share)		**1.03**	0.86

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Profit for the year	**606,735**	534,410
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	**(11,655)**	(14,992)
Change in fair value of available-for-sale financial assets, net of tax	**12,152**	14,235
Other comprehensive income for the year, net of tax	**497**	(757)
Total comprehensive income for the year	**607,232**	533,653
Total comprehensive income attributable to:		
– Owners of the Company	**609,392**	526,176
– Non-controlling interests	**(2,160)**	7,477
Total comprehensive income for the year	**607,232**	533,653

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2017	2016
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Land use rights		**491,382**	498,057
Property, plant and equipment		**1,473,768**	1,304,910
Investment properties	*8*	**617,169**	597,079
Goodwill		**16,534**	16,534
Investments in joint ventures		**126,783**	86,430
Loans to joint ventures		**374,453**	–
Investments in associates		**15,547**	13,741
Loan to an associate		**230,939**	–
Available-for-sale financial assets		**241,628**	8,697
Deferred income tax assets		**343,350**	289,924
Prepayments for investments in associates		**158,865**	–
		4,090,418	2,815,372
Current assets			
Inventories		**179,165**	146,199
Properties under development	*9*	**4,527,638**	4,873,996
Completed properties held for sale	*10*	**3,559,157**	2,160,415
Due from customers on construction contracts	*11*	**3,766,827**	2,965,894
Trade receivables	*12*	**3,668,651**	2,840,194
Other receivables and prepayments		**4,598,294**	1,838,620
Loans to joint ventures		**–**	61,528
Available-for-sale financial assets		**249,250**	678,590
Financial assets at fair value through profit or loss		**–**	796,269
Restricted bank deposits		**658,125**	633,571
Term deposits with initial term of over three months		**90,199**	11,925
Cash and cash equivalents		**2,575,717**	2,885,736
		23,873,023	19,892,937
Total assets		**27,963,441**	22,708,309

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital		**586,210**	612,372
Share premium		**565,872**	671,665
Treasury shares		**–**	(13,535)
Reserves		**205,663**	184,341
Retained earnings		**5,960,204**	5,372,104
		7,317,919	6,826,947
Non-controlling interests		**178,445**	170,753
Total equity		**7,496,364**	6,997,700
LIABILITIES			
Non-current liabilities			
Borrowings		**70,862**	–
Deferred income tax liabilities		**83,834**	72,453
		154,696	72,453
Current liabilities			
Trade payables	*13*	**6,083,747**	4,657,721
Other payables		**3,395,107**	2,769,174
Receipts in advance		**5,246,117**	4,635,735
Current income tax liabilities		**514,540**	575,032
Due to customers on construction contracts	*11*	**3,388,705**	2,717,934
Borrowings		**1,684,165**	282,560
		20,312,381	15,638,156
Total liabilities		**20,467,077**	15,710,609
Total equity and liabilities		**27,963,441**	22,708,309

Notes:

1. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets at fair value through profit or loss and investment properties, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

2. SEGMENT OF INFORMATION

The segment information is as follows:

	Year ended 31 December 2017				
	Construction	**Property development**	**Building materials**	**Others**	**Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total revenue	**14,987,098**	**2,658,576**	**2,139,681**	**232,846**	**20,018,201**
Inter-segment revenue	**(708,372)**	**–**	**(279,817)**	**(51,812)**	**(1,040,001)**
Revenue (from external customers)	**14,278,726**	**2,658,576**	**1,859,864**	**181,034**	**18,978,200**
Operating profit	**424,881**	**382,900**	**31,398**	**33,097**	**872,276**
Depreciation	**32,174**	**3,168**	**55,143**	**27,349**	**117,834**
Amortisation	**6,151**	**–**	**4,176**	**2,574**	**12,901**
Impairment of receivables	**20,298**	**–**	**1,306**	**–**	**21,604**
Share of results of joint ventures	**547**	**(11,068)**	**7,265**	**–**	**(3,256)**
Share of results of associates	**3**	**–**	**1,091**	**–**	**1,094**
Income tax expense	**100,450**	**143,886**	**10,400**	**8,076**	**262,812**

	Year ended 31 December 2016				
	Construction	Property development	Building materials	Others	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total revenue	14,155,810	3,153,253	2,328,825	177,581	19,815,469
Inter-segment revenue	(1,355,897)	–	(239,664)	(23,774)	(1,619,335)
Revenue (from external customers)	12,799,913	3,153,253	2,089,161	153,807	18,196,134
Operating profit	411,099	286,166	43,762	25,064	766,091
Depreciation	26,556	7,750	50,978	25,650	110,934
Amortisation	6,361	–	3,681	2,580	12,622
Impairment of receivables	29,831	–	19,951	–	49,782
Share of results of joint ventures	336	82	652	–	1,070
Share of results of associates	–	–	478	–	478
Income tax expense	100,274	108,099	14,707	7,053	230,133

3. OTHER INCOME

Other income represents interest income from bank deposits and loans to project managers.

