BAOYE

宝业 BAOYE

Group Company Limited
寶業集團股份有限公司

(A joint stock limited company incorporated
in the People's Republic of China)
(於中華人民共和國註冊成立的股份有限公司)

Stock Code 股票代號 : 2355

Annual Report 2016 年報

OUR MISSION
我們的使命

From Construction To Manufacturing
「從建造到製造」

leads construction industry towards industrialisation in China.

帶領中國建築業走向產業化

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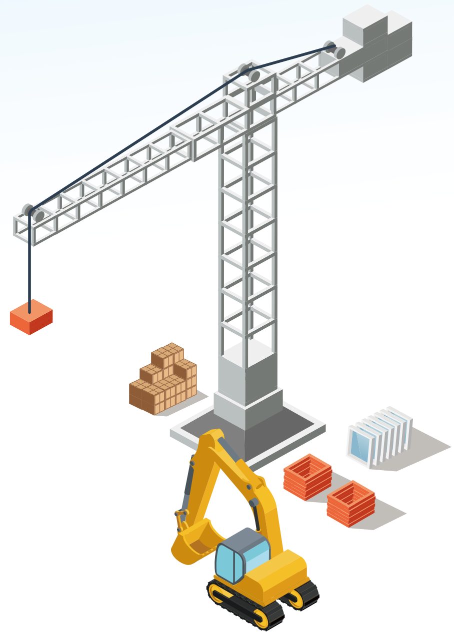

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CORPORATE PROFILE

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
- Gardening and Landscaping

Property Development Business

- Shaoxing "Baoye Four Seasons Garden"
- Shaoxing "Baoye Xingqiao Fengqing"
- Wuhan "Baoye Guanggu Lidu"
- Wuhan "Baoye Centre"
- Shanghai "Baoye Centre"
- Shanghai "Baoye Ido"
- Bozhou "Baoye Xiaoyao Luyuan
- Bengbu "Baoye Xuefu Luyuan"
- Taihe "Baoye City Green Garden"
- Kaifeng "Baoye Longhu Yucheng"
- Lishui "Baoye Yihe Yayuan"

Building Materials Business

- Curtain Wall
- Ready-mixed Concrete
- Steel Structure
- Furnishings and Interior Decorations
- Wooden Products and Fireproof Materials
- PC Assembly Wallboard
- 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
- Bozhou
- Bengbu
- Taihe
- Kaifeng
- Lishui

BUILDING MATERIALS BUSINESS

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

Property Development Business
Building Materials Business

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
5016 Shennan East Road
Luohu District
Shenzhen, the PRC
Post Code: 518001

LEGAL ADVISERS

As to Hong Kong Law

Kwok Yih & Chan
Suites 2103-05, 21st Floor
9 Queen's Road Central
Central, Hong Kong

As to PRC Law

Fenxun Partners
Suite 1008, China World Tower 2
China World Trade Centre
No.1 Jianguomenwai Avenue
Beijing, PRC
Post Code: 100004

H SHARE REGISTRAR

Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
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

REGISTERED ADDRESS
Yangxunqiao Township
Keqiao District, Shaoxing City
Zhejiang Province, the PRC
Tel: 86 575 84882990
Post Code: 312028

HEADQUARTER ADDRESS
No.501 Shanyin West Road,
Keqiao District, Shaoxing City
Zhejiang Province, the PRC
Post Code: 312030

CORRESPONDENCE ADDRESS IN HONG KONG
Room 1902, China Evergrande Centre
38 Gloucester Road
Wanchai, Hong Kong

AUTHORISED REPRESENTATIVES
Mr. Pang Baogen
Mr. Gao Jiming

STOCK CODE
HKEx (2355)

CONTACT
Investor Relations Department
Baoye Group Company Limited
Tel: 86 575 84135837
Fax: 86 575 84118792
E-mail: irbaoye@baoyegroup.com

WEBSITE
www.baoyegroup.com

FINANCIAL HIGHLIGHTS

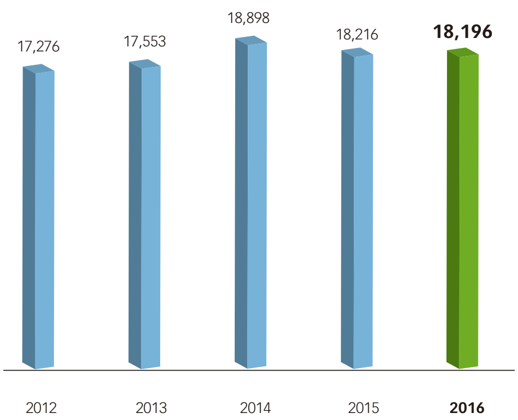
	Year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Results					
Revenue	**18,196,134**	18,216,083	18,897,996	17,553,323	17,275,899
Gross Profit	**1,164,444**	1,243,001	1,180,772	1,204,810	1,460,176
Net Profit	**534,410**	598,997	660,787	669,597	756,579
Profit Attributable to Owners of the Company	**526,933**	563,655	648,702	663,312	752,256
Earnings per Share (RMB)	**0.861**	0.910	1.009	1.001	1.135
Assets and Liabilities					
Total Assets	**22,708,309**	19,996,891	17,368,036	15,958,350	13,733,068
Total Liabilities	**15,710,609**	13,471,319	11,277,699	10,348,196	8,643,251
Total Equity	**6,997,700**	6,525,572	6,090,337	5,610,154	5,089,817

KEY FINANCIAL RATIOS

	As at 31 December	
	2016	2015
Return on Equity of the Company	**7.7%**	8.8%
Net Assets Value per Share (RMB)	**11.20**	10.41
Net Cash Ratio	**47.6%**	45.0%
Current Ratio	**1.27**	1.31
Cash Inflow from Operating Activities (RMB'000)	**944,618**	1,882,920

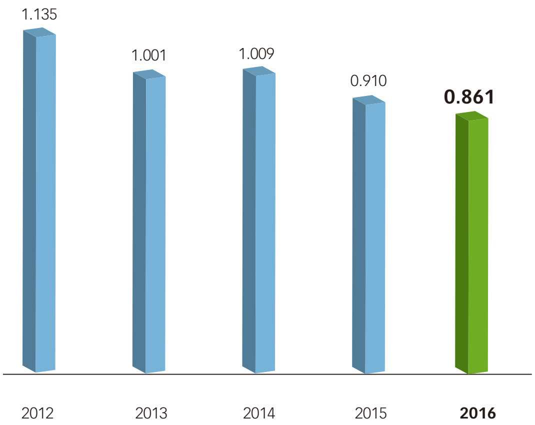
REVENUE

(in RMB million)



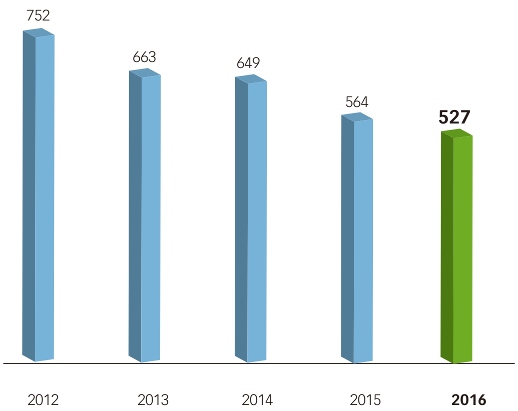
EARNINGS PER SHARE

(RMB)



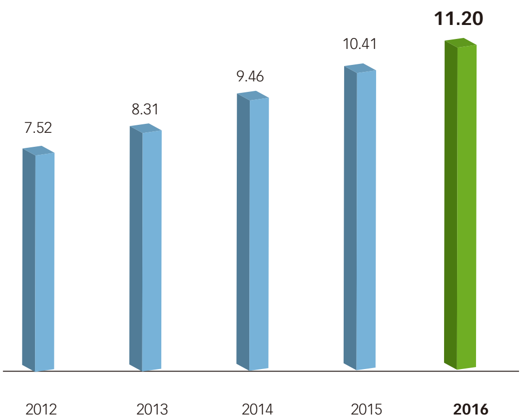
PROFIT ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

(in RMB million)



NETS ASSETS VALUE PER SHARE

(RMB)



CHAIRMAN'S STATEMENT

To the Shareholders:

It's been a good opportune time to publish our annual operating results to shareholders and stakeholders again when the weather turns warmer in spring time. On behalf of the Board, I am pleased to report the audited financial results of Baoye Group Company Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2016.

For the year ended 31 December 2016, the Group achieved audited consolidated revenue of approximately RMB18,196,134,000, representing at the same level compared to last year; profit attributable to the owners of the Company amounted to approximately RMB526,933,000, representing a decrease of approximately 6.5% as compared to last year; earnings per share was RMB0.86, representing a slip of approximately 5.5% as compared to the preceding year. The Board proposed that no final dividends are to be declared for the year ended 31 December 2016. Details of operating and financial performance of the Group will be discussed in the "Management Discussion and Analysis" section of this annual report.

CONSOLIDATING EXPERIENCES IN THE PAST AND PERSISTENCE IN PURSUING OUR CORPORATE MISSION

When celebrating the Chinese Communist Party's 95th anniversary, I prepared a report titled "**Persistence in pursuing our corporate mission and moving forward**". In this context, I still want tore-emphasize the importance of "pursuing our corporate mission". Since its inception with 40 years' development in history, we grew up comprising of a team of just over ten construction and repair workers in Yangxunqiao Town to a listed Company with hundreds of thousands of employees and businesses covering almost all major cities in China, and providing tenths of thousands jobs

for farmer-workers and paid billions of taxes to the government almost every year. Baoye grew steadily through weather and storm and survived under fierce competition market condition. With limited financial resources, our achievements today rely on our passion, spirit, perseverance, and believe and those who have not forgotten our corporate mission by generations and those who apply the entrepreneurship spirit in running our businesses. The President, Mr. Xi Jinping, of China have repeatedly pointed out that "history is the best reference book for learning and the best reminder to sober us". Looking back from our footpath, we can revisit and ascertain on what have been transpired in the past, through which can assist us to derive the direction going forward in a more complex environment.

We need to analyze our current position objectively, and identify the key elements to tap into the future trends in the construction industry. Since the implementation of reform and opening policy, China has experienced unprecedented urbanization process with the largest scale and fastest development speed comparing to other parts of the world. Benefiting from huge fixed-asset investment, infrastructural construction and a rapid development of real estate industry, China construction enterprises attained remarkable achievements in the past decades, Baoye Group, being one of the participants, also made good progress and achieved great development. In view of our past experience, we can see that China construction development growth falls behind the national economic growth. At present, China economy has entered into a "New Regular Trend" with reduced investment on fixed-assets and real estate, especially investment from private sector, which have led to a sharp reduction in construction projects and profit margins primarily due to increased competition. Under such unfavorable market conditions under the "New Regular Trend", we had to live with the "New Regular Trend and recall our passion and drive to accomplish our corporate mission by strengthening our core competencies. Internally, we will need to improve the product quality, the efficiency of operation management and revamp our business model. Externally, we will need to follow and analyze thoroughly the various series of national policies, such as the implication of tax change policy from business tax to value added tax, aiming to strengthen our capability in competing for urban transportation, new model of logistics complex, as well as underground pipe gallery construction projects. I believe that construction industry will continue to play an important role in national economy development. A "cold winter" in the industry has always been regarded as "excess production capacity", and by natural elimination of enterprises with "excess production capacity", the construction industry will enter into a new era for growth and better prospect in "spring time". Moreover, with the sizeable market in China, no matter how small the segment is, it will bring great opportunity because we are preparing ourselves ready to grasp this prospect during bad time.

CONTINUE TO DO GOOD IN OUR CORE BUSINESSES AND STAY STRONGER

Many people thought less of the issue of an enterprise's survival. For Baoye Group, one regards Baoye as a company with net cash position with sufficient working capital, having a broad business prospect attributed to the emerging industry of industrialised construction. But I have to say that Baoye could go bankrupt in 30 days, so we should bear in mind seriously the issue of "better than survival" rather than just "survival". For a growing company, our priority target is to break through the current bottlenecks and foster a sustainable long-time development.

Reaping from its construction business, Baoye has built a synergetic business model with three major businesses in construction, property development and industrialised construction after more than 40 years of development. With abundant award of accreditations and qualifications and good credit ratings, all of which pave a solid foundation for the Group to intake large and high-end projects, including industrial buildings, residential buildings, urban facilities and infrastructural projects. The Group always insists in the operation principles of innovation and quality improvement as core its competition values, to upgrade quality and services by developing industrialised construction. The Group sets the goal to be a long-standing enterprise by consistently pursuing craftsmanship spirit and brand building.

SETTING A DEVELOPMENT DIRECTION AND REALIZING TRANSFORMATION

2016 is the beginning year of Chinese 13th five-year plan, in the "New Regular Trend", China economy will continue to improve, quality and efficiency will be enhanced, and economy will maintain a steady and healthy growth at a reasonable rate.

In 2017, the Central Economic Working Committee pointed out that future China economy will continue to be developed under the policy of supply drive reform. In the real estate industry, 2016 was the most turbulent year. In the first three quarters, many cities, excluding Shanghai, Hefei, Wuhan and Nanjing, which have high demand in properties, still aimed to reduce inventories

by encouraging rigid demand with lower down-payment schemes and transaction tax adjustments. However, in the fourth quarter, a series of policies represented by"restricting on purchase, house loan, price rising and money supply"were implemented intensively. The rapidly rising house price caused an unusually fierce market in land auction and some land were transacted with unprecedented high prices.

At the Central Economic Working Committee, which sets out a new direction for properties that "properties are used for live-in, not for speculation. "The outlook for the real estate industry, more broadly speaking, shall focus on developing and supplying green, energy-saving and comfortable properties to markets. The industrialised construction must be developed by applying information technology, which is to be used in design, manufacture, assembling on-site and operation maintenance, by integrating the upstream, midstream and downstream businesses in the whole supply chain.

In an irrational real estate market, as one of the participants, the Group must keep a rational mind in running our business, remove out-dated management ideas and adopt a consensus that the only way to survive and develop in future is to foster innovation and transformation. Although we have been in construction business for more than 40 years and nearly 20 years in the research and study for industrialised construction, but we should always remind ourselves, we are still a growing enterprise with corporate mission in facing uncertainties and new challenges. Undoubtedly, industrialised construction will be the future trend and will bring tremendous changes to traditional construction methodologies, real estate and other supporting industries. We need to strengthen our core competencies in research, construction and manufacture. Only we stay focus, manage changes according to trend, act according to plan, all of which will lead us to the next level of success.

In the future, Baoye will adhere to our company value, strengthen major businesses and realize a long-term development. Meanwhile, we will assume social responsibility actively and pay attention to stakeholders' interest in our community. The Company has taken various activities and steps towards its responsibility for environment and society, detailed of which are shown on the "Environmental, Social and Governance Report 2016" published on the same day of this report.

Last but not least, I, on behalf of the Board, would like to extend my sincerest thanks to our shareholders, investors, customers, vendors, banks, and other intermediaries for their continuous patronage and support; special thanks to our loyal employees for their hard work and dedication to achieve success, and together, we look forward to another rewarding years for our shareholders in the years to come.

Mr. Pang Baogen
Chairman of the Board
24 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS REVIEW

For the year ended 31 December 2016, the Group achieved a consolidated revenue of approximately RMB18,196,134,000 (2015: RMB18,216,083,000), representing at the same level compared to the previous year; operating profit reached RMB766,091,000 (2015: RMB958,633,000), representing a decrease of approximately 20% compared to last year; profit attributable to the owners of the Company amounted to approximately RMB526,933,000 (2015: RMB563,655,000), representing a decrease of approximately 6.5% from last year; earnings per share was RMB0.86 (2015: RMB0.91), representing a decrease of approximately 5.5% compared to last year. At appropriate timing, the Group will consider to bid for new land reserves in Shanghai, Wuhan and Hefei and to develop and expand PPP for the construction business and industrialised construction bases to meet with the changing market conditions. Under these consideration, the Board proposed no final dividend to be declared and paid for the year of 2016.

Revenue

	For the year ended 31 December				Change
	2016		2015		
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Construction	**12,799,913**	**70%**	14,370,248	79%	–11%
Property Development	**3,153,253**	**17%**	1,694,672	9%	86%
Building Materials	**2,089,161**	**12%**	2,006,186	11%	4%
Others	**153,807**	**1%**	144,977	1%	6%
Total	**18,196,134**	**100%**	18,216,083	100%	0%

Operating profit

	For the year ended 31 December				Change
	2016		2015		
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Construction	**411,099**	**54%**	487,925	51%	–16%
Property Development	**286,166**	**37%**	352,893	37%	–19%
Building Materials	**43,762**	**6%**	81,709	8%	–46%
Others	**25,064**	**3%**	36,106	4%	–31%
Total	**766,091**	**100%**	958,633	100%	–20%

CONSTRUCTION BUSINESS

For the year ended 31 December 2016, the Group's construction business achieved revenue of approximately RMB12,799,913,000, representing a slip of approximately 11% over last year; operating profit amounted to approximately RMB411,099,000, representing a decrease of approximately 16% over last year. The decrease in both revenue and operating profit in construction business was mainly attributable to economic slowdown and reduction in construction contracts.

For the year ended 31 December 2016, the Group's total contract value under construction in-progress amounted to approximately RMB58,768,914,000, representing an increase of approximately 3% over last year. The total contract value for the Group's construction-in progress is analysed below:

By project nature

	As at 31 December				
	2016		2015		**Change**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Government and Public Buildings	**17,630,674**	**30%**	19,304,771	34%	–9%
Urban Infrastructure	**19,083,937**	**32%**	18,846,497	33%	1%
Residential Projects	**10,578,405**	**18%**	9,394,607	16%	13%
Industrial Projects	**11,475,898**	**20%**	9,738,311	17%	18%
Total	**58,768,914**	**100%**	57,284,186	100%	3%

By region

	As at 31 December				
	2016		2015		**Change**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Zhejiang Province	**18,218,363**	**31%**	17,070,687	30%	7%
Shanghai	**13,516,850**	**23%**	13,519,068	24%	0%
Other Eastern China Region	**5,876,891**	**10%**	5,384,713	9%	9%
Central China Region	**12,341,472**	**21%**	12,029,679	21%	3%
Northern China Region	**4,701,513**	**8%**	5,842,987	10%	–20%
Other Regions	**2,350,758**	**4%**	1,890,378	3%	24%
Overseas*	**1,763,067**	**3%**	1,546,674	3%	14%
Total	**58,768,914**	**100%**	57,284,186	100%	3%

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

In 2016, affected by reduced investment in fixed-asset, infrastructure and real estate, as well as decreased private investment, the construction industry had, in general, experienced a depression stage in the beginning of the year and had started to recover slowly in the second half year. Under the "New Regular Trend", the industry will continue to face restructuring and elimination. As the core business, the Group always adopts a prudent principle of keeping a stable and healthy development, assess risks rigorously prior to contract. In 2016, the Group had secured new construction contracts amounted to approximately RMB19.2 billion (2015: RMB14.7 billion) in value, representing an increase of approximately 31% compared to last year, including a large number of middle and high-end projects, such as the New Century Global Centre in Hangzhou, Bank of Ruifeng in Shaoxing, New City Commercial Plaza in the southern Changshu City, Women Health Care Building of Zhejiang Women Care Hospital, Hangzhou Normal University in Cangqian District, the curtain wall project of Ocean World Culture and Art Centre in Shenzhen, Qujiang Shipping Development Project in the middle and upper streams of the Qiantang River.

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 2016, the Group received a total of 79 awards, the key awards are appended as follows:

Projects Name	Awards
Green City • Luoyang Sena Spring	ZhanTianyou Award
China Merchant Plaza in Shenzhen	National Excellent Project Award
A Provincial Communication Building of China Telecom Zhejiang Branch in China Light Textile City	National Excellent Project Award
The curtain wall project of Hangzhou Conba Biotechnology Development Base	Chinese Construction Decoration Project Award
The curtain wall project of Fenghua Sports Building	Zhejiang Excellent Construction Decoration Project Award
A residential building in Laoji Town, Huamu City	Baiyulan Cup
A Comprehensive Office Building of WenZhou Treasury and Tax Bureau	Qianjiang Cup
Public Housing Fund Center in Su Zhou industrialization zone	YangZi Cup
Zhejiang Shuren University in Yangxunqiao District	China Textile City Cup
Fuyang Rural Cooperation Bank in Zhejiang	A National Green Construction Technology Pilot Project

Property Development Business

Property Sales

For the year ended 31 December 2016, revenue of the Group's property development business amounted to approximately RMB3,153,253,000 (the revenue before deductions of sales tax and related levies was approximately RMB3,332,029,000), representing an increase of approximately 86% from last year. Operating profit amounted to approximately RMB286,166,000, representing a decrease of approximately 19% compared to last year. The revenue in property development business increased significantly, which was largely attributable to the increased in property units being delivered to owners, whilst the higher development costs for these units caused the reduction in operating margin.

