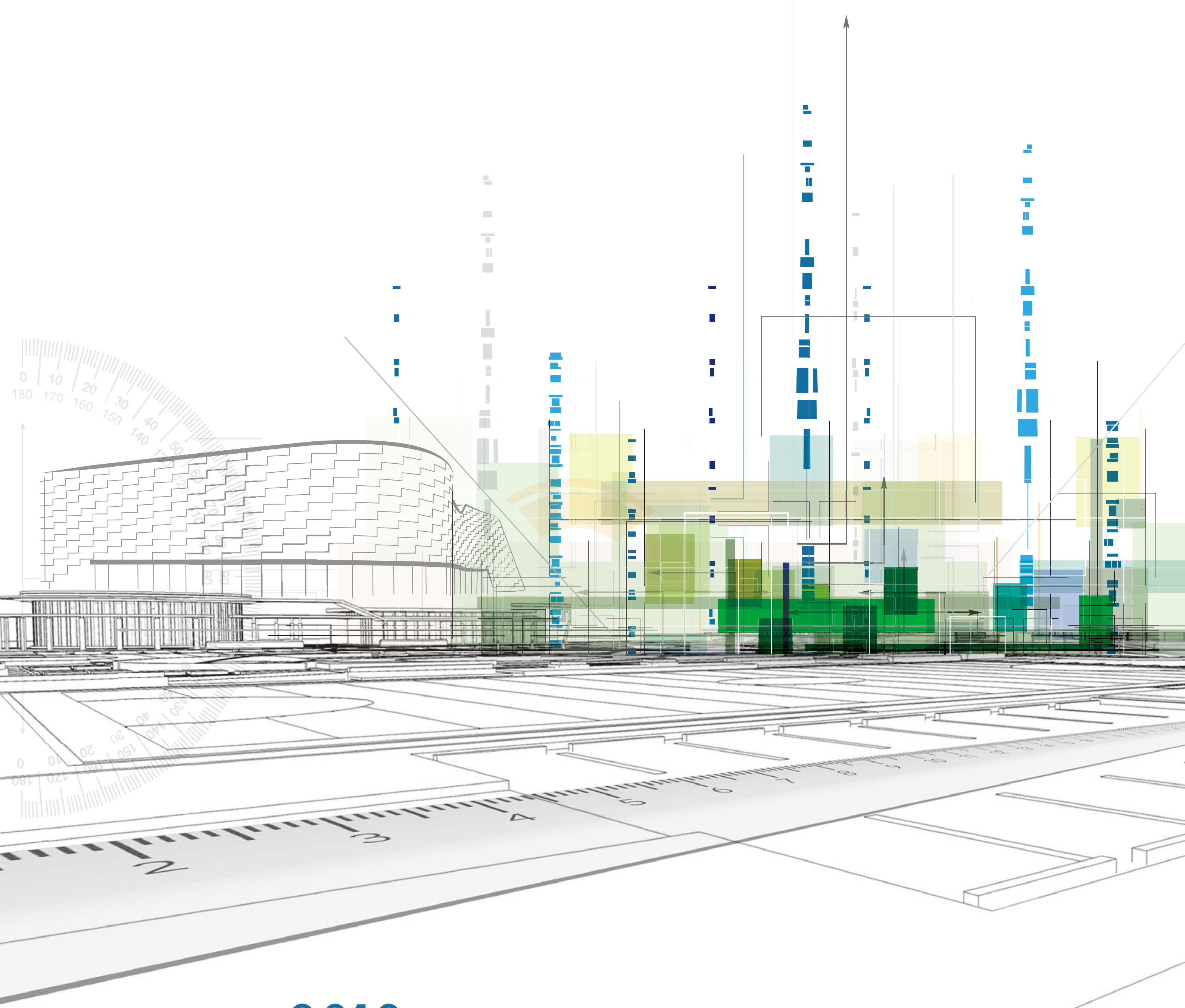

Annual Report 2018 年報

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

OUR MISSION
我們的使命

From
Construction to Manufacturing

「從建造到製造」

帶領中國建築業走向產業化

leads construction industry towards industrialisation in China.

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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

PROPERTY DEVELOPMENT BUSINESS

- Shaoxing “Baoye Four Seasons Garden”
- Shaoxing “Baoye Xingqiao Fengqing”
- Shaoxing “Xialv Project”
- Lishui “Huajie Fengqing”
- Lishui “Jingang Apartment”
- Quzhou “Quzhou Project”
- Wuhan “Xinzhou Project”
- Mengcheng “Binghu Lvyuan”
- Jieshou “Fuxing Jiayuan”
- Bengbu “Baoye Xuefu Green Garden”
- Taihe “Baoye City Green Garden”
- Kaifeng “Baoye Longhu Yucheng”
- Lu’an “Baoye Junyue Green Garden”
- Lu’an “Nanhai Jiayuan”
- Zhengzhou “Zhengzhou Project”

BUILDING MATERIALS BUSINESS

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

BUSINESS NETWORK

CONSTRUCTION BUSINESS

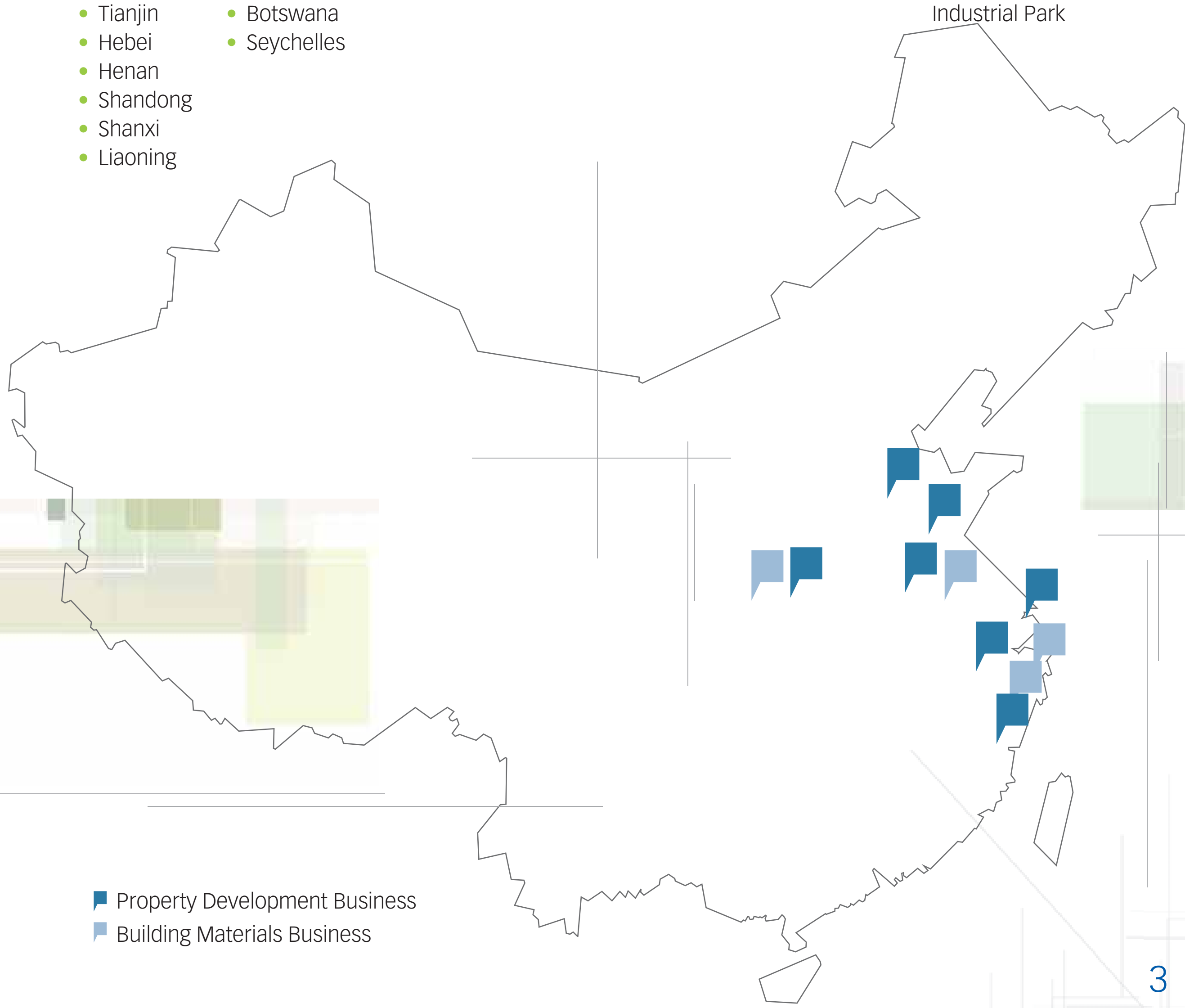
- Zhejiang
- Shanghai
- Jiangsu
- Anhui
- Hubei
- Hunan
- Beijing
- Tianjin
- Hebei
- Henan
- Shandong
- Shanxi
- Liaoning
- Sichuan
- Chongqing
- Xinjiang
- Jiangxi
- Fujian
- Guangdong
- Djibouti
- Botswana
- Seychelles

PROPERTY DEVELOPMENT

- Zhejiang
- Shanghai
- Hubei
- Anhui
- Henan

BUILDING MATERIALS BUSINESS

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



CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Fung Ching, Simon

Independent Non-executive Directors

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

SUPERVISORS

Supervisors

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

Independent Supervisors

Mr. Zhang Xindao
Mr. Xiao Jianmu

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Mr. Chow Chan Lum

AUDITORS

International Auditor

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

Statutory Auditor

PricewaterhouseCoopers
Zhong Tian 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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room A, 7th Floor, Southern Commercial Building,
11 Luard 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

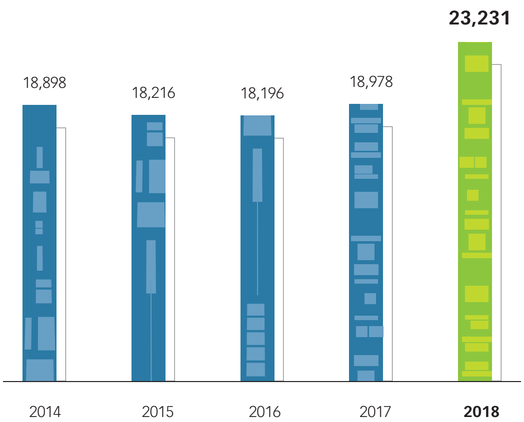
FINANCIAL HIGHLIGHTS

	Year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Results					
Revenue	**23,230,614**	18,978,200	18,196,134	18,216,083	18,897,996
Gross Profit	**1,972,579**	1,281,138	1,164,444	1,243,001	1,180,772
Net Profit	**914,913**	606,735	534,410	598,997	660,787
Profit Attributable to Owners of the Company	**874,175**	608,895	526,933	563,655	648,702
Earnings per Share (RMB)	**1.53**	1.03	0.860	0.910	1.009
Assets and Liabilities					
Total Assets	**29,562,001**	27,963,441	22,708,309	19,996,891	17,368,036
Total Liabilities	**20,994,461**	20,467,077	15,710,609	13,471,319	11,277,699
Total Equity	**8,567,540**	7,496,364	6,997,700	6,525,572	6,090,337

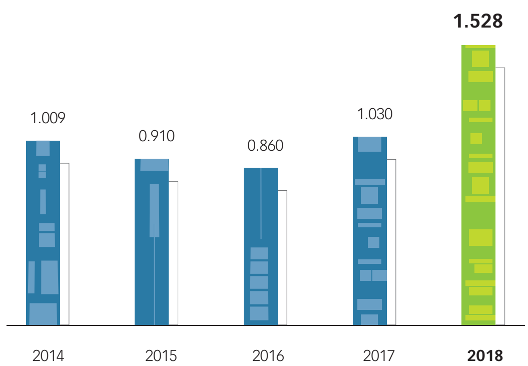
KEY FINANCIAL RATIOS

	As at 31 December	
	2018	2017
Return on Equity of the Company	**10.5%**	8.3%
Net Assets Value per Share (RMB)	**14.82**	12.48
Net Cash Ratio	**25.3%**	21.4%
Current Ratio	**1.18**	1.18
Cash Inflow/(Outflow) from Operating Activities (RMB'000)	**1,579,405**	(2,384,176)

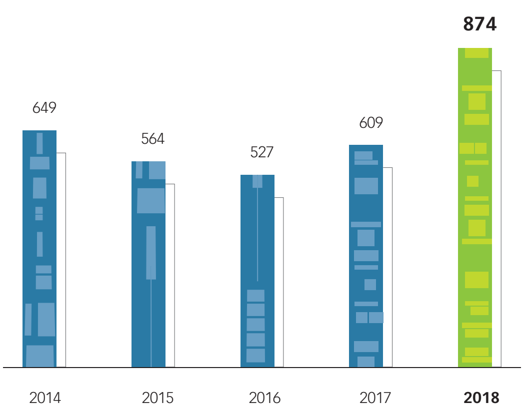
REVENUE
(in RMB million)



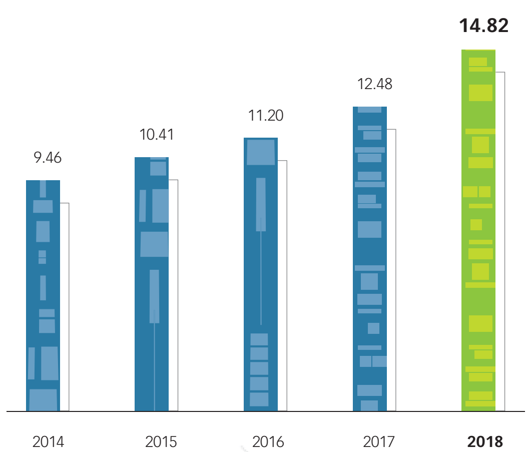
EARNINGS PER SHARE
(RMB)



PROFIT ATTRIBUTABLE TO THE OWNERS OF THE COMPANY
(in RMB million)



NETS ASSETS VALUE PER SHARE
(RMB)



CHAIRMAN'S STATEMENT

To the Shareholders:

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 2018.

For the year ended 31 December 2018, the Group achieved audited consolidated revenue of approximately RMB23,230,614,000, representing an increase of approximately 22.4% as compared to last year; profit attributable to the owners of the Company amounted to approximately RMB874,175,000, representing an increase of approximately 43.6% as compared to last year; earnings per share was RMB1.53, representing a surge of approximately 48.5% as compared to the preceding year. The Board proposed that no final dividends are to be declared for the year ended 31 December 2018. Details of operating and financial performance of the Group will be discussed in the "Management Discussion and Analysis" section of this annual report.

ENHANCE CONFIDENCE LEVEL IN DEALING WITH CHALLENGES

In the past year, the prospect for non-state-owned enterprise had been widely discussed in the community. On November 1, 2018, General Secretary Xi Jinping delivered an important public speech in the Forum of the Symposium on non-state-owned enterprise, pursuant to which he reaffirmed that it is the Central Committee of Communist Party's policy to unswervingly encourage and support the continuous development of non-state-owned enterprise and to instill into it government support and measures. This Forum not only enhance the confidence level of non-state-owned enterprise at-large but also provide impetus for these enterprises to pursue these high-flying potentials ahead of them by leveraging on the social and economic resources that are paved by the government and to repatriate their economic benefits derived from these resources made

available to them in rejuvenating the nation as a whole. Baoye Group grew up from the traditional economic model; induced foreign capital by listing its H Shares on the main board of the Hong Kong Stock Exchange; acquired and restructured state-owned enterprises, participated in the restructuring of Shanghai Academy of Building Research (Group) Co., Ltd.; and cooperated with state-owned enterprises to promote the industrialization of construction; all of these development progresses of the Baoye Group have seen how the business success model has been building up evolved and integrated from state-owned enterprise, private enterprise and foreign capital in the last forty years. It is the era that has created Baoye. In the future, the growing trend of China's economy will remain unchanged. The country's determination to encourage the development of non-state own enterprise will remain unchanged. Different economic forms and substances will provide win-win position by collaboration their competitive edges and advantages. Non-state own enterprise will continue to play an important role in the China's economic development. As a corporate citizen, Baoye Group has a strong belief in the nation and social's development and is prepared to integrate its corporate mission with these developments. We will continue to pursuing and creating wealth and serving the communities, and more importantly, creating long-lasting value for the stakeholders.

ADAPT TO TREND, ATTAIN HIGH QUALITY DEVELOPMENT

The "high-quality development" was first mentioned in the report of the 19th National Congress of the Communist Party of China. The report pointed out that "China's economy has been transitioning from a phase of rapid growth to a stage of high-quality development. This is a pivotal stage for transforming our growth model, improving our economic structure, and fostering new drivers for growth. It is imperative that we develop a modernized economy. This is a priority for us to go through this critical transition and a strategic goal for China's development. We must rank quality first and promote production efficiency. We should pursue supply-side structural reform as our main task, and delicate to better quality, higher efficiency, and more robust drivers of economic growth through reform. We need to raise productivity and to accelerate the building of an industrial system that promotes coordinated development of the real economy with technology innovation, modern finance, and human resources. We should endeavor to develop an economy with an effective market, active micro-economic, and sound macro-economic economy governed by effective government regulatory and macro-economic ratification measures. We will continue to strengthen our technology innovation capability and competitiveness of the China's economy."This is the definition of "high quality development" at the national level. How can enterprise achieve high quality development? On 14 February, 2019, I shared my thoughts on how to achieve high quality development in a"Baoye school's" cadre learning meeting. Nowadays, the era when company could grow up in sync with macroeconomic trend has already gone. We have to preserve the mindset in "changes during stability stage, and changes with worries", I am optimistic in the prospect of development in the construction industry. China's urbanization process will continue to take momentum. The transformation of shanty towns, construction of urban utility tunnels and urban rail construction swill bring enormous development in urban belts. The Communist Party and government will come up with the new requirements for urban management and construction. All of these policies provide new opportunities for the construction industry. However, these opportunities shall not apply to extensive growth that relies on quantity, scale and cheap labor in the past. Construction enterprises should shift its focus "wins" from "quantity" to "quality", from "scale expansion" to "structural enhancement", from "factor-driven" to "technology-driven" and from "sizable development" to "green development". The same hold true for the real estate industry that we are in. The era of profitability based on rising house prices has been passed. Housing, is for living and residential purpose, is in an irreversible trend. Baoye Group will always adhere to the belief that "Baoye built quality housing". In the new era, we will instill into our products increasing health, technology, green, energy-saving elements to preserve "quality housing", and seed the belief that "housing changes would lead community changes". This change is a fundamental change in consumer behavior, an enhanced change in consumer spending pattern. The report of the 19th National Congress of the Communist Party of China pointed out that the main conflict in Chinese societies has been turned into finding a balance between the people's growing demand for better living and imbalance new properties development. As far as the construction industry is concerned, driven by the demand of younger generations for quality living and housing, it is important as to how to convert excess production capacity in traditional form into quality building that would meet market demand. The Baoye Group will reap this growing opportunity and increasing market demand for quality building by leveraging on its industrialization of construction knowhow and technologies in the marketplace.