4. OTHER GAINS – NET

	2017	2016
	RMB'000	*RMB'000*
Gains on disposals of land use rights	**20,402**	35,444
Fair value gains of financial assets at fair value through profit or loss	**18,866**	–
Gains on disposals of available-for-sale financial assets	**15,540**	19,990
Government grants and compensation	**10,051**	6,115
Fair value gains of investment properties	**381**	–
Losses on disposals of property, plant and equipment	**(609)**	(21,439)
Losses on disposals of subsidiaries	**(3,335)**	–
Donations	**(4,267)**	(96)
Net foreign exchange losses	**(5,042)**	–
Others	**(882)**	(644)
	51,105	39,370

5. INCOME TAX EXPENSE

(a) Hong Kong Profits Tax

No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the year (2016: Nil).

(b) PRC Corporate Income Tax

PRC Corporate Income Tax ("CIT") is provided on the assessable income of the Group's entities incorporated in the PRC, calculated in accordance with the relevant regulations of the PRC.

Certain subsidiaries of the Group in the PRC have been approved as High and New Technology Enterprise and were entitled to a reduced preferential CIT rate of 15% during their respective approved periods according to the applicable CIT law.

Certain subsidiaries of the Group in the PRC are subject to CIT at a rate of 2.5% based on deemed taxable revenue.

Save as aforesaid, the Company and other subsidiaries are subject to CIT at a rate of 25% (2016: 25%).

(c) PRC land appreciation tax

PRC land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of the land value, being the proceeds of sales of properties less deductible expenditures including cost of land use rights and all property development expenditures.

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

	2017	2016
	RMB'000	*RMB'000*
Current income tax		
– PRC CIT	**252,120**	404,324
– Land appreciation tax:	**52,903**	33,310
– Provision for the year	**52,903**	50,385
– Over provision in previous years	**–**	(17,075)
Deferred income tax, net	**(42,211)**	(207,501)
	262,812	230,133

6. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the year excluding treasury shares.

	2017	2016
Profit attributable to the owners of the Company (RMB'000)	**608,895**	526,933
Weighted average number of ordinary shares in issue during the year (thousands shares)	**589,975**	612,273
Basic earnings per share (RMB)	**1.03**	0.86

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

7. DIVIDENDS

The board of directors did not recommend any payment of final dividend for the year ended 31 December 2017 (2016: Nil).

8. INVESTMENT PROPERTIES

	2017	2016
	RMB'000	*RMB'000*
At 1 January	**597,079**	597,079
Transfer from completed properties held for sale	**19,709**	–
Fair value change	**381**	–
At 31 December, at fair value	**617,169**	597,079

9. PROPERTIES UNDER DEVELOPMENT

	2017	2016
	RMB'000	*RMB'000*
Land use rights	**2,858,919**	2,370,391
Development costs	**1,621,967**	2,359,380
Finance costs capitalised	**46,752**	144,225
	4,527,638	4,873,996

10. COMPLETED PROPERTIES HELD FOR SALE

	2017	2016
	RMB'000	*RMB'000*
Land use rights	**705,637**	672,857
Development costs	**2,788,554**	1,481,804
Finance costs capitalised	**78,801**	26,099
	3,572,992	2,180,760
Less: provision of impairment	**(13,835)**	(20,345)
	3,559,157	2,160,415

11. DUE FROM/(TO) CUSTOMERS ON CONSTRUCTION CONTRACTS

The aggregate amount of costs incurred plus recognised profits (less recognised losses) and progress billings for all contracts in progress at the balance sheet date were as follows:

	2017	2016
	RMB'000	*RMB'000*
Contract costs incurred plus recognised profits (less recognised losses) to date	**60,711,562**	58,768,914
Less: progress billings to date	**(60,333,440)**	(58,520,954)
	378,122	247,960
Represented by:		
Due from customers on construction contracts	**3,766,827**	2,965,894
Due to customers on construction contracts	**(3,388,705)**	(2,717,934)
	378,122	247,960