For the year ended 31 December 2016, 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	15,578	95,812	1,492,530
Baoye Guanggu Lidu	Wuhan	7,813	87,980	687,423
Baoye Mengdie Luyuan	Mengcheng	4,614	134,959	622,730
Baoye Taihe City Green Garden	Taihe	4,649	41,654	193,668

For the year ended 31 December 2016, the sales contracts of the Group's property development business amounted to approximately RMB2.72 billion (2015: RMB3.35 billion) with a contract sale area of approximately 335,300 square metres.

Projects under development

As at 31 December 2016, the Group's property 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	447,000	100%
Baoye Xinqiao Fengqing	Shaoxing	136,000	100%
Baoye Guanggu Lidu	Wuhan	46,216	100%
Hubei Baoye Centre	Wuhan	88,000	100%
Shanghai Baoye Centre	Shanghai	27,000	100%
Baoye Ido	Shanghai	88,000	100%
Baoye Xiaoyao Luyuan	Bozhou	131,000	50%
Baoye Xuefu Luyuan	Bengbu	199,700	63%
Baoye Taihe City Green Garden	Taihe County	365,645	55%
Baoye Longhu Yucheng	Kaifeng	153,000	60%
Baoye Yihe Yayuan	Lishui	67,657	100%

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 with 0.5 time plot ratio and a planned gross floor area of approximately 525,000 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. This project is developed in 12 phases, of which, Lotus Garden, Liu Garden and He Garden, had been delivered to owners, Ming Garden, Run Garden Phase I and Phase II have almost been sold out; Xi Garden, Jing Garden and Fu Garden are under pre-sale.

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 adoption of PC-manufacture methodology as planned. The project is expected to begin pre-sale in the first half year of 2017 and to begin delivery at the end of 2018.

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 delivered, phase III is expected to be launched for pre-sale in 2017.

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 construction of this project commenced in the second half of 2015 and is expected to be completed by 2018.

Shanghai Baoye Centre is located in Hongqiao commercial business district, Shanghai, a prime location with convenient transportation. It has a total site area of approximately 8,130 square metres and an estimated gross floor area of approximately 27,000 square metres, of which, approximately 13,000 square metres above-ground and approximately 14,000 square metres underground, which will be developed as office buildings.

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 are above-ground, will be developed as 8 high-rise prefabricated residential buildings, of which, Phase I has begun pre-sale in 2016.

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. The construction has been started in November 2015 and is expected to be completed in 2017.

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 and has commenced construction in July 2014. It began its pre-sale in the first half year of 2015, of which phase I comprising approximately 96,560 square metres is expected to be delivered to owners in 2017.

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 and rich community facilities, which sets the new living style in the City. Phase I of the project has begun delivery in 2016 and phase II, phase III are under pre-sale.

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, phase I with 69,543 square metres has been delivered to owners in 2015, and phase II with 134,000 square metres has commenced construction in the first half year of 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 time plot ratio. The project will be developed to 11 buildings by adoption of PC-manufacture methodology with a 20% prefabricated rate, of which, 3 buildings are properties for sale and the rest 8 buildings are cater for relocation households by the government. It has commenced construction in October 2016.

New Land Reserve

In 2016, the Group has acquired two parcels of land use rights through public tender and auction at a total consideration of approximately RMB228,000,000 with a total site area of 125,526 square metres in Liuan City, Anhui Province and acquired another land use right at total consideration of approximately RMB41,000,000 with a site area of 26,918 square metres in Lishui City, Zhejiang Province. The Group continues to adopt a prudent but proactive attitude 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.

Building Materials Business

For the year ended 31 December 2016, revenue of the Group's building materials business amounted to approximately RMB2,089,161,000, representing an increase of approximately 4% over last year; operating profit was approximately RMB43,762,000, representing a decrease of approximately 46% from last year. In 2016, revenue from curtain wall sector increased significantly, while the steel structure sector showed a sharp decline which resulted in scale back in investment, disposal of equipment and facilities, leading to increase in costs and expenditures.

For the year ended 31 December 2016, revenue from the Group's building materials is analysed below:

	For the year ended 31 December				Change
	2016		2015		
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Curtain Wall	**1,292,093**	**62%**	1,057,609	53%	22%
Ready-mixed Concrete	**279,884**	**13%**	339,386	17%	–18%
Furnishings and Interior Decorations	**273,688**	**13%**	272,896	14%	0%
Wooden Products and Fireproof Materials	**72,536**	**4%**	61,643	3%	18%
Steel Structure	**70,839**	**3%**	206,008	10%	–66%
Others	**100,121**	**5%**	68,644	3%	46%
Total	**2,089,161**	**100%**	2,006,186	100%	4%

During the year, the real estate industry and the structure for the construction industry were under transformation and consolidation, the industrialisation of construction began to fly. Led by the national and local government's policies in advocating green, energy-saving and environmental-friendly construction, China construction is breaking out its way towards a complete industrialisation phase. The Group has attained great achievements in aspects of scientific research, factory building or building projects relying on 20 years' experience and cooperation with renowned enterprises and scientific institutions, especially the support from the established government's policy. The Group, as the chief editor, participated in compiling Zhejiang Provincial standard of "Technical Specification for Composite Slab Concrete Shear Wall Structure" during the year. The Group also participated in compiling other provincial standards, like Shanghai Provincial standard of "Industrialised Housing Construction Evaluation Criterion" and Anhui Provincial standard of "Technical Specification for the Fully Decoration Industrialised Housing". By now, the Group has applied for more than 20 patents in the category of industrialised construction, two of which are international patents. At the new industrialised construction base in Quzhou City, Zhejiang Province, apart from undertaking of the project of Scientific and Innovation Centre of Qujiang Economic Development Zone, the Group secured another residential project invested by the government for leasing and relocation of households for 300,000 square metres. At Qingpu Industrialised Construction Base in Shanghai, attributed to the policy of widely promotion for industrialised construction, the demand for prefabricated concrete building increased substantially. The Group seized opportunities and expanded production capacity to 21,000 cubic one year with one domestic production line and another imported line. In Anhui Province, the Group established another new industrialised construction factory with a floor area of approximately 53,333 square metres in Feidong County, and had secured a project of Modian Garden in Xinzhan District, Hefei City.

BUSINESS PROSPECT

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

The Group will continue to deepen its "going out" development strategy to consolidate the mature market and optimize the business network and expand its businesses in cities with densely populated areas and well developed community facilities. The Group aims to strengthen market share by brand building; maintains its development principle in "keeping a steady and healthy growth"; improves customer relationship; promotes its products and services quality, and deepens its strategic cooperation with sizable real estate developers.

By taking full advantages of industrialisation of its products and services, the capital resources it possesses and the accreditations to which it received, the Group will continue to explore new development strategy and refine its business model, and at the same time continue to undertake new "self-operated projects" through experiences gained from the current projects. As one of the pilot enterprises of general EPC contractors, the Group will seize opportunities and deepen cooperation with banks and local leading companies, actively explores to intake PPP projects in the high-end construction profile, such as metro, light railway, water conservancy, tunnel and bridge construction projects.

Property development business contributes substantial profit for the Group

Any city development will have its own sets of rule and will have its own phases of development history to tap into its own phases of economic development. Urbanization is a process in which it involves population movement from rural area to urban area and change for land use from agriculture to urban development. The development of real estate industry under the process of urbanization must be convergent with the size of population, the availability of environmental and land resources and within the limits of its capacity. China urbanization process is far from its end, the population in urban areas will continue to rise. Follow by that, the aging population and the increased disposable personal income will certainly call for higher demand for properties in the areas for retirees and tourists in the years to come.

The Group will keep close watch on the changes in macro-economic policy and regional market changes and increase its land reserves at appropriate time. By refining and enhancing its marketing model and tools, and expanding property sale channels with market and client focus, the Group will pitch for the appropriate market segments by applying quantitative and qualitative analysis to improve the value of our products and services.

In the cities and counties of Zhejiang Province, the government requires that real estate developers need to deliver fully fitted and interior-decorated properties for all new residential property projects and property projects under development. For this reason, fully fitted and interior-decorated property will be the future trend, which is a good news for the real estate developers and those who have the capability to build quality and fully fitted interior-decorated properties, this change will afford these real estate developers higher profit margin and are to be privileged in land auction market. Relying on its own economy of scale in production and offer of wide product range, the Group is using Baoye Xinqiaojiang project, the pilot project for fully fitted and interior-decorated properties, as a foundation for this new product during the year, hoping to minimize pollution and reduce wastage and at the same time provide healthy, comfortable and environmental-friendly housing for customers at lower costs and increase in profitability.

It is inevitable to explore new caring mode for the aged people when the aging population increases quickly over time in China. As a company regards social and environmental responsibilities as one of its duties, the Group will leverage its competitive advantages in integrating international resources and advanced technologies from its Japan or Germany's strategic partners to develop new suitable residential community for aged home and to create a better functional, comfortable and convenient living environment, as well as to help resolving future aging social problem.

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

In the past decade, the Group devoted itself to industrialised construction business, from research and manufacture of the industrialised parts at the beginning, to explore and execution, and finally, the production of industrialised buildings. Baoye has accumulated commendable achievements and experience. However, under a traditional property market that featured with low cost labor supplies, the development of industrialised construction still face this inherit limitation.

In recent years, the political policy guidance from the Central and local governments have geared China industrialised construction entering into a golden opportune time to eliminate low labor cost advantage gradually, a refined real estate market is expected and demand for environmental-friendly and comfortable housing has been increasing.

The Group will pay close attention to those favorable policies which are advocated by governments and seize opportunities by deepening cooperation with governments and property developers. Depending on its own advantages of design, consultation, manufacture and general construction contractor, as well as integrated external resources, the Group tries to expand new business and increase new order quantity. With wide application of BIM in design, construction and operation, the Group tries to improve information technology level in industrialisation construction through active research of PC construction parts and production techniques.

By applying and integrating resources efficiently and effectively, import of advanced human talents, technology and equipment, the Group will continue to expand the industrialised construction business leveraging on its current platform, design and manufacture of new products to meet the market demand to minimize production costs and to enhance product quality and value.

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 17.7% (2015: 6.5%) of the total borrowings. In addition, approximately 31.9% of the total borrowings (2015: 26.0%) were jointly guaranteed by the chairman of the Board, Mr. Pang Baogen and the Company to the lending banks. Leveraging on its excellent credit rating, the Group intends to continue to obtain its borrowings on an unsecured basis, which will be supplemented by project financing when necessary.

The Group's objectives 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 2016, the Group has had unutilized banking facilities amounting to approximately RMB6 billion. Details of which are analysed below:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Cash and cash equivalents	**2,885,736**	3,170,058
Term deposits with initial term of over three months	**11,925**	45,419
Restricted bank deposits	**633,571**	188,009
Less: total borrowings	**(282,560)**	(537,000)
Net cash	**3,248,672**	2,866,486
Total equity attributable to the owners of the Company	**6,826,947**	6,374,650
Net cash ratio	**47.6%**	45.0%

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

Other Key Financial Ratios

	As at 31 December	
	2016	2015
Return on equity	**7.7%**	8.8%
Net assets value per share (RMB)	**11.20**	10.41
Current ratio	**1.27**	1.31

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 (Deducted the treasury shares)

Current ratio = current assets/current liabilities

During the year, the profit attributable to the owners of the Company represented a decrease of 6.5% compared to last year and total equity attributable to the owners of the Company represented an increase of 7.1%, leading into a decrease of approximately 12.5% of return on equity, but net assets value per share still has registered an increase of approximately 7.6% compared to that of last year. As at 31 December 2016, the group continued to maintain a net cash position with a net cash ratio of 47.6%, representing an increase of approximately 5.8% compared to a net cash ratio of 45.0% of last year, which was primarily attributable to the sufficient capital reserves and repayment of borrowings.

Cash Flow Analysis

		For the year ended 31 December	
		2016	**2015**
	Note	***RMB'000***	*RMB'000*
Cash inflow from operating activities	(i)	**944,618**	1,882,920
Cash outflow from investing activities	(ii)	**(907,878)**	(358,010)
Cash outflow from financing activities	(iii)	**(321,062)**	(653,124)
Net (decrease)/increase in cash and cash equivalents		**(284,322)**	871,786

Note:

i During the year, the net cash inflow from operating activities was approximately RMB944,618,000, a decrease of approximately RMB938,302,000 compared to the net cash inflow of approximately RMB1,882,920,000 of last year, which mainly attributable to the decreased property for pre-sale.

ii During the year, the net cash outflow from investing activities was approximately RMB907,878,000, which was primarily due to the purchase of financial assets of fair value through profit or loss at the end of the year.

iii During the year, the net cash outflow from financing activities is approximately RMB321,062,000, mainly due to repayment of bank borrowings and payment of final dividend, as well as the buy-back of H Shares.

Financial Assets

The Group's financial position has been satisfactory and a reasonable financial assets arrangement for the sufficient capital resources is for the best interest of the Company and the shareholders. As at 31 December 2016, the Group has a total of available-for-sale financial assets of approximately RMB678,590,000, which were the wealth management products issued by commercial banks in the PRC. These financial products are principal guaranteed and with expected return range from 1.5% to 4.25% per annum. On 30 December 2016, the Group bought three monetary funds in Xinjiang Qianhai Combining Haiying, Huaxia Cash A and Xinhua Current Tianli B with a total of RMB796,269,000. These monetary funds are open-end fund with characteristics of high security, high liquidity and stable income. As at 31 December 2016, the carrying amount of these available-for-sale financial assets and financial assets at fair value through profit or loss approximated to the fair value. The Company implemented stringent control and made prudent decisions in respect of the investment of wealth management products on the principle of protecting the interests of all Shareholders and the Company as a whole. The Company would only invest in wealth management products which are of principal-preservation nature with minimal risk. Further, during the term of the relevant wealth management products, the Company will maintain close contact with each of the issuer banks, to follow up the operation of wealth management funds, strengthen risk control and supervision, and control the safety of funds strictly.

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 2016, the Group's land appreciation tax provision amounted to approximately RMB50,385,000, and the reversal of prior years' provision for land appreciation taxes amounted to approximately RMB17,075,000.

Administrative Expenses

The Group's administrative expenses amounted to approximately RMB471,356,000 for the year ended 31 December 2016, represented an increase of 16% compared to last year of RMB407,522,000, followed by the business expansion and increase of employees' salaries and benefits, administrative expense has increased correspondingly.

Finance Costs

During the year ended 31 December 2016, the Group had registered no capital financing costs, mainly due to the bank borrowings, which were applied for use in properties development and were entirely capitalised.

Financial Guarantee

	31 December 2016 ***RMB'000***	31 December 2015 *RMB'000*
Guarantees given to banks in respect of mortgage facilities granted for certain purchasers	**194,781**	79,313

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 2016, land use rights and property, plant and equipment at a total value of approximately RMB62,685,000 (as at 31 December 2015: RMB10,491,000) 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.

CORPORATE GOVERNANCE REPORT

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 ("Company Law"), the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchanges of Hong Kong Limited ("the Stock Exchange"), the Code on Corporate Governance Practices 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.

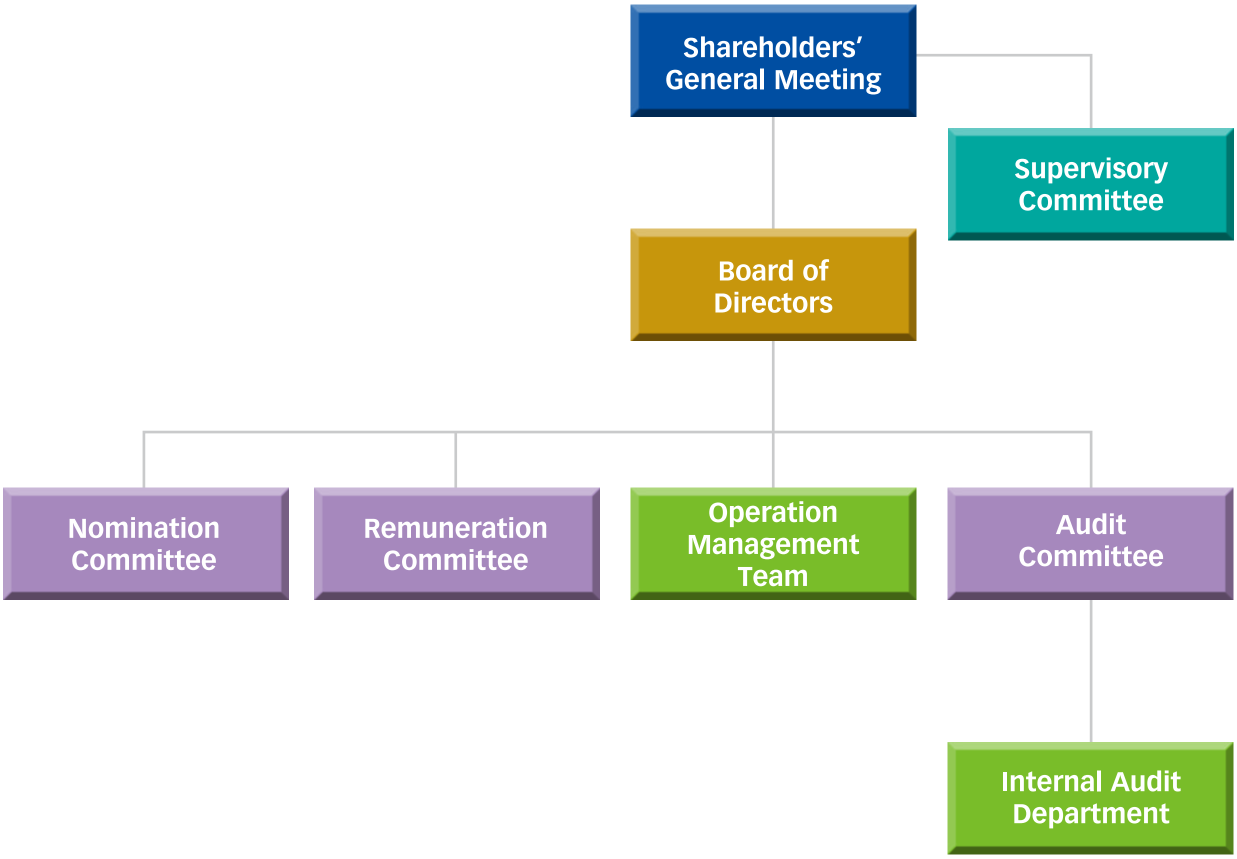
CORPORATE GOVERNANCE CODE (THE"CG CODE")

As at the date of this report, the Company has complied with all the code provisions as set out in the CG Code, except for deviation of provisions of the CG Code as mentioned below:

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

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

CORPORATE GOVERNANCE STRUCTURE



Set out below is a detailed discussion of the corporate governance practices adopted and observed by the Company during the year ended 31 December 2016.

BOARD OF DIRECTORS (THE "DIRECTOR")

Duties of the Board of the company (the "Board")

The Board formulates overall strategic plans and key policies of the Group, monitors its financial performance, maintains effective oversight over the management, risks assessment and improving and reviewing the Group's policies and practices on corporate governance while delegating the day-to-day operations of the Company to the executive Directors or the management of every business segment. The Board is committed to making decisions in 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 a breadth of experience in accounting and financial management, Mr. Li Wangrong has rich experience in law and Ms. LiangJing 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.

The Directors may have access to the advice and services of the company secretary of the Company with a view to ensure that the board procedures, and all applicable rules and regulations, are followed. In addition, the Directors may, upon reasonable request, seek independent professional advice in appropriate circumstance at the Company's expenses. The Board shall resolve to provide separate appropriate independent professional advice to the Directors to assist the relevant Directors to discharge their duties.

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in Appendix 10 to the Listing Rules as its own code of conduct regarding the securities transactions by the Directors. Having made specific enquiries with each Director, all Directors have confirmed that they have complied with the required standards set out in the Model Code throughout the year of 2016.

All members of the Board had entered into three-year service contracts with the Company respectively. According to the memorandum and articles of association of the Company, all Directors will retire by rotation in every three years at the annual general meeting of the Company, but are eligible for re-election.

Brief biographical details of the Directors are set out on pages 46 to 48 of the annual report.

BOARD DIVERSITY

The Company adopted the Board Diversity Policy with periodical objectives. The nomination committee evaluates the balance and blend of skills, experience and diversity of the Board. Selection of candidates will be based on a range of diversed perspectives, including but not limited to age, gender, cultural and educational background, professional and industry experience, skills, knowledge and other qualities essential to the Company's business and merit and contribution that the selected candidates will bring to the Board. The Company sees that increasing diversity at the Board level would enhance the Board's effectiveness and corporate governance.