SAVE IN OUR HEARTS, BUILD OUR DREAMS

In the past year, three construction projects of the Group have been awarded the highest honor of China's construction industry on project quality – i.e. Luban Award (National Quality Project),they are Cixi Grand

Theatre located in Zhejiang, Kaifeng Haihui Center located in Henan, and the Port of Tajula located in Djibouti. These awards were not won by slogan, which were achieved resulting from contributions from our dedicated work force. We grew from scratch, our staff worked wholeheartedly and possessed the passion and the spirit of "doing more and earning less", bid by bid, and step by step, leading to build today's Baoye. Some people say that architecture is solid music; Baoye people adhere to the spirit of artisans all the time. Every project has been built and crafted like a piece of art. They are symphonies of Baoye. There are no shortcuts to providing fine products, only by way of pursuing excellence in every facet in every process, to fend off fierce competition. On the back side of it, these achievements are backed by sound management practice and technical support, but more importantly, by the passion and unwavering working attitude to overcome hurdles and problems. We shall never forget what we have built in our hearts when we first built

Boaye to accomplish our corporate mission, which was to build a "hundred-year enterprise" jumping out from cycle of rises and falls experienced in human history. Lead the Chinese construction industry from construction to manufacturing is a consistent dream of Baoye. I look forward to this dream to be realized at the soonest possible time!

SOCIAL RESPONSIBILITY

The Group has published its first environmental, social and governance report since 2016. The Group is dedicated to preserve its longstanding operational philosophy in providing and disclosing transparent information that would bring our business partners in sync with our corporate direction.

In the future, the Group will continue to adhere to this said value principle to sustain longer term success and development in its core businesses. At the same time, the Group will diligently fulfill its social responsibility obligations and will care stakeholders' interest in our community. The Group 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 2018" published on the same day of this report.

APPRECIATION

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
25 March 2019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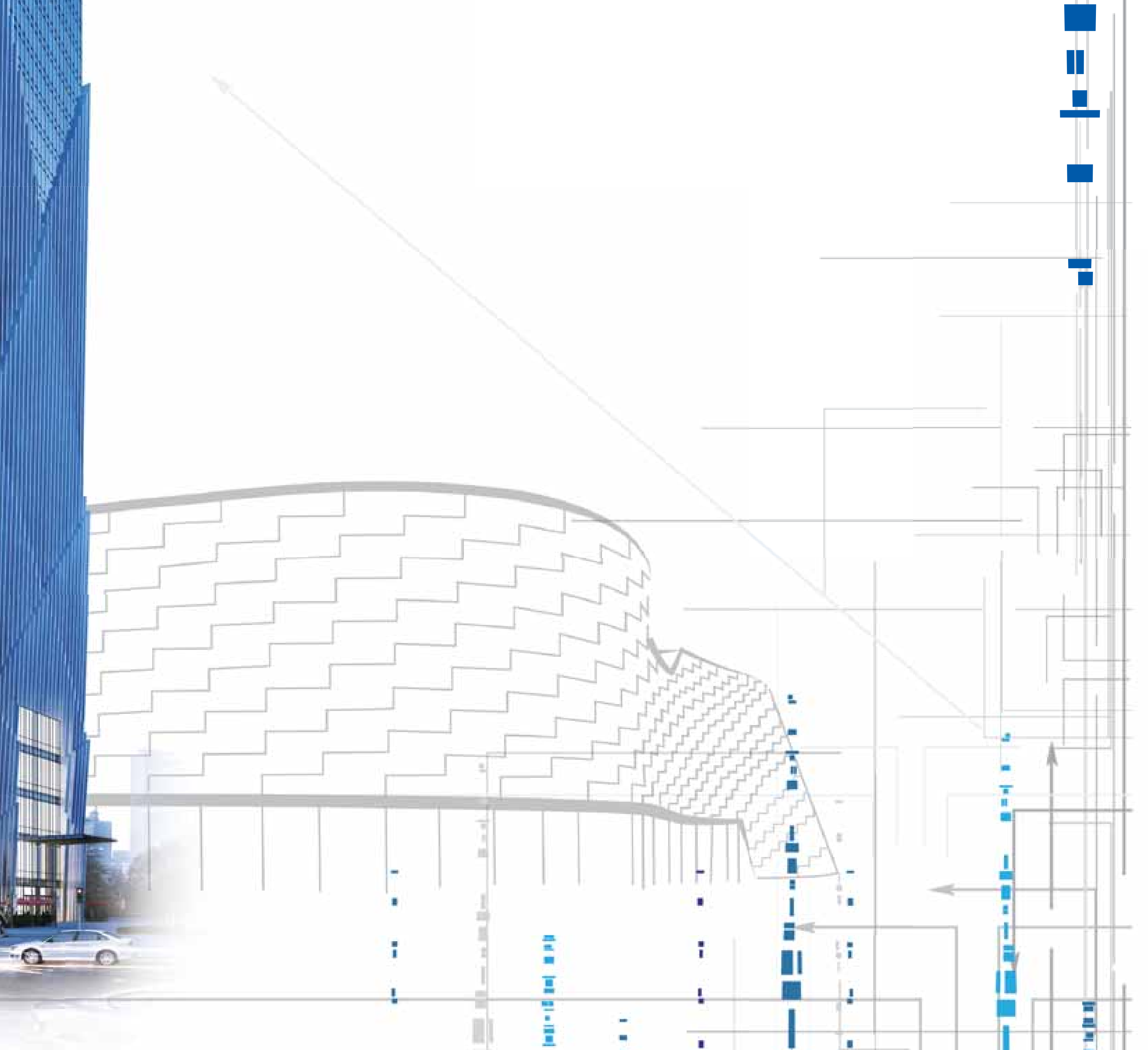
MANAGEMENT DISCUSSION AND ANALYSIS



RESULTS REVIEW

For the year ended 31 December 2018, the Group achieved a consolidated revenue of approximately RMB23,230,614,000 (2017: RMB18,978,200,000), representing an increase of approximately 22.4% compared to the previous year; operating profit reached approximately RMB1,393,588,000 (2017: RMB872,276,000), representing a surge of approximately 59.8% compared to last year; profit attributable to the owners of the Company amounted to approximately RMB874,175,000 (2017: RMB608,895,000), representing a surge of approximately 43.6% from last year, earnings per share for profit attributable to the owners of the Company was RMB1.53 (2017: RMB1.03), representing a surge of approximately 48.5% compared to last year.

In accordance with the established development strategy, the Group continued to strengthen ourselves in the niche market in 2018, and all three business segments achieved good operating results. In the future, we will continue to adhere to the existing development strategy to achieve "I had it while others do not. I had better ones while others had it". Through detailed research and analysis, we will find out the potential real estate markets which are relatively saturated with ordinary houses, provide them with high quality and high technology housing and increase the land reserve in those locations that are in need. In the mean time, we will continue to invest in research and development of building industrialization, expand the spot-setting of construction industrialization and consolidate our position in the construction industry. Based on the above considerations, the Board of Directors does not recommend the payment of the final dividend for 2018.

Revenue

	For the year ended 31 December				Change
	2018		2017		
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Construction	**17,342,995**	**75%**	14,278,726	75%	21%
Property Development	**3,084,867**	**13%**	2,658,576	14%	16%
Building Materials	**2,502,560**	**11%**	1,859,864	10%	35%
Others	**300,192**	**1%**	181,034	1%	66%
Total	**23,230,614**	**100%**	18,978,200	100%	22%

Operating profit

	For the year ended 31 December				Change
	2018		2017		
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Construction	**505,819**	**36%**	424,881	49%	19%
Property Development	**760,720**	**55%**	382,900	44%	99%
Building Materials	**67,249**	**5%**	31,398	4%	114%
Others	**59,800**	**4%**	33,097	3%	81%
Total	**1,393,588**	**100%**	872,276	100%	60%

CONSTRUCTION BUSINESS

For the year ended 31 December 2018, the Group's construction business achieved revenue of approximately RMB17,342,995,000, representing a growth of approximately 21% over last year; operating profit amounted to approximately RMB505,819,000, representing an increase of approximately 19% over last year. The increase of revenue and operating profit of the construction business was mainly due to the increased construction capacity of construction projects and the accelerated completion of construction projects that were contracted for in 2017 and 2018.

Under the combination of adverse effect of many economic development constraints at home and abroad, 2018 was a difficult year for a traditional construction companies. Infrastructural investment was weak. Sales in the real estate market slowed down. Costs of construction materials, equipment leasing and labor rose. Under such operating environment, the Group's construction business had fully utilized the Group's resource advantages to realize the business model of "three-in-one" joint development of construction, real estate development and construction industrialization. While continuing to consolidate the traditional construction business, we undertook EPC contracting as the starting point, direct operation of project as driving force, and eventually achieved the expansion from quantity to quality. In terms of brand creation, the Group strengthened the management of project files, strengthened the overall planning of the construction site, actively promoted the application of aluminum molds, strictly controlled the construction materials, and continuously improved the quality of construction. In 2018, the Group won satisfactory results in various competitions in industry awards. A total of three (including home and abroad) projects (main contractor and participant) were awarded Luban prizes (the national highest quality prize). In 2018, the construction business continued to contribute most of the revenue and stable profit to the Group. The new contract value was approximately RMB23.6 billion (2017: approximately RMB20.8 billion), representing an increase by 13.5% compared to last year. We have undertaken a number of high-end projects, such as Donghua University Songjiang Campus Graduate Apartment, Harbin Fengshu Nangang Logistics Park Project, Shimao skyscraper city project in Jinan, Jindian Road Country Garden Project in Kunshan, Pinhu Dushan Prot EPC Project, Shaoxing Secondary School Expansion Project EPC General Contracting, etc.

The Group focuses on brand building. It was the leader of all competitions in industry awards during the year in Zhejiang, which helped to enhance the Group's reputation. In 2018, the Group received a total of 44 awards, the key awards are appended below:

Projects Name	Awards
Kaifeng Haihui Centre	Luban Award
Djibouti Jura Port Project	Luban Award
Cixi Grand Theatre	Luban Award
Jiangnanyan Garden Complex Builiding	Baiyulan Cup
Tianjing fourth Middle School	Haihe Cup
Baoye I Do	Baiyulan Cup
Guanggu Xinhui	Chutian Cup
Phase III of Yichang World Trade Center	Chutian Cup
Xinhu Comprehensive Experiment Building of Wuhan University	Chutian Cup

Property Development Business

Property Sales

For the year ended 31 December 2018, revenue of the Group's property development business amounted to approximately RMB3,084,867,000, representing an increase of approximately 16% from last year. Operating profit amounted to approximately RMB760,720,000 representing a surge of approximately 99% compared to last year. The sharp increase of operating profit was the result of higher profit margin sale units recognized during the year.

For the year ended 31 December 2018, 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	18,428	28,792	530,579
Baoye Four Seasons Garden	Shaoxing	29,726	15,718	467,225
Baoye Ido	Shanghai	41,763	10,106	422,053
Baoye Guanggu Lidu	Wuhan	14,568	28,290	412,135
Baoye City Green Garden	Taihe	4,882	82,631	403,423
Baoye Xiaoyao Luyuan	Mengcheng	5,446	69,775	379,962

For the year ended 31 December 2018, the sales contracts of the Group's property development business amounted to approximately RMB2.78 billion (2017: RMB3.04 billion) and a contract sale area of approximately 237,613 square metres.

Projects under development
As at 31 December 2018, the Group's projects under development are set out below:

Project Name	Location	Total Estimated Gross Floor Area under Development *(Sqms)*	Equity Interest of the Group
Baoye Four Seasons Garden	Shaoxing	300,000	100%
Baoye Xinqiao Fengqing	Shaoxing	136,000	100%
Xialv Project	Shaoxing	Under Planning	60%
Huajie Fengqing	Lishui	260,363	100%
Jingang Apartment	Lishui	20,784	100%
Quzhou Project	Quzhou	335,600	100%
Xinzhou Project	Wuhan	Under Planning	100%
Binhu Lvyuan	Mengcheng	201,572	100%
Fuxing Jiayuan	Jieshou	467,293	100%
Baoye Xuefu Green Garden	Bengbu	79,000	63%
Baoye City Green Garden	Taihe	95,770	55%
Baoye Longhu Yucheng	Kaifeng	80,000	60%
Baoye Junyue Green Garden	Lu'an	51,205	100%
Nanhai Jiayuan	Lu'an	305,500	70%
Zhengzhou Project	Zhengzhou	Under Planning	51%

Baoye Four Seasons Garden is located in Kuaijishan Tourist Resort Zone, a "province-rank" resort district in Zhejiang Province. With historical culture and spectacular scenery, the area is where ancient civilisation flourished. Other than its profound cultural tradition and being the origin of many myths and folklores, the area also has a large number of historical heritages. Being only 5 kilometres from the downtown of Shaoxing City, it is known as the "natural treasure in the heart of a city". Baoye Four Seasons Garden has a site area of approximately 1,050,000 square metres and a planned gross floor area of approximately 650,000 square metres for the development of deluxe villas, semi-detached villas and town houses. It also consists of a golf club, a five-star resort hotel, two leisure parks, a sport park, a shopping arcade, kindergarten and a central lakeside garden fully equipped with supporting facilities. Construction of phase I had been almost completed and parts of units remain unsold. Phase II, with a total gross floor area of 300,000 square metres is under planning. The first town houses started presale at the end of 2018.

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 buildings project with river view, of which 4 buildings will be constructed by adoption of PC-manufacture methodology according to plan. The project will be developed in three phases, of which phase I and phase II, a total of 64,152 square metres had been almostly sold out. Phase III had started presale in the second half year of 2018 and registered a satisfactory presale results. The project will be delivered in the second half year of 2019.

Xialv Project consists of three separate parcels of land with a total cost of approximately RMB511,036,000 and a total land site area of 262,862 square meters, pursuant to which the Group is interested in 60%. The Group acquired the land use rights through public auction in 2017. As at the date of this report, one of the three parcels of land has begun planning.

Huajie Fengqing is located in Liandu District, Lishui City, Zhejiang Province. It covers a site area of 95,794 square meters and has a total construction area of 260,363 square meters. The residential area is 165,516 square meters of which about 106,563 square meters will be repurchased by the government. The plot ratio is 1.88. The remaining 58,953 square meters are owned by Baoye for sale. The project is in the early stage of planning and the presale is expected to begin in September 2019.

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

Quzhou project is located in Quzhou City, Zhejiang Province, with a total area of 127,272 square meters and a planned gross floor area of 335,600 square meters. The project is currently in the early stage of planning and is expected to be fully delivered in 2021. It will be repurchased by the government after completion.

Xinzhou project has a total site area of 129,528 square meters. The Group acquired this parcel of land use right in December 2017 at a consideration of RMB780 million. The project is currently under planning.

Binhu Lvyuan, located in Mengcheng County, Anhui Province, has a total site area of 78,640 square meters and gross floor area of 201,572 square meters of high-rise residential buildings, garden houses, townhouses and commercial housing. The Group acquired this parcel of land use right in August 2018 at a consideration of RMB366 million. The project is currently under planning.

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

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

Baoye City Green Garden is located in Taihe County, Anhui Province with a total gross floor area of 420,000 square metres, comprising of unique and niche residential units, elegance shopping arcade, an international bilingual kindergarten and high-end swimming pool facilities. Personalized and scientific design in dividing motor vehicle flow and pedestrian flow enable residents to enjoy quality and comfortable living. The project is closed to an eco-friendly park with rich community facilities, which sets the new generation in the city. The project will be developed in four phases, of which phase I and II had already been delivered to buyers, phase III with 94,145 square meters had almost been sold out and delivered at the end of 2018. Phase IV with 95,770 square meters is expected to be delivered in 2020.

Baoye Longhu Yucheng, is located in a prime area of Eastern New City, Kaifeng County, Henan Province. It has a total site area of approximately 648,000 square metres and an estimated gross floor area of approximately 972,000 square metres. After completion, it will become the city's new business centre and leisure centre. The project is being developed in 5 phases, of which certain completed units of phase I, had been delivered to owners, the remaining units with approximately 80,000 square meters are under development. Phase II had started construction and started the presale in August 2018. Phase III is still under planning.

Baoye Junyue Green Garden is located in Lu'an city, Anhui Province. Baoye bided for the project through judicial auction in September 2017. 80% of the phase I, a total of 51,205 gross square meters has finished construction when auctioned, while the remaining site area of 36,196 square meters is clean land for development. The project enjoys well-developed facilities, convenient transportation with parks, banks and shopping malls. The project is being developed in two phases which are under presale.

Nanhai Jiayuan, located in Lu'an City, Anhui Province, has a site area of 125,526 square meters and a total gross floor area of 305,500 square meters, phase I of which has finished the main construction in the second half year of 2018, while phase II is under construction. The project is expected to be delivered to the local government in 2019.

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

New Land Reserve

In 2018, the newly acquired land reserve is tabulated below:

Time table	Location	Cost *(RMB thousand)*	Land area *(Sqms)*	Planed construction area *(Sqms)*	Equity
June, 2018	Anhui	370,348	172,656	467,293	100%
August, 2018	Anhui	366,000	78,640	201,572	100%
August, 2018	Zhejiang	360,140	127,272	335,600	100%
October, 2018	Zhejiang	542,000	95,794	260,363	100%
November, 2018	Henan	184,660	336,776	Under Planning	51%

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

Building Materials Business

For the year ended 31 December 2018, revenue of the Group's building materials business amounted to approximately RMB2,502,560,000, representing an increase of approximately 35% over last year; operating profit was approximately RMB67,249,000, representing a surge of approximately 114% from last year.