12. TRADE RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**3,815,289**	2,965,228
Less: provision for doubtful debts	**(146,638)**	(125,034)
	3,668,651	2,840,194

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 instalment arrangement for certain villas and town houses projects). The net book value of trade receivables approximates their fair value. As at 31 December 2017, the ageing analysis of the trade receivables based on invoice date was as follows:

	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**1,802,276**	1,098,355
3 months to 1 year	**1,197,142**	1,519,276
1 to 2 years	**596,405**	118,605
2 to 3 years	**59,017**	85,150
Over 3 years	**160,449**	143,842
	3,815,289	2,965,228

13. TRADE PAYABLES

As at 31 December 2017, the ageing analysis of the trade payables based on invoice date was as follows:

	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**2,742,953**	1,761,309
3 months to 1 year	**2,305,769**	2,046,283
1 to 2 years	**616,744**	548,414
2 to 3 years	**285,813**	188,843
Over 3 years	**132,468**	112,872
	6,083,747	4,657,721

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 15 June 2018 (the "AGM"). The notice of the AGM will be published and dispatched to the shareholders of the Company in the manner as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 15 May 2018 to 15 June 2018, both dates inclusive, during which period no share transfers will be effected. In order to qualify for attending and voting at the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's H Shares registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre,183 Queen's Road East, Hong Kong (for holders of H Shares), or to the Company's office address at No.501 Shanyin West Road, Keqiao District, Shaoxing City, Zhejiang Province, the PRC (Post Code: 312030) (for holders of Domestic Shares) no later than 4:30 pm on 14 May 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Results Review

For the year ended 31 December 2017, the Group achieved revenue of approximately RMB18,978,200,000 (2016: RMB18,196,134,000), representing an increase of approximately 4.3% compared to the previous year; operating profit reached approximately RMB872,276,000 (2016: RMB766,091,000), representing an increase of approximately 13.9% compared to last year; profit attributable to the owners of the Company amounted to approximately RMB608,895,000 (2016: RMB526,933,000), representing an increase of approximately 15.6% from last year, earnings per share was RMB1.03 (2016: RMB0.86), representing an increase of approximately 19.9% compared to last year. At appropriate timing, the Group will consider to bid for land reserves in Shanghai, Wuhan, and Hefei, to increase the proportion of direct management projects in the construction business, and to expand the housing industrialization production bases in order to seize the market opportunity available for housing industrialization. Under these considerations, the Board proposed no final dividend to be declared and paid for the year of 2017.

Revenue

	For the year ended 31 December				
	2017		2016		**Change**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Construction	**14,278,726**	**75%**	12,799,913	70%	12%
Property Development	**2,658,576**	**14%**	3,153,253	17%	–16%
Building Materials	**1,859,864**	**10%**	2,089,161	12%	–11%
Others	**181,034**	**1%**	153,807	1%	18%
Total	**18,978,200**	**100%**	18,196,134	100%	4%

Operating profit

	For the year ended 31 December				
	2017		2016		**Change**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Construction	**424,881**	**49%**	411,099	54%	3%
Property Development	**382,900**	**44%**	286,166	37%	34%
Building Materials	**31,398**	**4%**	43,762	6%	–28%
Others	**33,097**	**3%**	25,064	3%	32%
Total	**872,276**	**100%**	766,091	100%	14%

Construction Business

For the year ended 31 December 2017, the Group's construction business achieved revenue of approximately RMB14,278,726,000, representing a growth of approximately 12% over last year; operating profit amounted to approximately RMB424,881,000, representing an increase of approximately 3% over last year. The profit ratio of the construction business was remained stable with last year excluding the non-recurring items such as gains from the government for housing demolition and relocation.

For the year ended 31 December 2017, the Group's total contract costs incurred plus recognized profits (less recognized losses) amounted to approximately RMB60,711,562,000, representing an increase of approximately 3% over last year, which is analysed below:

By project nature

	As at 31 December				
	2017		2016		**Change**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Government and Public Buildings	**18,626,307**	**31%**	17,630,674	30%	6%
Urban Infrastructure	**18,092,045**	**30%**	19,083,937	32%	–5%
Residential Projects	**11,644,478**	**19%**	10,578,405	18%	10%
Industrial Projects	**12,348,732**	**20%**	11,475,898	20%	8%
Total	**60,711,562**	**100%**	58,768,914	100%	3%

By region

	As at 31 December				
	2017		2016		**Change**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Zhejiang Province	**19,397,344**	**32%**	18,218,363	31%	6%
Shanghai	**13,052,986**	**22%**	13,516,850	23%	–3%
Other Eastern China Region	**5,706,887**	**9%**	5,876,891	10%	–3%
Central China Region	**13,562,963**	**22%**	12,341,472	21%	10%
Northern China Region	**4,784,071**	**8%**	4,701,513	8%	2%
Other Regions	**2,367,751**	**4%**	2,350,758	4%	1%
Overseas*	**1,839,560**	**3%**	1,763,067	3%	4%
Total	**60,711,562**	**100%**	58,768,914	100%	3%

* Overseas construction business was principally carried out in three African countries, namely Djibouti, Botswana and Seychelles.