The remunerations of each of the Directors of the Company are disclosed on an individual basis, details of which are set out in note 45 to the consolidated financial statements. The band of remuneration of senior management personal and related number of members of senior management are as follows:

	2016 Number of individuals	2015 Number of individuals
Below RMB650,000	**4**	4

Since its listing, the Company maintained liability insurance for its Directors, Supervisors and senior management each year.

BOARD MEETING

The Board held a total of four all-members meetings during the year, discussed and approved the 2015 annual report, 2016 interim report and the work report of internal audit department; appointed PricewaterhouseCoopers as the independent auditor of the Company. The attendance of each of the Directors is set out in the table below. The relevant senior management and members of the Supervisory committee of the Group had all attended the board meetings held during the year. Directors received the notice of board meeting at least 7 days before the date on which board meeting was held and all of the Directors are offered opportunities to suggest any issue for discussion included in meeting agenda. All the minutes of board meetings are filed and accessible to all Directors at any time.

ATTENDANCE OF BOARD MEETING IN 2016

Name	Attendance/ Number of Board meetings
Executive Directors	
Mr. Pang Baogen	4/4
Mr. Gao Lin	4/4
Mr. Gao Jiming	4/4
Mr. Gao Jun	4/4
Mr. Jin Jixiang	4/4
Non-executive Director	
Mr. Fung Ching, Simon	4/4
Independent Non-executive Directors	
Mr. Chan, Dennis Yin Ming	4/4
Mr. Li Wangrong	4/4
Ms. Liang Jing	4/4

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company's number of independent non-executive Directors has complied with the Rule of 3.10(1) of the Listing Rules. 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.

Prior to their respective appointment, each of the independent non-executive Directors has submitted a written statement to the Stock Exchange confirming their independence and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect their independence. The Company has also received a written confirmation from each of the independent non-executive Directors in respect of their independence. The Company considers that all independent non-executive Directors are being considered to be independent by reference to the factors stated in the Listing Rules.

DIRECTORS' TRAINING AND DEVELOPMENT

Pursuant to the Appendix 14 to the Listing Rules, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. The directors' training is a continuous project. The Company invited different professional teams regularly to provide trainings for the Directors about relevant regulations and rules, marketing environment and/or the newest changes of the industry development. During the year ended 31 December 2016, the directors, supervisors and senior management have developed their knowledge of directors' duties and risks. Besides, some Directors have also attended lessons in relation to Directors' roles, functions and duties, as well as strengthen their professional development by reading some related information or attending professional training sessions on their own. The Directors confirmed that they have complied with the Code Provision A.6.5 of the CG Code.

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, Nomination Committee and Remuneration Committee perform their specific duties in accordance with their respective written terms of reference.

AUDIT COMMITTEE

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 terms of reference of the Company's audit committee are formulated in accordance with the Appendix 14 to the Listing Rules and the recommendations in "A Guide for Effective Audit Committee" published by the Hong Kong Institute of Certified Public Accountants. The primary duties of the audit committee are to review and supervise the Group's financial reporting procedures and internal audit scheme formulated by the internal audit department of the Company and review the reports submitted by the internal audit department. It is also responsible for reviewing affairs related to the appointment, resignation and replacement of independent auditors as well as assessing the auditors' performance and whether their audit fees are reasonable, and providing relevant recommendations to the Board. The audit committee has established a whistle blowing policy and system. The terms of reference of the Audit Committee are available on the websites of the Company and the Stock Exchange. The audit committee of the Company held two meetings during the year of 2016.

The major tasks accomplished during the year include:

– reviewing the annual and interim results announcement, reports and financial statements of the Group;

– reviewing and providing recommendations on the accounting policies adopted by the Group and the accounting practice issues;

– monitoring the work of the internal audit department of the Group and reviewing the reports submitted by it;

– advising on the material transactions of the Group and providing recommendations on related risks to management; and

– reviewing the audit fees of auditors and recommending the fees for approval by the Board.

ATTENDANCE OF THE MEETING OF THE AUDIT COMMITTEE IN 2016

Name	Attendance/ Number of Audit Committee meetings
Mr. Chan, Dennis Yin Ming	2/2
Mr. Li Wangrong	2/2
Mr. Fung Ching, Simon	2/2

REMUNERATION COMMITTEE

The remuneration committee comprises two independent non-executive Directors, namely, Mr. Chan, Dennis Yin Ming and 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. 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. The terms of reference of the remuneration committee are available on the websites of the Company and the Stock Exchange. The remuneration committee of the Company held one meeting during the year of 2016.

The major tasks accomplished during the year include:

– reviewing the remuneration policy, the terms of service contracts; and

– assessing the performance of all executive directors, supervisors and senior managers.

ATTENDANCE OF THE MEETING OF THE REMUNERATION IN 2016

Name	Attendance/ Number of Remuneration Committee meeting
Mr. Chan, Dennis Yin Ming	1/1
Ms. Liang Jing	1/1
Mr. Pang Baogen	1/1

NOMINATION COMMITTEE

The nomination committee comprises two independent non-executive Directors, namely, Mr. Li Wangrong and Ms. LiangJing, 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 makes 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 independent non-executive directors and providing recommendations to the Board of Directors on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors and supervisors. The terms of reference of the Nomination Committee are available on the websites of the Company and the Stock Exchange. The nomination committee held one meeting in 2016.

The major tasks accomplished during the year include:

– reviewing the structure, number of members and composition of the Board and the Supervisory Committee, and providing the Board with recommendations on any intended change;

– identifying appropriate candidates for the position of directors and supervisors, and nominating such persons to be directors and supervisors;

– assessing the independence of the independent non-executive directors; and

– providing recommendations on the plan of the appointment or re-appointment and succession of directors and supervisors to the Board.

ATTENDANCE OF THE MEETING OF THE NOMINATION IN 2016

Name	Attendance/ Number of Nomination Committee meeting
Mr. Li Wangrong	1/1
Ms. Liang Jing	1/1
Mr. Gao Jiming	1/1

The Board adopted a "Procedure and criteria for nomination of Directors", the details of which are set out below:

Procedure for nomination of Directors

– When there is a vacancy in the Board, the Board evaluates the balance of skills, knowledge and experience of the Board, and identifies any special requirements for the vacancy (e.g. independence status in the case of an independent non-executive Director);

– Prepare a description of the role and capabilities required for the particular vacancy;

– Identify a list of candidates through personal contacts/recommendations by Board members, senior management, business partners or investors;

– Arrange interview(s) with each candidate for the Board to evaluate whether he/she meets the established written criteria for nomination of directors. One or more members of the Board will attend the interview;

– Conduct verification on information provided by the candidate; and

– Convene a Board meeting to discuss and vote on which candidate to nominate or appoint to the Board.

Criteria for nomination of Directors

Common criteria for all Directors

– Character and integrity;

– The willingness to assume broad fiduciary responsibility;

– Present needs of the Board for particular experience or expertise and whether the candidate would satisfy those needs;

– Relevant experience, including experience at the strategy/policy setting level, high level managerial experience in a complex organization, industry experience and familiarity with the products and processes used by the Company;

– Significant business or public experience relevant and beneficial to the Board and the Company;

– Breadth of knowledge about issues affecting the Company;

– Ability to objectively analyse complex business problems and exercise sound business judgment;

– Ability and willingness to contribute special competencies to Board activities; and

– Fit with the Company's culture.

Criteria applicable to Independent Non-executive Directors

– Willingness and ability to make a sufficient time commitment to the affairs of the Company in order to effectively perform the duties of a director, including attendance at and active participation in Board and committee meetings;

– Accomplishments of the candidate in his/her field;

– Outstanding professional and personal reputation; and

– The candidate's ability to meet the independence criteria for directors established in the Listing Rules.

DIRECTORS RESPONSIBILITY ON THE FINANCIAL STATEMENTS

The Directors of the Company acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2016, which were prepared in accordance with statutory requirements and applicable accounting standards. The reporting responsibilities of the external auditors on the financial statements are set out in the Independent Auditor's Report on pages 61 to 67 of the annual report.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for the corporate governance functions with the following duties:

– to develop and review the Company's policies and practices on corporate governance and make recommendations on changes and updating;

– to review and monitor the training and continuous professional development of Directors;

– to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

– to develop, review and monitor the code of conduct and compliance manual applicable to Directors and employees;

– to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report; and

– such other corporate governance duties and functions set out in the CG Code (as amended from time to time) for which the Board are responsible.

COMPANY SECRETARY

Mr. Chow Chan Lum has been a member of the Institute of Chartered Accountants of Scotland and is also a member of the Hong Kong Institute of Certified Public Accountants, which fulfills the requirement under Rules 3.28 and 3.29 of the Listing Rules. As an external employee of the Company, the company secretary supports the Board, ensures good information flow within the Board and Board policy and procedures are followed; advises the Board on governance matters, facilitates induction and, monitors the training and continuous professional development of Directors. During the year, the company secretary confirms that he has attained not less than 15 hours of relevant professional training.

SHAREHOLDERS' MEETING

The shareholders' meeting of the Company not only makes important and key decisions, but also serves as a direct communication platform for its Directors, management and shareholders. In this respect, notice of shareholders' meeting stating the particulars of the matters to be discussed, procedures of voting by poll, shareholders' voting rights, will be circulated to shareholders 20 clear business days before the date of shareholders' meeting according to the Listing Rules. During the period under review, the Group hold one annual general meeting, one domestic shareholders' meeting and one H shareholders' meeting, the details as follows:

ATTENDANCE OF SHAREHOLDERS' MEETING AND CLASS MEETINGS IN 2016

Name	Attendance/ Number of shareholders' meeting and class meetings
Executive Directors	
Mr. Pang Baogen	3/3
Mr. Gao Lin	3/3
Mr. Gao Jiming	3/3
Mr. Gao Jun	3/3
Mr. Jin Jixiang	3/3
Non-executive Director	
Mr. Fung Ching, Simon	3/3
Independent Non-executive Directors	
Mr. Chan, Dennis Yin Ming	3/3
Mr. Li Wangrong	3/3
Ms. Liang Jing	3/3

SHAREHOLDERS' RIGHTS

In accordance with the Company's Article of Association 87, two or more shareholders holding in aggregate 10% (including 10%) or more of the shares carrying the voting right at the meeting sought to be held shall have the right to require the board to convene an extraordinary general meeting or a class meeting in stating the objectives of the meeting. The board shall as soon as possible proceed to convene the extraordinary general meeting or a class meeting after receiving the requisition. If the board does not serve the notice of the convening a meeting after 30 days of receiving the written requests aforesaid, such shareholders may convene such a meeting within four months from the date of receipt of the requisition by the board. Any reasonable expenses incurred by the requisitions by reason of the failure of the board to duly convene a meeting shall be repaid to the shareholders by the Company.

PROCEDURES FOR SHAREHOLDERS TO PROPOSE A PERSON FOR ELECTION AS A DIRECTOR

Subject to applicable laws and regulations, including the Company Law of the People's Republic of China, the Listing Rules and the articles of association of the Company as amended from time to time, the Company may in general meeting by ordinary resolution elect any person to be a director of the Company either to fill a casual vacancy or as an additional director. A shareholder of the Company can deposit a written notice at the correspondence address in Hong Kong of the Company for the attention of the company secretary for proposing a person for election as director. The written notice must state the full name of the person proposed for election as director and include such person's biographical details as required by Rule 13.51(2) of the Listing Rules, and be signed by the shareholder concerned and the written notice signed by the candidate proposed to be elected as director indicating his/her willingness to be elected. The period for lodgment of such a written notice shall be at least seven days, commencing no earlier than the day after the dispatch of the notice of the meeting for election of directors and ending no later than seven days prior to the date of such meeting.

Shareholders may at any time send their enquiries and concerns to the Board in writing through the secretary of The Company, may also make enquiries with the Board at the general meetings of the Company.

The correspondence address of the Company in Hong Kong is as follows:

Room 1902, China Evergrande Centre
38 Gloucester Road, Wanchai, Hong Kong

The headquarter address of the Company is as follows:

No.501 Shanyin West Road, Keqiao District
Shaoxing City, Zhejiang Province
The PRC

CONTROLS MECHANISM

Supervisory Committee

The Supervisory Committee is the standing supervisory organisation of the Company, which is responsible for supervising the functions of the Board and its members and the senior management such as the general manager and deputy general managers. The Supervisory Committee comprises five supervisors, who will serve for a term of three years and are eligible for re-election. The number of members and composition of the Supervisory Committee of the Company comply with the requirements of the relevant laws and regulations.

The Supervisory Committee comprises Mr. Kong Xiangquan (chairman of the Supervisory Committee), Mr. Wang Jianguo and Mr. Xugang, and independent Supervisors, Mr. Zhang Xindao and Mr. Xiao Jianmu. The Supervisory Committee is accountable to the shareholders meeting and exercises the following authority in accordance with the applicable laws.

– examining the financial statements of the Company;

– supervising the directors, general manager, deputy general managers and other senior management in the performance of their duties to prevent them from breaching the laws, administrative regulations or the Company's articles of association;

– requiring the directors, general manager, deputy general managers and other senior management to rectify behaviors which will prejudice the interests of the Company;

– verifying the financial information, such as financial reports and profit appropriation proposals, which intended to be submitted to the shareholders' meeting by the Board and appointing certified public accountants and auditors in the name of the Company to assist in re-auditing whenever the committee is in doubt with these information;

– proposing to convene extraordinary general meeting; and

– negotiating with or initiating litigations against directors on behalf of the Company.

The Supervisory Committee convened two meetings during the year and all of the Supervisors attended the meetings. The Supervisory Committee has also attended the board meetings held in the year of 2016. The Supervisory Committee has also adopted the Model Code in Appendix 10 to the Listing Rules as its own code of conduct regarding the securities transactions by the Supervisors. Having made specific enquiries with each Supervisor, all Supervisors have confirmed that they have complied with the required standards set out in the Model Code throughout the year of 2016.

Internal audit

The Company has established an internal audit department. The internal audit department is independent from the finance department or other management departments. It reports directly to the Board and audit committee. The primary duties of the internal audit department are to monitor and review the effectiveness of the operation of the financial, operational and compliance control as well as risk management systems of the Company and its subsidiaries. During the year, it has reviewed, monitored, and submitted reports on review and approval system for use of capital, financial budgeting system, system governing signing of contracts and bidding budget; and final settlement and control system according to the internal audit plans.

INVESTOR 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. In order to obtain more information from its investors and the potential investors, the Company has investor relations department, endeavoring to interact with its shareholders, investors, analysts, investment banks and financial medias and release the latest announcement, circular, interim report and annual report, as well as the Company's newsletters.

SUBSTANTIAL SHAREHOLDERS OF H SHARES

As at 31 December 2016, 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 the 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	Number of H Shares of the Company Held (Long Position)	Approximate Percentage of the Total Issued H Shares of the Company (Note 3)	Approximate Percentage of the Total Registered Share Capital of the Company (Note 3)
Wu Xueqin (Note 1)	29,304,000	11.20%	4.79%
Zhu Yicai	29,304,000	11.20%	4.79%
First Beijing Investment (Cayman) Limited (Note 2)	16,476,000	6.30%	2.69%
First Manhattan LLC	16,476,000	6.30%	2.69%

Notes:

1. Mr. Zhu Yicai, the spouse of Ms. Wu Xueqin, is deemed to be interested in 29,304,000 H Shares.

2. First Manhattan LLC is deemed to be interested in 16,476,000 H Shares through its controlled corporation, namely First Beijing (Cayman) Limited.

3. As at 31 December 2016, the Company has a total of 612,372,053 shares, of which 261,630,000 shares were H shares. On 14 March 2017, the Company cancelled a total of 14,964,000 H shares repurchased from 12 December 2016 to 10 January 2017. As as the date of this report, the Company has a total of 597,408,053 shares, of which 246,666,000 shares are H Shares.

IMPORTANT FINANCIAL DATES

Events	Date
Issued Interim Results Announcement of 2016	On 22 August 2016
Issued Annual Results Announcement of 2016	On 24 March 2017
Closure of register of member of the Company	On 13 May 2017 to 13 June 2017 (both days inclusive)
Annual General Meeting of 2016	On 13 June 2017
Class meeting for holders of H Shares	On 13 June 2017
Class meeting for holders of Domestic Shares	On 13 June 2017

The annual general meeting of the company ("AGM") was held at 2nd Floor, Baoye Group, No.501 Shanyin West Road, Keqiao District, Shaoxing City, Zhejiang Province, the PRC on 15 June 2016. All the resolutions were passed by the shareholders in voting. The details of the resolutions and results please refer to the results of AGM on 15 June 2016. All the Directors attended this AGM.

ARTICLES OF ASSOCIATION

During the period of the year, there's no other change of article of Association of the Company except for the residence of the Company from Shaoxing County to Keqiao District according to the governmental administrative division adjustment.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Pang Baogen, born in 1957, is the founder, chairman of the Board and chief executive officer of the Group. Mr. Pang is one of the experts who has received the special award of the State Council and is a member of the expert committee for the China Construction Reform and Development under the Ministry of Housing and Urban-Rural Development of the People's Republic of China. He holds a professor level senior engineer qualification. He is well respected and recognised in the construction industry in China and has received awards including Model Worker of National Construction System, Advanced Individual of National Sustainable Communities, Outstanding Entrepreneur in Zhejiang Province, Youth Scientific and Technical Worker with Outstanding Contributions to Zhejiang Province, Entrepreneur with Outstanding Contributions to the Construction Industry in Zhejiang Province in the "Eleventh Five-year" Period, Award of Commercialization of Science in Zhejiang Province as well as Zhejiang Charity Award and Zhejiang Charity Star. Mr. Pang has extensive experience in the construction technology field and of enterprise management. He actively promotes independence and innovation, and takes on national topics such as "risk-prevention in big projects", "transforming the construction industry with information technology" and "the system research of one-hundred-year construction in China" and the "Analysis of Comprehensive Efficiency of Housing Industrialization". At the same time, he guides the Group in undergoing various revolutions in management controls and operation mechanism. He also explores and executes the "three-in-one" business model and the contractual management model. Besides, Mr. Pang is also the vice-chairman of the Construction Companies Committee in China, vice-chairman of Housing Industrialization Technology Innovation Association in China, the vice-chairman of Construction Association and Agricultural Technology Promotion Foundation in Zhejiang Province, representative of the 12th People's Representative Congress of Zhejiang Province and the director of the Institute of Construction and Housing Industrialisation of National Construction Engineering Technology Research Center.

Mr. Gao Lin, born in 1970, is an executive Director and the director of the operation management committee of the Company, a director and the general manager of Baoye Hubei Construction Group Company Limited. Mr. Gao holds a professor level senior engineer qualification and is a graduate of the Fudan EMBA Programme. He is also a senior professional manager of the construction industry in China. He was awarded a celebrity in the national important infrastructure construction and a celebrity of the 9th (2010) Hubei Economic Year, the National Excellent Construction Entrepreneur, apprentice of Luban, the Top 10 Outstanding Entrepreneurs of Construction Industry in Zhejiang Province, Outstanding Entrepreneur in Hubei Province, Model Worker of Hubei Province, Outstanding Youth in Hubei Province, Talent for Economic Development of Shaoxing City, Model Worker of Shaoxing City. He is currently the vice chairman of the Hubei Enterprises Union, the vice chairman of the Federation of Industry and Commerce in Hubei Province and vice-chairman of Construction Industry Association in Hubei, the vice chairman of the Youth Union of the Direct Departments of Hubei Province, and representative of the 15th People's Representative Congress of Wuchang District, Wuhan City. He joined the Group in 1987.

Mr. Gao Jiming, born in 1962, is an executive Director of the Company and the chairman and general manager of Hubei Construction Real Estate Development Company, a subsidiary of Baoye Hubei Construction Group Company Limited. Mr. Gao is a graduate of the China University of Geosciences, majoring in civil engineering and holds a professor level senior engineer qualification. He is the vice-chairman of the Real Estate Association of Keiqao District, Shaoxing City. He joined the Group in 1978.

Mr. Gao Jun, born in 1972, is an executive Director and a member of the operation management committee of the Company, and the general manager of Baoye Group Anhui Company Limited. Mr. Gao graduated from the China University of Geosciences, majoring in civil engineering, and holds a professor level senior engineer qualification. Mr. Gao is currently a representative of the 15th People's Representative Congress of Hefei City, the chairman of Zhejiang Enterprises Union in Anhui, vice chairmans of the Anhui Journalist Union and the Hefei Industrial and Commercial Chamber, The chairman of high-end entrepreneurial talent association in Xinzhan District, he was awarded the Model Worker of Anhui Province and Model Worker of Hefei City. He joined the Group in 1989.