For the year ended 31 December 2018, revenue from the Group's building materials is analysed below:

	For the year ended 31 December				Change
	2018		2017		
	RMB'000	% of total	RMB'000	% of total	
Curtain Wall	1,173,115	47%	1,032,978	55%	14%
Ready-mixed Concrete	717,815	29%	327,410	17%	119%
Furnishings and Interior Decorations	205,096	8%	218,658	12%	–6%
PC assembly plates	158,069	6%	66,599	4%	137%
Wooden Products and Fireproof Materials	90,083	4%	88,864	5%	1%
Steel structure	27,222	1%	32,379	2%	–16%
Others	131,160	5%	92,976	5%	41%
Total	2,502,560	100%	1,859,864	100%	35%

In 2018, the curtain wall section continued to contribute nearly half of the revenue in this business segment. Revenue from the curtain wall increased approximately 14% over last year mainly due to the increasing contract orders and speeding-up of contract completion. Therefore, the operating profit of curtain wall increased to a great extent. Due to the increase of the sale price and contract order, revenue and operating profit from the ready-mixed concrete achieved sharp rise. During the year, the revenue of PC assembly plates achieved a substantial increase because of its green and environmental-friendly characteristics. Simultaneously, PC assembly plates with higher profit ratio than traditional business contributed to this segment's operating profit in part.

In 2018, with the adjustment of the national industrial structure and the advocacy of the concept of green and energy-saving buildings, the prefabricated buildings received more and more attention. The Group followed the policy orientation and actively established construction industrialization bases in various places. Currently, the Group has established construction industrialization bases mainly in Zhejiang, Shanghai, Anhui, Hubei, Jiangsu, Jiangxi. The geographic distribution of production bases not only laid a good foundation for the Group's development of construction industrialisation business in the above-mentioned areas in the future, but also provides a good opportunity for the consolidated development of the Group's large construction business, including construction, property development and industrial building materials business. Construction industrialization plays a significant role in reducing environmental pollution, improving construction efficiency and improving building quality. With the economic and social development, the Group's new building materials business will surely gain broader prospects with the development of construction industrialization.

BUSINESS PROSPECT

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

The proportion of the construction industry in the national economy is second only to industry and agriculture. As a labor-intensive industry, the construction industry plays a pivotal role in China's economic development and has achieved sustainable and rapid development under the increased in investment spending and dividends from demographic distribution. At present, with the global economic slowdown, Sino-US trade friction, real estate regulation and the decrease of demographic dividends, the development of the construction industry faces multiple challenges. However, opportunities always coexist with challenges. The Group's construction business has always persisted in practicing internal strength, and built each project with the spirit of craftsmanship, namely the spirit of "excellence, quality, innovation and customer-oriented service". Through innovative business models, we will strengthen project management and control and strive to achieve high-quality development of the construction business.

In the future, the Group's construction business will continue to rely on the "three-in-one" business development model, and fully promote the four major courses which are "large market, large customers, large projects, large civil engineering". We will focus on developing high-quality markets, customers and projects and concentrate on high-end business areas. While continuously stabilizing and expanding the foundation of the Jiangsu, Zhejiang and Shanghai markets, we will also vigorously expand into emerging markets, and firmly grasp the national strategic opportunities such as the coordinated development of Beijing-Tianjin-Hebei region and the construction of the Guangdong-Hong Kong-Macau Greater Bay Area. In 2018, the enthusiasm of housing enterprises for the land acquisition and new construction did not decrease. The state's investment in infrastructural construction, especially in the areas of track construction, underground utility tunnel construction, and environmental governance have been increased. While strengthening the house building business, the Group's construction business is actively exploring new business areas through cooperation with central enterprises and state-owned enterprises. Regarding large projects as lead managers, we can rely on our competitive advantages in project management practice and control, and enhance competitiveness and attain management efficiency in its stead.

Property development business contributes substantial profit for the Group

At the end of 2018, the Central Economic Working Conference clearly pointed out that "It is necessary to build a long-term mechanism for the healthy development of the real estate market. Government should insist that housing is for living, not for speculation, establish policy and provide guidelines according to local environment, consolidate the main responsibility of local government, and improve the residential housing market and affordable housing market environment." Since the keynote of "housing is for living, not for speculation" was first pronounced by the central government in 2017, the upward trend of the real estate market price has slowed down, and many key cities' housing prices have entered into declining trend after more than a year of regulatory and control enforcement. The market in some cities has experienced a downturn, and the momentum of rapid increase in household financing leverage has been basically contained. The objective of the Ministry of Housing and Urban-Rural Development for the regulation of the property market in 2019 is to "stabilize land prices, stabilize housing prices, and stabilize expectations". We can expect that the era when the real estate industry can make profit by relying on the macroeconomic trend was no longer exist. The real estate industry itself is getting more and more consolidated. How to "live" in such a macro environment, and "live well in this environment is key"?

"Macro adjustment measure is what we must accept, and micro adjustment measure is what we can make a difference." The Group's real estate development business will pay more attention to the "micro market". Through meticulous research and analysis, we can identify those "micro-markets" that are still in rigid demand and demand for high-quality technology housing. By integrating various modern technologies of "energy saving, energy creation and energy storage", and constantly optimizing our residential products, we are able to supply more high-quality technology housing to the market.

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

Labor cost rise was primarily due to the decline in China's demographic dividend. The labor gap hence is widening. The costs of construction materials also rise. The government demand for environmental protection and the transformation of the economic growth model. These are all the external driving forces that booster and promote the rapid development of construction industrialization. Industrialization of buildings is not a simple industrial production of components. It is a systematic engineering, in another word, an urban manufacturing industry. It is characterized by design standardization, component miniaturization and construction mechanization. Construction industrialization can integrate the entire industrial chain of design, production and construction. It is a new type of building method that realizes sustainable development with energy saving, environmental protection and maximum life cycle value of building products.

The Group has been devoted to the research on the industrialization of construction for more than 20 years. The trinity business model of "construction, real estate and construction industrialization" makes Baoye better understand this industry than any other single construction or real estate enterprise, so the upstream and downstream of the industry will be reorganized in a more scientific, energy-saving and economical way, namely the modern production mode of construction industrialization. In the past, we have extensively laid out construction industrialization bases in Zhejiang, Shanghai, Anhui, Hubei, Jiangsu, Jiangxi, etc. In the future, we will continue to improve and optimize the existing product system, and promote the coordinated development of the three business segments of the Group through construction industrialization.

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 major portion of its borrowings on an unsecured basis. The amount of secured debt accounted for approximately 14.5% (2017: 21.9%) of the total borrowings. In addition, approximately 76.4% of the total borrowings (2017: 68.3%) were guaranteed by the Company, approximately 2.5% of the total borrowings (2017: 4.1%) were jointly guaranteed by the Company and non-controlling interests and approximately 2.2% of the total borrowings (2017: Nil) were jointly guaranteed by the chairman of the Board, Mr. Pang Baogen and the Company to 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.

As the Company operates well and maintains a stable financial position, the Company uses idle funds to purchase short-term financial instruments in order to improve capital use efficiency and better use the idle funds. The Company will create higher returns for the Company and shareholders without affecting the normal operation.

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 2018, the Group has unutilized banking facilities amounting to approximately RMB6.5 billion. Details of which are analysed below:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Cash and cash equivalents	**3,698,252**	2,575,717
Term deposits with initial term of over three months	**85,704**	90,199
Restricted bank deposits	**628,485**	658,125
Less: total borrowings	**(2,299,487)**	(1,755,027)
Net cash	**2,112,954**	1,569,014
Total equity attributable to the owners of the Company	**8,336,806**	7,317,919
Net cash ratio	**25.3%**	21.4%

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

Other Key Financial Ratios

	As at 31 December	
	2018	2017
Return on equity	**10.5%**	8.3%
Net assets value per share (RMB)	**14.82**	12.48
Current ratio	**1.18**	1.18

Return on equity = profit attributable to the owners of the Company/total equity attributable to the owners of the Company

Net assets value per share = total equity attributable to the owners of the Company/number of issued shares at the end of the year

Current ratio = current assets/current liabilities

During this year, the profit attributed to owners of the Company increased by approximately 43.6% over the previous year. The return on shareholders' equity has increased by approximately 27% over the previous year. The net assets per share have increased by approximately 19% as compared to last year. As at 31 December 2018, the Group was still in a net cash position with a net cash ratio of 25.3%, which represents an increase of approximately 18% over last year. The main reasons for the increase in cash receipt were increase in contract orders from the construction business and satisfactory presale results from the property development business.

Cash Flow Analysis

		For the year ended 31 December	
		2018	2017
	Note	***RMB'000***	*RMB'000*
Cash inflow/(outflow) from operating activities	*(i)*	**1,579,405**	(2,384,176)
Cash (outflow)/inflow from investing activities	*(ii)*	**(1,222,795)**	350,656
Cash inflow from financing activities	*(iii)*	**761,045**	1,728,392
Net increase/(decrease) in cash and cash equivalents		**1,117,655**	(305,128)
Exchange gains/(losses) on cash and cash equivalents		**4,880**	(4,891)

Note:

i During the year, the net cash inflow from operating activities was approximately RMB1,579,405,000, an increase of approximately RMB3,963,581,000 compared to the net cash outflow of approximately RMB2,384,176,000 of last year. The main reasons are the increase in contract orders for the construction business during the year, and the cash receipts from property presale.

ii During the year, the net cash outflow from investing activities was approximately RMB1,222,795,000, which was mainly due to the payment of approximately RMB688,984,000 for investments and loans to joint ventures and associates during the year; and the payment of approximately RMB537,974,000 for property, plant and equipment and land use rights for the construction industrialization bases.

iii During the year, the net cash inflow from financing activities is approximately RMB761,045,000 mainly due to the increase of banking borrowings to meet operating requirements.

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 2018, the Group's land appreciation tax amounted to approximately RMB129,136,000.

Administrative Expenses

The Group's administrative expenses amounted to approximately RMB585,760,000 for the year ended 31 December 2018, representing an increase of approximately 27% over last year of RMB461,842,000, primarily due to business expansion and increase in staff welfare expenditures.

Finance Costs

During the year ended 31 December 2018, the Group had registered financing cost of approximately RMB26,767,000 (2017: RMB4,891,000).

Financial Guarantee

	31 December 2018 ***RMB'000***	31 December 2017 *RMB'000*
Guarantees given to banks in respect of mortgage facilities granted for certain purchasers	**913,832**	448,636

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 such properties to the banks as securities.

Details of the Charges on the Group's Assets

As at 31 December 2018, land use rights, property, plant and equipment and completed properties held for sale at a total value of approximately RMB600,511,000 (as at 31 December 2017: land use rights, property, plant and equipment and properties under development at a total value of approximately RMB874,641,000) 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, transparent and steady 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 Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the "CG Code"), where appropriate, adopted the recommended best practices set out in the CG Code, 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.

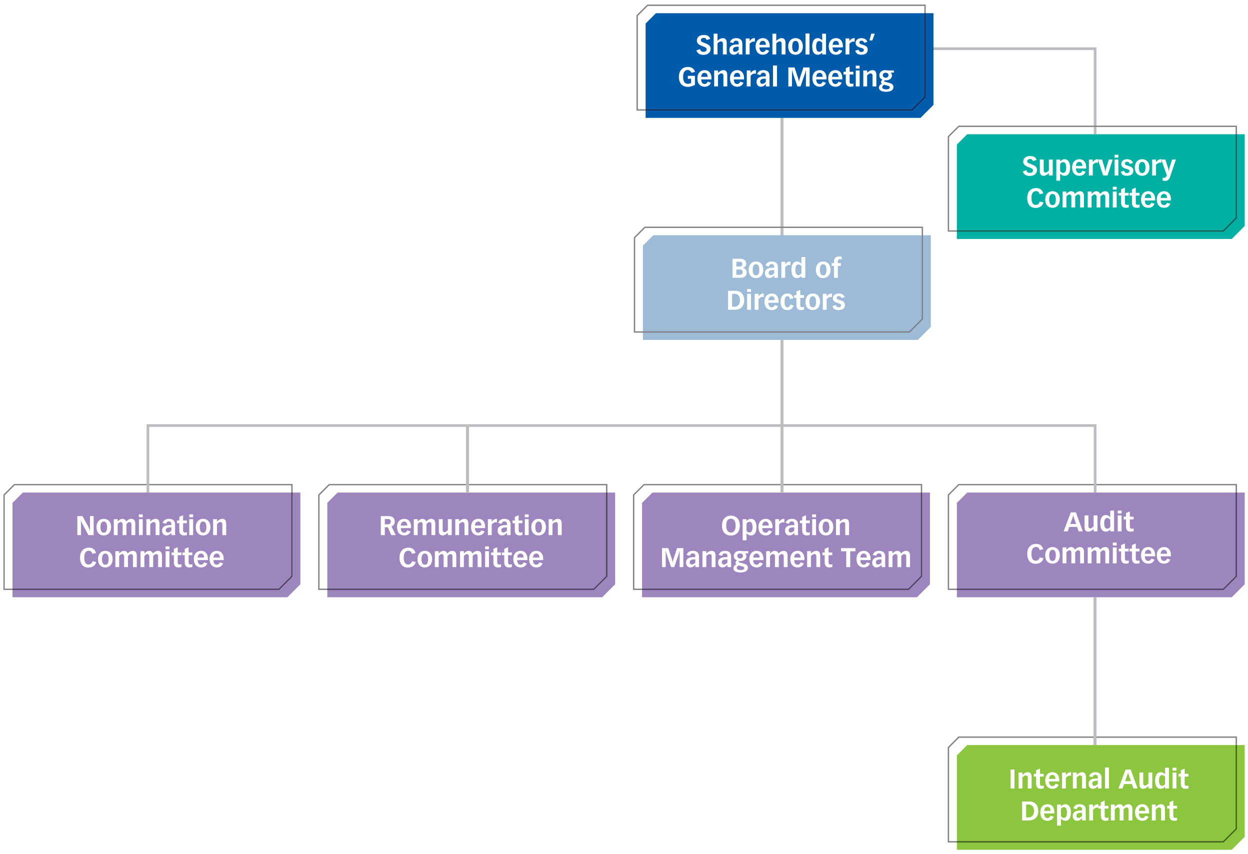
CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code (the "CG Code") prescribed in Appendix 14 to the Listing Rules as its own code of corporate governance. For the year ended 31 December 2018, the Company has complied with all the code provisions as set out in the CG Code, except for deviation of provisions as mentioned below:

CG 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 2018.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Board and the Supervisory Committee have adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct for securities transactions by the Directors and Supervisors. Specific enquiries have been made by the Company and all the Directors and Supervisors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2018. 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.

BOARD OF DIRECTORS

Duties of the Board

The Board formulates overall strategic plans and key policies of the Group, reviews the Group's operational and financial performance, reviews and monitors the Group's financial control and risk management systems, 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.

All Directors have given sufficient time and attention to the affairs of the Group and in particular, the independent non-executive Directors have provided the Board with their diversified expertise and professional advices. The Board is of the view that there is a balanced composition of executive, non-executive and independent non-executive Directors in the Board and the independent non-executive Directors are able to provide sufficient checks and balances to safeguard the interests of the Group and its Shareholders. The participation of the independent non-executive Directors in the Board and committee meetings also provides independent judgment on the issues relating to strategy, policy, performance, accountability, conflict of interest and standards of conduct. The Board members have access to timely information relating to the Group's business and will be provided with further documents and information upon request to enable them to make informed decisions. Independent professional advice can be sought to discharge their duties at the Group's expense upon their request. No such advice was sought during 2018.

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 2018.

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.

Besides the roles of chairman and chief executive officer was performed by Mr. Pang Baogen, there is no other relationship(including financial, business, family or other material/relevant relationship(s))among the Directors. Brief biographical details of the Directors are set out on pages 50 to 52 of the annual report.

BOARD DIVERSITY

The Company adopted the Board Diversity Policy with periodical objectives. The nomination committee of the Company (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 44 to the consolidated financial statements.

The band of remuneration of senior management personal and related number of members of senior management are as follows:

	2018 Number of individuals	2017 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 Board meetings during the year, discussed and approved the 2017 annual report, 2018 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 14 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 2018

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 annually 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 2018, 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.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility to present a balanced, clear and understandable assessment of the Group's performance, position and prospects in the consolidated financial statements of the annual and interim reports in accordance with statutory requirements and applicable accounting standards. Pursuant to Code Provision C.1.1 of the Corporate Governance Code, management would provide such explanation and information to the Board as will enable the Board to make an informal assessment of the financial and other information put before the Board for approval. The Directors confirm that, to the best of their knowledge, information and relief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Company's ability to continue as a going concern.

In preparing the financial statements for the year ended 31 December 2018, the Directors have selected appropriate accounting policies and applied them consistently, and have made judgments and estimates that are prudent and reasonable.

The Group has announced its annual and interim results in a timely manner within the limits of three months and two months respectively after the end of the relevant financial periods, as laid down in the Listing Rules.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has the responsibility to evaluate and determine the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and to ensure the Group establish and maintain appropriate and effective risk management and internal control systems on an ongoing basis. The Group's risk management and internal control systems aim to manage, but not eliminate, risks of failing to achieve business objectives, and make reasonable, but not absolute, guarantee that there is no material misstatement or loss only.

The Group's risk management and internal control systems comprises, among others, the relevant financial, operational and compliance controls, internal circulation and handling of information. The Group clearly defines the authorizations and responsibilities of the Board, the audit committee of the Company (the"Audit Committee"), the management, the internal audit function and other units to ensure the establishment, implementation and effective assessment of risk management and internal control systems.

In order to enhance our risk management and internal control, a guiding team under the leadership of the Board and comprising the Audit Committee, administrative management and external and internal audit teams for risk management and internal control has been established to carry out relevant works. A three-line-defense system for risk management and internal control has been put in place: namely frontline defense in business operation, functional centralised defense in internal control and regulatory departments, and the independent oversight defense in the internal audit department. Each department is accountable for its daily operations and is required to implement the business strategies and policies adopted by the Board from time to time. An internal audit function is established to review and evaluate the Group's risk management and internal control systems and report directly to the Board and members of the Audit Committee.