The construction industry, especially in the residential housing area which contributed a lot for the Group's construction business, is a fierce competitive industry and has a close connection with the economy growth, especially the fixed asset investment. As the core business, the Group always emphasizes the risk management rigorously. In 2017, Anhui Baoye Construction Group Company Limited and Baoye Hubei Construction Group Limited had been successfully certified as premier class general contractor, following which the Group had a total of three subsidiaries having premier class general contractor certifications. The premier class certifications, high quality project management, and a good reputation in the industry, together with the business model innovation and the positionings and resources that are available in the housing industrialisation sector of the Group have enabled the construction business constituting a large portion of the Group's revenue and profit. In 2017, the Group had secured new construction contracts amounted to approximately RMB20.8 billion (2016: RMB19.2 billion) in value, representing an increase of approximately 8% compared to last year, including a large number of high-end projects, such as Shangyu Stadium, Zhejiang Foreign Languages University Xiaoheshang Campus, China Textile City Times Building, Zhejiang Shuren University Shaoxing Campus Phase II, Shaoxing City Jinghu Fiance Building and Tonglu Women and Children Hospital and etc.

The Group focuses on brand building. It was the leader of all competitions in industry awards during the year in Zhejiang,which helped to enhance the Group's reputation. In 2017, the Group received a total of 59 awards, the key awards are appended as follows:

Projects Name	**Awards**
Wenzhou Guomai Mansion	National Excellent Project Award
Arts and Culture Centre in Zhenhai	Chinese Construction Decoration Project Award
Hospital extension Project in Tonglu County	West Lake Cup
A New Mathematics Center of Fudan university in Shanghai	Baiyulan Cup
Phase I project of Zhejiang Shuren university in Yangxunqiao District	Qianjiang Cup
An Office Building of Dongcheng Shidai Plaza	Huangshan Cup
Flat Display Base 14# in Xinzhan, Anhui Province	Hupo Cup
Phase II of Hayi Handong Zhizhun 10#	Chutian Cup
Zhongtie Longpan Lake Shiji Shanshui 55#	Yilin Cup

Property Development Business

Property Sales

For the year ended 31 December 2017, revenue of the Group's property development business amounted to approximately RMB2,658,576,000, representing a decrease of approximately 16% from last year. Operating profit amounted to approximately RMB382,900,000 representing an increase of approximately 34% compared to last year, which was primarily the results of higher profit margin sales mix registered during the year as compared to last year.

For the year ended 31 December 2017, 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	16,834	49,032	825,391
Baoye Four Seasons Garden	Shaoxing	19,699	33,238	654,744
Baoye Xiaoyao Luyuan	Mengcheng	6,126	27,941	171,168
Baoye City Green Garden	Taihe	4,475	46,842	209,609
Baoye Xuefu Luyuan	Bengbu	4,223	47,307	199,764
Baoye Guanggu Lidu	Wuhan	7,901	23,978	189,450

For the year ended 31 December 2017, the sales contracts of the Group's property development business amounted to approximately RMB3.04 billion (2016: RMB2.72 billion) and a contract sale area of approximately 301,000 square metres, excluding the property sales registered under joint ventures, all such sale units will be progressively completed, delivered and recognised as revenue in the next two years.

Projects under development

As at 31 December 2017, the Group's projects under development are set out below:

Project Name	Location	Total Estimated Gross 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 Ido	Shanghai	88,000	100%
Baoye Xiaoyao Luyuan	Bozhou	122,189	50%
Baoye Xuefu Luyuan	Bengbu	79,000	63%
Baoye Taihe City Green Garden	Taihe County	312,400	55%
Baoye Longhu Yucheng Phase I	Kaifeng	140,000	60%
Baoye Yiheyayuan	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%

Baoye Four Seasons Garden is located in Kuaijishan Tourist Resort Zone, a "province-rank" resort district 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 and town houses. It also consists of a golf club, a five-star resort hotel, two leisure parks, a sport park, a shopping arcade, kindergarten and a central lakeside garden fully equipped with supporting facilities. Some part of Phase I is still under construction. 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 building will be constructed by adoption of PC-manufacture methodology according to plan. Phase I and II has a total saleable area of approximately 64,152 square meters and the presale started in 2017. Currently, 91% of phase I and II has been presold. Phase III, with a total saleable area of approximately 29,785, is positioned for presale in 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 build reasonably scaled residential units with well-developed facilities, convenient transportation with a rich cultural connotation. The project is developed in three phases, of which, phase I and phase II have been almost delivered, phase III is expected to be sold and delivered in 2018 at appropriate times.