Mr. Jin Jixiang, born in 1967, is an executive Director and a member of the operation management committee of the Company, and chairman and the general manager of Zhejiang Baoye Construction Group Company Limited. Mr. Jin graduated from the China University of Geosciences, majoring in civil engineering and holds a professor level senior engineer qualification. He was awarded the National Excellent Decoration Entrepreneur, Outstanding Construction Entrepreneur in Zhejiang Province, National Excellent Construction Entrepreneur, an advanced worker in national construction industry, a senior professional manager of the construction industry in China, Top 10 Outstanding Entrepreneurs of Construction in Zhejiang, Model Worker of Shaoxing City, Talent with great contribution to the development of Shaoxing City and the Advanced Productivity Worker of Shaoxing City. Mr. Jin joined the Group in 1985.

Non-executive Director

Mr. Fung Ching, Simon, born in 1969, is an non-executive Director and a member of audit committee of the Company and is currently the chief financial officer and the company secretary of Greentown China Holdings Limited, a company listed on the main board of The Stock Exchange and an independent non-executive director of Hainan Meilan International Airport Company Limited, a company listed on the main board of The Stock Exchange. And he was appointed as an independent non-executive director of China Logistics Property Holdings Co.,Ltd, a company listed on the main board of The Stock Exchange, since July 2016. Mr. Fung graduated from the Queensland University of Technology in Australia with a Bachelor's degree, majoring in accountancy. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the CPA Australia. Mr. Fung served as the chief financial officer and secretary to the board of Directors of Baoye Group between 2004 and 2010, and he worked in PricewaterhouseCoopers between 1994 and 2004. Mr. Fung has over 12 years of experience in managing finance and accounting functions, mergers and acquisitions, fund raising and investor relations for a PRC company listed in Hong Kong.

Independent Non-executive Directors

Mr. Chan, Dennis Yin Ming, born in 1954, a Canadian living in Hong Kong, is an independent non-executive Director, chairman of audit committee and remuneration committee of the Company. Mr. Chan is a graduate of the John Molson School of Business of Concordia University, Canada and has obtained a professional diploma in accountancy from the McGill University, Canada. Mr. Chan is an associate member of the Chartered Institute of Management Accountants, United Kingdom (ACMA), an associate member of the Institute of Chartered Secretaries and Administrators, United Kingdom (ACIS), a member of Chartered Institute of Purchasing and Supply, United Kingdom (MCIPS) and a member of Canadian Institute of Chartered Accountants (CA). Mr. Chan is currently director and chief executive officer of Standard Corporate Advisory Limited. Prior to that, Mr. Chan had been director and chief financial officer of various listed companies in Hong Kong, Singapore and the United States of America. Mr. Chan has more than 39 years of experience in public accountancy, management consultancy, manufacturing, distribution and retails, telecommunications, logistics and financial services.

Mr. Li Wangrong, born in 1963, graduated from the Law School of Zhejiang University and holds a master degree. Mr. Li is currently the principal partner of Zhejiang Dagong & Partners and the first-grade solicitor. Mr. Li is also the independent director of Sanbian Sci-Tech Co., Ltd., a listed company in Shenzhen Stock Exchange. Mr. Li has rich experience in arbitration, property development, contract law, civil and commercial cases.

Ms. Liang Jing, born in 1953, graduated from Jiangxi Metallurgy College, majoring in mechanical engineering and holds senior level engineer qualification. Ms. Liang worked for Shaoxing Lizhu Iron Mining Company, Shaoxing Property Development Company and Shaoxing Tianying Tax Agent Company. Ms. Liang has retired from her profession.

SUPERVISORS

Mr. Kong Xiangquan, born in 1958, a qualified senior engineer, is the general manager of the Zhejiang Baoye Communications Construction Company Limited. He joined the Group in 1975.

Mr. Wang Jianguo, born in 1966, holds a senior engineer qualification, is currently the chairman and general manager of Zhejiang Baoye Curtain Wall Decoration Company Limited. He is also a deputy director and member of the curtain wall committee of China Construction Decoration Association and vice chairman of Zhejiang Construction Decoration Association. He was awarded the National Outstanding Entrepreneur of Construction Decoration Industry. Mr. Wang joined the Group in 1986.

Mr. Xu Gang, born in 1976, is a deputy general manager of Zhejiang Baoye Construction Group Company Limited. Mr. Xu graduated from the China University of Geosciences, majoring in civil engineering, and holds a First Grade Registered Architect and senior engineer qualification. Mr. Xu was awarded the Top 10 Young Entrepreneurs of Construction Industry in Zhejiang, Model Worker of the Construction Industry in Shaoxing City, the Outstanding Entrepreneurs of Construction Industry in Suzhou City. Mr. Xu joined the Group in 1998.

INDEPENDENT SUPERVISORS

Mr. Zhang Xindao, born in 1944, is an independent Supervisor of the Company. Mr. Zhang graduated from the East-South University and holds a senior engineer qualification. He was preciously the deputy director of Shaoxing City Electric Power Bureau, general manager of Shaoxing Daming Industry Company, chairman of Shaoxing Daming Electricity Company, chairman of Zhuji Bafang Electricity Company and the general manager of Shaoxing Tianyi Green Power Company Limited.

Mr. Xiao Jianmu, born in 1967, graduated from Zhejiang Forestry College, holds the qualifications of economist, Certified Public Accountant, Certified Tax Agent, Certified Public Valuer, Real Estate Appraiser and was awarded Zhejiang Excellent Certified Public Accountant. Mr. Xiao served in construction department of Shaoxing Huaxia Company and Shaoxing Gongxiao Building Company Limited. Mr. Xiao is now the vice director of Zhejiang Zhongtian Accountant Firm.

SENIOR MANAGEMENT

Mr. Wang Rongbiao, born in 1968, is a member of the operation management committee of the company and the chairman and the general manager of Zhejiang Baoye Building Materials Industrialisation Company Limited. Mr. Wang graduated from Wuhan Science and Technology University, majoring in civil engineering, and holds a senior engineer qualification. Mr. Wang joined the Group in 1986.

Mr. Lou Zhonghua, born in 1968, is a member of the operation management committee of the Company. Mr. Lou graduated from the China University of Geosciences, majoring in civil engineering and holds a professor level senior engineer qualification. He is currently the vice-chairman of the Real Estate Association of Shaoxing City and Vice-chairman of the Real Estate Association of Keqiao District, Shaoxing City. Mr. Lou joined the Group in 1986.

Mr. Sun Guofan, born in 1962, is the chief economist of the Company. Mr. Sun graduated from the Hangzhou College of Commerce, majoring in finance and accounting, and is qualified as an accountant and senior economist in the PRC. He joined the Group in 1988.

Mr. Jiang Xiaohua, born in 1970, is the chief accountant of the Company. Mr. Jiang graduated from Jiangxi University of Finance and Economics in 1993, majoring in finance and taxation. He graduated from Zhejiang University and obtained the master degree in 2003. Mr. Jiang holds a professor level senior accountant certification and was awarded as one of the National Accounting Leading Talents. He was previously the Inspection officer of Finance and Taxation Bureau of Shaoxing County and the Chief Financial Officer of Tianlong Group Company Limited. Mr. Jiang joined the Group in 2004.

DIRECTORS' REPORT

The Board is pleased to present the annual report and the audited financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the provision of construction service, development and sale of properties and manufacture and distribution of industrialised building materials. The activities of the Company's principal subsidiaries are set out in note 9 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

FINANCIAL POSITIONS AND RESULTS

The financial positions of the Group and the Company as at 31 December 2016 are set out in the balance sheets of the consolidated financial statements prepared in accordance with HKFRS on pages 68 to 69.

The results of the Group for the year ended 31 December 2016 prepared in accordance with HKFRS are set out in the consolidated income statement on page 70.

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 6 of the annual report.

RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in the note 24 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

According to the relevant laws and regulations in the PRC, the reserves of the group available for distribution to the equity holders amounted to RMB4,907,477,000 as at 31 December 2016 (2015: RMB4,480,156,000).

DIVIDENDS

At the board meeting held on 24 March, 2017, the Board proposed no final dividend for the year ended 31 December 2016 (2015: RMB0.10).

SEGMENT INFORMATION

The Group is principally engaged in the following three main operation segments:

- Construction – provision of construction service
- Property development – development and sale of properties
- Building materials – manufacture and distribution of industrialised building materials

The segment information for the year ended 31 December 2016 is set out in note 5 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the five largest customers and purchases from the five largest suppliers of the Group accounted for less than 30% of the Group's aggregate revenue and purchases respectively.

None of the Directors, their associates or any shareholders (which, to the knowledge of the Directors, own more than 5% interests of the Company's share capital) had any interest in the above major suppliers or customers.

PROPERTY,PLANT AND EQUIPMENT

Details of the movements in Property, plant and equipment of the Group during the year are set out in note 7 to the consolidated financial statements.

DIRECTORS AND SUPERVISORS

The Directors and Supervisors of the Company for 2016 are as follows:

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 of the Supervisory Committee)*
Mr. Wang Jianguo
Mr. Xu Gang

Independent Supervisors

Mr. Zhang Xindao
Mr. Xiao Jianmu

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the year, there's no change of Directors, Supervisors and senior management.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors, Supervisors and senior management of the Group are set out on pages 46 to 49 of the annual report.

REMUNERATION OF DIRECTORS

The remuneration of the Directors of the Company is disclosed on an individual named basis in note 45 to the consolidated financial statements.

HIGHEST PAID INDIVIDUALS

During the year, the relevant information of the five individuals with the highest remuneration of the Group is disclosed in note 45 to the consolidated financial statements.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board has obtained written confirmations from all independent non-executive Directors concerning their independence in accordance with Rule 3.13 of the Listing Rules. The Board is in the opinion that the existing independent non-executive Directors are independent based on the guidelines set out in Rule 3.13 of the Listing Rules.

INTERESTS OF DIRECTORS, SUPERVISORS, CHIEF EXECUTIVE AND SENIOR MANAGEMENT

As at the end of the report, the interests and short positions of Directors, Supervisors, chief executive and senior management of the Company and any of the associated corporations within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("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 HKEx pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers, 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	–	32.43% (Note 1)
Mr. Gao Jiming	The Company	Individual	12,059,254	–	2.02% (Note 1)
Mr. Gao Lin	The Company	Individual	9,544,775	–	1.60% (Note 1)
Mr. Gao Jun	The Company	Individual	5,794,259	–	0.97% (Note 1)
Mr. Jin Jixiang	The Company	Individual	2,440,527	–	0.41% (Note 1)
Supervisors					
Mr. Wang Jianguo	The Company	Individual	5,250,290	–	0.88% (Note 1)
Mr. Wang Jianguo	Zhejiang Baoye Curtain Wall Decoration Company Limited	Individual	8,487,363	–	16.94%
Mr. Xu Gang	The Company	Individual	5,971,303	–	1.00% (Note 1)
Senior Management					
Mr. Sun Guofan	The Company	Individual	5,328,155	–	0.89% (Note 1)
Mr. Lou Zhonghua	The Company	Individual	4,533,172	–	0.76% (Note 1)
Mr. Wang Rongbiao	The Company	Individual	2,647,911	–	0.44% (Note 1)

Note:

1. On 14 March 2017, a total of 14,964,000 repurchased H shares were cancelled. As at the date of the report, the Company has a total registered share capital of 597,408,053.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

At the 2013 annual general meeting held on 14 June 2014, all appointed Directors and Supervisors signed their respective new service contracts or appointment letters with the Company, the term of which will expire at the conclusion of the annual general meeting of 2016 of the Company. The Company has not signed any service contract, with any Director or Supervisor, which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Company's business to which the Company or its subsidiaries was a party and in which the Directors or the Supervisors of the Company have material interests, whether directly or indirectly, subsisted at any time during the year (excluding Directors' and Supervisors' service contracts mentioned above).

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year did the Company or any 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.

INTERESTS OF DIRECTORS IN COMPETING BUSINESS

During the year and up to the date of this report, none of the Directors has any interest in business, which competes or may compete with the business of the Group under the Listing Rules.

DETAILS OF SHARE OFFERING AND PLACING

	Initial Public Offering	The 1st placement of H shares	The 2nd placement of H shares	The 3rd placement of H shares
Class of shares listed	H share	H share	H share	H share
Listing place	Main Board of HKEx.	Main Board of HKEx.	Main Board of HKEx.	Main Board of HKEx.
Offering/placing price	HK$1.43 per H share	HK$4.05 per H share	HK$4.85 per H share	HK$10.88 per H share
Listing date	30 June 2003	21 January 2005	14 December 2005	2 February 2007
Number of issued H shares	180,684,000	36,136,800	43,364,160	52,036,992

FUNDS RAISED AND DIVIDEND

Year	Funds Raised (HKD)	Dividend (RMB/share)	Total Dividend (RMB)	Full – Year Earnings (RMB)	Approximate Percentage of Full-year Earnings (%)
2003	258,370,000	0.0635	33,746,000	112,409,000	30%
2004	/	0.1436	81,502,000	275,082,000	30%
2005	356,660,000	0.12	73,311,000	304,226,000	24%
2006	/	0.07	46,407,000	474,032,000	10%
2007	566,160,000	0.07	46,407,000	225,795,000	21%
2008	/	0.08	53,037,000	150,044,000	35%
2009	/	0.13	86,185,000	502,239,000	17%
2010	/	0.16	106,074,240	527,875,000	20%
2011	/	0.21	139,222,000	710,196,000	20%
2012	/	0.21	139,222,000	752,256,000	18.5%
2013	/	0.10	66,296,401	663,312,000	10%
2014	/	0.10	63,174,401	648,702,000	9.7%
2015	/	0.10	61,237,053	563,655,000	10.9%
2016	/	/	/	526,933,000	/
Total	1,181,190,000		995,821,095		

SHARE CAPITAL

At the end of the reporting period, there was a total share capital of 597,408,053 shares of the Company in issue, which includes:

	Number of shares	Approximate percentage of total share capital
Domestic Shares	350,742,053	58.71%
H Shares	246,666,000 (Note 1)	41.29%
Total	597,408,053 (Note 2)	100%

Notes:

1. On 14 March 2017, a total of 14,964,000 repurchased H shares were cancelled.

2. As at the date of this report, the Company has a total registered share capital of 597,408,053.

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

From December 2016 to April 2017, the Company has repurchased H Shares for 11 times in aggregate of 19,302,000 H Shares, representing 7.38% and 3.15% of the total number of H Shares and the total number of issued Shares of the Company respectively since the special the resolution passed at the last AGM. Total amount paid was HK$110,356,760 (excluding transaction charges). Details of the H shares were as shown in the next day disclosure returns for the period from 12 December 2016 to 12 April 2017 published on the website of the Stock Exchange.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of its Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

CONNECTED TRANSACTIONS

During the year of 2016, the Group had no connected transaction that would require disclosure under the Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles of association of the Company and related laws of Hong Kong and the People's Republic of China (the "PRC"), which would oblige the Company to offer new shares on pro-rata basis to the existing shareholders of the Company.

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.

HUMAN RESOURCES

As at 31 December 2016, the Group had a total of 4,550 permanent employees (as at 31 December 2015: 4,335). Also, there were approximately 71,980 indirectly employed construction site workers (as at 31 December 2015 71,258). These workers were not directly employed by the Group. For the year ended 31 December 2016, the total employee benefit expenses amounted to approximately RMB4,305,382,000. 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

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 2016. 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.

CODE ON CORPORATE GOVERNANCE PRACTICES AND ENVIRONMENTAL,SOCIAL AND GOVERNANCE REPORT

The Group has complied with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules during the period, except that the role of the chief executive officer of the Group has been assumed by Mr. Pang Baogen, Chairman of the Board. For further details, please refer to the Corporate Governance Report as set out in this annual report. According to the Listing Rules, an issuer must disclose Environmental, Social and Governance ("ESG") information on an annual basis. The board is responsible for evaluating and determining the issuer's ESG-related risks and has overall responsibility for the report. In April 2017, the "Environmental, Social and Governance Report 2016" will be published at the stock Exchange and the company's website.

AUDITORS

The re-appointment of PricewaterhouseCoopers (the "PwC Hong Kong") as the Company's international auditor and the re-appointment of PricewaterhouseCoopers Zhongtian LLP (the "PwC ZT") as the Company's PRC statutory auditor were approved at the annual general meeting held on 15 June 2016.

The remuneration of the auditors in the year 2016 is set out as follows:

	2016		2015	
	Audit fees	**Other fees**	Audit fees	Other fees
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
PwC Hong Kong and PwC ZT	**3,730**	**–**	3,680	–

The Company will propose two resolutions at the coming annual general meeting to re-appoint the PwC Hong Kong as the Company's international auditor and to re-appoint the PwC ZT as the Company's PRC statutory auditor.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 13 May 2017 to 13 June 2017, 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 12 May 2017.

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
24 March, 2017

SUPERVISORS' REPORT

To the Shareholders,

In the year 2016, the Supervisory Committee of Baoye Group Company Limited (the "Supervisory Committee"), in compliance with the provision of the Company Law, the Listing Rules and the articles of association of the Company, under their fiduciary duties, took an active role to work reasonably and cautiously to protect the interests of the Company and its shareholders.

During the year, the Supervisory Committee attended all the Board meetings, the annual general meeting, and class meetings of the Company. It provided reasonable suggestions and opinions to the Board in respect of the operations and development plans of the Company. It also strictly and effectively monitored and supervised the management of the Company, to ensure that it was in compliance with the PRC laws and the articles of association of the Company, and in the interests of shareholders and employees when making significant policies and decisions.

We have reviewed and agreed to the Directors' report, audited consolidated financial statements to be proposed by the Board for presentation at the forthcoming annual general meeting. We are of the opinion that the Directors, chief executive officer and other senior management of the Company had during the year strictly observed their fiduciary duties, acted diligently and exercised their authorities faithfully in the best interests of the Company and the shareholders as a whole. None of the Directors, chief executive officer and members of the senior management had been found to have abused their authorities, damaged the interests of the Company and infringed upon the interests of shareholders and employees of the Company.

The Supervisory Committee is satisfied with the achieved operating results and cost-effectiveness of the Company in 2016 and has great confidence in the future of the Company.

Finally, I, on behalf of the Supervisory Committee, would like to thank all shareholders and staff of the Company for their support and patronage for the Supervisory Committee.

By Order of the Supervisory Committee
Baoye Group Company Limited
Kong Xiangquan
Chairman

Zhejiang, the PRC
24 March, 2017

Independent Auditor's Report

pwc 羅兵咸永道

To the shareholders of Baoye Group Company Limited
(incorporated in the People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of Baoye Group Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 68 to 142, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

Independence

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters identified in our audit are summarised as follows:

- Recognition of revenue from provision of construction services

- Recoverability of trade receivables

Key Audit Matter	How our audit addressed the Key Audit Matter
Recognition of revenue from provision of construction services	
Refer to note 4 (Critical accounting estimates and judgements) and note 5 (Segment information) to the consolidated financial statements. Revenue from provision of construction services for the year ended 31 December 2016 amounted to RMB12,799,913,000, representing approximately 70% of the Group's total revenue. The Group used the percentage-of-completion method to determine the revenue from provision of construction services in a given period. The stage of completion was measured by reference to the contract costs incurred up to the balance sheet date as a percentage of the total estimated costs for each contract. We focused on this area because the revenue amount involved is significant and judgements are required in estimating the total costs of construction contracts.	We have performed the following procedures to address this key audit matter: (i) Understood and tested the internal controls over the recognition of revenue from provision of construction services. (ii) Discussed with management the variance between the actual final costs and the estimated costs for contracts completed during the year to assess the reliability of management's estimation. (iii) Reconciled actual costs incurred in construction contracts to invoices received from suppliers on a sample basis. (iv) Compared gross profit margin of material construction contracts and challenged management's explanation for the difference between contracts and with benchmark based on our industry knowledge. (v) Checked the contract price to original construction contracts and, if appropriate, variation orders. We also examined documents for claims and incentives which were adjustments to original contract price. We found the management's judgements on the estimation of total costs of construction contracts and the related revenue were properly supported by available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of trade receivables	
Refer to note 4 (Critical accounting estimates and judgements) and note 18 (Trade receivables) to the consolidated financial statements. As at 31 December 2016, gross trade receivables amounted to RMB2,965,228,000, which represented approximately 13% of the total assets of the Group. Management assessed the recoverability of trade receivables on an individual basis, considering the past settlement history of the individual customer and the subsequent settlement received from the customer. We focused on this area as the balance of trade receivables was material to the consolidated financial statements and the assessment on the recoverability of these receivables involved significant judgements and estimates by management.	We have performed the following procedures to address this key audit matter: (i) Understood and tested the internal controls in relation to collection of trade receivables and assessment on recoverability. (ii) Requested confirmations of debtor balances on a sample basis. Where a reply was not received, we performed alternative procedures by inspecting the underlying invoices or goods delivery notes, as appropriate. (iii) Examined the aging profile of trade receivables, focusing on the overdue balances. We challenged management the justification for recoverability with reference to corroborating evidence and correspondence with customers. (iv) When a provision was made against trade receivables from a customer, we challenged management the rationale for not making full provision on trade receivables from that customer. We found that the management's judgements on the recoverability of the trade receivables were properly supported by available evidence.