Internal monitoring and self-evaluation have been conducted in connection with the three main businesses and four regional areas identified by the Group. Remedies for loopholes and inadequacies as reviewed during internal control and identified in independent audit have been proposed, which are followed up by the risk management department of the Group regularly in order to ensure the relevant remedial actions are performed on a timely basis. Review findings have been reported to the Audit Committee for further follow-up actions.

The Board performs the duty of reviewing the interim and annual results with the Audit Committee, the management of the Group, the internal audit function and external independent auditors in accordance with the protocol, and conducts a review and assessment of the effectiveness of the Group's risk management and internal control systems and procedures at least annually. The internal audit department of the Group carried out independent assessment on the risk management and internal control systems of the Group. The Board believes that the existing risk management and internal control systems are adequate and effective for the year ended 31 December 2018. The Board also reviewed the resources, qualifications and experience of staff of the Group's accounting, internal audit and financial reporting functions and their training programmes and budget and was satisfied with their adequacy.

The Board with the concurrence of the Audit Committee reviews the risks to the Company and acts upon any comments from the internal audit function and external auditors. Key risks, control measures and management actions are continually identified, reviewed and monitored by the management as part of risk management systems. The management has established a risk identification and management process. The risk assessment report is reported to the Audit Committee and the Board on a regular basis to highlight changes in the risk assessment, quantitative and qualitative factors affecting the inherent risks and effectiveness of mitigatory controls supporting the residual risks. The risk management systems of the Group are continually being monitored and refined by the Audit Committee and the Board. The Board has received assurance from the CEO and the management of the Group regarding the effectiveness of the risk management systems of the Group.

AUDITOR'S REMUNERATION

The remuneration of the auditors in the year 2018 is set out as follows:

	2018		2017	
	Audit fees RMB'000	**Other fees RMB'000**	Audit fees RMB'000	Other fees RMB'000
PwC Hong Kong and PwC ZT	**3,710**	**20**	3,710	20

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 of the Company (the "Remuneration Committee") perform their specific duties in accordance with their respective written terms of reference.

AUDIT COMMITTEE

The Audit Committee 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, review the reports submitted by the internal audit department and to ensure that the management has fulfilled its duties and the Group's strategic objectives to maintain an effective risk management and internal control systems. 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 2018.

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;

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

– reviewing the risk management and internal control systems of the Group.

The Audit Committee also met with the external auditor annually in the absence of management to discuss matters relating to any Issues arising from audit and any other matters the external auditor may wish to raise.

ATTENDANCE OF THE MEETING OF THE AUDIT COMMITTEE IN 2018

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 held one meeting during the year of 2018.

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 COMMITTEE IN 2018

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 2018.

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 COMMITTEE IN 2018

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 2018, 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 65 to 71 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. The company secretary confirmed that he had attained not less than 15 hours of relevant professional training during the year of 2018. Mr. Pang Baogen, Chairman of the Board, is the primary contact person of the company.

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 2018

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, a shareholder holding individually or shareholders holding collectively 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 A, 7th Floor, Southern Commercial Building,
11 Luard 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

DIVIDEND POLICY

The Board has approved and adopted a dividend policy on 7 January 2019 (the "Dividend Policy").

It is the policy of the Board, in considering the payment of dividends, to allow shareholders of the Company to participate in the Company's profits whilst retaining adequate reserves for the Group's future growth.

The Board shall consider the following factors before declaring or recommending any dividends:

a. financial results;

b. cash flow situation;

c. business conditions and strategies;

d. future operations and earnings;

e. capital requirements and expenditure plans;

f. interests of shareholders;

g. any restrictions on payment of dividends; and

h. any other factors that the Board may consider relevant.

The shareholders of the Company may not expect any dividends under the following circumstances:

a. during the growth phase of the Group or during significant expansion or undertaking of any acquisitions or joint ventures requiring higher allocation of capital;

b. whenever the Company proposes or plans to utilize surplus cash to repurchase the shares of the Company; or

c. inadequacy of profits or if the Company incurs losses.

The Dividend Policy and the declaration and/or payment of future dividends under it are subject to the Board's continuing determination that the Dividend Policy and the declaration and/or payment of dividends would be in the best interests of the Group and Shareholders, and are in compliance with all applicable laws and regulations and the Company's Memorandum and Articles of Association. The Board endeavours to maintain a balance between meeting Shareholders' expectations and prudent capital management with a sustainable dividend policy. The Board will continually review the Dividend Policy and reserves the right in its sole and absolute discretion to update, amend, modify and/or cancel the Dividend Policy at any time, and the Dividend Policy shall in no way constitute a legally binding commitment by the Company in respect of its future dividend and/or in no way obligate the Company to declare a dividend at any time or from time to time.

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 2018. 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 2018.

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 2018, 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 2)	Approximate Percentage of the Total Registered Share Capital of the Company (Note 2)
Wu Xueqin	29,304,000	13.83%	5.21%
Zhu Yicai (Note 1)	29,304,000	13.83%	5.21%

Note:

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

2. As at 31 December 2018, the Company has a total of 562,664,053 shares, of which 211,922,000 shares were H Shares.

IMPORTANT FINANCIAL DATES

Events	Date
Issued Annual Results Announcement of 2017	On 23 March 2018
Issued Interim Results Announcement of 2018	On 27 August 2018
Issued Annual Results Announcement of 2018	On 25 March 2019
Closure of register of member of the Company	On 24 May 2019 to 24 June 2019 (both days inclusive)
Annual General Meeting of 2018	On 24 June 2019
Class meeting for holders of H Shares	On 24 June 2019
Class meeting for holders of Domestic Shares	On 24 June 2019

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 2018. 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 2018. All the Directors attended this AGM.

ARTICLES OF ASSOCIATION

In view of the completion of repurchase of H shares in 2018, the Company has correspondingly reduced its registered capital and amended certain provisions of the articles of association to reflect such changes, such amended changes were approved by the relevant governing authorities. There is no other changes of the articles of association during the year of 2018. An updated version, incorporating such changes, is as shown in the New Articles of Association of the Company and is available on the websites of the Company and the Stock Exchange.

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 13th 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 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 chairman 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. 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 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. Mr. Jin is currently the president of Zhejiang Engineering Construction Quality Management Association executive chairman of Shaoxing City Construction Committee, vice-chairman of Hangzhou Construction Committee and a member of the Chinese People's Political Consultative Conference in Keqiao. 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 Directors

Mr. Fung Ching, Simon, born in 1969, is a non-executive Director and a member of audit committee of the Company and is currently the chief financial officer, company secretary and one of the authorised representatives of Greentown China Holdings Limited, a company listed on The Stock Exchange. He is also an independent non-executive director of Hainan Meilan International Airport Company Limited and China Logistics Property Holdings Co., Ltd, both companies are listed on The Stock Exchange. 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 14 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 40 years of experience in public accountancy, management consultancy, manufacturing, distribution and retails, telecommunications, logistics and financial services.

Mr. Li Wangrong, born in 1963, is an independent non-executive Director, Chairman of nomination Committee and a member of audit committee of the company. Mr.Li 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, is an independent non-executive Director, a member of remuneration committee and nomination Committee of the company. Mr.Liang 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 2018.

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 10 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

BUSINESS REVIEW

The business review of the Group for the Year is set out in the sections of Financial Highlights for the proceeding five years, Chairman's Statement, Management Discussion and Analysis, Environmental, Social and Governance Report 2018 which will be published on the same date, and the paragraphs below.

FINANCIAL POSITIONS AND RESULTS

The financial positions of the Group and the Company as at 31 December 2018 are set out in the balance sheets of the consolidated financial statements prepared in accordance with HKFRS on pages 72 to 73.

The results of the Group for the year ended 31 December 2018 prepared in accordance with HKFRS are set out in the consolidated income statement on page 74.

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 Company available for distribution to the equity holders amounted to RMB746,384,000 as at 31 December 2018 (2017: RMB680,203,000).

DIVIDENDS

At the board meeting held on 25 March, 2019, the Board proposed no final dividend be declared for the year ended 31 December 2018 (2017: nil).

SEGMENT INFORMATION

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

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

The segment information for the year ended 31 December 2018 is set out in note 6 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 8 to the consolidated financial statements.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions a total of approximately RMB4,397,000 (2017: RMB4,267,000).

BORROWINGS

As at 31 December 2018, details of borrowings of the Group are set in the note 28 to the consolidated financial statements.

DIRECTORS AND SUPERVISORS

The Directors and Supervisors of the Company for 2018 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 50 to 53 of the annual report.

REMUNERATION OF DIRECTORS

The remuneration of the Directors of the Company is disclosed on an individual named basis in note 44 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 44 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.

INDEMNITY OF DIRECTORS

The Company has maintained appropriate directors and officers liability insurance and such permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the year.

INTERESTS OF DIRECTORS, SUPERVISORS, CHIEF EXECUTIVE AND SENIOR MANAGEMENT

As at 31 December 2018, 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		34.43%
Mr. Gao Jiming	The Company	Individual	12,059,254	–	2.14%
Mr. Gao Lin	The Company	Individual	9,544,775	–	1.70%
Mr. Gao Jun	The Company	Individual	5,794,259	–	1.03%
Mr. Jin Jixiang	The Company	Individual	2,440,527	–	0.43%
Supervisors					
Mr. Wang Jianguo	The Company	Individual	5,250,290	–	0.93%
Mr. Wang Jianguo	Zhejiang Baoye Curtain Wall Decoration Company Limited	Individual	42,700,001		16.94%
Mr. Xu Gang	The Company	Individual	6,790,159	–	1.21%
Senior Management					
Mr. Lou Zhonghua	The Company	Individual	4,533,172	–	0.81%
Mr. Wang Rongbiao	The Company	Individual	2,647,911	–	0.47%

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

At the 2016 annual general meeting held on 13 June 2017, 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 2019 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' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transactions, arrangements or 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	/
2017	/	/	/	608,895,000	/
2018	/	/	/	874,175,000	/
Total	1,181,190,000		995,821,095		

SHARE CAPITAL

At the date of the reporting period, there was a total share capital of 562,664,053 shares of the Company in issue, which includes:

	Number of shares	Approximate percentage of total share capital
Domestic Shares	350,742,053	62.34%
H Shares	211,922,000	37.66%
Total	562,664,053	100%

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

Since the special resolution regarding the authorization to the Board to buyback H shares of the Company since 2017 Annual General Meeting and class meetings, the Company has repurchased a total of 23,546,000 H Shares from April 2018 to June 2018, representing 10% and 4.02% of the total number of H Shares and the total number of issued Shares of the Company respectively at the time the special resolution passed. Total amount paid was HKD132,386,100 (excluding transaction charges). All the shares being repurchased were subsequently cancelled. As at 31 December 2018, the total number of Shares in issue was 562,664,053 (including 350,742,053 domestic shares and 211,922,000 H shares). Details of the H shares were also shown in the next day disclosure returns for the period from April 2018 to June 2018 published on the website of the Stock Exchange. As at the date of this report, the Company has a total registered capital of 562,664,053 shares.

Particulars of the share buy-backs are as follows:

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

Save as disclosed above, during the year ended 31 December 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

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

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 ended 31 December 2018, the Group had no connected transaction that would require disclosure under the Listing Rules.

CONTINGENT LIABILITIES

As at 31 December 2018, neither the Company nor the Group had any significant contingent liabilities.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

As at 31 December 2018, the Group did not have any material acquisitions and disposals of subsidiaries, joint ventures and associates.

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

HUMAN RESOURCES

As at 31 December 2018, the Group had a total of 5,465 permanent employees (as at 31 December 2017:5,071). Also, there were approximately 72,356 indirectly employed construction site workers (as at 31 December 2017 71,745). These workers were not directly employed by the Group. For the year ended 31 December 2018, the total employee benefit expenses amounted to approximately RMB4,484,605,000. 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.

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 2018, the "Environmental, Social and Governance Report 2018" 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 Zhong Tian LLP (the "PwC ZT") as the Company's PRC statutory auditor were approved at the annual general meeting held on 15 June 2018.

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 24 May 2019 to 24 June 2019, 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 23 May 2019.

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
25 March 2019

SUPERVISORS' REPORT

To the Shareholders,

In the year 2018, 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 2018 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
25 March, 2019

Independent Auditor's Report

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 73 to 173, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- 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.

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 2018, 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 judgment, 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
- Impairment loss on trade receivables

Key Audit Matter	How our audit addressed the Key Audit Matter

Recognition of revenue from provision of construction services

Refer to note 5 (Critical accounting estimates and judgments) and note 6 (Segment information) to the consolidated financial statements.

Revenue from provision of construction services for the year ended 31 December 2018 amounted to RMB17,342,995,000, representing approximately 75% of the Group's total revenue.

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

We focused on this area because the revenue amount involved is significant and judgments are required in estimating the total costs of construction contracts.

We have performed the following procedures to address this key audit matter:

(i) Understood, evaluated 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 sampling basis.

(iv) Compared gross profit margin of material construction contracts and challenged management's explanation for significant 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 judgments 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
Impairment loss on trade receivables	
Refer to note 5 (Critical accounting estimates and judgments) and note 18 (Trade receivables) to the consolidated financial statements. As at 31 December 2018, gross trade receivables amounted to RMB4,151,346,000, which represented approximately 14% of the total assets of the Group, and a total loss allowance of RMB207,867,000 was provided against the gross amount of trade receivables. Management assessed the impairment loss on trade receivables based on assumptions about expected credit loss rates. The Group used judgements in making these assumptions and selecting the inputs to the impairment loss calculation, taking into account cash collection history, existing market conditions as well as forward looking estimates. We focused on this area as the balance of trade receivables was material to the consolidated financial statements and the assessment on the impairment loss on these receivables involved significant judgments and estimates by management.	We have performed the following procedures to address this key audit matter: (i) Understood, evaluated and tested the internal controls in relation to collection of trade receivables and assessment on the related impairment loss. (ii) Requested confirmations of debtor balances on a sampling basis. Where a reply was not received, we performed alternative procedures by inspecting the underlying invoices or goods delivery notes, as appropriate. (iii) We challenged management the rationale for expected credit loss rate of different group of age and type of customers. (iv) Examined the ageing profile of trade receivables and checked the accuracy of the calculation of impairment loss allowance. We found that the management's judgments on the impairment loss on 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 judgment 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, 25 March 2019

Consolidated Balance Sheet

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Land use rights	7	**616,765**	491,382
Property, plant and equipment	8	**2,077,820**	1,473,768
Investment properties	9	**742,768**	617,169
Goodwill		**16,534**	16,534
Investments in joint ventures	11(a)	**244,322**	126,783
Loans to joint ventures	11(b)	**325,914**	374,453
Investments in associates	12(a)	**323,693**	15,547
Loans to associates	12(b)	**622,549**	230,939
Financial assets at fair value through other comprehensive income	13	**232,801**	–
Financial assets at fair value through profit or loss	20	**8,727**	–
Available-for-sale financial assets	3	**–**	241,628
Deferred income tax assets	29	**237,224**	343,350
Prepayments for investments in associates		**–**	158,865
		5,449,117	4,090,418
Current assets			
Inventories	15	**243,392**	179,165
Properties under development	16	**3,685,492**	4,527,638
Completed properties held for sale	17	**3,429,544**	3,559,157
Contract assets and contract acquisition costs	3	**3,681,687**	–
Due from customers on construction contracts	3	**–**	3,766,827
Trade receivables	18	**3,943,479**	3,668,651
Other receivables and prepayments	19	**4,126,542**	4,598,294
Loans to joint ventures	11(b)	**61,385**	–
Loans to associates	12(b)	**11,102**	–
Financial assets at fair value through profit or loss	20	**517,820**	–
Available-for-sale financial assets	3	**–**	249,250
Restricted bank deposits	21	**628,485**	658,125
Term deposits with initial term of over three months	22	**85,704**	90,199
Cash and cash equivalents	22	**3,698,252**	2,575,717
		24,112,884	23,873,023
Total assets		**29,562,001**	27,963,441

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	23	**562,664**	586,210
Share premium	23	**481,433**	565,872
Reserves	24	**205,263**	205,633
Retained earnings	25	**7,087,446**	5,960,204
		8,336,806	7,317,919
Non-controlling interests		**230,734**	178,445
Total equity		**8,567,540**	7,496,364
LIABILITIES			
Non-current liabilities			
Borrowings	28	**434,057**	70,862
Deferred income tax liabilities	29	**143,400**	83,834
		577,457	154,696
Current liabilities			
Contract liabilities	3	**6,522,661**	–
Trade payables	26	**6,934,169**	6,083,747
Other payables	27	**4,628,528**	3,395,107
Receipts in advance	3	**–**	5,246,117
Due to customers on construction contracts	3	**–**	3,388,705
Borrowings	28	**1,865,430**	1,684,165
Current income tax liabilities		**466,216**	514,540
		20,417,004	20,312,381
Total liabilities		**20,994,461**	20,467,077
Total equity and liabilities		**29,562,001**	27,963,441

The notes on pages 79 to 174 are an integral part of these consolidated financial statements.

The financial statements on pages 72 to 174 were approved by the Board of Directors on 25 March 2019 and were signed on its behalf.