Hubei Baoye Centre is located at the junction of Jianshe 1st 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 at underground levels, will be developed as office buildings. The project commenced presale in 2017 and had satisfactory presale results.

Baoye Ido is located in the east end of new Qingpu District, in Shanghai with convenient transportation. It is designed as a prefabricated construction project with a 30% prefabricated rate and 2.0 times plot ratio. It has a total gross floor area of 88,000 square metres, pursuant to which, approximately 56,000 square metres were above-ground level, will be developed as 8 high-rise prefabricated residential buildings. The project commenced presale in 2016 and had satisfactory presale results, and is expected to be delivered to buyers in 2018.

Baoye Xiaoyao Luyuan, located in new district of south of Mengcheng County, Bozhou City, Anhui Province, has a total site area of approximately 131,000 square metres, comprising of semi-detached villas, garden house, high-rise residential and commercial buildings, which will be developed as a new district centre featuring its refined distinctive classy, fashionable and diversified character. Phase I had been delivered to buyers in August 2017 and the remaining parts is expected to be delivered to buyers in the second half year of 2018.

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 affordable 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, elegance shopping arcade, an international bilingual kindergarten and high-end swimming pool facilities. Personalized and scientific design in dividing motor vehicle flow and pedestrian flow enable residents to enjoy quality and comfortable living. The project is closed to an eco-friendly park with rich community facilities, which sets the new generation in the City. 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 and phase IV with 95,770 square meters are expected to be delivered in 2019.

Baoye Longhu Yucheng, is located in a prime 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 certain completed units of phase I, being developed, had been delivered to owners, the remaining units with approximately 80,000 square meters are under development and had commenced the presale in August 2017.

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. The project has adopted PC technology with a 20% prefabricated rate. It has commenced pre-sale in June 2017 and has already been sold out. 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. 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 bided the project through public civil auction in September 2017 with 80% of the construction works was completed in part of the 51,205 square meters when the auction was taken place, the balance site area of 36,196 square meters is a parcel of land under development. The project has been surrounded by well-developed facilities, convenient transportation parks, banks and shopping malls. Currently, phase I is under presale.

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

New Land Reserve

In June 2017, a subsidiary of the Group, Lishui Baoye Property Development Company Limited, acquired a parcel of land use right through public tender and auction at a consideration of RMB19.2 million at Dagangtou town, Liandu District, Lishui City, Zhejiang Province with a total site area of approximately 14,846 square meters and a total GFA of approximately 20,784 square meters, of which 17,652 square meters will be repurchased by the local government and the remaining 3,132.4 square meters will be held and sold by the Company.

In December 2017, a subsidiary of the Group, Hubei Construction Property Development Company Limited, acquired a parcel of land use right through public tender and auction at a consideration of RMB780 million at Xinzhou District, Wuhan City, Hubei Province with a total site area of approximately 129,528.31 square meters.

The Group bided the Xialv Project through public civil auction in 2017. The project 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%. As at the date of this announcement, one of the three parcels of land has begun planning.

The Group continues to adopt a prudent but proactive role in land acquisition and business expansion. The Group has land reserve in cities in the eastern and central China, such as Zhejiang, Hubei, Shanghai, Anhui and Henan, which can ensure its profits and capability of risk resistance benefitting from low land cost and reasonable regional coverage.

Increased Investment in Property Development

In December 2017, a subsidiary of the Group, Shanghai Ziying Enterprise Management Company Limited, and Powerlong Real Estate Holdings Limited, a listed company on the Stock Exchange of Hong Kong Limited (stock code: 1238.hk) have jointly invested and developed a parcel of land use right at Xinwu District Wuxi City, Jiangsu Province with a total site area of 248,878.8 square meters at a total consideration of RMB1,371,940,000. The Group is interested in 33%.