OTHER INFORMATION

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

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

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

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

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Cheung Siu Cheong.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 March 2017

Consolidated Balance Sheet

		As at 31 December	
		2016	2015
	Note	**RMB'000**	RMB'000
ASSETS			
Non-current assets			
Land use rights	6	**498,057**	480,752
Property, plant and equipment	7	**1,304,910**	1,240,692
Investment properties	8	**597,079**	597,079
Goodwill		**16,534**	16,534
Investments in joint ventures	10(a)	**86,430**	50,573
Loans to joint ventures	10(b)	**–**	9,868
Investments in associates	11(a)	**13,741**	28,218
Available-for-sale financial assets	13	**8,697**	9,707
Deferred income tax assets	30	**289,924**	74,538
		2,815,372	2,507,961
Current assets			
Inventories	14	**146,199**	131,737
Properties under development	15	**4,873,996**	4,625,616
Completed properties held for sale	16	**2,160,415**	2,390,148
Due from customers on construction contracts	17	**2,965,894**	3,127,617
Trade receivables	18	**2,840,194**	1,423,938
Other receivables and prepayments	19	**1,838,620**	1,710,932
Loan to an associate	11(b)	**–**	51,146
Loans to joint ventures	10(b)	**61,528**	–
Available-for-sale financial assets	13	**678,590**	624,310
Financial assets at fair value through profit or loss	20	**796,269**	–
Restricted bank deposits	21	**633,571**	188,009
Term deposits with initial term of over three months	22	**11,925**	45,419
Cash and cash equivalents	22	**2,885,736**	3,170,058
		19,892,937	17,488,930
Total assets		**22,708,309**	19,996,891

		As at 31 December	
		2016	2015
	Note	**RMB'000**	RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	23	**612,372**	612,372
Share premium	23	**671,665**	671,665
Treasury shares	23	**(13,535)**	–
Reserves	24	**184,341**	183,436
Retained earnings	25	**5,372,104**	4,907,177
		6,826,947	6,374,650
Non-controlling interests		**170,753**	150,922
Total equity		**6,997,700**	6,525,572
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	30	**72,453**	64,821
		72,453	64,821
Current liabilities			
Trade payables	26	**4,657,721**	2,867,045
Other payables	27	**2,769,174**	2,378,957
Receipts in advance	28	**4,635,735**	5,024,194
Current income tax liabilities		**575,032**	518,517
Due to customers on construction contracts	17	**2,717,934**	2,080,785
Borrowings	29	**282,560**	537,000
		15,638,156	13,406,498
Total liabilities		**15,710,609**	13,471,319
Total equity and liabilities		**22,708,309**	19,996,891

The notes on pages 75 to 142 are an integral part of these consolidated financial statements.

The financial statements on pages 68 to 142 were approved by the Board of Directors on 24 March 2017 and were signed on its behalf.

Mr. Pang Baogen
Director

Mr. Gao Jiming
Director

Consolidated Income Statement

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Revenue	5	**18,196,134**	18,216,083
Cost of sales	33	**(17,031,690)**	(16,973,082)
Gross profit		**1,164,444**	1,243,001
Other income	31	**118,799**	116,351
Other gains – net	32	**39,370**	79,746
Selling and marketing costs	33	**(85,166)**	(72,943)
Administrative expenses	33	**(471,356)**	(407,522)
Operating profit		**766,091**	958,633
Finance costs	35	**–**	–
Share of loss of joint ventures	10(a)	**(1,070)**	(68,642)
Share of loss of associates	11(a)	**(478)**	(9,072)
Profit before income tax		**764,543**	880,919
Income tax expense	36	**(230,133)**	(281,922)
Profit for the year		**534,410**	598,997
Profit attributable to:			
– Owners of the Company		**526,933**	563,655
– Non-controlling interests		**7,477**	35,342
		534,410	598,997
Earnings per share for profit attributable to the owners of the Company			
– Basic and diluted (expressed in RMB per share)	37	**0.86**	0.91

The notes on pages 75 to 142 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Profit for the year		**534,410**	598,997
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	24	**(14,992)**	(3,097)
Change in fair value of available-for-sale financial assets, net of tax	24	**14,235**	3,389
Other comprehensive income for the year, net of tax		**(757)**	292
Total comprehensive income for the year		**533,653**	599,289
Total comprehensive income attributable to:			
– Owners of the Company		**526,176**	563,947
– Non-controlling interests		**7,477**	35,342
Total comprehensive income for the year		**533,653**	599,289

The notes on pages 75 to 142 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Note	Attributable to owners of the Company					Non-controlling interests RMB'000	Total equity RMB'000
		Share capital RMB'000	Share premium RMB'000	Reserves RMB'000	Retained earnings RMB'000	Total RMB'000		
Balance at 1 January 2015		631,744	756,533	145,024	4,442,879	5,976,180	114,157	6,090,337
Comprehensive income								
Profit for the year		–	–	–	563,655	563,655	35,342	598,997
Other comprehensive income								
Transfer of reserves to income statement upon sale of available-for-sale financial assets		–	–	(3,097)	–	(3,097)	–	(3,097)
Change in fair value of available-for-sale financial assets		–	–	3,389	–	3,389	–	3,389
Total other comprehensive income, net of tax		–	–	292	–	292	–	292
Total comprehensive income		–	–	292	563,655	563,947	35,342	599,289
Transactions with owners in their capacity as owners								
Transfer of statutory surplus reserves		–	–	38,120	(38,120)	–	–	–
Buy-back and cancellation of shares	23	(19,372)	(84,868)	–	–	(104,240)	–	(104,240)
Dividends	38	–	–	–	(61,237)	(61,237)	(1,577)	(62,814)
Capital contributions by non-controlling interests		–	–	–	–	–	3,000	3,000
Total transactions with owners in their capacity as owners		(19,372)	(84,868)	38,120	(99,357)	(165,477)	1,423	(164,054)
Balance at 31 December 2015		612,372	671,665	183,436	4,907,177	6,374,650	150,922	6,525,572

		Attributable to owners of the Company							
	Note	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 2016		612,372	671,665	–	183,436	4,907,177	6,374,650	150,922	6,525,572
Comprehensive income									
Profit for the year		–	–	–	–	526,933	526,933	7,477	534,410
Other comprehensive income									
Transfer of reserves to income statement upon sale of available-for-sale financial assets		–	–	–	(14,992)	–	(14,992)	–	(14,992)
Change in fair value of available-for-sale financial assets		–	–	–	14,235	–	14,235	–	14,235
Total other comprehensive income, net of tax		–	–	–	(757)	–	(757)	–	(757)
Total comprehensive income		–	–	–	(757)	526,933	526,176	7,477	533,653
Transactions with owners in their capacity as owners									
Transfer of statutory surplus reserves		–	–	–	769	(769)	–	–	–
Buy-back of shares	23	–	–	(13,535)	–	–	(13,535)	–	(13,535)
Dividends	38	–	–	–	–	(61,237)	(61,237)	(1,753)	(62,990)
Capital contributions by non-controlling interests		–	–	–	–	–	–	20,000	20,000
Transactions with non-controlling interests	42	–	–	–	893	–	893	(5,893)	(5,000)
Total transactions with owners in their capacity as owners		–	–	(13,535)	1,662	(62,006)	(73,879)	12,354	(61,525)
Balance at 31 December 2016		612,372	671,665	(13,535)	184,341	5,372,104	6,826,947	170,753	6,997,700

The notes on pages 75 to 142 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Cash generated from operations	39	**1,354,050**	2,129,007
Interest paid		**(28,313)**	(44,453)
Income tax paid		**(381,119)**	(201,634)
Net cash generated from operating activities		**944,618**	1,882,920
Cash flows from investing activities			
Repayment of loans by a joint venture	10(b)	**25,186**	62,727
Payment for acquisition of interest in a joint venture	10(a)	**(20,400)**	–
Loan to a joint venture	10(b)	**(8,312)**	–
Payments for acquisition of interest in associates		**(11,200)**	(13,390)
Loan to an associate	11(b)	**–**	(24,987)
Repayment of loan by an associate	11(b)	**–**	9,816
Addition of entrusted loan		**–**	(50,000)
Repayment of entrusted loan		**–**	50,000
Purchase of financial assets at fair value through profit or loss	20	**(796,269)**	–
Purchase of available-for-sale financial assets	13	**(678,590)**	(535,410)
Proceeds from sales of available-for-sale financial assets		**644,300**	83,800
Purchase of property, plant and equipment		**(232,400)**	(166,739)
Proceeds from sale of property, plant and equipment	39	**35,849**	52,954
Purchase of land use rights		**(30,682)**	–
Proceeds from sale of land use rights	39	**14,457**	66,649
Proceeds from sale of an associate		**–**	15,501
Dividends received from associates		**–**	400
Decrease/(increase) of term deposits with initial term of over three months		**33,494**	(24,385)
Interest received		**116,729**	115,054
Net cash used in investing activities		**(907,878)**	(358,010)
Cash flows from financing activities			
Proceeds from borrowings		**773,560**	1,629,000
Repayments of borrowings		**(1,028,000)**	(2,100,000)
Dividends paid to shareholders of the Company		**(61,237)**	(61,237)
Capital contributions by non-controlling interests		**20,000**	3,000
Buy-back of shares	19,23	**(44,682)**	(104,240)
Loan from non-controlling interests	27	**26,050**	–
Repayments of loan from non-controlling interests		**–**	(18,070)
Acquisition of non-controlling interests	42	**(5,000)**	–
Dividends paid to non-controlling interests		**(1,753)**	(1,577)
Net cash used in financing activities		**(321,062)**	(653,124)
Net (decrease)/increase in cash and cash equivalents		**(284,322)**	871,786
Cash and cash equivalents at beginning of the year		**3,170,058**	2,298,272
Cash and cash equivalents at end of the year		**2,885,736**	3,170,058

The notes on pages 75 to 142 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

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 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, Shaoxing County, Zhejiang Province, the PRC.

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

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 24 March 2017.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosures

(a) The new or revised standards, amendments and interpretations to existing standards, which are mandatory for the financial year beginning on 1 January 2016, are either currently not relevant to the Group or had no material impact on the Group's consolidated financial statements.

(b) *New and revised standards and amendments to existing standards that have been issued and are relevant to the Group, but are not effective for the financial year beginning on 1 January 2016 and have not been early adopted*

		Effective for the financial year beginning on or after
HKAS 12 (Amendments)	Income taxes	1 January 2017
HKAS 7 (Amendments)	Statement of cash flows	1 January 2017
HKFRS 9 (i)	Financial Instruments	1 January 2018
HKFRS 15 (ii)	Revenue from contracts with customers	1 January 2018
HKFRS 2	Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 16	Leases	1 January 2019
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associates or joint ventures	To be determined

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosures (continued)

(b) *New and revised standards and amendments to existing standards that have been issued and are relevant to the Group, but are not effective for the financial year beginning on 1 January 2016 and have not been early adopted (continued)*

The above new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

(i) HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

While the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, debt instruments currently classified as available-for-sale (AFS) financial assets would appear to satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change to the accounting for these assets.

The other financial assets held by the group include:

- equity instruments currently classified as AFS for which a FVOCI election is available

- equity investments currently measured at fair value through profit or loss (FVPL) which would likely continue to be measured on the same basis under HKFRS 9, and

Accordingly, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosures (continued)

(b) *New and revised standards and amendments to existing standards that have been issued and are relevant to the Group, but are not effective for the financial year beginning on 1 January 2016 and have not been early adopted (continued)*

(i) *(continued)*

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKIFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Management has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

(ii) HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract (3) Determine the transaction price (4) Allocate transaction price to performance obligations and (5) recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes' to an 'asset-liability' approach based on transfer of control. HKFRS 15 provides specific guidance on capitalisation of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. HKFRS 15 replaces the previous revenue standards: HKAS 18 Revenue and HKAS 11 Construction Contracts, and the related Interpretations on revenue recognition: HKFRIC 13 Customer Loyalty Programmes, HKFRIC 15 Agreements for the Construction of Real Estate, HKFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue – Barter Transactions Involving Advertising Services.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosures (continued)

(b) New and revised standards and amendments to existing standards that have been issued and are relevant to the Group, but are not effective for the financial year beginning on 1 January 2016 and have not been early adopted (continued)

(ii) *(continued)*

Management is currently assessing the effects of applying the new standard on the Group's financial statements and has identified the following areas that are likely to be affected:

- Revenue from pre-sales of properties under development and revenue from sales of building materials specially made for certain customers may not be recognised at a point in time. Instead, some may be resulted in recognition of revenue over a period of time depending on the terms of the contract,

- The timing of revenue recognition for sale of a completed property and sale of building materials, which is currently based on whether significant risk and reward of ownership of properties and products transfer, may also need to be revisited under the control transfer model,

- The Group currently offers different payment plans to customers, which may have to adjust the transaction price for revenue recognition when significant financial component exists.

The Group is performing a more detailed assessment on the impact on the Group. At this stage, the Group is not able to quantify the impact of the new standard on the Group's consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) *Business combinations*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interest issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (Note 2.8). If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised in profit or loss.

Inter-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2.2 Separate financial statements

Investments in subsidiaries, associates and joint ventures are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries, associates and joint ventures are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries, associates and joint ventures is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary, associates and joint ventures in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Associates and joint arrangements

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Investments in associates and joint ventures are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates and joint ventures includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates and joint ventures' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of loss in associates and joint ventures equals or exceeds its interests in the associates and joint ventures, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associates and joint ventures.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Associates and joint arrangements (continued)

Unrealised gains on transactions between the Group and its associates and join ventures are eliminated to the extent of the Group's interest in associates and the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policy of associates and joint ventures has been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in joint ventures are stated at cost less provision for impairment losses. The results of joint ventures are accounted for by the Company on the basis of dividend received and receivable.

2.4 Segment reporting

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

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statements within "finance costs". All other foreign exchange gains and losses are presented in the income statement within "Other gains – net".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Foreign currency translation (continued)

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

2.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

Buildings and plants	20 years
Machinery	10 years
Motor vehicles	4~5 years
Office equipment and others	3~5 years

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Property, plant and equipment (continued)

Construction in progress represents the direct costs of construction incurred in property, plant and equipment less any impairment losses. No provision for depreciation is made on construction in progress until such time that the relevant assets are completed and available for use. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other gains – net", in the income statement.

2.7 Investment properties

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties.

Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs.

After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recorded in the income statement as part of a valuation gain or loss in 'Other gains – net'.

If an item of properties under development or completed properties held for sale becomes an investment property because its use has changed, any difference between the fair value of the property at that date and its previous carrying amount is recognised in 'Other gains – net'.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Impairment of investments in non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered from impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: loans and receivable, available-for-sale and financial assets at fair value through profit or loss. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'Trade receivables', 'Other receivables', 'Loans to joint ventures', 'Loan to associates', 'Restricted bank deposits', 'Term deposits with initial term of over three months' and 'Cash and cash equivalents' in the balance sheet.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of it within 12 months of the balance sheet date.

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial assets (continued)

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of profit or loss within 'Other gains – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as "Other gains – net".

2.10 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

2.11 Land use rights

The Group made upfront payments to obtain operating leases of land use rights. If the land use rights are held for development and subsequent sales, the upfront payments are recorded as part of the cost of properties under development (Note 2.12). If the land use rights are held by the Group for own use, the upfront payments are recorded as a separate asset and are amortised to the income statement on a straight-line basis over their lease periods.

2.12 Properties under development and completed properties held for sale

Properties under development and completed properties held for sale are stated at the lower of cost and net realisable value. Development cost of properties comprises cost of land use rights, construction costs and borrowing costs incurred during the construction period. Upon completion, the properties are transferred to completed properties held for sale.

Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and the anticipated costs to completion.

Properties under development and completed properties held for sale are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.14 Trade and other receivables

Trade receivables are amounts due from customers for merchandise (including the properties and building materials) sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.15 Construction contracts

A construction contract is defined as a contract specifically negotiated for construction of an asset. Contract costs are recognised as cost in the period when they are incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract by reference to the stage of completion. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

The Group uses the "percentage-of-completion method" to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

Progress billings not yet paid by customers and retention are included within "trade receivables" and "other receivables", respectively.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.17 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to owners of the Company as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the Company's owners.

2.18 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

2.19 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value (referred to as "borrowing costs") is recognised in the income statement over the period of the borrowings using the effective interest method, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceased when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date in the countries where the Company and its subsidiaries, associates and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

(i) Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(ii) Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Pension obligations

The Group contributes to defined contributions retirement schemes organised and administered by the governmental authorities which are available to all employees in the PRC. Contributions to the schemes by the Group are calculated as a percentage of employees' basic salaries.

The government authorities undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the schemes described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees.

The Group's contributions to the above defined contributions retirement scheme are expensed as incurred.

2.22 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates, discounts, business taxes and surcharges and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Provision of construction services

Provision of construction services is recognised in the accounting period in which the services are provided, by reference to the proportion of the contract costs incurred to date to the estimated total contract costs for the contract.

(b) Sales of building materials

Revenue from the sales of building materials is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(c) Sales of properties

Revenue from sales of properties is recognised when the risks and rewards of properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers and collectability of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated balance sheet as advanced proceeds received from customers under current liabilities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

2.24 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

(a) The Group is the lessee – Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(b) The Group is the lessor – When assets are leased out under an operating lease, the assets are included in the balance sheet based on the nature of the assets. Lease income is recognised over the term of the lease on a straight-line basis.

2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or the Board of Directors, where appropriate.

2.26 Financial guarantee

Financial guarantee liabilities are recognised in respect of the financial guarantee provided by the Group for property purchasers.

Financial guarantee liabilities are initially recognised at fair value plus transaction costs that are directly attributable to the issue of the financial guarantee liabilities. After initial recognition, such contracts are measured at the higher of the present value of the best estimate of the expenditure required to settle the present obligation and the amount initially recognised less cumulative amortisation.

Financial guarantee liabilities are derecognised from the balance sheet when, and only when, the obligation specified in the contract is discharged or cancelled or expired.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management strategy aims to minimise the potential adverse effects on the financial performance of the Group.

Risk management is carried out by the senior management of the Group, which includes the executive directors of the Group.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. The conversion of RMB denominated balances into foreign currencies is subject to the rates and regulations of foreign exchange control promulgated by the PRC government.

The main foreign currency assets held by the Group is US dollar. In addition, the Group provides construction services in Africa and holds some monetary assets denominated in the local currencies of certain countries in Africa. This exposes the Group to foreign exchange risk. The conversion and remittance of these currencies are subject to governing regulations in these countries.

There is no written policy to manage this foreign exchange risk. Management monitors the Group's currency exposure on an ongoing basis. During 2015 and 2016, the Group did not purchase forward contracts to hedge the foreign exchange risk.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at 31 December 2016 and 2015 are as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Assets		
US dollar ("USD")	**301,237**	224,095
Djibouti Franc ("DJF")	**40,592**	12,801
Botswana Pula ("BWP")	**17,871**	6,078
Seychelles Rupee ("SCR")	**8,133**	3,288
Other foreign currencies	**6,785**	4,920
Liabilities		
DJF	**(190,615)**	(117,191)
BWP	**(20,743)**	(18,046)
SCR	**(11,806)**	(5,701)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) *Foreign exchange risk (continued)*

The following table shows the sensitivity analysis of a 5% decrease in RMB against the relevant foreign currencies. The sensitivity analysis includes only foreign currency denominated monetary items and adjusts their translation at year end.

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Increase/(decrease) in profit for the year		
– USD	**11,296**	8,404
– DJF	**(5,626)**	(3,915)
– BWP	**(108)**	(449)
– SCR	**(138)**	(90)
– Other foreign currencies	**254**	185

(ii) *Price risk*

The Group is exposed to certain raw materials (such as cement and steel) price risk, but does not enter into forward contract to hedge the related risk. Price changes are generally passed on to customers. Besides, the Group is exposed to listed equity securities price risk because the Group has available-for-sale financial assets – listed equity securities. The Group does not actively trade listed equity securities. In addition, the Group is also exposed to monetary funds price risk because the Group has financial assets at fair value through profit or loss. The Group closely monitors the fluctuation of the price and assesses the impact on the Group's financial statements.