Mr. Pang Baogen
Director

Mr. Gao Jiming
Director

Consolidated Income Statement

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Revenue	6	**23,230,614**	18,978,200
Cost of sales	32	**(21,258,035)**	(17,697,062)
Gross profit		**1,972,579**	1,281,138
Other income	30	**116,706**	107,936
Other gains – net	31	**32,432**	51,105
Selling and marketing costs	32	**(82,764)**	(84,457)
Administrative expenses	32	**(585,760)**	(461,842)
Net impairment losses on financial and contract assets	4.1(b)	**(59,605)**	(21,604)
Operating profit		**1,393,588**	872,276
Finance costs	34	**(26,767)**	(4,891)
Share of results of joint ventures	11(a)	**17,038**	3,256
Share of results of associates	12(a)	**(8,944)**	(1,094)
Profit before income tax		**1,374,915**	869,547
Income tax expense	35	**(460,002)**	(262,812)
Profit for the year		**914,913**	606,735
Profit attributable to:			
– Owners of the Company		**874,175**	608,895
– Non-controlling interests		**40,738**	(2,160)
		914,913	606,735
Earnings per share for profit attributable to the owners of the Company			
– Basic and diluted (expressed in RMB yuan per share)	36	**1.53**	1.03

The notes on pages 79 to 174 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Profit for the year		**914,913**	606,735
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	24	**400**	–
Items that may be reclassified to profit or loss			
Transfer of reserves to income statement upon sale of available-for-sale financial assets, net of tax		**–**	(11,655)
Change in fair value of available-for-sale financial assets, net of tax		**–**	12,152
Other comprehensive income for the year, net of tax		**400**	497
Total comprehensive income for the year		**915,313**	607,232
Total comprehensive income attributable to:			
– Owners of the Company		**874,575**	609,392
– Non-controlling interests		**40,738**	(2,160)
Total comprehensive income for the year		**915,313**	607,232

The notes on pages 79 to 174 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Note	Attributable to the owners of the Company						Non-controlling interests	Total equity
		Share Capital	Share premium	Treasury shares	Reserves	Retained earnings	Total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2017		612,372	671,665	(13,535)	184,341	5,372,104	6,826,947	170,753	6,997,700
Comprehensive income									
Profit for the year		–	–	–	–	608,895	608,895	(2,160)	606,735
Other comprehensive income		–	–	–	497	–	497	–	497
Total comprehensive income		–	–	–	497	608,895	609,392	(2,160)	607,232
Transactions with owners in their capacity as owners									
Transfer of statutory surplus reserves		–	–	–	20,795	(20,795)	–	–	–
Buy-back and cancellation of shares	23	(26,162)	(105,793)	13,535	–	–	(118,420)	–	(118,420)
Dividends paid to non-controlling interests		–	–	–	–	–	–	(42,615)	(42,615)
Capital contributions by non-controlling interests		–	–	–	–	–	–	70,144	70,144
Disposal of interests in subsidiaries		–	–	–	–	–	–	(17,677)	(17,677)
Total transactions with owners		(26,162)	(105,793)	13,535	20,795	(20,795)	(118,420)	9,852	(108,568)
Balance at 31 December 2017		586,210	565,872	–	205,633	5,960,204	7,317,919	178,445	7,496,364

	Note	Attributable to the 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 31 December 2017		586,210	565,872	205,633	5,960,204	7,317,919	178,445	7,496,364
Adjustment on adoption of HKFRS 9, net of tax	3	–	–	(5,519)	(13,367)	(18,886)	–	(18,886)
Adjustment on adoption of HKFRS 15, net of tax	3	–	–	–	273,787	273,787	13,305	287,092
Restated balance at 1 January 2018		586,210	565,872	200,114	6,220,624	7,572,820	191,750	7,764,570
Comprehensive income								
Profit for the year		–	–	–	874,175	874,175	40,738	914,913
Other comprehensive income	24	–	–	400	–	400	–	400
Total comprehensive income		–	–	400	874,175	874,575	40,738	915,313
Transactions with owners in their capacity as owners								
Transfer of statutory surplus reserves		–	–	7,353	(7,353)	–	–	–
Buy-back and cancellation of shares	23	(23,546)	(84,439)	–	–	(107,985)	–	(107,985)
Capital contributions by non-controlling interests		–	–	–	–	–	35,150	35,150
Dividends paid to non-controlling interests		–	–	–	–	–	(15,500)	(15,500)
Acquisition of non-controlling interests in a subsidiary	41	–	–	(2,604)	–	(2,604)	(19,396)	(22,000)
Liquidation of a subsidiary		–	–	–	–	–	(2,008)	(2,008)
Total transactions with owners		(23,546)	(84,439)	4,749	(7,353)	(110,589)	(1,754)	(112,343)
Balance at 31 December 2018		562,664	481,433	205,263	7,087,446	8,336,806	230,734	8,567,540

The notes on pages 79 to 174 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Cash generated from/(used in) operations	38	**2,214,752**	(1,973,006)
Interest paid		**(110,768)**	(45,655)
Income tax paid		**(524,579)**	(365,515)
Net cash generated from/(used in) operating activities		**1,579,405**	(2,384,176)
Cash flows from investing activities			
Payments for investments in joint ventures	11(a)	**(116,500)**	(47,100)
Repayment of loans by joint ventures	11(b)	**2,303**	11,160
Loans to joint ventures	11(b)	**(18,509)**	(310,697)
Payments for investments in associates	12(a)	**(158,225)**	(3,300)
Loans to associates	12(b)	**(395,750)**	(230,939)
Prepayments for investments in associates	12(a)	**–**	(158,865)
Sale of financial assets at fair value through profit or loss		**647,163**	815,135
Purchase of financial assets at fair value through profit or loss	20	**(896,800)**	–
Sale of available-for-sale financial assets		**–**	694,130
Purchase of available-for-sale financial assets		**–**	(481,518)
Disposal of subsidiaries		**–**	18,375
Purchase of property, plant and equipment		**(398,141)**	(295,912)
Disposal of property, plant and equipment	38(b)	**2,160**	9,199
Purchase of land use rights		**(139,833)**	(17,248)
Sale of land use rights	38(b)	**–**	20,402
Advance from government for housing demolition and relocation		**143,677**	300,000
Dividends received from associates	12(a)	**–**	400
Decrease/(increase) of term deposits with initial term of over three months		**4,495**	(78,274)
Interest received		**101,165**	105,708
Net cash (used in)/generated from investing activities		**(1,222,795)**	350,656
Cash flows from financing activities			
Proceeds from borrowings		**2,510,724**	2,062,527
Repayments of borrowings		**(1,966,264)**	(590,060)
Capital contributions by non-controlling interests		**35,150**	70,144
Buy-back of shares	19,23	**(105,536)**	(92,155)
Loan from non-controlling interests	27	**324,471**	320,551
Acquisition of non-controlling interests	41	**(22,000)**	–
Dividends paid to non-controlling interests		**(15,500)**	(42,615)
Net cash generated from financing activities		**761,045**	1,728,392
Net increase/(decrease) in cash and cash equivalents		**1,117,655**	(305,128)
Cash and cash equivalents at beginning of the year		**2,575,717**	2,885,736
Exchange gains/(losses) on cash and cash equivalents		**4,880**	(4,891)
Cash and cash equivalents at end of the year		**3,698,252**	2,575,717

The notes on pages 79 to 174 are an integral part of these 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, sale and installation of building materials and development and sale of properties in the PRC.

These consolidated financial statements have been approved for issue by the Board of Directors on 25 March 2019.

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 financial assets at fair value through profit or loss ("financial assets at FVPL"), financial assets at fair value through other comprehensive income ("financial assets at FVOCI") 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 judgments in the process of applying the Group's accounting policies. The areas involving a higher degree of judgments or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time in current year:

- Financial instruments – HKFRS 9;
- Revenue from contracts with customers – HKFRS 15;
- Transfers of investment properties – amendments to HKAS 40;
- Investments in associates and joint ventures – Annual improvements to HKFRS 2014-2016 cycle – amendments to HKAS 28; and
- Interpretation 22 Foreign Currency Transactions and Advance Consideration.

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

The Group had to change its accounting policies and make modified retrospective adjustments as a result of adopting HKFRS 9 and HKFRS 15.

The impact of the adoption of these two standards are disclosed in Note 3 and the new accounting policies adopted are set out in Note 2.9, Note 2.10, Note 2.15 and Note 2.22 below.

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 2018 and have not been early adopted

		Effective for the financial year beginning on or after
HKFRS 16	Leases	1 January 2019
HKFRIC 23	Uncertainty over income tax treatment	1 January 2019
Amendments to HKFRS 9	Prepayment features with negative compensation	1 January 2019
Amendments to HKAS 19	Plan amendment, curtailment or settlement	1 January 2019
Amendments to HKAS 28	Long-term interests in associates and joint ventures	1 January 2019
Annual improvements 2015-2017		1 January 2019
Amendments to HKFRS 3	Definition of a business	1 January 2020
Amendments to HKAS 1 and HKAS 8	Definition of material	1 January 2020
HKFRS 17	Insurance contract	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associates or joint ventures	To be determined

The above new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2019 and have not been applied in preparing these consolidated financial statements. The Group is in the process of assessing the impact of the above new standards and amendments to existing standards 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(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.

(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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 consolidated 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.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 consolidated income statement.

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

(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 consolidated 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 consolidated 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 to 5 years
Office equipment and others	3 to 5 years

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 consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 consolidated income statement during the financial period in which they are incurred.

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

If an item of owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as a revaluation under HKAS 16. Any resulting increase in the carrying amount of the property is recognised in profit or loss to the extent that it reverses a previous impairment loss, with any remaining increase recognised in other comprehensive income and increase directly to equity in revaluation surplus within equity. Any resulting decrease in the carrying amount of the property is initially charged in other comprehensive income against any previously recognised revaluation surplus, with any remaining decrease charged to profit or loss. For a transfer from completed properties held for sale or properties under development to investment properties that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss.

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 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 measurement categories:

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

- those to be measured at amortised cost.

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial assets (continued)

(b) *Recognition and measurement*

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

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

Debt instruments

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial assets (continued)

(b) *Recognition and measurement*

Equity instruments

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

Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policies below.

(i) Classification

Until 31 December 2017, the Group classifies its financial assets in the following categories: loans and receivable, available-for-sale and financial assets at FVPL. 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.

Available-for-sale financial assets ("AFS") 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 FVPL 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)

Accounting policies applied until 31 December 2017 (continued)

(ii) 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 FVPL. Financial assets carried at FVPL 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. AFS and financial assets at FVPL 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 FVPL' category are presented in the consolidated income statement within 'Other gains – net' in the period in which they arise. Dividend income from financial assets at FVPL is recognised in the consolidated 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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Impairment of financial assets (continued)

Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policies below.

(i) 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 was 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Impairment of financial assets (continued)

Accounting policies applied until 31 December 2017 (continued)

(ii) 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 consolidated 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 loss allowance.

2.15 Contract assets, contract acquisition costs and contract liabilities

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assumes performance obligations to transfer goods or provide services to the customer. The combination of those rights and performance obligations gives rise to a net asset or a net liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognised as contract assets if the measure of the remaining rights exceeds the measure of the remaining performance obligations. Conversely, the contract is a liability and recognised as contract liabilities if the measure of the remaining performance obligations exceeds the measure of the remaining rights.

The Group recognises the incremental costs of obtaining a contract with a customer as contract acquisition cost within contract assets if the Group expects to recover those costs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Contract assets, contract acquisition costs and contract liabilities (continued)

Accounting policies applied until 31 December 2017-Construction contracts

The Group has applied HKFRS 15 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policies below.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Contract assets, contract acquisition costs and contract liabilities (continued)

Accounting policies applied until 31 December 2017-Construction contracts (continued)

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.

2.16 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(i) *Revenue from contracts with customers*

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Revenue recognition (continued)

(i) *Revenue from contracts with customers (continued)*

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

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

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

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

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

Hotel operation and membership services

Revenue from hotel operation and membership services is recognised in the accounting period in which the services are rendered.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Revenue recognition (continued)

(i) Revenue from contracts with customers (continued)

Accounting policies applied until 31 December 2017

The Group has applied HKFRS 15 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policies below.

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.

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.

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.

The amount of revenue is based on the unit price specified in the sales contract and the quantity delivered to customers.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Revenue recognition (continued)

(i) Revenue from contracts with customers (continued)

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.

The revenue is measured at the amount receivable under the contract. 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.

(ii) Rental income

Rental income from investment properties, building, plants and machinery and completed properties held for sale under operating leases is recognised on a straight line basis over the term of the lease.

2.23 Interest income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in the consolidated income statement as part of other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

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 consolidated 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 CHANGES IN ACCOUNTING POLICIES

The Group adopted HKFRS 9 and HKFRS 15 from 1 January 2018, which result in changes in accounting policies (new policies are described in Note 2) and adjustments to the amounts recognised in the consolidated financial statements.

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

The Group elected to use a modified retrospective approach for transition which allows the Group to recognise the cumulative effects of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings. Thus the comparative figures have not been restated.

The Group has applied HKFRS 9 and HKFRS 15 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policies.

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

3.1 Impact on the financial statements

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

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

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

3.2 HKFRS 9 Financial Instruments – Impact of adoption

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

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

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

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

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

(a) *Classification and measurement*

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

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

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

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

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

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

Related accumulated fair value gains of RMB5,519,000 were transferred from the AFS reserve to retained earnings on 1 January 2018. During the year ended 31 December 2018, net fair value losses of RMB633,000 relating to these investments were recognised in profit or loss, along with deferred tax expense of RMB157,000.

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

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

(a) *Classification and measurement (continued)*

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

The Group elected to present in other comprehensive income changes in the fair value of all its equity investments in unlisted securities previously classified as AFS, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, equity interest in an unlisted company with a fair value of RMB232,268,000 was reclassified from AFS to financial assets at FVOCI on 1 January 2018. During the year ended 31 December 2018, net fair value gains of RMB533,000 relating to the investment were recognised in other comprehensive income, along with deferred tax expense of RMB133,000.

(iv) Financial liabilities

There is no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at FVPL 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.

(b) *Impairment of financial assets*

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

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

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

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

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

(b) Impairment of financial assets (continued)

(i) Trade receivables and contract assets

For trade receivables and contract assets, the Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables and contract assets. RMB9,687,000 was recognised in retained earnings as at 1 January 2018 for those trade receivables and contract assets whose credit risk has been assessed as other than low and for which the impairment methodology described in note 4.1(b) has been applied. Note 4.1(b) reconciles the loss allowance as at 1 January 2018 to that at the end of the year.

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

For loans to joint ventures and associates and other receivables already in place at 1 January 2018, the Group has determined that reliably assessing the probability of default at the initial recognition of each financial asset would result in undue cost and effort. As permitted by HKFRS 9, the credit provision will be determined based on whether credit risk is low only at each reporting date, until the loans or the receivables are derecognised. RMB15,494,000 was recognised in retained earnings as at 1 January 2018 for those loans and receivables whose credit risk has been assessed as other than low and for which the impairment methodology described in note 4.1(b) has been applied. Note 4.1(b) reconciles the loss allowance as at 1 January 2018 to that at the end of the year.

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

HKFRS 15 replaces the provisions of HKAS 18 Revenue ("HKAS18") and HKAS 11 Construction contracts ("HKAS11") that relate to the recognition, classification and measurement of revenue and costs.

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

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

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

Presentation of contract assets and contract acquisition costs and contract liabilities

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

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

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

Accounting for revenue recognition of construction and other services and sale of building materials

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

Accounting for revenue recognition of property development activities

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

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

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

Accounting for costs incurred to obtain a contract

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

Accounting for significant financing component

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

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

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

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

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

(b) The amount by each finanical statements line items affected in the current year and year to date by the application of HKFRS 15 as compared to HKAS 18 and HKAS 11 that were previously in effect before the adoption of HKFRS 15 is as follows:

	As at 31 December 2018		
	Amounts without adoption of HKFRS 15 RMB'000	Effects of adoption of HKFRS 15 RMB'000	Amounts as reported RMB'000
Consolidated balance sheet (extract)			
Deferred income tax assets	253,147	(15,923)	237,224
Properties under development	3,798,605	(113,113)	3,685,492
Completed properties held for sale	3,521,902	(92,358)	3,429,544
Contract assets and contract acquisition costs	–	3,681,687	3,681,687
Due from customers on construction contracts	3,681,687	(3,681,687)	–
Contract liabilities	–	6,522,661	6,522,661
Other payables	4,367,548	260,980	4,628,528
Receipts in advance	3,937,149	(3,937,149)	–
Due to customers on construction contracts	3,207,540	(3,207,540)	–
Deferred income tax liabilities	97,004	46,396	143,400
Retained earnings	6,998,216	89,230	7,087,446
Non-controlling interests	226,706	4,028	230,734

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

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

(b) The amount by each finanical statements line items affected in the current year and year to date by the application of HKFRS 15 as compared to HKAS 18 and HKAS 11 that were previously in effect before the adoption of HKFRS 15 is as follows (continued):

	Year ended 31 December 2018		
	Amounts without adoption of HKFRS 15 RMB'000	Effects of adoption of HKFRS 15 RMB'000	Amounts as reported RMB'000
Consolidated income statement (extract)			
Revenue	23,940,254	(709,640)	23,230,614
Cost of sales	(21,648,053)	390,018	(21,258,035)
Income tax expenses	(585,790)	125,788	(460,002)
Profit for the year	1,108,747	(193,834)	914,913
– Profit attributable to owners fo the Company	1,058,732	(184,557)	874,175
– Profit attributable to non-controlling interests	50,015	(9,277)	40,738
Consolidated cash flow statement (extract)			
Cash generated from/(used in) operations			
– Profit for the year	1,108,747	(193,834)	914,913
– Income tax expenses	585,790	(125,788)	460,002
Changes in working capital:			
– Properties under development and completed properties held for sale	375,346	(390,017)	(14,671)
– Net balances with customers on construction contracts, contract assets and contract acquisition costs	(99,710)	206,166	106,456
– Contract liabilities and receipts in advance	(1,308,968)	434,875	(874,093)
– Trade and other payables	1,396,882	68,598	1,465,480

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

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

(c) Details of contract assets and contract acquisition costs are as follows:

	31 December 2018 RMB'000	1 January 2018 RMB'000
Related to construction services	**3,158,981**	3,253,884
Related to sale of properties	**–**	25,001
Related to sale of building materials	**526,391**	512,943
	3,685,372	3,791,828
Less: provision for loss allowance (note 4.1(b))	**(3,685)**	(3,792)
Total contract assets and contract acquisition costs	**3,681,687**	3,788,036

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

(d) Details of contract liabilities are as follows:

	31 December 2018 RMB'000	1 January 2018 RMB'000
Related to construction services	**2,745,653**	3,064,906
Related to sale of properties	**3,195,812**	3,829,986
Related to sale of building materials	**581,196**	501,862
Total contract liabilities	**6,522,661**	7,396,754

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

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

(d) Details of contract liabilities are as follows (continued):

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities:

	2018 RMB'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	
– Rendering of constrution services	2,026,222
– Sale of properties	2,036,803
– Sale of building materials	245,864
	4,308,889

Unsatisfied contract related to construction services, sale of properties and sale of building materials:

	2018 RMB'000
Expected to be recognised within one year	20,698,767
Expected to be recognised after one year	26,925,245
Total transaction price allocated to the unsatisfied contracts af of 31 December 2018	47,624,012

4 FINANCIAL RISK MANAGEMENT

4.1 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 ("USD"). 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 2018 and 2017, 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 at 31 December 2018 and 2017 were as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Assets		
USD	**280,868**	228,852

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1 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 the year-end for a 5% change in foreign currency rates. Should RMB strengthened/weakened by 5% against the relevant currencies, the effects on the net profit or loss for the year would be as follows:

	Change of net profit or loss – increase/(decrease)	
	2018	2017
	RMB'000	RMB'000
RMB against USD:		
Strengthened by 5%	**10,533**	8,582
Weakened by 5%	**(10,533)**	(8,582)

(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 financial assets at FVPL – listed equity securities. The Group does not actively trade listed equity securities. The Group closely monitors the fluctuation of the price and assesses the impact on the Group's financial statements.