In December 2017, a subsidiary of the Group, Zhejiang Baoye Real Estate Group Company Limited, and Daiwa Real Estate Company Limited, have jointly acquired a parcel of land use right through public tender and auction at Nantong City, Jiangsu Province with a total site area of 135,544 square meters and a total consideration of RMB1,650,000,000. The Group is interested in 33%.

Building Materials Business

For the year ended 31 December 2017, revenue of the Group's building materials business amounted to approximately RMB1,859,864,000, representing a decrease of approximately 11% over last year; operating profit was approximately RMB31,398,000, representing a decrease of approximately 28% from last year.

For the year ended 31 December 2017, revenue from the Group's building materials is analysed below:

	For the year ended 31 December				
	2017		2016		**Change**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Curtain Wall	**1,032,978**	**55%**	1,292,093	62%	–20%
Ready-mixed Concrete	**327,410**	**17%**	279,884	13%	17%
Furnishings and Interior Decorations	**218,658**	**12%**	273,688	13%	–20%
Wooden Products and Fireproof Materials	**88,864**	**5%**	72,536	4%	23%
PC assembly plate	**66,599**	**4%**	–	0%	100%
Steel Structure	**32,379**	**2%**	70,839	3%	–53%
Others	**92,976**	**5%**	100,121	5%	–7%
Total	**1,859,864**	**100%**	2,089,161	100%	–11%

During the year of 2017, due to fierce competition and squeezing from the brand competitors, the operation from the traditional building materials is not so satisfying. The Company will devote to adjusting management strategies and transforming to housing industrialization progressively.

In 2017, the Group had explored the housing industrialization bases with satisfactory results with the support of government policies. As at the date of this announcement, the Group had a total of 24 bases in production, under construction or under planning. The bases are mainly in Zhejiang, Shanghai, Anhui, Hubei, Jiangsu, and Jiangxi. The widely layout of bases not only laid a good foundation for the development of housing industrialization business, but also provide a good chance for the development of the whole construction chain, that is construction, property development and industrialized building materials businesses. During the year of 2017, the Group had attained great achievements in science innovation, three patents for inventions have been confirmed, while thirteen patents for inventions are pending to be approved; eighteen utility model patents have been confirmed while another eighteen utility model patents are pending to be approved. Meanwhile, the Group also participated actively the national and provincial research programs and standards edit. We believe that Baoye will make great achievements while the spring festival of housing industrialization is coming.

BUSINESS PROSPECT

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

The construction industry reform requires a longer time frame to build and takes a hardship to revamp the old construction mode. The report of the 19th National Congress of the Communist Party of China had directed a guideline and footpath for the construction industry reform, that is turning from high speed into high quality development. The proposal attaching into it is to promote the "China building concept" towards the continuous and healthy development of construction industry. Accordingly, the Group will grasp the opportunity and is able to utilize its understanding of the construction guidelines and direction of the nation towards quality emphasis while exploring construction business.

Under the "New Regular Trend", technology innovation is the key for the supply side reform. The Group will focus on the construction business by applying high-tech construction methodologies into the construction industry and enhancing the industry from "trivial management mode" to "stringent management mode". From the practical point of view, the Group will continue to carry on the going-out strategy relying on its competitive edges on solid capital base, first class construction builder's qualifications, and housing industrialisation construction bases. The Group will also steer business diversification, such as EPC projects undertaking, and explore the infrastructure projects to enhance the design and construction ability in the high-end market. While consolidating the existing construction business, the Group will continue to develop the new assembly housing for the transformation and upgrade of the construction industry in order to gain higher market recognition.

Property development business contributes substantial profit for the Group

In 2017, the Central Government emphasized the living nature for properties. Under this background local governments have followed suit by implementing many drastic regulatory restrictions, in particular financing for home owners, the diversion of market is clear: the first and second tier cities have cooled down while the third and fourth-tier cities have increased significantly. The main reasons for the significant increase in the third and fourth-tier cities were the rapid development of urban railway system, pulling down of the old houses which are compensated by cash and leading to a quick and short-time increase in market demand. Simultaneously, high land costs in first and second tier cities were hard to bid and pushed the first-tier property giants entering into the third and fourth-tier cities thus pulling up the land prices in these cities.