As at 31 December 2016, management considered that the price risk of the equity securities and monetary funds is not material to the Group as the amount of available-for-sale financial assets – listed equity securities is not significant and the monetary funds are mainly invested on fixed income products.

(iii) *Interest rate risk*

The Group's interest rate risk arises from interest-bearing bank deposits and bank borrowings. Bank deposits and bank borrowings with variable rates expose the Group to cash flow interest-rate risk. Bank borrowing with fixed rates expose the Group to fair value interest rate risk.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. The Group currently does not use any interest rate swaps to hedge its exposure to interest rate risk. However, the Group will consider hedging significant interest rate exposure should the need arise.

As at 31 December 2016 and 2015, there was no borrowing with floating interest rate.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk

The Group is exposed to credit risk in relation to its trade and other receivables, loans to joint ventures, loans to associates, cash deposits with banks and granting of guarantees in respect of mortgage facility to properties' purchasers, which represent the Group's maximum exposure to credit risk.

To manage this risk, deposits are mainly placed with state-owned financial institutions and reputable banks which are all high-credit-quality financial institutions. The Group has policies in place to ensure that provision of construction services and sale of building material are made to customers with an appropriate credit history; sales of completed properties on credit are made to purchasers with an appropriate financial strength and appropriate percentage of down payments. It also has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivables to ensure that adequate impairment losses are made for irrecoverable amounts. The Group has no significant concentrations of credit risk, with exposure spread over a number of counterparties and customers.

For properties that are still under construction, the Group typically provides guarantees to banks in connection with the customers' borrowing of mortgage loans to finance their purchase of the properties for an amount up to 70% of the total purchase price of the property. If a purchaser defaults on the payment of its mortgage during the term of the guarantee, the Group is able to retain the customer's deposit and sell the property to recover any amounts paid by the Group to the bank. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

No credit limits were in default during the reporting period, and management does not expect any losses that would result from the non-performance by these counterparties.

(c) Liquidity risk

The Group has established a central treasury department (group treasury) to manage its cash flow. The Group aims to maintain sufficient cash and cash equivalents and ensure the availability of funding though an adequate amount of available financing, including short-term bank borrowings, long-term bank borrowings and other loans to meet its business demand. The Group treasury maintains flexibility in funding by maintaining adequate amount of cash and cash equivalent and abundant sources of financing.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	
	2016	2015
	RMB'000	RMB'000
Borrowings	282,560	537,000
Interest of borrowings	19,631	16,977
Trade payables	4,657,721	2,867,045
Other payables (excluding other taxes payables, advance and salaries payables)	2,491,144	2,030,352
Financial guarantee	194,781	79,313
	7,645,837	5,530,687

The Group has adequate financial resources to repay these debts when they become due and payable.

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated balance sheet) less cash and cash equivalents and restricted bank deposits. Total capital is calculated as "equity attributable to the Company's owners" as shown in the consolidated balance sheet.

As at 31 December 2016 and 2015, the Group has surplus cash and cash equivalents over borrowings.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets that are measured at fair value at 31 December 2016 and 2015. See Note 8 for disclosures of the investment properties that are measured at fair value.

	As at 31 December 2016			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets at fair value through profit or loss				
– Monetary funds	796,269	–	–	796,269
Available-for-sale financial assets				
– Equity securities	8,697	–	–	8,697
– Bank financial products	–	–	678,590	678,590
	804,966	–	678,590	1,483,556

	As at 31 December 2015			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Available-for-sale financial assets				
– Equity securities	9,707	–	–	9,707
– Bank financial products	–	–	624,310	624,310
	9,707	–	624,310	634,017

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for financial instruments.

There were no transfers of financial assets between level 1 and level 2 fair value hierarchy classifications during the year ended 31 December 2016.

The following table presents the changes in level 3 instruments for the year ended 31 December 2016 and 2015.

	Equity securities		Bank financial products		Total	
	2016	2015	**2016**	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Opening balance	**–**	2,670	**624,310**	165,900	**624,310**	168,570
Additions	**–**	–	**678,590**	535,410	**678,590**	535,410
Disposals	**–**	(241)	**(644,300)**	(83,559)	**(644,300)**	(83,800)
Fair value (loss)/gain recognised in other comprehensive income	**–**	(2,429)	**19,990**	6,559	**19,990**	4,130
Closing balance	**–**	–	**678,590**	624,310	**678,590**	624,310

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Construction contract revenue recognition

The Group uses the percentage-of-completion method to determine the appropriate revenues to be recognised in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Majority of the Group's construction contracts was fixed price contract.

In applying the percentage of completion method, the Group needs to estimate the gross profit margin of each construction contract, which was determined based on the estimated total construction contract costs and total construction contract sum. When the actual gross profit margin of any construction contract differs from the management's estimates, the construction contract revenue will need to be adjusted accordingly. If the overall estimated gross profit margin of construction contracts changes by 10% (2015: 10%), the revenue will be reduced by RMB44,092,000 (2015: RMB51,585,000) or increased by RMB45,100,000 (2015: RMB54,214,000).

(b) Recoverability of trade receivables

The Group makes provision for impairment of trade receivables based on an assessment of the recoverability of the trade receivables. Provisions are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of trade receivables requires the use of judgements and estimates. Where the expectations are different from the original estimates, such differences will impact the carrying value of trade receivables and impairment of trade receivables in the years in which such estimates have been changed.

(c) Income taxes and deferred taxation

Significant judgement and estimate are required in determining the provision for income tax (including land appreciation tax). There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provision in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(d) Estimate of fair value of investment properties

The fair value of investment properties is determined by using valuation technique. Details of the judgement and assumptions have been disclosed in Note 8.

5 SEGMENT INFORMATION

The chief operating decision-makers are executive directors, who review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The executive directors consider the operation from a business perspective, by assessing the performance of the following three main operating segments:

- Construction – provision of construction services
- Property development – development and sale of properties
- Building materials – manufacture and sale of building materials

The Group's other operations mainly comprise the sale of construction equipments, operation of investment properties, provision of architectural and interior design services and others.

The executive directors assess the performance of the operating segments based on a measure of operating profit. This measurement basis excludes financial costs and share of results of associates and joint ventures from the operating segments. Other information provided, except as noted below, to the executive directors is measured in a manner consistent with that in the financial statements. At the Group level no information regarding segment assets and segment liabilities is provided to the executive directors.

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 and consolidated statement of comprehensive income.

5 SEGMENT INFORMATION (CONTINUED)

The segment information is as follows:

	Year ended 31 December 2016				
	Construction RMB'000	Property development RMB'000	Building materials RMB'000	Others RMB'000	Group 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 loss of joint ventures	336	82	652	–	1,070
Share of loss of associates	–	–	478	–	478
Income tax expense	100,274	108,099	14,707	7,053	230,133

	Year ended 31 December 2015				
	Construction RMB'000	Property development RMB'000	Building materials RMB'000	Others RMB'000	Group RMB'000
Total revenue	15,566,116	1,694,672	2,246,849	161,654	19,669,291
Inter-segment revenue	(1,195,868)	–	(240,663)	(16,677)	(1,453,208)
Revenue (from external customers)	14,370,248	1,694,672	2,006,186	144,977	18,216,083
Operating profit	487,925	352,893	81,709	36,106	958,633
Depreciation	31,120	6,154	46,827	24,352	108,453
Amortisation	6,646	–	3,518	2,605	12,769
Impairment of receivables	3,006	–	11,180	–	14,186
Share of loss of joint ventures	–	66,650	1,992	–	68,642
Share of loss of associates	–	–	9,072	–	9,072
Income tax expense	120,878	134,340	20,690	6,014	281,922

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

5 SEGMENT INFORMATION (CONTINUED)

The Company is domiciled in the PRC. The Group's business activities were mainly carried out in the PRC where the vast majority of the Group's assets are located.

The Group's non-current assets other than financial instruments and deferred tax assets located mainly in the PRC.

Analysis of revenue by category

	2016 RMB'000	2015 RMB'000
Provision of construction services	**12,799,913**	14,370,248
Sales of properties	**3,153,253**	1,694,672
Sales of building materials	**2,089,161**	2,006,186
Rental income	**72,109**	69,783
Others	**81,698**	75,194
	18,196,134	18,216,083

6 LAND USE RIGHTS

Interests in land use rights for its own use represent the prepaid operating lease payments. The net book value of the land use rights is analysed as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	**480,752**	536,240
Additions	**30,682**	–
Disposals	**(755)**	(42,719)
Amortisation	**(12,622)**	(12,769)
At 31 December	**498,057**	480,752

As at 31 December 2016, total carrying value of land use rights pledged as collateral for the Group's bank borrowings amounted to RMB42,006,000 (2015: RMB10,491,000) (Note 29(a)).

7 PROPERTY, PLANT AND EQUIPMENT

	Buildings and plants RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2015						
Cost	1,112,727	459,038	104,610	203,592	229,166	2,109,133
Accumulated depreciation	(361,048)	(242,177)	(82,051)	(189,407)	–	(874,683)
Net book amount	751,679	216,861	22,559	14,185	229,166	1,234,450
Year ended 31 December 2015						
Opening net book amount	751,679	216,861	22,559	14,185	229,166	1,234,450
Additions	24,728	49,273	19,781	12,204	60,753	166,739
Transfer	98,755	4	–	–	(98,759)	–
Disposals	(11,941)	(32,983)	(1,190)	(5,930)	–	(52,044)
Depreciation charge	(49,681)	(33,679)	(9,981)	(15,112)	–	(108,453)
Closing net book amount	813,540	199,476	31,169	5,347	191,160	1,240,692
At 31 December 2015						
Cost	1,213,285	492,807	112,730	169,274	191,160	2,179,256
Accumulated depreciation	(399,745)	(293,331)	(81,561)	(163,927)	–	(938,564)
Net book amount	813,540	199,476	31,169	5,347	191,160	1,240,692
Year ended 31 December 2016						
Opening net book amount	**813,540**	**199,476**	**31,169**	**5,347**	**191,160**	**1,240,692**
Additions	**76,272**	**34,275**	**11,528**	**10,575**	**99,790**	**232,440**
Transfer	**158,666**	**46,648**	**–**	**–**	**(205,314)**	**–**
Disposals	**(26,451)**	**(17,544)**	**(10,494)**	**(270)**	**(2,529)**	**(57,288)**
Depreciation charge	**(56,330)**	**(37,587)**	**(10,515)**	**(6,502)**	**–**	**(110,934)**
Closing net book amount	**965,697**	**225,268**	**21,688**	**9,150**	**83,107**	**1,304,910**
At 31 December 2016						
Cost	**1,410,677**	**496,776**	**94,209**	**177,130**	**83,107**	**2,261,899**
Accumulated depreciation	**(444,980)**	**(271,508)**	**(72,521)**	**(167,980)**	**–**	**(956,989)**
Net book amount	**965,697**	**225,268**	**21,688**	**9,150**	**83,107**	**1,304,910**

Depreciation charge of RMB66,851,000 (2015: RMB55,153,000) and RMB44,083,000 (2015: RMB53,300,000) has been expensed in cost of sales and administrative expenses, respectively.

As at 31 December 2016, total carrying value of property, plant and equipment pledged as collateral for the Group's bank borrowings amounted to RMB20,679,000 (2015: Nil) (Note 29(a)).

7 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Buildings and plants and machinery leased by the Group to third parties under operating leases with the following carrying amounts:

	2016 RMB'000	2015 RMB'000
Cost	240,776	235,119
Accumulated depreciation at 1 January	(71,601)	(63,265)
Depreciation charge for the year	(11,581)	(9,506)
Net book amount	157,594	162,348
Related rental income for the year	22,265	22,654

8 INVESTMENT PROPERTIES

	2016 RMB'000	2015 RMB'000
At 1 January	597,079	596,583
Fair value change	–	496
At 31 December, at fair value	597,079	597,079

Amounts recognised in profit and loss for investment properties

	2016 RMB'000	2015 RMB'000
Rental income	49,844	47,129
Direct operating expenses from properties that generated rental income	(12,184)	(11,120)
	37,660	36,009

As at 31 December 2016, the Group had no unprovided contractual obligations for future repairs and maintenance (2015: Nil).

The Group's investment properties represented a shopping mall and are held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties through leasing.

8 INVESTMENT PROPERTIES (CONTINUED)

As at 31 December 2016, the application of certificates of property ownership of the Group's investment properties is currently being processed.

As at 31 December 2016, the valuation of the Group's investment properties was performed by the management. As at 31 December 2015, an independent valuation of the Group's investment properties was performed by the valuer, Shaoxing Zhongxing Property Surveyors Limited, to determine the fair value of the investment properties. The revaluation gains or losses is included in "Other gains – net" in income statement (Note 32). The investment properties, carried at fair value, were valued by using unobservable inputs of fair value hierarchy Level 3.

There were no transfers between Levels 1, 2 and 3 during the year.

Fair value measurements using significant unobservable inputs (Level 3)

	Shopping mall	
	2016	2015
	RMB'000	RMB'000
Opening balance	**597,079**	596,583
Net gains from fair value adjustment	**–**	496
Closing balance	**597,079**	597,079
Total gains or losses for the year included in profit or loss for assets held at the end of the year, under "Other gains – net"	**–**	496
Change in unrealised gains or losses for the year included in profit or loss for assets held at the end of the year	**–**	496

Valuation processes of the Group

The Group's investment properties were valued at 31 December 2016 by management and at 31 December 2015 by an independent professionally qualified valuer who hold a recognised relevant professional qualification and has recent experience in the locations and segments of the investment properties valued. For all investment properties, their current use equates to the highest and best use.

The Group's valuation team calculates the valuations or review the valuations performed by the independent valuer for financial reporting purposes. This team reports directly to the directors. Discussions of valuation processes and results are held between the directors and the valuation team at least once every six months, in line with the Group's interim and annual reporting dates.

8 INVESTMENT PROPERTIES (CONTINUED)

Valuation processes of the Group (continued)

At each financial year end the finance department:

- Calculates the valuation or verifies all major inputs to the valuation report;
- Assess property valuations movements when compared to the prior year valuation report;
- Holds discussions with the valuation team and independent valuer, if independent valuer is involved.

Changes in Level 2 and 3 fair values are analysed at each reporting date during the bi-annual valuation discussions between the directors and the valuation team. As part of this discussion, the team presents a report that explains the reasons for the fair value movements.

Valuation techniques

For the completed shopping mall in Hefei, the valuation was determined using discounted cash flow ("DCF") projections based on significant unobservable inputs. These input include:

Future rental cash inflows	Based on the actual location, type and quality of the properties and supported by the terms of any existence lease, other contracts and external evidence such as current market rents for similar properties.
Discount rates	Reflecting current market assessments of the uncertainty in the amount and timing of cash flows.
Estimated vacancy rates	Based on current and expected future market conditions after expiry of any current lease.
Maintenance costs	Including necessary investments to maintain functionality of the property for its expected useful life.
Capitalisation rates	Based on actual location, size and quality of the properties and taking into account market data at the valuation date.
Terminal value	Taking into account assumptions regarding maintenance costs, vacancy rates and market rents.

8 INVESTMENT PROPERTIES (CONTINUED)

Information about fair value measurements using significant unobservable inputs (Level 3)

Unobservable inputs	Range of unobservable inputs (probability-weighted average) 31 December 2016	Relationship of unobservable inputs to fair value
Rental cash inflows	**RMB35-RMB141 per month per square meter**	**The higher the rental value, the higher the fair value**
Discount rate	**7%**	**The higher the discount rate, the lower the fair value**
Capitalisation rate	**5%**	**The higher the capitalisation rate, the lower the fair value**

Unobservable inputs	Range of unobservable inputs (probability-weighted average) 31 December 2015	Relationship of unobservable inputs to fair value
Rental cash inflows	RMB32-RMB120 per month per square meter	The higher the rental value, the higher the fair value
Discount rate	7%	The higher the discount rate, the lower the fair value
Capitalisation rate	5%	The higher the capitalisation rate, the lower the fair value

There are inter-relationships between unobservable inputs. Expected vacancy rates may impact the yield with higher vacancy rates resulting in higher yields. An increase in future rental income may be linked with higher costs. If the remaining lease term increases, the yield may decrease.

9 SUBSIDIARIES

The following is a list of the principal subsidiaries as at 31 December 2016, all of which are limited liability companies incorporated and operating in the PRC, except for Baoye Hubei Construction Engineering Group Co., Ltd., which also operates in African countries:

Name	Attributable equity interest held		Proportion of ordinary shares held by non-controlling interests	Registered capital	Principal activities
	Directly	Indirectly		RMB'000	
浙江寶業建設集團有限公司 Zhejiang Baoye Construction Group Co., Ltd.	100%	–	–	1,010,000	Construction and construction related business
浙江寶業幕牆裝飾有限公司 Zhejiang Baoye Curtain Wall Decoration Co., Ltd.	83.06%	–	16.94%	50,800	Manufacture and installation of curtain wall and steel framework
浙江寶業交通建設工程有限公司 Zhejiang Baoye Infrastructure Construction Co., Ltd.	73.68%	26.32%	–	228,000	Construction of highway, bridge and other municipal infrastructure
浙江廣藝建築裝飾工程有限公司 Zhejiang Guangyi Construction and Decoration Co., Ltd.	100%	–	–	50,000	Decoration and replenishment
浙江寶業房地產集團有限公司 Zhejiang Baoye Real Estate Group Co., Ltd.	90%	10%	–	50,000	Development and sales of properties
紹興寶業四季園房地產有限公司 Shaoxing Baoye Four Seasons Garden Real Estate Co., Ltd.	100%	–	–	100,000	Development and sales of properties
浙江寶業住宅產業化有限公司 Zhejiang Baoye Building Materials Industrialisation Co., Ltd.	60%	40%	–	53,600	Production and sales of concrete and construction materials
浙江寶業木製品有限公司 Zhejiang Baoye Woodwork Co., Ltd	40%	60%	–	31,514	Production and sales of steel, wood fireproof doors, and other wooden products

9 SUBSIDIARIES (CONTINUED)

Name	Attributable equity interest held		Proportion of ordinary shares held by non-controlling interests	Registered capital	Principal activities
	Directly	Indirectly		RMB'000	
紹興寶業新型建材有限公司 Shaoxing Baoye New Building Materials Co., Ltd.	–	100%	–	5,000	Production and sales of construction materials
上海紫寶房地產開發有限公司 Shanghai Zibao Real Estate Development Co., Ltd.	–	100%	–	18,000	Development and sales of properties
紹興市華欣預拌混凝土有限公司 Shaoxing Huaxin Pre-mix Commodity Concrete Co., Ltd.	–	100%	–	20,000	Production and sales of concrete and construction materials
浙江寶業鋼結構有限公司 Zhejiang Baoye Steel Structure Co., Ltd.	100%	–	–	20,000	Production, design and sales of steel structure products
安徽寶業建工集團有限公司 Anhui Baoye Construction Engineering Group Co., Ltd.	–	100%	–	235,300	Production and sales of concrete and construction materials
合肥寶業房地產有限公司 Hefei Baoye Real Estate Co., Ltd.	–	100%	–	30,000	Development and sales of properties
安徽華騰投資有限公司 Anhui Huateng Investment Co., Ltd.	–	100%	–	10,000	Development and sales of properties
上海寶筑房地產開發有限公司 Shanghai Baozhu Real Estate Development Co., Ltd.	–	100%	–	30,000	Development and sales of properties
寶業湖北建工集團有限公司 Baoye Hubei Construction Engineering Group Co., Ltd.	–	100%	–	500,000	Construction and construction related business

9 SUBSIDIARIES (CONTINUED)

Name	Attributable equity interest held		Proportion of ordinary shares held by non-controlling interests	Registered capital	Principal activities
	Directly	Indirectly		RMB'000	
湖北省建工第二建設有限公司 Hubei Construction Engineering No.2 Co., Ltd.	–	100%	–	111,800	Construction and construction related business
湖北省建工第三建設有限公司 Hubei Construction Engineering No.3 Co., Ltd.	–	100%	–	50,800	Construction and construction related business
湖北省建工第五建設有限公司 Hubei Construction Engineering No.5 Co., Ltd.	–	100%	–	110,000	Construction and construction related business
湖北省建工工業設備安裝有限公司 Hubei Industrial Equipment Installation Co., Ltd.	–	100%	–	50,190	Installation of industrial equipment
湖北省建工機械施工有限公司 Hubei Engineering Machinery Construction Co., Ltd.	–	100%	–	20,000	Provision of construction services
湖北省建工混凝土製品有限公司 Hubei Construction Engineering Concrete Products Co., Ltd.	–	100%	–	20,080	Production and sales of concrete and construction materials
湖北省建工房地產開發有限公司 Hubei Construction Engineering Real Estate Development Co., Ltd.	–	100%	–	20,000	Development and sales of properties
湖北寶業房地產開發有限公司 Hubei Baoye Real Estate Development Co., Ltd.	–	100%	–	50,000	Development and sales of properties
湖北省建工物資貿易有限公司 Hubei Construction Engineering Material Trading Co., Ltd.	–	100%	–	18,300	Provision of leasing services