As at 31 December 2018, management considered that the price risk of the listed equity securities was not material to the Group as the amount of the listed equity securities was not significant.

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1 Financial risk factors (continued)

(a) *Market risk (continued)*

(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 interest rates expose the Group to cash flow interest-rate risk. Bank borrowing with fixed interest 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 2018, if interest rates on borrowing had been 1% higher/lower with all other variables held constant, the net profit for current year would decrease/increase by RMB1,474,000 (2017: Nil), the properties under development would increase/decrease by RMB5,432,000 (2017: RMB1,443,000) and constructions in progress by RMB1,007,000 (2017: RMB147,000).

(b) *Credit risk*

The Group is exposed to credit risk in relation to its trade and other receivables, contract assets, 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, cash 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 materials 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 and contract assets 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.

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1 Financial risk factors (continued)

(b) Credit risk (continued)

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 purchases of the properties for an amount up to 75% of the total purchase price of the properties. 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.

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

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

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1 Financial risk factors (continued)

(b) Credit risk (continued)

(i) Loans to joint ventures and associates

As at 31 December 2018, the Group provides for credit losses against loans to joint ventures and associates as follows:

Expected credit loss rate	Basis for recognition of expected credit loss provision	Basis for calculation of interest revenue
0.5%-5%	12 month expected losses	Gross carrying amount

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

The loss allowance provision for loans to joint ventures and associates in non-current assets as at 31 December 2018 reconciles to the opening loss allowance for that provision as follows:

	Loans to joint ventures RMB'000	Loans to associates RMB'000	Total RMB'000
At 31 December 2017 (calculated under HKAS 39)	–	–	–
Amounts restated through opening retained earnings	6,295	2,309	8,604
At 1 January 2018 (calculated under HKFRS 9)	6,295	2,309	8,604
Provision for loss allowance	228	4,035	4,263
At 31 December 2018 (calculated under HKFRS 9)	6,523	6,344	12,867
Less: loss allowance provision against current assets	(3,231)	(56)	(3,287)
Loss allowance provision against non-current assets	3,292	6,288	9,580

As at 31 December 2018, the gross carrying amount of loans to joint ventures and loans to associates were RMB393,822,000 and RMB639,995,000 respectively, and thus the maximum exposure to loss of loans to joint ventures and loans to associates were RMB387,299,000 and RMB633,651,000 respectively.

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Trade receivables and contract assets

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

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

To measure the expected credit losses of trade receivables, trade receivables have been grouped based on shared credit risk characteristics and the ageing profile. The loss allowance provision as at 1 January 2018 and 31 December 2018 is determined as follows, the expected credit losses below also incorporate forward looking information.

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

31 December 2018 Trade receivables aged	**Within 3 months**	**3 months to 1 year**	**1 to 2 years**	**2 to 3 years**	**Over 3 years**	**Total**
Weighted average expected loss rate	**0.5%**	**2.0%**	**10.5%**	**18.0%**	**31.4%**	
Gross carrying amount (RMB'000)	**2,190,293**	**903,253**	**478,874**	**394,229**	**184,697**	**4,151,346**
Loss allowance provision (RMB'000)	**10,483**	**17,808**	**50,482**	**71,010**	**58,084**	**207,867**

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

	Trade receivables RMB'000	**Contract assets** RMB'000	**Total** RMB'000
At 31 December 2017 (calculated under HKAS 39)	146,638	–	146,638
Amounts restated through opening retained earnings	5,895	3,792	9,687
At 1 January 2018 (calculated under HKFRS 9)	152,533	3,792	156,325
Provision/(reversal) for loss allowance	55,334	(107)	55,227
At 31 December 2018 (calculated under HKFRS 9)	**207,867**	**3,685**	**211,552**

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Trade receivables and contract assets (continued)

As at 31 December 2018, the gross carrying amount of trade receivables and contract assets were RMB4,151,346,000 and RMB3,685,372,000 respectively, and thus the maximum exposure to loss of trade receivables and contract assets were RMB3,943,479,000 and RMB3,681,687,000 respectively.

(iii) Other receivables

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

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

	Other receivables RMB'000
At 31 December 2017 (calculated under HKAS 39)	–
Amounts restated through opening retained earnings	6,890
At 1 January 2018 (calculated under HKFRS 9)	6,890
Additional loss allowance	115
At 31 December 2018 (calculated under HKFRS 9)	**7,005**

As at 31 December 2018, the gross carrying amount of other receivables was RMB1,451,694,000, and thus the maximum exposure to loss of other receivables was RMB1,444,689,000.

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1 Financial risk factors (continued)

(b) *Credit risk (continued)*

(iv) Total impairment losses on financial and contract assets

	2018 RMB'000
Provided for:	
Loans to joint ventures and associates	4,263
Trade receivables and contract assets	55,227
Other receivables	115
	59,605

For the year ended 31 December 2018, impairment losses of financial and contract assets are presented separately in the consolidated income statement. In order to conform to current year's presentation, the Group reclassified impairment losses amounting to RMB21,604,000 recognised under HKAS 39 from "Administrative expenses" to "Net impairment losses on financial and contract assets" in the consolidated income statement for the year ended 31 December 2017.

(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 through 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.

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1 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 were the contractual undiscounted cash flows.

	As at 31 December 2018				
	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Borrowings	1,865,430	291,320	57,737	85,000	2,299,487
Interest of borrowings	58,008	11,796	16,879	13,491	100,174
Trade payables	6,934,169	–	–	–	6,934,169
Other payables (excluding other taxes payables, advance and salaries payables)	3,667,067	–	–	–	3,667,067
Financial guarantee	913,832	–	–	–	913,832
	13,438,506	303,116	74,616	98,491	13,914,729

	As at 31 December 2017			
	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total RMB'000
Borrowings	1,684,165	19,330	51,532	1,755,027
Interest of borrowings	51,549	3,391	2,840	57,780
Trade payables	6,083,747	–	–	6,083,747
Other payables (excluding other taxes payables, advance and salaries payables)	2,864,485	–	–	2,864,485
Financial guarantee	448,636	–	–	448,636
	11,132,582	22,721	54,372	11,209,675

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

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2 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, buy-back of issued shares, 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 2018 and 2017, the Group had surplus cash and cash equivalents over borrowings.

4.3 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).

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3 Fair value estimation (continued)

The following table presents the Group's financial assets that were measured at fair value at 31 December 2018 and 2017. See Note 9 for disclosures of the investment properties that were measured at fair value.

	As at 31 December 2018			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets at FVPL				
– Bank financial products	–	–	517,820	517,820
– Listed equity securities	8,727	–	–	8,727
Financial assets at FVOCI				
– Unlisted equity securities	–	–	232,801	232,801
	8,727	–	750,621	759,348

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

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3 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 2018.

The following table presents the changes in level 3 instruments for the year ended 31 December 2018 and 2017.

	2018 RMB'000	2017 RMB'000
At 1 January	481,518	678,590
Additions	896,800	481,518
Disposals	(628,230)	(694,130)
Fair value changes recognised in other comprehensive income	533	15,540
At 31 December	750,621	481,518

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments 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 to 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) Revenue recognition for provision of construction services

For construction services, 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 are fixed price contracts.

In applying the percentage of completion method, the Group needs to estimate the gross profit margin of each construction contract, which was calculated based on the estimated total costs of construction contract and total construction contract sum. The determination of total contract costs required management's estimates. 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% (2017: 10%), the revenue will be reduced by RMB64,298,000 (2017: RMB49,873,000) or increased by RMB64,432,000 (2017: RMB50,298,000).

(b) Impairment of financial and contract assets

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

Where the expectation is different from the original estimate, such difference will impact the carrying amount of these financial and contract assets and impairment charge in the periods in which such estimate has been changed. For details of the key assumptions and inputs used in the impairment assessment, see Note 4.1(b).

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(c) Income taxes and deferred taxation

Significant judgments and estimates 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.

(d) Estimate of fair value of investment properties

The fair value of investment properties is determined by using valuation technique. Details of the judgments and assumptions have been disclosed in Note 9.

6 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, sale and installation of building materials

The Group's other operations mainly comprise the sale of construction equipment, 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.

6 SEGMENT INFORMATION (CONTINUED)

The segment information was as follows:

	Year ended 31 December 2018				
	Construction RMB'000	Property development RMB'000	Building materials RMB'000	Others RMB'000	Group RMB'000
Revenue from contracts with customers	18,516,418	3,084,867	2,944,077	305,325	24,850,687
Recognised at a point in time	–	2,402,384	1,497,974	281,391	4,181,749
Recognised over time	18,516,418	682,483	1,446,103	23,934	20,668,938
Revenue from other sources					
Rental income	–	–	–	84,870	84,870
Total segment revenue	18,516,418	3,084,867	2,944,077	390,195	24,935,557
Less: inter-segment revenue	(1,173,423)	–	(441,517)	(90,003)	(1,704,943)
Revenue (from external customers)	17,342,995	3,084,867	2,502,560	300,192	23,230,614
Operating profit	505,819	760,720	67,249	59,800	1,393,588
Depreciation	37,301	8,844	64,998	29,617	140,760
Amortisation	7,243	–	4,603	2,604	14,450
Net impairment losses on financial and contract assets	51,644	2,637	5,112	212	59,605
Share of results of joint ventures	(487)	15,400	3,189	(1,064)	17,038
Share of results of associates	(535)	(7,922)	(487)	–	(8,944)
Income tax expense	112,478	317,075	16,130	14,319	460,002

6 SEGMENT INFORMATION (CONTINUED)

The segment information was as follows (continued):

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

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

The Company was 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 were located.

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

6 SEGMENT INFORMATION (CONTINUED)

Analysis of revenue by category

	2018 RMB'000	2017 RMB'000
Provision of construction services	**17,342,995**	14,278,726
Sale of properties	**3,084,867**	2,658,576
Sale of building materials	**2,502,560**	1,859,864
Rental income	**84,870**	74,959
Others	**215,322**	106,075
	23,230,614	18,978,200

7 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 was analysed as follows:

	2018 RMB'000	2017 RMB'000
At 1 January	**491,382**	498,057
Additions	**139,833**	17,248
Disposals	**–**	(11,022)
Amortisation	**(14,450)**	(12,901)
At 31 December	**616,765**	491,382

Amortisation charge of RMB5,305,000 (2017: RMB4,982,000) and RMB9,145,000 (2017: RMB7,919,000) has been expensed in cost of sales and administrative expenses, respectively.

As at 31 December 2018, total carrying value of land use rights pledged as collateral for the Group's bank borrowings amounted to RMB52,719,000 (2017: RMB30,733,000) (Note 28(a)).

8 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 2017						
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
Year ended 31 December 2017						
Opening net book amount	965,697	225,268	21,688	9,150	83,107	1,304,910
Additions	51,942	48,210	17,146	7,210	172,179	296,687
Transfers	21,585	11,006	–	–	(32,591)	–
Disposal of subsidiaries	(187)	–	–	–	–	(187)
Other disposals	(6,116)	(288)	(473)	(2,931)	–	(9,808)
Depreciation charge	(59,992)	(37,178)	(12,584)	(8,080)	–	(117,834)
Closing net book amount	972,929	247,018	25,777	5,349	222,695	1,473,768
At 31 December 2017						
Cost	1,474,128	515,613	100,419	172,916	222,695	2,485,771
Accumulated depreciation	(501,199)	(268,595)	(74,642)	(167,567)	–	(1,012,003)
Net book amount	972,929	247,018	25,777	5,349	222,695	1,473,768
Year ended 31 December 2018						
Opening net book amount	972,929	247,018	25,777	5,349	222,695	1,473,768
Additions	47,338	60,429	16,798	12,166	273,785	410,516
Transfer from completed properties held for sale	337,326	–	–	–	–	337,326
Other transfers	190,812	68,590	155	163	(259,720)	–
Other disposals	(752)	(893)	(1,258)	(127)	–	(3,030)
Depreciation charge	(77,150)	(40,073)	(15,753)	(7,784)	–	(140,760)
Closing net book amount	1,470,503	335,071	25,719	9,767	236,760	2,077,820
At 31 December 2018						
Cost	2,044,248	641,841	110,010	184,609	236,760	3,217,468
Accumulated depreciation	(573,745)	(306,770)	(84,291)	(174,842)	–	(1,139,648)
Net book amount	1,470,503	335,071	25,719	9,767	236,760	2,077,820

Depreciation charge of RMB83,464,000 (2017: RMB72,612,000) and RMB57,296,000 (2017: RMB45,222,000) has been expensed in cost of sales and administrative expenses, respectively.

8 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at 31 December 2018, total carrying value of property, plant and equipment pledged as collateral for the Group's bank borrowings amounted to RMB32,112,000 (2017: RMB18,720,000) (Note 28(a)).

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

	2018 RMB'000	2017 RMB'000
Cost	178,985	113,714
Accumulated depreciation at 1 January	(61,485)	(54,634)
Depreciation charge for the year	(7,780)	(5,134)
Net book amount	109,720	53,946
Related rental income for the year	21,504	13,554

9 INVESTMENT PROPERTIES

	2018 RMB'000	2017 RMB'000
At 1 January	617,169	597,079
Transfer from completed properties held for sale	122,601	19,709
Fair value gain (i)	2,998	381
At 31 December, at fair value	742,768	617,169

Amounts recognised in profit and loss for investment properties

	2018 RMB'000	2017 RMB'000
Rental income	52,726	52,647
Direct operating expenses from properties that generated rental income	(15,879)	(15,495)
	36,847	37,152

9 INVESTMENT PROPERTIES (CONTINUED)

Amounts recognised in profit and loss for investment properties (continued)

(i) Fair value gain recognised in other gain included:

	2018 RMB'000	2017 RMB'000
Revaluation gains upon transfer from completed properties held for sale	2,873	–
Fair value change	125	381
	2,998	381

As at 31 December 2018, the Group had no unprovided contractual obligations for future repairs and maintenance (2017: Nil).

The Group's investment properties represented shopping malls and office buildings 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.

As at 31 December 2018, 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 gain was included in "Other gains – net" in the consolidated income statement (Note 31). 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 malls		Office buildings	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Opening balance	617,169	597,079	–	–
Transfer from completed properties held for sale	–	19,709	122,601	–
Revaluation gains upon transfer from completed properties held for sale	–	–	2,873	–
Net gains from fair value adjustment	–	381	125	–
Closing balance	617,169	617,169	125,599	–

9 INVESTMENT PROPERTIES (CONTINUED)

Valuation processes of the Group

The Group's investment properties were valued at 31 December 2018 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 reviews 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.

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 malls and office buildings, the valuation was determined using discounted cash flow ("DCF") projections based on significant unobservable inputs. These input include:

Future rental cash inflows	Based on 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 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.

9 INVESTMENT PROPERTIES (CONTINUED)

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

Description	Unobservable inputs	Range of unobservable inputs (probability-weighted average) As at 31 December 2018	As at 31 December 2017	Relationship of unobservable inputs to fair value
Shopping malls	Rental cash inflows	**RMB37-RMB156 per month per square meter**	RMB35-RMB152 per month per square meter	The higher the rental value, the higher the fair value
	Discount rate	**7%**	7%	The higher the discount rate, the lower the fair value
	Capitalisation rate	**5%**	5%	The higher the capitalisation rate, the lower the fair value
Office buildings	Rental cash inflows	**RMB120-RMB137 per month per square meter**	Nil	The higher the rental value, the higher the fair value
	Discount rate	**6%**	Nil	The higher the discount rate, the lower the fair value
	Capitalisation rate	**5%**	Nil	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.

10 SUBSIDIARIES

The following is a list of the principal subsidiaries as at 31 December 2018, 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%	252,000	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.	76.43%	23.57%	–	228,000	Construction of highway, bridges 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	Property development
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	Property development
浙江寶業住宅產業化有限公司 Zhejiang Baoye Building Materials Industrialisation Co., Ltd.	60%	40%	–	53,600	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	Sales of steel, wood fireproof doors, and other wooden products

10 SUBSIDIARIES (CONTINUED)

Name	Attributable equity interest held Directly	Indirectly	Proportion of ordinary shares held by non-controlling interests	Registered capital RMB'000	Principal activities
上海紫寶房地產開發有限公司 Shanghai Zibao Real Estate Development Co., Ltd.	–	100%	–	18,000	Property development
安徽寶業建工集團有限公司 Anhui Baoye Construction Engineering Group Co., Ltd.	–	100%	–	1,000,000	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	Property development
安徽華騰投資有限公司 Anhui Huateng Investment Co., Ltd.	–	100%	–	10,000	Property development
上海寶筑房地產開發有限公司 Shanghai Baozhu Real Estate Development Co., Ltd.	–	100%	–	30,000	Property development
寶業湖北建工集團有限公司 Baoye Hubei Construction Engineering Group Co., Ltd.	–	100%	–	1,000,000	Provision of construction services
湖北省建工第二建設有限公司 Hubei Construction Engineering No.2 Co., Ltd.	–	100%	–	111,800	Provision of construction services
湖北省建工第三建設有限公司 Hubei Construction Engineering No.3 Co., Ltd.	–	100%	–	50,800	Provision of construction services
湖北省建工第五建設有限公司 Hubei Construction Engineering No.5 Co., Ltd.	–	100%	–	110,000	Provision of construction services

10 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
湖北省建工機械施工有限公司 Hubei Engineering Machinery Construction Co., Ltd.	–	100%	–	50,000	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	Property development
湖北寶業房地產開發有限公司 Hubei Baoye Real Estate Development Co., Ltd.	–	100%	–	50,000	Property development
安徽金糧置業有限公司 Anhui Jinliang Real Estate Company Limited	–	100%	–	10,000	Property development
合肥中寶機械製造有限公司 Hefei Zhongbao Machinery Manufacture Co., Ltd.	–	100%	–	20,000	Sales of machinery and fittings
蒙城寶業投資有限公司 Mengcheng Baoye Investment Co., Ltd (Note (a))	–	50%	50%	20,000	Property development
太和縣寶業投資有限公司 Taihe Baoye Investment Co., Ltd	–	55%	45%	20,000	Property development

10 SUBSIDIARIES (CONTINUED)

Name	Attributable equity interest held		Proportion of ordinary shares held by non-controlling interests	Registered capital	Principal activities
	Directly	Indirectly		RMB'000	
浙江寶業現代建築工業化製造有限公司 Shaoxing Baoye Modern Building Industrial Manufacturing Co.,Ltd	–	100%	–	20,000	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	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	100%	–	–	50,000	Sales of construction materials
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	Property development
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	Property development
六安寶業置業投資有限公司 Liuan Baoye Real Estate Investment Co. Ltd	–	70%	30%	10,000	Property development

(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 as a subsidiary.