It would be a foolish thing to do in judging the good or bad for the well-being of the China real estate market when properties prices are ups or downs, respectively. China's real estate market is not a complete market economy, and its development levels among cities are very different. On one hand, there is still large quantity demand for properties in the first-tier cities, a large number of old housing in third and fourth-tier cities needs to be demolished and re-constructed, followed by the second-baby policy, demand for improved housing needs and the urbanization process are all to ensure that the property development industry will keep a stable and continuous growth in the future. On the other hand, we have to note that some first-tier property giants, having tremendous financial muscles, whose capital advantages are becoming more obvious. The industry has been increasingly being consolidated. With an accelerating pace in innovation and transformation, new business and development models consistently evolve. Under such circumstances, the Group will continue to focus on the markets where we are familiar with, and to integrate the comprehensive advantages of construction and housing industrialisation platform by pitching property projects carrying Baoye's characteristics in the areas of "industry, capital and technology" in the market place.

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

In the guidelines published by the General Office of the State Council regarding the development of assemble housing, the national assemble housing would constitute a minimum of 15% of the total newly-built housing, spill over in 50 pilot cities where assemble housing are widely adopted, over 200 assemble industrial housing bases would be built, over 500 pilot projects would be constructed by assemble methods, and over 30 assemble housing technology industrial bases would be built by 2020. The national assemble housing would constitute 30% of the newly-built housing in the next ten years. 31 provinces, cities, and administrative regions have published their respective targets and preservation polices and guidelines for the development in assemble housing. The blueprint setting for the prospective future for assemble housing has been laid down.

The Group has been involved in the housing industrialisation industry for over twenty years and has acquired abundant practical experience and know how in this sector of business. As at the date of this announcement, the Group has had 24 housing industrialisation bases in Zhejiang, Shanghai, Anhui, Hubei, Jiangxi and Jiangsu. Going forward, leveraging on this positioning, the housing industrialisation business would flourish which would be led by the integration of construction, property development businesses, and would benefit from the "three-in-one" business strategy.

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 year, the Group maintained part of its borrowings on an unsecured basis. The amount of secured debt accounted for approximately 21.9% (2016: 17.7%) of the total borrowings. In addition, approximately 68.3% of the total borrowings (2016: 31.9%) were guaranteed by the Company and approximately 4.1% of the total borrowings were jointly guaranteed by the Company and non-controlled joint ventures to the lending banks (2016: nil). 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 in the management of capital and financial resources are to safeguard the Group's ability to operate as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group's financial position has been satisfactory and has continued to maintain a net cash position. The Group has sufficient capital resources to expand its business. As at 31 December 2017 the Group has unutilized banking facilities amounting to approximately RMB4.6 billion. Details of which are analysed below:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Cash and cash equivalents	**2,575,717**	2,885,736
Term deposits with initial term of over three months	**90,199**	11,925
Restricted bank deposits	**658,125**	633,571
Less: total borrowings	**(1,755,027)**	(282,560)
Net cash	**1,569,014**	3,248,672
Total equity attributable to the owners of the Company	**7,317,919**	6,826,947
Net cash ratio	**21.4%**	47.6%

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

Other Key Financial Ratios

	As at 31 December	
	2017	2016
Return on equity	**8.3%**	7.7%
Net assets value per share (RMB)	**12.48**	11.20
Current ratio	**1.18**	1.27

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 year
Current ratio	=	current assets/current liabilities

During the year, profit attributable to the owners of the Company represented an increase of 15.6% compared to last year, leading into an increase of approximately 7.8% of the return on equity, the net assets value per share has registered an increase of approximately 11.4% compared to that of last year. As at 31 December 2017, the group continued to maintain a net cash position with a net cash ratio of 21.4%, representing a substantial decrease of approximately 55% compared to last year, which was primarily attributable to the substantial increase of bank borrowings.

Cash Flow Analysis

		For the year ended 31 December	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Cash (outflow)/inflow from operating activities	*(i)*	**(2,384,176)**	944,618
Cash inflow/(outflow) from investing activities	*(ii)*	**350,656**	(907,878)
Cash inflow/(outflow) from financing activities	*(iii)*	**1,728,392**	(321,062)
Net decrease in cash and cash equivalents		**(305,128)**	(284,322)
Exchange losses on cash and cash equivalents		**(4,891)**	–

Note:

i During the year, the net cash ouflow from operating activities was approximately RMB2,384,176,000, a decrease of approximately RMB3,328,794,000 compared to the net cash inflow of approximately RMB944,618,000 of last year, which was mainly the payments for land use rights for properties development.

ii During the year, the net cash inflow from investing activities was approximately RMB350,656,000, which was primarily due to sale of financial assets at fair value through profit or loss.

iii During the year, the net cash inflow from financing activities is approximately RMB1,728,392,000, mainly due to the sharp increase of banking borrowings for the operating 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 by applying assessable rates determined by the respective local tax authorities where the properties are located. For the year ended 31 December 2017, the Group's land appreciation tax amounted to approximately RMB52,903,000.