9 SUBSIDIARIES (CONTINUED)

Name	Attributable equity interest held Directly	Attributable equity interest held Indirectly	Proportion of ordinary shares held by non-controlling interests	Registered capital RMB'000	Principal activities
安徽金糧置業有限公司 Anhui Jinliang Real Estate Company Limited	–	100%	–	10,000	Development and sales of properties
紹興寶業會稽山國際度假村有限公司 Shaoxing Baoye Kuaiji Mountain International Vocation Village Co., Ltd.	–	100%	–	80,000	Development and management of vacation village
合肥中寶機械製造有限公司 Hefei Zhongbao Machinery Manufacture Co., Ltd.	–	100%	–	20,000	Production and sales of machinery and fittings
寶業集團浙江建設產業研究院有限公司 Baoye Group Zhejiang Construction Industry Research Institute Co., Ltd.	20%	80%	–	10,000	Construction technology research and development
蒙城寶業投資有限公司 Mengcheng Baoye Investment Co., Ltd (Note (a))	–	50%	50%	20,000	Development and sales of properties
太和縣寶業投資有限公司 Taihe Baoye Investment Co., Ltd	–	55%	45%	20,000	Development and sales of properties
浙江寶業現代建築工業化製造有限公司 Shaoxing Baoye Modern Building Industrial Manufacturing Co., Ltd	–	100%	–	20,000	Production and sales of new concrete prefabricated parts
浙江寶業建材科技有限公司 Baoye Building Materials Technology Company Limited	–	100%	–	20,000	Production and sales of construction materials
浙江寶紅建築工業化製造有限責任公司 Zhejiang Baohong Construction Industry Co., Ltd	60%	–	40%	50,000	Production and sales of construction materials

9 SUBSIDIARIES (CONTINUED)

Name	Attributable equity interest held		Proportion of ordinary shares held by non-controlling interests	Registered capital	Principal activities
	Directly	Indirectly		RMB'000	
紹興寶業新橋江房地產開發有限公司 Shaoxing Baoye Xinqiaojiang Real Estate Development Co. Ltd	–	100%	–	100,000	Development and sales of properties
麗水寶業現代房地產開發有限公司 Lishui Baoye Modern Real Estate Development Co. Ltd	–	100%	–	10,000	Development and sales of properties
六安寶業置業投資有限公司 Liuan Baoye Real Estate Investment Co. Ltd	–	70%	30%	10,000	Development and sales of properties
紹興會稽山陽明酒店有限公司 Shaoxing Baoye Kuaiji Mountain Hotel Co., Ltd.	–	100%	–	50,000	Food and beverage services and accommodation services

(a) Although the Group owns 50% of the equity interest in Mengcheng Baoye Investment Co., Ltd ("Mengcheng Baoye"), it is able to gain power over two-third of the voting rights by virtue of an agreement with other investors. Consequently, the Group regards Mengcheng Baoye a subsidiary.

(b) As at 31 December 2016 and 2015, there were no non-controlling interests material to the Group.

10 INVESTMENTS IN AND LOANS TO JOINT VENTURES

(a) Investments in joint ventures

	2016 RMB'000	2015 RMB'000
At 1 January	**50,573**	48,699
Additions	**20,400**	–
Transfer from investments in associates (i)	**13,999**	–
Share of loss (ii)	**(988)**	(1,992)
Adjustment for transactions between the Group and joint ventures	**2,446**	3,866
At 31 December	**86,430**	50,573

(i) As a result of change in voting rights, an associate became a joint venture during the year and the respective investment and loan were transferred.

(ii) Share of loss of joint ventures in consolidated income statement represented:

	2016 RMB'000	2015 RMB'000
Share of loss	**988**	1,992
(Recovery of)/provision for impaired loans	**(15,318)**	66,650
Obligations incurred to share accumulated losses (iii)	**15,400**	–
	1,070	68,642

(iii) The Group incurred obligations to continue to share the accumulated losses of a joint venture even such losses exceeded its interest in the joint venture.

As at 31 December 2016, there were no contingent liabilities relating to the Group's interests in the joint ventures.

The directors of the Company consider that none of the joint ventures was significant to the Group and thus the individual financial information of the joint ventures were not disclosed.

10 INVESTMENTS IN AND LOANS TO JOINT VENTURES (CONTINUED)

(b) Loans to joint ventures

Movements in loans to joint ventures in non-current assets are as follow:

	2016 RMB'000	2015 RMB'000
At 1 January	9,868	139,245
Repayment	(25,186)	(62,727)
Recovery of/(provision for) impaired loan	15,318	(66,650)
At 31 December	–	9,868

Movements in loans to joint ventures in current assets are as follow:

	2016 RMB'000	2015 RMB'000
At 1 January	–	–
Transfer from loan to an associate (Note 11(b))	51,146	–
Additions	8,312	–
Interest accrued	2,070	–
At 31 December	61,528	–

(i) Loans to joint ventures in current asset were repayable on demand and bearing interest at 4% per annum.

11 INVESTMENTS IN ASSOCIATES AND LOAN TO AN ASSOCIATE

(a) Investments in associates

	2016 RMB'000	2015 RMB'000
At 1 January	**28,218**	24,423
Addition	**–**	24,590
Disposal	**–**	(11,323)
Transfer to investment in joint ventures (Note 10(a))	**(13,999)**	–
Share of loss	**(478)**	(9,072)
Dividends received	**–**	(400)
At 31 December	**13,741**	28,218

As at 31 December 2016, there are no contingent liabilities relating to the Group's interest in the associates.

The directors of the Company consider that none of the associates was significant to the Group and thus the individual financial information of the associates were not disclosed.

(b) Loan to an associate

	2016 RMB'000	2015 RMB'000
At 1 January	**51,146**	40,229
Additions	**–**	24,987
Repayments	**–**	(9,816)
Decrease from the disposal of an associate	**–**	(5,551)
Transfer to loans to joint ventures (Note 10(b))	**(51,146)**	–
Interest accrued	**–**	1,297
At 31 December	**–**	51,146

12 FINANCIAL INSTRUMENTS BY CATEGORY

	Note	Loans and receivables RMB'000	Assets at fair value through the profit or loss RMB'000	Available-for-sale financial assets RMB'000
Assets				
At 31 December 2016				
Available-for-sale financial assets	13	–	–	**687,287**
Trade receivables	18	**2,840,194**	–	–
Other receivables	19	**1,407,665**	–	–
Loans to joint ventures	10(b)	**61,528**	–	–
Assets at fair value through the profit or loss	20	–	**796,269**	–
Restricted bank deposits	21	**633,571**	–	–
Term deposits with initial term of over three months	22	**11,925**	–	–
Cash and cash equivalents	22	**2,885,736**	–	–
Total		**7,840,619**	**796,269**	**687,287**
Assets				
At 31 December 2015				
Available-for-sale financial assets	13	–	–	634,017
Trade receivables	18	1,423,938	–	–
Other receivables	19	1,352,053	–	–
Loans to joint ventures	10(b)	9,868	–	–
Loan to an associate	11(b)	51,146	–	–
Restricted bank deposits	21	188,009	–	–
Term deposits with initial term of over three months	22	45,419	–	–
Cash and cash equivalents	22	3,170,058	–	–
Total		6,240,491	–	634,017

12 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

		Financial liabilities stated at amortised cost	
	Note	**2016 RMB'000**	2015 RMB'000
Liabilities			
Trade payables	26	**4,657,721**	2,867,045
Other payables (excluding other taxes payables, advance and salaries payables)	27	**2,491,144**	2,030,352
Borrowings	29	**282,560**	537,000
Total		**7,431,425**	5,434,397

13 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016 RMB'000	2015 RMB'000
At 1 January	**634,017**	177,888
Additions	**678,590**	535,410
Disposals	**(644,300)**	(83,800)
Fair value gain	**18,980**	4,519
At 31 December	**687,287**	634,017

Available-for-sale financial assets include the following:

	2016 RMB'000	2015 RMB'000
Non-current:		
– Listed equity securities – the PRC	**8,697**	9,707
Current:		
– Bank financial products (a)	**678,590**	624,310
	687,287	634,017

(a) The amount represents investments in wealth management products issued by banks with expected return range from 1.50% to 4.25% per annum and will mature within 6 months. The carrying amount approximated the fair value. The fair values are based on cash flow discounted using the excepted return rates and are within level 3 of the fair value hierarchy.

The maximum exposure to credit risk of available-for-sale financial assets (excluding the investments in equity interest) at 31 December 2016 was RMB678,590,000(2015: RMB624,310,000).

14 INVENTORIES

	2016 RMB'000	2015 RMB'000
At cost:		
Raw materials	**88,200**	73,289
Work in progress	**35,303**	26,090
Finished goods	**22,696**	32,358
	146,199	131,737

The cost of inventories recognised as cost of sales amounted to RMB1,572,979,000 (2015: RMB1,614,246,000). No inventory provision was made as at 31 December 2016 and 2015.

15 PROPERTIES UNDER DEVELOPMENT

	2016 RMB'000	2015 RMB'000
Land use rights	**2,370,391**	2,320,457
Development costs	**2,359,380**	2,167,648
Finance costs capitalised	**144,225**	137,511
	4,873,996	4,625,616

The carrying value of the properties under development is expected to be completed as follows:

	2016 RMB'000	2015 RMB'000
Within the normal operating cycle included under current assets		
– to be completed over one year	**1,792,004**	1,032,137
– to be completed within one year	**3,081,992**	3,593,479
	4,873,996	4,625,616

16 COMPLETED PROPERTIES HELD FOR SALE

	2016 RMB'000	2015 RMB'000
Land use rights	**672,857**	827,732
Development costs	**1,481,804**	1,529,963
Finance costs capitalised	**26,099**	32,453
	2,180,760	2,390,148
Less: provision of impairment	**(20,345)**	–
	2,160,415	2,390,148

The amount of completed properties held for sale is expected to be recovered within one year.

17 DUE FROM/(TO) CUSTOMERS ON CONSTRUCTION CONTRACTS

	2016 RMB'000	2015 RMB'000
Contract costs incurred plus recognised profits (less recognised losses) to date	**58,768,914**	57,284,186
Less: progress billings to date	**(58,520,954)**	(56,237,354)
	247,960	1,046,832
Represented by:		
Due from customers on construction contracts	**2,965,894**	3,127,617
Due to customers on construction contracts	**(2,717,934)**	(2,080,785)
	247,960	1,046,832

All amounts due from customers on construction contracts are not considered impaired and there is no concentration of credit risk with respect to these balances as the Group has a large number of customers.

As at 31 December 2016, retention money and project deposits held by customers for contract work included in other receivables of the Group amounted to RMB1,078,207,000 (2015: RMB946,878,000) (Note 19).

18 TRADE RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	**2,965,228**	1,499,190
Less: provision for doubtful debts	**(125,034)**	(75,252)
	2,840,194	1,423,938

18 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 instalment arrangement for certain villas and town houses projects). The net book value of trade receivables approximates their fair value. As at 31 December 2016, the ageing analysis of the trade receivables based on invoice date was as follows:

	2016 RMB'000	2015 RMB'000
Within 3 months	**1,098,355**	666,444
3 months to 1 year	**1,519,276**	467,182
1 to 2 years	**118,605**	190,295
2 to 3 years	**85,150**	83,165
Over 3 years	**143,842**	92,104
	2,965,228	1,499,190

As at 31 December 2016, trade receivables of RMB2,827,311,000 (2015: RMB1,412,749,000) were past due but not impaired. These related to a number of independent customers who had no recent history of default. The ageing analysis of these trade receivables was as follows:

	2016 RMB'000	2015 RMB'000
Within 3 months	**1,098,355**	666,444
3 months to 1 year	**1,519,276**	467,182
1 to 2 years	**110,748**	188,403
2 to 3 years	**59,477**	78,923
Over 3 years	**39,455**	11,797
	2,827,311	1,412,749

18 TRADE RECEIVABLES (CONTINUED)

As at 31 December 2016, trade receivables of RMB137,917,000 (2015: RMB86,441,000) were impaired. The amount of the provision was RMB125,034,000 as at 31 December 2016 (2015: RMB75,252,000). The individually impaired receivables mainly relate to customers which are in unexpected difficult financial situations. It is estimated that a portion of these receivables is expected to be recoverable. The ageing of these receivables was as follows:

	2016 **RMB'000**	2015 RMB'000
1 to 2 years	**7,857**	1,892
2 to 3 years	**25,673**	4,242
Over 3 years	**104,387**	80,307
	137,917	86,441

Movements on the provision for impairment of trade receivables were as follows:

	2016 **RMB'000**	2015 RMB'000
At 1 January	**75,252**	61,188
Creation of provision	**49,782**	14,186
Receivables written off during the year as uncollectible	**–**	(122)
At 31 December	**125,034**	75,252

Provision for doubtful debts has been included in administrative expenses in the consolidated income statement.

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers.

The gross amounts of the Group's trade receivables are denominated in the following currencies:

	2016 **RMB'000**	2015 RMB'000
Denominated in:		
– RMB	**2,708,000**	1,346,691
– USD	**223,394**	151,896
– DJF	**31,988**	–
– SCR	**1,846**	603
	2,965,228	1,499,190

19 OTHER RECEIVABLES AND PREPAYMENTS

	2016 RMB'000	2015 RMB'000
Retention money and project deposits	**1,078,207**	946,878
Prepayments for land use rights for properties development	**172,092**	279,592
Prepaid taxes	**127,769**	–
Prepayments for buy-back of shares	**31,147**	–
Other prepayments	**99,947**	79,287
Others receivables	**329,458**	405,175
	1,838,620	1,710,932

The net book value of other receivables approximates their fair value. No other receivables were past due or impaired. The recoverability is assessed by reference to debtors' credit status and their historical default rates.

The carrying amounts of the Group's other receivables and prepayments are denominated in the following currencies:

	2016 RMB'000	2015 RMB'000
Denominated in:		
– RMB	**1,829,431**	1,700,158
– DJF	**3,907**	8,730
– BWP	**5,210**	1,963
– SCR	**72**	81
	1,838,620	1,710,932

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 RMB'000	2015 RMB'000
Monetary funds		
At 1 January	–	–
Additions	796,269	–
Fair value changes	–	–
At 31 December	796,269	–

Financial assets at fair value through profit or loss are presented within 'investing activities' in the statement of cash flows.

Changes in fair values of financial assets at fair value through profit or loss are recorded in 'other gains – net' in the consolidated income statement.

The fair value of the monetary funds is based on their current bid prices in an active market and the monetary funds could be redeemed at anytime.

21 RESTRICTED BANK DEPOSITS

The restricted bank deposits mainly represent the deposits denominated in RMB confined to be used for tender bidding or to guarantee the performance of certain construction contracts work and the deposits for construction of pre-sale properties in designated accounts.

In accordance with relevant government requirements, certain property development companies of the Group are required to place in designated bank accounts certain amount of presale proceeds as guarantee deposits for the constructions of the related properties. The deposits can only be used for payments for construction costs of the relevant properties when approval from related government authority is obtained. Such guarantee deposits will be released after the completion of construction of the related properties.

22 CASH AND CASH EQUIVALENTS

	2016 RMB'000	2015 RMB'000
Cash at bank and in hand	**3,519,307**	3,342,238
Bank deposits	**11,925**	61,248
	3,531,232	3,403,486

Cash and deposits are denominated in the following currencies:

	2016 RMB'000	2015 RMB'000
RMB	**3,423,031**	3,315,577
USD	**77,843**	72,199
DJF	**4,697**	4,071
BWP	**12,661**	4,115
SCR	**6,215**	2,604
Others	**6,785**	4,920
	3,531,232	3,403,486

In the consolidated cash flow statement, cash and cash equivalents represented:

	2016 RMB'000	2015 RMB'000
Cash and bank deposits	**3,531,232**	3,403,486
Less: Term deposits with initial term of over three months	**(11,925)**	(45,419)
Restricted bank deposits (Note 21)	**(633,571)**	(188,009)
	2,885,736	3,170,058

The effective interest rate as at 31 December 2016 of the bank deposits of the Group is 1.39% (2015: 1.64%).

23 SHARE CAPITAL AND PREMIUM

	Number of Shares (thousands)	Ordinary shares RMB'000	Share premium RMB'000	Treasury shares RMB'000	Total RMB'000
Opening balance 1 January 2016					
– Domestic shares	350,742	350,742	–	–	350,742
– H shares*	261,630	261,630	671,665	–	933,295
	612,372	612,372	671,665	–	1,284,037
Buy-back of shares					
– H shares	**–**	**–**	**–**	**(13,535)**	**(13,535)**
At 31 December 2016					
– 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**
Opening balance 1 January 2015					
– Domestic shares	350,742	350,742	–	–	350,742
– H shares*	281,002	281,002	756,533	–	1,037,535
	631,744	631,744	756,533	–	1,388,277
Buy-back and cancellation of shares					
– H shares	(19,372)	(19,372)	(84,868)	–	(104,240)
At 31 December 2015					
– Domestic shares	350,742	350,742	–	–	350,742
– H shares*	261,630	261,630	671,665	–	933,295
	612,372	612,372	671,665	–	1,284,037

* H shares refer to the Company's shares listed on The Main Board of Stock Exchange of Hong Kong Limited.

23 SHARE CAPITAL AND PREMIUM (CONTINUED)

During the year ended 31 December 2016, the Company repurchased 2,662,000 H Shares, representing approximately 1.02% and 0.43% of the total number of H Shares and total number of issued shares of the Company, respectively. The total amounts paid were HKD15,159,000 (equivalent to RMB13,535,000). The 2,662,000 H Shares repurchased by the Company were cancelled in March 2017.

As at 31 December 2016 and 2015, the registered, issued and fully paid capital of the Company was RMB612,372,000 divided into 612,372,000 shares of RMB1.00 per each, comprising 350,742,000 domestic shares and 261,630,000 H shares.

24 RESERVES

	Available-for-sale financial assets reserve RMB'000	Statutory surplus reserve RMB'000	Others RMB'000	Total RMB'000
Balance at 1 January 2015	5,487	147,036	(7,499)	145,024
Appropriation from retained earnings	–	38,120	–	38,120
Transfer to income statement upon sale of available-for-sale financial assets	(4,130)	–	–	(4,130)
Transfer to income statement upon sale of available-for-sale financial assets – tax (Note 30)	1,033	–	–	1,033
Revaluation of available-for-sale financial assets (Note 13)	4,519	–	–	4,519
Revaluation – tax (Note 30)	(1,130)	–	–	(1,130)
Balance at 31 December 2015	5,779	185,156	(7,499)	183,436
Balance at 1 January 2016	**5,779**	**185,156**	**(7,499)**	**183,436**
Appropriation from retained earnings	**–**	**769**	**–**	**769**
Transfer to income statement upon sale of available-for-sale financial assets	**(19,990)**	**–**	**–**	**(19,990)**
Transfer to income statement upon sale of available-for-sale financial assets – tax (Note 30)	**4,998**	**–**	**–**	**4,998**
Revaluation of available-for-sale financial assets (Note 13)	**18,980**	**–**	**–**	**18,980**
Revaluation – tax (Note 30)	**(4,745)**	**–**	**–**	**(4,745)**
Transaction with non-controlling interests (Note 42)	**–**	**–**	**893**	**893**
Balance at 31 December 2016	**5,022**	**185,925**	**(6,606)**	**184,341**

24 RESERVES (CONTINUED)

(a) Statutory surplus reserve

All PRC incorporated companies within the Group are required each year to transfer 10% of the profit after tax as reported in the PRC statutory accounts to the statutory surplus reserve until the balance reaches 50% of the registered share capital. This reserve can be used to reduce any losses incurred or to increase ordinary shares. Except for the reduction due to losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.

25 RETAINED EARNINGS

	2016 RMB'000	2015 RMB'000
At 1 January	**4,907,177**	4,442,879
Profit for the year	**526,933**	563,655
Dividends paid	**(61,237)**	(61,237)
Transfer to statutory surplus reserve	**(769)**	(38,120)
At 31 December	**5,372,104**	4,907,177

As at 31 December 2016, included in retained earnings of the Group, RMB464,627,000 (2015: RMB427,021,000) was surplus reserve of subsidiaries attributable to the Company, of which RMB37,606,000 (2015: RMB60,171,000) was appropriated for the current year.