(b) As at 31 December 2018 and 2017, there were no non-controlling interests material to the Group.

11 INVESTMENTS IN AND LOANS TO JOINT VENTURES

(a) Investments in joint ventures

	2018 RMB'000	2017 RMB'000
At 1 January	**126,783**	86,430
Additions	**116,500**	47,100
Share of results (i)	**710**	(7,904)
Adjustment for transactions between the Group and joint ventures	**329**	1,157
At 31 December	**244,322**	126,783
Represented by share of net assets	**244,322**	126,783

(i) Share of results of joint ventures in consolidated income statement represented:

	2018 RMB'000	2017 RMB'000
Share of operating results	**710**	(7,904)
Recovery of impaired loans (b)	**928**	11,160
Reversal of obligations incurred to share accumulated losses (ii)	**15,400**	–
	17,038	3,256

(ii) The Group reversed obligations incurred to share the accumulated losses of a joint venture as the joint venture was liquidated and settled all liabilities during the year.

As at 31 December 2018, there were no contingent liabilities relating to the Group's interest in the joint ventures.

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

11 INVESTMENTS IN AND LOANS TO JOINT VENTURES (CONTINUED)

(b) Loans to joint ventures

	2018 RMB'000	2017 RMB'000
At 1 January	374,453	–
Additions	18,509	310,697
Transfer from current assets	–	61,528
Interest accrued	2,235	2,228
Repayments	(2,303)	(11,160)
Recovery of impaired loans	928	11,160
	393,822	374,453
Less: provision for loss allowance (Note 4.1(b))	(6,523)	–
At 31 December	387,299	374,453
Less: current portion	(61,385)	–
Non-current portion	325,914	374,453

RMB54,492,000 (31 December 2017: RMB55,867,000) of loans to joint ventures are interest bearing at market lending rates with maturity date of 24 August 2019, and the remaining amounts of the loans are interest-free, unsecured and repayable on demand.

12 INVESTMENTS IN ASSOCIATES AND LOANS TO ASSOCIATES

(a) Investments in associates

	2018 RMB'000	2017 RMB'000
At 1 January	15,547	13,741
Additions (i)	317,090	3,300
Share of results	(8,944)	(1,094)
Dividends received	–	(400)
At 31 December	323,693	15,547
Represented by share of net assets	323,693	15,547

(i) Additions during the year mainly represented the incorporation of Hebao (Nantong) Real Estate Development Co., Ltd ("Hebao") in the PRC. The Group invested RMB286,830,000 for a 33% equity interest in Hebao which is mainly engaged in property development and agency.

12 INVESTMENTS IN ASSOCIATES AND LOANS TO ASSOCIATES (CONTINUED)

(a) Investments in associates (continued)

As at 31 December 2018, there were no contingent liabilities relating to the Group's interest in the associates.

Set out below is the summarised financial information for Hebao, which is material to the Group.

Summarised balance sheet	31 December 2018 RMB'000
Current assets	1,829,897
Non-current assets	12,726
Current liabilities	37,572
Non-current liabilities	959,894
Net assets	845,157
Reconciliation to carrying amounts:	
Opening net assets as at incorporated date during the year	869,182
Results for the period	(24,025)
Closing net assets	845,157
Group's share in %	33%
Group's share in of net assets	278,902
Carrying amount of investment	278,902

The directors of the Company considered that other associates were immaterial to the Group and thus the individual financial information of these associates was not disclosed.

12 INVESTMENTS IN ASSOCIATES AND LOANS TO ASSOCIATES (CONTINUED)

(b) Loans to associates

	2018 RMB'000	2017 RMB'000
At 1 January	230,939	–
Additions (ii)	395,750	230,939
Interest accrued	13,306	–
	639,995	230,939
Less: provision for loss allowance (Note 4.1(b))	(6,344)	–
At 31 December	633,651	230,939
Less: current portion	(11,102)	–
Non-current portion	622,549	230,939

(ii) During the year, shareholders of an associate, Hebao, made advances to the associate in proportion to their respective shareholding. These advances were unsecured and the Group does not intend to withdraw the advances in the near future.

Loans to associates are unsecured and repayable on demand, of which RMB305,574,000 (31 December 2017: Nil) are interest bearing at market lending rates and the remaining amounts are interest-free.

13 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 RMB'000	2017 RMB'000
Unlisted equity investments at fair value:		
Brought forward	–	–
Reclassified from AFS (Note 3.2(a))	232,268	–
At 1 January (Restated)	232,268	–
Fair value changes	533	–
At 31 December	232,801	–

The Group's financial assets at FVOCI represented a 10% equity interest in Shanghai Research Institute of Building Sciences Group ("SRIBSG") acquired in 2017 in the PRC.

The fair value of the Group's investment in SRIBSG was valued by the management based on direct comparison approach making reference to quoted market prices and recent transaction prices of similar deals.

The fair value measurement of the financial assets at FVOCI is categorised within level 3 of the fair value hierarchy.

14 FINANCIAL INSTRUMENTS BY CATEGORY

	Note	Financial assets at amortised cost RMB'000	Financial assets at FVPL RMB'000	Financial assets at FVOCI RMB'000
Assets				
At 31 December 2018				
Financial assets at FVOCI	13	–	–	232,801
Trade receivables	18	3,943,479	–	–
Other receivables	19	1,444,689	–	–
Loans to joint ventures	11(b)	387,299	–	–
Loans to associates	12(b)	633,651	–	–
Financial assets at FVPL	20	–	526,547	–
Restricted bank deposits	21	628,485	–	–
Term deposits with initial term of over three months	22	85,704	–	–
Cash and cash equivalents	22	3,698,252	–	–
Total		10,821,559	526,547	232,801

	Note	Financial assets at amortised cost RMB'000	AFS RMB'000
Assets			
At 31 December 2017			
AFS		–	490,878
Trade receivables	18	3,668,651	–
Other receivables	19	2,458,910	–
Loans to joint ventures	11(b)	374,453	–
Loans to associates	12(b)	230,939	–
Restricted bank deposits	21	658,125	–
Term deposits with initial term of over three months	22	90,199	–
Cash and cash equivalents	22	2,575,717	–
Total		10,056,994	490,878

14 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

	Note	Financial liabilities at amortised cost	
		2018	2017
		RMB'000	RMB'000
Liabilities			
Trade payables	26	**6,934,169**	6,083,747
Other payables (excluding other taxes payables, advance and salaries payables)	27	**3,667,067**	2,864,485
Borrowings	28	**2,299,487**	1,755,027
Total		**12,900,723**	10,703,259

15 INVENTORIES

	2018	2017
	RMB'000	RMB'000
At cost:		
Raw materials	**139,857**	113,478
Work in progress	**39,413**	25,342
Finished goods	**64,122**	40,345
	243,392	179,165

The cost of inventories recognised as cost of sales amounted to RMB1,889,379,000 (2017: RMB1,400,381,000). No inventory provision was made as at 31 December 2018 and 2017.

16 PROPERTIES UNDER DEVELOPMENT

	2018 RMB'000	2017 RMB'000
Land use rights	**2,651,472**	2,858,919
Development costs	**980,046**	1,621,967
Finance costs capitalised	**53,974**	46,752
	3,685,492	4,527,638

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

	2018 RMB'000	2017 RMB'000
Within the normal operating cycle included under current assets		
– to be completed over one year	**2,798,962**	2,254,027
– to be completed within one year	**886,530**	2,273,611
	3,685,492	4,527,638

As at 31 December 2018, properties under development included the costs to fulfil those contracts with customers, revenue from which is recognised over time amounted to RMB52,760,000 (2017: Nil).

Cost of sales for the year included RMB25,370,000(2017: Nil) of costs to fulfil those contracts with customers brought forward from prior year and revenue from which is recognised over time.

As at 31 December 2018, no properties under development was pledged as security for the Group's bank borrowings (2017: RMB825,188,000).

17 COMPLETED PROPERTIES HELD FOR SALE

	2018 RMB'000	2017 RMB'000
Land use rights	**976,939**	705,637
Development costs	**2,375,370**	2,788,554
Finance costs capitalised	**85,074**	78,801
	3,437,383	3,572,992
Less: provision of impairment	**(7,839)**	(13,835)
	3,429,544	3,559,157

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

As at 31 December 2018, completed properties held for sale amounted to RMB515,680,000 (2017: Nil) were pledged as security for the Group's bank borrowings (Note 28(a)).

18 TRADE RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	**4,151,346**	3,815,289
Less: provision for loss allowance (Note 4.1(b))	**(207,867)**	(146,638)
	3,943,479	3,668,651

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).

18 TRADE RECEIVABLES (CONTINUED)

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

	2018 **RMB'000**	2017 RMB'000
Within 3 months	**2,190,293**	1,802,276
3 months to 1 year	**903,253**	1,197,142
1 to 2 years	**478,874**	596,405
2 to 3 years	**394,229**	59,017
Over 3 years	**184,697**	160,449
	4,151,346	3,815,289

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9. As at 31 December 2018, a provision of RMB207,867,000 (2017: RMB146,638,000) was made against the gross amount of trade receivables (note 4.1(b)).

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

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

	2018 **RMB'000**	2017 RMB'000
Denominated in:		
– RMB	**4,106,073**	3,688,469
– USD	**10,223**	102,728
– Djibouti Franc ("DJF")	**4,858**	19,886
– Botswana Pula ("BWP")	**21,010**	4,206
– Other	**9,182**	–
	4,151,346	3,815,289

As at 31 December 2018, the carrying value of trade receivables approximated their fair value.

19 OTHER RECEIVABLES AND PREPAYMENTS

	2018 RMB'000	2017 RMB'000
Others receivables:		
– Retention money and project deposits	**1,031,634**	1,027,172
– Bidding deposits for land use rights for property development	**50,652**	1,081,000
– Advances to project managers (a)	**240,870**	180,055
– Others	**128,538**	170,683
	1,451,694	2,458,910
Less: provision for loss allowance (Note 4.1(b))	**(7,005)**	–
	1,444,689	2,458,910
Prepayments:		
– Prepayments for land use rights for property development	**2,485,988**	1,947,794
– Prepaid taxes and levies	**98,122**	121,333
– Prepayments for buy-back of shares	**2,433**	4,882
– Others	**95,310**	65,375
	2,681,853	2,139,384
Other receivables and prepayments	**4,126,542**	4,598,294

(a) Advances to project managers are unsecured and interest bearing at market lending rates.

(b) As at 31 December 2018, the carrying value of other receivables approximated their fair value.

(c) As at 31 December 2018, the carrying amounts of other receivables and prepayments were mainly denominated in RMB.

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 RMB'000	2017 RMB'000
Brought forward	–	796,269
Reclassified from AFS (Note 3.2(a))	258,610	–
At 1 January (Restated)	258,610	796,269
Additions	896,800	–
Fair value change	(633)	18,866
Disposals	(628,230)	(815,135)
At 31 December	526,547	–

Financial assets at FVPL included the following:

	2018 RMB'000	2017 RMB'000
Non-current:		
– Listed equity securities – the PRC	8,727	–
Current:		
– Bank financial products (a)	517,820	–
	526,547	–

(a) The amount represented investments in financial products issued by banks with expected returns ranging from 2.20% to 4.95% per annum. The carrying values approximated their fair values. The fair values were determined based on expected cash flow discounted using the excepted return rates by reference to similar completed transactions and were within level 3 of the fair value hierarchy.

21 RESTRICTED BANK DEPOSITS

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

In accordance with relevant government requirements, certain property development companies of the Group are required to place in designated bank accounts certain amounts of pre-sale 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

	2018 **RMB'000**	2017 RMB'000
Cash and bank deposits (a)	**4,412,441**	3,324,041
Less: Term deposits with initial term of over three months (b)	**(85,704)**	(90,199)
Restricted bank deposits (Note 21)	**(628,485)**	(658,125)
	3,698,252	2,575,717

(a) Cash and deposits were mainly denominated in RMB.

(b) The weighted average interest rate as at 31 December 2018 of term deposits with initial term of over three months of the Group was 1.94% (2017: 2.36%).

23 SHARE CAPITAL AND PREMIUM

	Number of Shares (thousands of RMB1 each)	Ordinary shares RMB'000	Share premium RMB'000	Treasury shares RMB'000	Total RMB'000
At 1 January 2017					
– Domestic shares	350,742	350,742	–	–	350,742
– H shares*	261,630	261,630	671,665	(13,535)	919,760
	612,372	612,372	671,665	(13,535)	1,270,502
Buy-back of H shares	–	–	–	(118,420)	(118,420)
Cancellation of H shares	(26,162)	(26,162)	(105,793)	131,955	–
	(26,162)	(26,162)	(105,793)	13,535	(118,420)
At 31 December 2017					
– Domestic shares	350,742	350,742	–	–	350,742
– H shares*	235,468	235,468	565,872	–	801,340
	586,210	586,210	565,872	–	1,152,082

	Number of Shares (thousands of RMB1 each)	**Ordinary shares RMB'000**	**Share premium RMB'000**	**Total RMB'000**
At 1 January 2018				
– Domestic shares	**350,742**	**350,742**	**–**	**350,742**
– H shares*	**235,468**	**235,468**	**565,872**	**801,340**
	586,210	**586,210**	**565,872**	**1,152,082**
Buy-back and cancellation of H shares (a)	**(23,546)**	**(23,546)**	**(84,439)**	**(107,985)**
At 31 December 2018				
– Domestic shares	**350,742**	**350,742**	**–**	**350,742**
– H shares*	**211,922**	**211,922**	**481,433**	**693,355**
	562,664	**562,664**	**481,433**	**1,044,097**

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

(a) During the year, the Company repurchased and cancelled 23,546,000 H Shares, representing approximately 10.00% and 4.02% of the total number of H Shares and total number of issued shares of the Company, respectively. The total amounts paid were approximately HKD132,386,000 (equivalent to RMB107,985,000).

24 RESERVES

	Financial assets fair value reserve RMB'000	Statutory surplus reserve RMB'000	Others RMB'000	Total RMB'000
At 1 January 2017	5,022	185,925	(6,606)	184,341
Appropriation from retained earnings	–	20,795	–	20,795
Transfer to income statement upon sale of AFS	(15,540)	–	–	(15,540)
Transfer to income statement upon sale of AFS-tax	3,885	–	–	3,885
Revaluation of AFS	16,203	–	–	16,203
Revaluation-tax	(4,051)	–	–	(4,051)
At 31 December 2017	5,519	206,720	(6,606)	205,633
At 31 December 2017	5,519	206,720	(6,606)	205,633
Adjustment on adoption of HKFRS 9 (Note 3)	(5,519)	–	–	(5,519)
Restated balance at 1 January 2018	**–**	**206,720**	**(6,606)**	**200,114**
Appropriation from retained earnings	**–**	**7,353**	**–**	**7,353**
Revaluation of financial assets at FVOCI (Note 13)	**533**	**–**	**–**	**533**
Revaluation-tax (Note 29)	**(133)**	**–**	**–**	**(133)**
Acquisition of non-controlling interests in a subsidiary (Note 41)	**–**	**–**	**(2,604)**	**(2,604)**
At 31 December 2018	**400**	**214,073**	**(9,210)**	**205,263**

(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

	2018 RMB'000	2017 RMB'000
Brought forward	5,960,204	5,372,104
Adjustment on adoption of HKFRS 9 (Note 3)	(13,367)	–
Adjustment on adoption of HKFRS 15 (Note 3)	273,787	–
Restated balance at 1 January	6,220,624	5,372,104
Profit for the year	874,175	608,895
Transfer to statutory surplus reserve	(7,353)	(20,795)
At 31 December	7,087,446	5,960,204

As at 31 December 2018, included in retained earnings of the Group, RMB705,089,000 (2017: RMB577,547,000) was surplus reserve of subsidiaries attributable to the Company, of which RMB127,542,000 (2017: RMB112,920,000) was appropriated for the current year.

26 TRADE PAYABLES

As at 31 December 2018, the ageing analysis of the trade payables based on invoice date was as follows:

	2018 RMB'000	2017 RMB'000
Within 3 months	2,448,729	2,742,953
3 months to 1 year	2,291,515	2,305,769
1 to 2 years	1,470,413	616,744
2 to 3 years	333,999	285,813
Over 3 years	389,513	132,468
	6,934,169	6,083,747

The carrying amounts are considered to be the same as their fair values, due to their short-term nature.

27 OTHER PAYABLES

	2018 RMB'000	2017 RMB'000
Deposits from project managers	**1,884,310**	1,714,003
Loans from non-controlling interests (i)	**899,264**	574,793
Advance from government for housing demolition and relocation (ii)	**443,677**	300,000
Deposits from property purchasers	**243,122**	55,254
Other taxes payables	**447,664**	165,697
Salaries payables	**70,120**	64,925
Contingent liability for a joint venture (Note 11(a))	**–**	15,400
Accruals	**–**	1,197
Others	**640,371**	503,838
	4,628,528	3,395,107

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

(ii) Amount represents the advance received from the government for housing demolition and relocation projects. The amount will be used for paying housing demolition and relocation cost in relation to clearing a land owned by the Group to be sold to the government. As at 31 December 2018, the carrying amounts of the land use right subject to demolition were RMB4,783,000 (2017: RMB4,963,000).

The carrying amounts are considered to be the same as their fair values, due to their short-term nature.