Administrative Expenses

The Group's administrative expenses amounted to approximately RMB483,446,000 for the year ended 31 December 2017, representing an increase of approximately 2.56% over last year of RMB471,356,000, primarily due to the business expansion and increase of staff welfare.

Finance Costs

During the year ended 31 December 2017, the Group had registered financing costs of RMB4,891,000 arising from exchange losses (2016: Nil), other capital financing costs were mainly due to the bank borrowings, which were applied for use in properties development and were entirely capitalised.

Financial Guarantee

	31 December 2017 *RMB'000*	31 December 2016 *RMB'000*
Guarantees given to banks in respect of mortgage facilities granted for certain purchasers	**448,636**	194,781

The Group had issued performance guarantees in respect of mortgage facilities granted by various banks relating to the mortgage loans arranged for certain purchasers of properties 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 31 December 2017, land use rights, property, plant and equipment and properties under development, at a total value of approximately RMB874,641,000 (as at 31 December 2016: RMB62,685,000) were pledged to banks as security in securing bank borrowings.

Capital Expenditure Plan

The Group adopts a prudent approach in capital expenditure spending to secure cash resources on safety basis. The Group will pay more attention to market changes and will increase its investments in acquisition of land and relevant businesses at appropriate times with reasonable costs.

Fluctuation of RMB Exchange Rate and Foreign Exchange Risks

The majority of the Group's business and all bank borrowings are denominated and accounted for in RMB. Therefore, the Group does not have significant exposure to foreign exchange fluctuation. The Board does not expect 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.

CONNECTED TRANSACTIONS

During the year of 2017, the Group had no connected transaction that would require disclosure under the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

Since the special resolution regarding the authorization to the Board to buyback H shares of the Company since 2016 Annual General Meeting and class meetings, the Company has repurchased a total of 26,162,000 H shares, representing 10% and 4.27% of the total number of H Shares and the total number of issued Shares of the Company respectively at the time the special resolution passed. Total amount paid was HK$148,871,880 (excluding transaction charges). Details of the H shares were as shown in the next day disclosure returns for the period from December 2016 to May 2017 published on the website of the Stock Exchange.

HUMAN RESOURCES

As at 31 December 2017, the Group had a total of 5,071 permanent employees (as at 31 December 2016:4,550). Also, there were approximately 71,745 indirectly employed construction site workers (as at 31 December 2016 71,980). These workers were not directly employed by the Group. For the year ended 31 December 2017, the total employee benefit expenses amounted to approximately RMB4,367,607,000. 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 the 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 Board 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.

LITIGATION AND ARBITRATION

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

ENTRUSTED DEPOSITS AND OVERDUE TIME DEPOSITS

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

CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code during the period (the "CG Code") contained in Appendix 14 to the Listing Rules as its own code of corporate governance. For the year ended 31 December 2017, the Company has complied with all the code provisions as set out in the CG Code, except for deviation of provisions as mentioned below:

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS (THE "MODEL CODE")

The Board and the Supervisory Committee have adopted 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 year of 2017. If any related employees possess information which may be considered as sensitive to the Company's share price and such information is not public, such employee has to comply with the written guidelines, which is as strict as the Model Code.

AUDIT COMMITTEE

The audit committee of the Company consists of two independent non-executive directors, namely Mr. Chan Yin Ming, Dennis (chairman), Mr. Li Wangrong and one non-executive director, Mr. Fung Ching, Simon. The audit committee held two meetings on 24 March 2017 and 25 August 2017. Mr. Chan Yin Ming, Dennis, Mr. Li Wangrong and Mr. Fung Ching, Simon attended the meetings. The audit committee has discussed the accounting policies, the critical accounting estimates and assumptions, the audit objectives and the scope of the Group's internal audit department with management. They also discussed with the auditors on their audit plans and key audit areas. The audited consolidated financial statements and the annual results announcement of the Group for the year ended 31 December 2017 had been reviewed by the audit committee before submission to the Board for adoption and approval.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet and the related notes thereto for the year ended 31 December 2017 as set out in the announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the announcement.

PUBLICATION OF ANNUAL REPORT

The full text of the Group's 2017 Annual Report will be sent to the shareholders of the Company and posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.baoyegroup.com) respectively in due course.

APPRECIATION

The Board would like to take this opportunity to express its gratitude to the Company's 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 People's Republic of China
23 March 2018

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

* *For identification purposes only*