26 TRADE PAYABLES

As at 31 December 2016, the ageing analysis of the trade payables based on invoice date is as follows:

	2016 RMB'000	2015 RMB'000
Within 3 months	**1,761,309**	1,104,548
3 months to 1 year	**2,046,283**	1,027,525
1 to 2 years	**548,414**	421,367
2 to 3 years	**188,843**	156,832
Over 3 years	**112,872**	156,773
	4,657,721	2,867,045

27 OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Deposits from project managers	**1,678,306**	1,284,503
Loans from non-controlling interests (i)	**254,242**	228,192
Other taxes payables	**213,092**	214,412
Salaries payables	**64,938**	72,451
Obligations to a joint venture (note 10(a))	**15,400**	–
Accruals for expenses	**3,665**	4,154
Advance from government for housing demolition and relocation	**–**	61,742
Payables for investments	**–**	11,200
Others	**539,531**	502,303
	2,769,174	2,378,957

(i) Loans from non-controlling interests were unsecured, interest free and repayable on demand.

28 RECEIPTS IN ADVANCE

The receipts in advance mainly represent the proceeds from pre-sale of the properties.

29 BORROWINGS

	2016 RMB'000	2015 RMB'000
Current liabilities		
Short-term bank borrowings		
– Secured (a)	**50,000**	35,000
– Unsecured with guarantee (b)	**90,000**	140,000
– Guarantee by the companies within the Group	**142,560**	362,000
	282,560	537,000

29 BORROWINGS (CONTINUED)

(a) As at 31 December 2016, secured bank borrowings of the Group were secured by:

	2016 RMB'000	2015 RMB'000
Property, plant and equipment	**20,679**	–
Land use rights	**42,006**	10,491
	62,685	10,491

(b) These loans were guaranteed by:

	2016 RMB'000	2015 RMB'000
Mr. Pang Baogen and the Company (jointly)	**90,000**	140,000

Mr. Pang Baogen is the chairman of the Board of Directors, as well as a major shareholder of the Company.

(c) The weighted average effective interest rate of borrowings was 4.16% (2015: 4.54%). The fair values of the respective borrowings approximate their carrying amounts. All the carrying amounts of the borrowings are denominated in RMB.

30 DEFERRED INCOME TAX

The amounts shown in the balance sheet included the following:

	2016 RMB'000	2015 RMB'000
Deferred tax assets:		
– Deferred tax assets to be recovered after more than 12 months	**152,277**	50,003
– Deferred tax assets to be recovered within 12 months	**137,647**	24,535
	289,924	74,538
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after more than 12 months	**(48,106)**	(39,648)
– Deferred tax liabilities to be settled within 12 months	**(24,347)**	(25,173)
	(72,453)	(64,821)

30 DEFERRED INCOME TAX (CONTINUED)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets

	Provision for receivables impairment RMB'000	Unrealised profit resulting from intragroup transactions RMB'000	Pre-paid income tax RMB'000	Total RMB'000
At 1 January 2015	22,170	41,081	–	63,251
Recognised in the income statement	3,547	7,740	–	11,287
At 31 December 2015/1 January 2016	25,717	48,821	–	74,538
Recognised in the income statement	**12,446**	**18,141**	**184,799**	**215,386**
At 31 December 2016	**38,163**	**66,962**	**184,799**	**289,924**

Deferred tax liabilities

	Fair value gain on available-for-sale financial assets RMB'000	Fair value adjustment on assets upon acquisition RMB'000	Interest capitalised RMB'000	Fair value gains on investment properties RMB'000	Total RMB'000
At 1 January 2015	(1,832)	(13,362)	(28,031)	(20,280)	(63,505)
Recognised in the income statement	–	4,304	(466)	(5,057)	(1,219)
Recognised in other comprehensive income	(97)	–	–	–	(97)
At 31 December 2015/ 1 January 2016	(1,929)	(9,058)	(28,497)	(25,337)	(64,821)
Recognised in the income statement	**–**	**272**	**(1,487)**	**(6,670)**	**(7,885)**
Recognised in other comprehensive income	**253**	**–**	**–**	**–**	**253**
At 31 December 2016	**(1,676)**	**(8,786)**	**(29,984)**	**(32,007)**	**(72,453)**

30 DEFERRED INCOME TAX (CONTINUED)

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefits through future taxable profits is probable. The Group did not recognise deferred income tax assets in respect of losses amounting to RMB268,298,000 (2015: RMB181,294,000) that can be carried forward against future taxable income. These tax losses will expire up to and including year 2021 (2015: 2020).

31 OTHER INCOME

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

32 OTHER GAINS – NET

	2016 RMB'000	2015 RMB'000
Gains on disposals of land use rights	**35,444**	60,611
Gains on disposals of available-for-sale financial assets	**19,990**	4,130
Government grants and compensation	**6,115**	9,076
(Losses)/gains on disposals of property, plant and equipment	**(21,439)**	910
Donations	**(96)**	(573)
Gains on disposals of an associate	**–**	4,178
Fair value gains on investment properties (Note 8)	**–**	496
Others	**(644)**	918
	39,370	79,746

33 EXPENSES BY NATURE

Expenses included in cost of sales, selling and marketing costs and administrative expenses are analysed as follows:

	2016 RMB'000	2015 RMB'000
Depreciation of property, plant and equipment (Note 7)	**110,934**	108,453
Amortisation of land use rights (Note 6)	**12,622**	12,769
Employee benefit expenses (Note 34)	**4,305,382**	4,226,681
Cost of construction contracts	**8,547,459**	10,082,695
Cost of properties sold	**2,713,593**	1,177,009
Provision for trade receivables	**49,782**	14,186
Impairment of properties held for sale	**20,345**	–
Changes in inventories of finished goods and work in progress	**(449)**	25,139
Raw materials and consumables used	**1,573,428**	1,589,107
Operating leases of buildings	**11,844**	7,433
Compensation for property buyer and employee	**–**	4,254
Auditors' remuneration		
– Audit services	**3,710**	3,660
– Non-audit services	**20**	20
Others	**239,542**	202,141
	17,588,212	17,453,547

34 EMPLOYEE BENEFIT EXPENSES

	2016 RMB'000	2015 RMB'000
Wages and salaries	**4,217,439**	4,144,039
Welfare, medical and other expenses	**56,041**	52,921
Retirement benefit costs – defined contribution plans (a)	**31,902**	29,721
	4,305,382	4,226,681

(a) Retirement benefit costs

As stipulated by the Government regulations in the PRC, the Group is required to contribute to the state-sponsored retirement scheme for all of its employees in the PRC at 18% to 20% (2015: 18% to 20%) of the eligible salary of its employees on a monthly basis. The state-sponsored retirement scheme is responsible for the entire pension obligations payable to all retired employees and the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the monthly contributions.

(b) Five highest paid individuals

The 5 individuals whose emoluments were the highest in the Group for the year were all directors (2015: 5 directors) whose emoluments are reflected in the analysis presented in Note 45.

35 FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest on borrowings	**28,313**	44,453
Less: interest capitalised in properties under development	**(28,313)**	(44,453)
	–	–

The capitalisation rate applied to funds borrowed generally and used for the development of properties was approximately 4.23% (2015: 5.48%) per annum.

36 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 (2015: 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.

36 INCOME TAX EXPENSE (CONTINUED)

(b) PRC corporate income tax (continued)

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% (2015: 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:

	2016 **RMB'000**	2015 RMB'000
Current income tax		
– PRC CIT	**404,324**	236,321
– Land appreciation tax	**33,310**	55,669
– Provision for the year	**50,385**	55,669
– Overprovision in previous years	**(17,075)**	–
Deferred income tax, net	**(207,501)**	(10,068)
	230,133	281,922

36 INCOME TAX EXPENSE (CONTINUED)

(c) PRC land appreciation tax (continued)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the PRC income tax rate as follows:

	2016 RMB'000	2015 RMB'000
Profit before income tax	**764,543**	880,919
Add: share of loss of joint ventures	**1,070**	68,642
share of loss of associates	**478**	9,072
	766,091	958,633
Calculated at a tax rate of 25% (2015: 25%)	**191,523**	239,658
Effects of different tax rates applicable to different subsidiaries of the Group	**(2,939)**	(251)
Income not subject to tax	**(18,304)**	(13,748)
Expenses not deductible for tax purposes	**2,485**	5,597
Unrecognised tax losses	**33,519**	11,582
Utilisation of previously unrecognised tax losses	**(1,133)**	(2,668)
PRC land appreciation tax deductible for PRC corporate income tax purpose	**(8,328)**	(13,917)
	196,823	226,253
PRC land appreciation tax	**33,310**	55,669
Income tax expense	**230,133**	281,922

37 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 treasure shares.

	2016	2015
Profit attributable to the owners of the Company (RMB'000)	**526,933**	563,655
Weighted average number of ordinary shares in issue during the year (thousands shares)	**612,273**	619,283
Basic earnings per share (RMB)	**0.86**	0.91

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

38 DIVIDENDS

	2016 RMB'000	2015 RMB'000
Proposed final dividend	–	61,237

The board of directors did not recommend any payment of final dividend for the year ended 31 December 2016 (2015: RMB61,237,000). The dividends for the year ended 31 December 2015 have been fully paid in 2016.

39 CASH GENERATED FROM OPERATIONS

	2016 RMB'000	2015 RMB'000
Profit for the year	534,410	598,997
Adjustments for:		
Income tax expense (Note 36)	230,133	281,922
Depreciation (Note 7)	110,934	108,453
Amortisation of land use rights (Note 6)	12,622	12,769
Provision for trade receivables (Note 18)	49,782	14,186
Provision for completed properties held for sale (Note 16)	20,345	–
Losses/(gains) on disposals of property, plant and equipment (Note 32)	21,439	(910)
Gains on disposals of land use rights (Note 32)	(35,444)	(60,611)
Gains on disposals of available-for-sale financial assets (Note 32)	(19,990)	(4,130)
Gains on disposals of an associate (Note 32)	–	(4,178)
Interest income	(118,799)	(116,351)
Share of loss from joint ventures (Note 10)	1,070	68,642
Share of loss from associates (Note 11)	478	9,072
Fair value gains on investment properties (Note 32)	–	(496)
Changes in working capital:		
Increase in properties under development and completed properties held for sale	(53,125)	(1,716,447)
(Increase)/decrease in restricted bank deposits	(445,562)	24,598
(Increase)/decrease in inventories	(14,462)	10,079
Decrease/(increase) in balances with customers on construction contracts	798,872	(276,584)
(Increase)/decrease in trade and other receivables	(1,562,579)	844,804
(Increase)/decrease in receipts in advance	(388,459)	1,795,445
Increase in trade and other payables	2,212,385	539,747
Cash generated from operations	1,354,050	2,129,007

39 CASH GENERATED FROM OPERATIONS (CONTINUED)

In the statement of cash flows, proceeds from disposals of property, plant and equipment and land use rights comprise:

	2016 RMB'000	2015 RMB'000
Property, plant and equipment		
Net book amount (Note 7)	**57,288**	52,044
(Losses)/gains on disposals (Note 32)	**(21,439)**	910
Proceeds	**35,849**	52,954
Land use rights		
Net book amount of land use rights (Note 6)	**755**	42,719
Gains on disposals (Note 32)	**35,444**	60,611
Application of advance from government for housing demolition and relocation (Note 27)	**(61,742)**	(36,681)
Gain deferred in properties under development	**40,000**	–
Proceeds	**14,457**	66,649

40 FINANCIAL GUARANTEES

	2016 RMB'000	2015 RMB'000
Guarantees given to banks in respect of mortgage facilities granted for certain purchasers	**194,781**	79,313

The Group had issued performance guarantees in respect of mortgage facilities granted by certain 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 related properties to the banks as securities.

41 COMMITMENTS

(a) Commitments for properties under development and construction in progress

	2016 RMB'000	2015 RMB'000
Contracted but not provided for	**2,414,625**	2,134,323

(b) Operating lease commitments – where the Group is the lessee

As at 31 December 2016, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of buildings and plants and machinery, details of which are as follows:

	2016 RMB'000	2015 RMB'000
Not later than one year	**10,995**	2,382
Later than one year and not later than five years	**22,899**	2,440
	33,894	4,822

(c) Operating lease commitments – where the Group is the lessor

As at 31 December 2016, the Group had future aggregate minimum lease receivable under non-cancellable operating leases in respect of investment properties and building and plants and machinery, details of which are as follows:

	2016 RMB'000	2015 RMB'000
Not later than one year	**76,389**	61,417
Later than one year and not later than five years	**188,911**	144,289
Later than five years	**207,412**	167,758
	472,712	373,464

The Group leases investment properties and building and plants and machinery under various agreements which will terminate between 2016 and 2033. The agreements do not include any extension option.

42 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

(a) Acquisition of additional interest in a subsidiary

On 27 April 2016, the Group acquired an additional 25% of the equity interest of Shaoxing Baoye Modern Building Industrial Manufacturing Co.,Ltd ("Modern Building") for a consideration of RMB5,000,000. After the acquisition, Modern Building became a wholly owned subsidiary of the Group. The carrying amount of the non-controlling interests in Modern Building on the date of acquisition was RMB5,893,000. The Group recognised an increase in equity attributable to owners of the Company of RMB893,000. The effect of changes in the ownership interest of Modern Building on the equity attributable to owners of the Group during the period is summarised as follows:

	2016 RMB'000
Carrying amount of non-controlling interests acquired	5,893
Consideration paid to non-controlling interests	(5,000)
Net effect for transactions with non-controlling interests on equity	893

43 RELATED-PARTY TRANSACTIONS

In addition to the related party balances disclosed in Note 10, Note 11 and Note 27 and related party transactions disclosed in Note 10, Note 11 and Note 29(b), the Group have the following transactions and balances with related parties:

(a) Purchase of goods and services

	2016 RMB'000	2015 RMB'000
Purchase of goods:		
– A joint venture	24,823	27,621
Purchase of services:		
– A joint venture	7,494	2,430
	32,317	30,051

(b) Key management compensation

Key management of the Group include the directors and supervisors, whose compensation has been disclosed in Note 45.

(c) Year-end balances arising from purchase of goods and service

	2016 RMB'000	2015 RMB'000
Trade payables – related parties:		
– A joint venture	24,368	7,348

44 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Land use rights		**4,400**	4,630
Property, plant and equipment		**19,912**	21,090
Investment in subsidiaries		**1,586,858**	1,565,138
Investment in joint ventures		**70,400**	50,000
		1,681,570	1,640,858
Current assets			
Amounts due from subsidiaries		**72,958**	–
Other receivables and prepayments		**37,420**	12,479
Available-for-sale financial assets		**112,000**	–
Cash and cash equivalents		**89,384**	630,965
		311,762	643,444
Total assets		**1,993,332**	2,284,302
EQUITY			
Equity attributable to owners of the Company			
Share capital		**612,372**	612,372
Share premium		**671,665**	671,665
Treasury shares		**(13,535)**	–
Reserves	(a)	**185,925**	185,156
Retained earnings	(a)	**493,028**	548,533
Total equity		**1,949,455**	2,017,726
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries		**25,186**	240,896
Other payables		**10,941**	17,930
Current income tax liabilities		**7,750**	7,750
Total liabilities		**43,877**	266,576
Total equity and liabilities		**1,993,332**	2,284,302

The balance sheet of the Company was approved by the Board of Directors on 24 March 2017 and was signed on its behalf.

Mr. Pang Baogen	**Mr. Gao Jiming**
Director	*Director*

44 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

(a) Reserve and retained earnings movements of the Company

	Reserves		Retained earnings	
	2016 RMB'000	2015 RMB'000	**2016 RMB'000**	2015 RMB'000
At 1 January	**185,156**	147,036	**548,533**	304,479
Profit for the year	**–**	–	**6,501**	343,411
Transfer to statutory surplus reserve	**769**	38,120	**(769)**	(38,120)
Dividends paid relating to prior year	**–**	–	**(61,237)**	(61,237)
At 31 December	**185,925**	185,156	**493,028**	548,533

45 BENEFITS AND INTERESTS OF DIRECTORS AND SUPERVISORS

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

The remuneration of each director and supervisor for the year ended 31 December 2016 is set out below:

	Fees RMB'000	Salaries, bonuses and allowances RMB'000	Contribution to a retirement benefit scheme RMB'000	Total RMB'000
Chairman				
Mr. Pang Baogen (i)	100	700	9	809
Executive directors				
Mr. Gao Lin	100	500	9	609
Mr. Gao Jiming	100	400	9	509
Mr. Gao Jun	100	400	20	520
Mr. Jin Jixiang	100	400	9	509
Non-executive directors				
Mr. Fung Ching, Simon	216	–	–	216
Independent non-executive directors				
Mr. Chan Yin Ming, Dennis	216	–	–	216
Mr. Li Wangrong	50	–	–	50
Ms. Liang Jing	50	–	–	50
Supervisors				
Mr. Kong Xiangquan	–	250	9	259
Mr. Xu Gang	–	250	9	259
Mr. Wang Jianguo	–	250	9	259
Mr. Zhang Xindao	50	–	–	50
Mr. Xiao Jianmu	50	–	–	50
	1,132	3,150	83	4,365

45 BENEFITS AND INTERESTS OF DIRECTORS AND SUPERVISORS (CONTINUED)

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

The remuneration of each director and supervisor for the year ended 31 December 2015 is set out below:

	Fees RMB'000	Salaries, bonuses and allowances RMB'000	Contribution to a retirement benefit scheme RMB'000	Total RMB'000
Chairman				
Mr. Pang Baogen (i)	100	1,000	8	1,108
Executive directors				
Mr. Gao Lin	100	1,000	8	1,108
Mr. Gao Jiming	100	750	8	858
Mr. Gao Jun	100	750	20	870
Mr. Jin Jixiang	100	750	8	858
Non-executive directors				
Mr. Fung Ching, Simon	216	–	–	216
Independent non-executive directors				
Mr. Chan Yin Ming, Dennis	216	–	–	216
Mr. Li Wangrong	50	–	–	50
Ms. Liang Jing	50	–	–	50
Supervisors				
Mr. Kong Xiangquan	–	577	8	585
Mr. Xu Gang	–	800	8	808
Mr. Wang Jianguo	–	800	8	808
Mr. Zhang Xindao	50	–	–	50
Mr. Xiao Jianmu	50	–	–	50
	1,132	6,427	76	7,635

(i) Mr. Pang Baogen is the Chairman of the Board, as well as the Chief executive of the Group.

(ii) No emoluments was paid or receivable in respect of directors' and supervisors' other services in connection with the management of the Company or its subsidiary undertaking during the year.

During the years ended 31 December 2016 and 2015, no director and supervisor waived any emoluments. Neither incentive payment for joining the Group nor compensation for loss of office was paid or payable to any directors and supervisors during the years ended 31 December 2016 and 2015.

45 BENEFITS AND INTERESTS OF DIRECTORS AND SUPERVISORS (CONTINUED)

(b) Directors' and supervisors' retirement benefits

No retirement benefits was paid to or receivable by directors and supervisors during the year by defined benefit pension plans operated by the Group.

(c) Directors' and supervisors' termination benefits

No director's and supervisor's termination benefit subsisted at the end of the year or at any time during the year.

(d) Consideration provided to third parties for making available directors' and supervisors' services

No consideration provided to third parties for making available directors' and supervisors' services subsisted at the end of the year or at any time during the year.

(e) Information about loans, quasi-loans and other dealings in favour of directors and supervisors, controlled bodies corporate by and connected entities with such directors and supervisors

No loans, quasi-loans and other dealings in favour of directors and supervisors, controlled bodies corporate by and connected entities with such directors and supervisors subsisted at the end of the year or at any time during the year.

(f) Directors' and supervisors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director or a supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Definition

In this annual 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 of the Company
Building Materials Business	The activities of research and development, production and sale of building materials conducted by the Group
CG Code	The Corporate Governance Code contained in Appendix 14 to the Listing Rules
Company Law	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 HK dollars
HKEx	Hong Kong Exchanges and Clearing Limited
HKFRS	Hong Kong Financial Reporting Standards
HKAS	Hong Kong Accounting Standard
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
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
Stock Exchange	The Stock Exchange of Hong Kong Limited
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

Contact 聯絡方式
Investor Relations Department
Baoye Group Company Limited
寶業集團股份有限公司
投資者關係部
Tel 電話: 86-575-84135837
Fax 傳真: 86-575-84118792
E-mail 電郵: irbaoye@baoyegroup.com

Website 網址
www.baoyegroup.com