28 BORROWINGS

	2018 RMB'000	2017 RMB'000
Non-current liabilities		
Long-term bank borrowings		
– Secured (a)	283,790	334,000
– Unsecured with guarantee (b)	169,597	71,862
Less: current portion	(19,330)	(335,000)
	434,057	70,862
Current liabilities		
Short-term bank borrowings		
– Secured (a)	50,000	50,000
– Unsecured with guarantee (b)	1,696,100	1,198,000
– Guarantee by the companies within the Group	100,000	101,165
Current portion of non-current liabilities	19,330	335,000
	1,865,430	1,684,165
	2,299,487	1,755,027

(a) As at 31 December 2018, secured bank borrowings of the Group were secured by completed properties held for sale of RMB515,680,000 (2017: properties under development of RMB825,188,000), land use rights of RMB19,627,000 (2017: RMB30,733,000) and property, plant and equipment of RMB32,112,000 (2017: RMB18,720,000).

(b) These loans were guaranteed by:

	2018 RMB'000	2017 RMB'000
The Company	1,757,167	1,198,000
The Company and non-controlling interests (jointly)	58,530	71,862
Mr. Pang Baogen and the Company (jointly)	50,000	–
	1,865,697	1,269,862

28 BORROWINGS (CONTINUED)

(c) The weighted average interest rate of borrowings was 4.80% (2017: 4.62%). The fair values of the respective borrowings approximated their carrying amounts. All the carrying amounts of the borrowings were denominated in RMB.

(d) The borrowings were repayable as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year	**1,865,430**	1,684,165
Between 1 and 2 years	**291,320**	19,330
Between 2 and 5 years	**57,737**	51,532
Over 5 years	**85,000**	–
	2,299,487	1,755,027

(e) The exposure of borrowings to interest-rate changes and the contractual repricing dates or maturity date whichever is earlier are as follows:

	2018 RMB'000	2017 RMB'000
6 months or less	**1,289,600**	429,500
Between 6 and 12 months	**975,888**	1,311,527
Between 1 and 5 years	**33,999**	14,000
	2,299,487	1,755,027

29 DEFERRED INCOME TAX

The amounts shown in the balance sheet included the following:

	2018 RMB'000	2017 RMB'000
Deferred tax assets:		
– To be recovered after more than 12 months	**116,134**	187,522
– To be recovered within 12 months	**121,090**	155,828
	237,224	343,350
Deferred tax liabilities:		
– To be settled after more than 12 months	**(91,428)**	(59,268)
– To be settled within 12 months	**(51,972)**	(24,566)
	(143,400)	(83,834)
Deferred tax assets – net	**93,824**	259,516

29 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, was as follows:

Deferred tax assets

	Impairment of assets RMB'000	Unrealised profit resulting from intragroup transactions RMB'000	Pre-paid income tax RMB'000	Recognition of revenue over time RMB'000	Total RMB'000
At 1 January 2017	38,163	66,962	184,799	–	289,924
Recognised in the income statement	5,401	9,847	38,178	–	53,426
At 31 December 2017	43,564	76,809	222,977	–	343,350
Adjustment on adoption of HKFRS 9 (Note 3)	6,295	–	–	–	6,295
Adjustment on adoption of HKFRS 15 (Note 3)	–	–	–	(48,884)	(48,884)
At 1 January 2018 (Restated)	**49,859**	**76,809**	**222,977**	**(48,884)**	**300,761**
Recognised in the income statement	**14,901**	**(16,313)**	**(95,086)**	**32,961**	**(63,537)**
At 31 December 2018	**64,760**	**60,496**	**127,891**	**(15,923)**	**237,224**

29 DEFERRED INCOME TAX (CONTINUED)

Deferred tax liabilities

	Fair value changes on financial assets RMB'000	Fair value adjustment on assets upon acquisition RMB'000	Interest capitalised RMB'000	Fair value changes on investment properties RMB'000	Recognition of revenue over time RMB'000	Total RMB'000
At 1 January 2017	(1,676)	(8,786)	(29,984)	(32,007)	–	(72,453)
Recognised in the income statement	–	272	(4,247)	(7,240)	–	(11,215)
Recognised in other comprehensive income	(166)	–	–	–	–	(166)
At 31 December 2017	(1,842)	(8,514)	(34,231)	(39,247)	–	(83,834)
Adjustment on adoption of HKFRS 15 (Note 3)	–	–	–	–	(139,223)	(139,223)
At 1 January 2018 (Restated)	**(1,842)**	**(8,514)**	**(34,231)**	**(39,247)**	**(139,223)**	**(223,057)**
Recognised in the income statement	**157**	**272**	**(5,204)**	**(8,262)**	**92,827**	**79,790**
Recognised in other comprehensive income	**(133)**	**–**	**–**	**–**	**–**	**(133)**
At 31 December 2018	**(1,818)**	**(8,242)**	**(39,435)**	**(47,509)**	**(46,396)**	**(143,400)**

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 RMB386,050,000 (2017: RMB310,574,000) that can be carried forward against future taxable income. These tax losses will expire up to and including year 2023 (2017: 2022).

30 OTHER INCOME

Other income represented interest income from bank deposits, advances to project managers and other financial assets at amortised cost.

31 OTHER GAINS – NET

	2018 RMB'000	2017 RMB'000
Gains on disposal of financial assets at FVPL	**18,933**	–
Government grants and compensation	**11,618**	10,051
Fair value gains of investment properties	**2,998**	381
Fair value (losses)/gains of financial assets at FVPL	**(633)**	18,866
Gains on disposal of land use rights	**–**	20,402
Gains on disposal of AFS	**–**	15,540
Losses on disposal of property, plant and equipment	**(870)**	(609)
Losses on disposal of subsidiaries	**–**	(3,335)
Donations	**(4,397)**	(4,267)
Net foreign exchange gains/(losses)	**5,099**	(5,042)
Others	**(316)**	(882)
	32,432	51,105

32 EXPENSES BY NATURE

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

	2018 RMB'000	2017 RMB'000
Depreciation of property, plant and equipment (Note 8)	**140,760**	117,834
Amortisation of land use rights (Note 7)	**14,450**	12,901
Employee benefit expenses (Note 33)	**4,484,605**	4,367,607
Cost of construction contracts	**12,822,539**	9,926,787
Cost of properties sold	**2,158,331**	2,158,496
Reversal of impairment on completed properties held for sale	**(2,568)**	(6,510)
Changes in inventories of finished goods and work in progress	**(37,848)**	7,688
Raw materials and consumables used	**1,927,227**	1,392,693
Operating leases of buildings	**14,842**	12,149
Compensation to property purchasers and employees	**12,055**	14,375
Auditors' remuneration		
– Audit services	**3,710**	3,710
– Non-audit services	**20**	20
Others	**388,436**	235,611
	21,926,559	18,243,361

33 EMPLOYEE BENEFIT EXPENSES

	2018 RMB'000	2017 RMB'000
Wages and salaries	**4,381,622**	4,271,760
Welfare, medical and other expenses	**61,424**	58,550
Retirement benefit costs – defined contribution plans (a)	**41,559**	37,297
	4,484,605	4,367,607

(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% (2017: 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 (2017: 5 directors) whose emoluments are reflected in the analysis presented in Note 44.

34 FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest on borrowings	**110,768**	45,655
Less: interest capitalised in properties under development	**(66,746)**	(44,880)
Less: interest capitalised in constructions in progress	**(12,375)**	(775)
	31,647	–
Net foreign exchange (gains)/losses	**(4,880)**	4,891
	26,767	4,891

The capitalisation rate applied to funds borrowed generally and used for the development of properties was approximately 4.85% (2017: 4.50%) per annum.

35 INCOME TAX EXPENSE

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

	2018 RMB'000	2017 RMB'000
Current income tax		
– PRC CIT	287,045	252,120
– Land appreciation tax	189,210	52,903
Deferred income tax		
– PRC CIT	43,821	(42,211)
– Land appreciation tax	(60,074)	–
	460,002	262,812

(a) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profit for the year (2017: Nil).

(b) PRC corporate income tax

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

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

Save as aforesaid, the Company and other major subsidiaries were subject to CIT at a rate of 25% (2017: 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.

35 INCOME TAX EXPENSE (CONTINUED)

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

	2018 RMB'000	2017 RMB'000
Profit before income tax	**1,374,915**	869,547
Add: share of results of joint ventures	**(17,038)**	(3,256)
share of results of associates	**8,944**	1,094
	1,366,821	867,385
Calculated at a tax rate of 25% (2017: 25%)	**341,705**	216,846
Effects of different tax rates applicable to different subsidiaries of the Group	**(4,073)**	(2,703)
Income not subject to tax	**(3,756)**	(13,731)
Expenses not deductible for tax purposes	**2,489**	3,203
Unrecognised tax losses	**29,171**	20,278
Utilisation of previously unrecognised tax losses	**(2,386)**	(758)
Land appreciation tax deductible for CIT purpose	**(32,284)**	(13,226)
	330,866	209,909
PRC land appreciation tax	**129,136**	52,903
Income tax expense	**460,002**	262,812

36 EARNINGS PER SHARE

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

	2018	2017
Profit attributable to the owners of the Company (RMB'000)	**874,175**	608,895
Weighted average number of ordinary shares in issue during the year (thousands shares)	**571,940**	589,975
Basic earnings per share (RMB yuan)	**1.53**	1.03

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

37 DIVIDENDS

The board of directors did not recommend any payment of final dividend for the year ended 31 December 2018 (2017: Nil).

38 CASH FLOW INFORMATION

(a) Cash generated from/(used in) operations

	2018 RMB'000	2017 RMB'000
Profit for the year	914,913	606,735
Adjustments for:		
Income tax expense (Note 35)	460,002	262,812
Depreciation (Note 8)	140,760	117,834
Amortisation of land use rights (Note 7)	14,450	12,901
Net impairment losses on financial and contract assets	59,605	21,604
Reversal of impairment on completed properties held for sale	(2,568)	(6,510)
Losses on disposal of property, plant and equipment (Note 31)	870	609
Gains on disposal of land use rights	–	(20,402)
Fair value gains on investment properties (Note 31)	(2,998)	(381)
Fair value losses/(gains) of financial assets at FVPL (Note 31)	633	(18,866)
Gains on disposal of AFS	–	(15,540)
Gains on disposal of financial assets at FVPL (Note 31)	(18,933)	–
Losses on disposal of subsidiaries	–	3,335
Interest income	(116,706)	(107,936)
Share of results of joint ventures (Note 11)	(17,038)	(3,256)
Share of results of associates (Note 12)	8,944	1,094
Changes in working capital:		
Properties under development and completed properties held for sale	(14,671)	(1,021,860)
Restricted bank deposits	29,640	(24,554)
Inventories	(64,227)	(32,966)
Net balances with customers on construction contracts, contract assets and contract acquisition costs	106,456	(196,279)
Trade and other receivables and prepayments	124,233	(3,636,000)
Contract liabilities and receipts in advance	(874,093)	610,382
Trade and other payables	1,465,480	1,474,238
Cash generated from/(used in) operations	2,214,752	(1,973,006)

38 CASH FLOW INFORMATION (CONTINUED)

(b) Disposal of property, plant and equipment and land use rights comprised:

	2018 RMB'000	2017 RMB'000
Property, plant and equipment		
Net book amounts (Note 8)	3,030	9,808
Losses on disposals (Note 31)	(870)	(609)
Proceeds	2,160	9,199
Land use rights		
Net book amounts	–	11,022
Gains on disposals	–	20,402
Application of other payables	–	(11,022)
Proceeds	–	20,402

(c) Net cash reconciliation

Table below presents an analysis of net cash and the movements in net cash during 2018 and 2017.

	2018 RMB'000	2017 RMB'000
Cash and cash equivalents	3,698,252	2,575,717
Term deposits with initial term of over three months	85,704	90,199
Restricted bank deposits	628,485	658,125
Borrowings – repayable within one year	(1,865,430)	(1,684,165)
Borrowings – repayable after one year	(434,057)	(70,862)
Net cash	2,112,954	1,569,014
Cash and liquid investments	4,412,441	3,324,041
Gross debt – fixed interest rates	(843,499)	(1,377,165)
Gross debt – variable interest rates	(1,455,988)	(377,862)
Net cash	2,112,954	1,569,014

38 CASH FLOW INFORMATION (CONTINUED)

(d) The reconciliation of liabilities arising from financial activities was as follows:

	Borrowings RMB'000	Other payables – Loans from non-controlling interests RMB'000	Total RMB'000
At 1 January 2017	282,560	254,242	536,802
Cash flows			
– Inflow from financial activities	1,472,467	320,551	1,793,018
At 31 December 2017/ 1 January 2018	1,755,027	574,793	2,329,820
Cash flows			
– Inflow from financial activities	544,460	324,471	868,931
At 31 December 2018	**2,299,487**	**899,264**	**3,198,751**

39 FINANCIAL GUARANTEES

	2018 RMB'000	2017 RMB'000
Guarantees given to banks in respect of mortgage facilities granted for certain purchasers	**913,832**	448,636

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.

40 COMMITMENTS

(a) Commitments for capital expenditure

	2018 RMB'000	2017 RMB'000
Contracted but not provided for		
Property, plant and equipment	**246,809**	223,057

40 COMMITMENTS (CONTINUED)

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

As at 31 December 2018, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of buildings and plants and machinery, details of which were as follows:

	2018 RMB'000	2017 RMB'000
Not later than 1 year	12,351	10,747
Later than 1 year and not later than 5 years	12,954	14,354
	25,305	25,101

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

As at 31 December 2018, the Group had future aggregate minimum lease receivable under non-cancellable operating leases in respect of investment properties, building and plants, and machinery, details of which were as follows:

	2018 RMB'000	2017 RMB'000
Not later than 1 year	95,860	75,060
Later than 1 year and not later than 5 years	278,974	211,547
Later than 5 years	272,600	272,535
	647,434	559,142

The Group leased investment properties, building, plants and machinery and completed properties held for sale under various agreements which will terminate between 2019 and 2035. The agreements do not include any extension option.

(d) Commitments for investments

	2018 RMB'000	2017 RMB'000
Investment in and loans to joint ventures	115,700	–
Investments in and loans to associates	201,627	698,184
	317,327	698,184

41 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

Acquisition of additional interest in a subsidiary

On 18 July 2018, the Group acquired an additional 40% of the equity interest of Zhejiang Baohong Construction Industry Co., Ltd ("Baohong Construction") for a consideration of RMB22,000,000. After the acquisition, Baohong Construction became a wholly owned subsidiary of the Group. The carrying amount of the non-controlling interests in Baohong Construction on the date of acquisition was RMB19,396,000. The Group recognised a decrease in equity attributable to owners of the Company of RMB2,604,000 from the acquisition. The effect of changes in the ownership interest of Baohong Construction on the equity attributable to owners of the Group during the year is summarised as follows:

	2018 RMB'000
Carrying amount of non-controlling interests acquired	19,396
Consideration paid to non-controlling interests	(22,000)
Net effect for transactions with non-controlling interests on equity	(2,604)

42 RELATED-PARTY TRANSACTIONS

Save as disclosed above, the Group had the following transactions and balances with related parties:

(a) Transactions with joint ventures

	2018 RMB'000	2017 RMB'000
Sales of goods	19,035	–
Rental income	3,184	–
Purchase of building materials	43,576	27,746
Purchase of technical consulting services	6,136	4,822
	71,931	32,568

(b) Key management compensation

Key management of the Group include the directors and supervisors, whose compensation has been disclosed in Note 44.

(c) Balances with joint ventures

	2018 RMB'000	2017 RMB'000
Trade receivables	12,058	–
Trade payables	50,835	24,690

43 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Land use rights		3,932	4,166
Property, plant and equipment		16,415	18,355
Investments in subsidiaries		2,101,516	2,101,516
Investments in joint ventures		153,500	101,000
Investments in associates		960	–
Financial assets at fair value through other comprehensive income		232,801	–
Available-for-sale financial assets		–	232,268
		2,509,124	2,457,305
Current assets			
Other receivables and prepayments		27,544	24,174
Cash and cash equivalents		34,789	9,245
		62,333	33,419
Total assets		2,571,457	2,490,724
EQUITY			
Equity attributable to owners of the Company			
Share capital		562,664	586,210
Share premium		481,433	565,872
Reserves	(a)	214,473	206,720
Retained earnings	(a)	746,384	680,203
Total equity		2,004,954	2,039,005
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		133	–
Current liabilities			
Amounts due to subsidiaries		557,670	421,964
Other payables		950	22,005
Current income tax liabilities		7,750	7,750
		566,370	451,719
Total liabilities		566,503	451,719
Total equity and liabilities		2,571,457	2,490,724

The balance sheet of the Company was approved by the Board of Directors on 25 March 2019 and was signed on its behalf.

Mr. Pang Baogen
Director

Mr. Gao Jiming
Director

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

(a) Reserve and retained earnings movements of the Company

	Reserves		Retained earnings	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
At 1 January	**206,720**	185,925	**680,203**	493,028
Profit for the year	**–**	–	**73,534**	207,970
Transfer to statutory surplus reserve	**7,353**	20,795	**(7,353)**	(20,795)
Revaluation of financial assets at FVOCI,net of tax (Note 24)	**400**	–	**–**	–
At 31 December	**214,473**	206,720	**746,384**	680,203

44 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 2018 was 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	–	800
Executive directors				
Mr. Gao Lin	100	500	10	610
Mr. Gao Jiming	100	400	10	510
Mr. Gao Jun	100	400	28	528
Mr. Jin Jixiang	100	400	10	510
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	–	250
Mr. Xu Gang	–	250	10	260
Mr. Wang Jianguo	–	250	12	262
Mr. Zhang Xindao	50	–	–	50
Mr. Xiao Jianmu	50	–	–	50
	1,132	3,150	80	4,362

44 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 2017 was 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	10	810
Executive directors				
Mr. Gao Lin	100	500	10	610
Mr. Gao Jiming	100	400	10	510
Mr. Gao Jun	100	400	28	528
Mr. Jin Jixiang	100	400	10	510
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	10	260
Mr. Xu Gang	–	250	10	260
Mr. Wang Jianguo	–	250	10	260
Mr. Zhang Xindao	50	–	–	50
Mr. Xiao Jianmu	50	–	–	50
	1,132	3,150	98	4,380

(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 2018 and 2017, 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 2018 and 2017.

Salary paid to a director of the Company is generally an emolument paid or payable in respect of that person's other services in connection with the management of the affairs of the Company or its subsidiaries.

44 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 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

Save as disclosed above, 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.

Glossary

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

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