宝 业
BAOYE

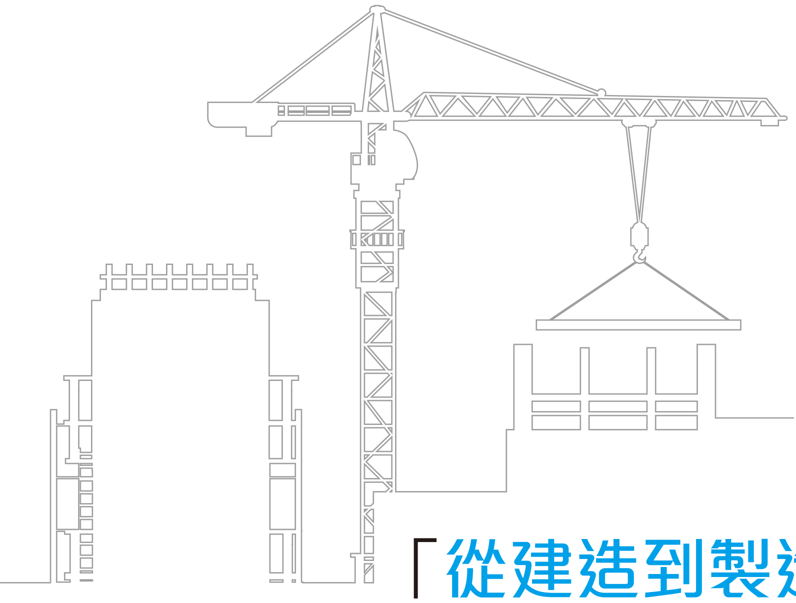
# BAOYE GROUP COMPANY LIMITED
# 寶業集團股份有限公司

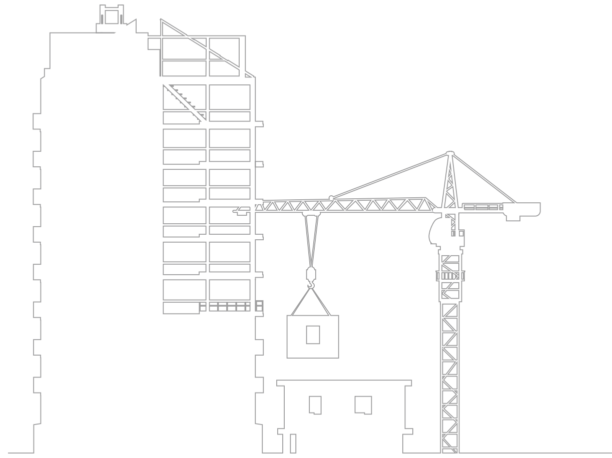
(A joint stock limited company incorporated in the People's Republic of China)
(於中華人民共和國註冊成立的股份有限公司)

**Stock Code 股票代號：2355**

Annual Report 2019 年報

# OUR MISSION
# 我們的使命

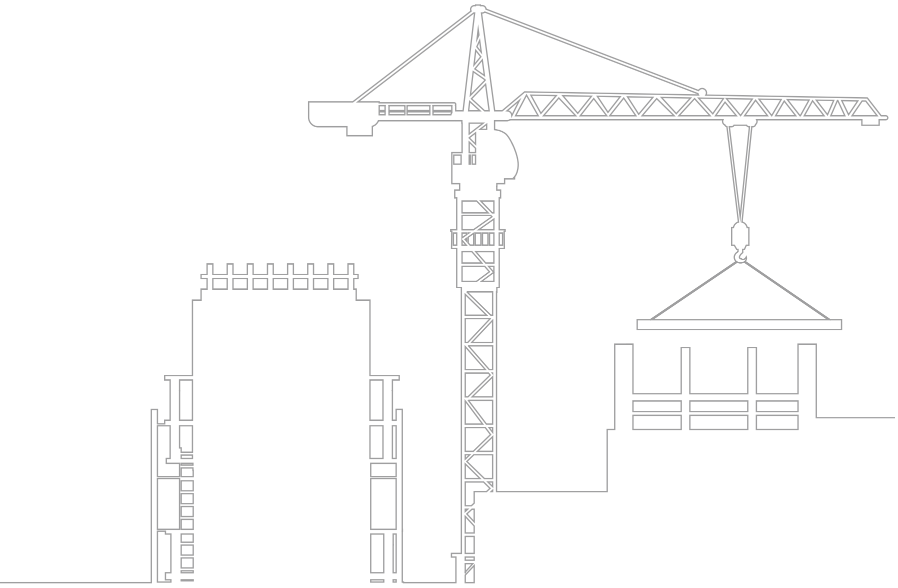




From
**Construction** to
**Manufacturing**

「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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## 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 “Daban Green Garden”
- Shaoxing “Xialv Project”
- Lishui “Huajie Fengqing”
- Shanghai “Guanyun Road Project”
- Wuhan “Xingyufu”
- Mengcheng “Binhu Green Garden”
- Jieshou “Fuxing Jiayuan”
- Taihe “Baoye Chengshi Green Garden”
- Kaifeng “Baoye Longhu Yucheng”
- Lu’an “Baoye Junyue Green Garden”
- Zhengzhou “Zhengzhou Project”
- Sixian “Sizhou Green Garden”

### BUILDING MATERIALS BUSINESS

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

## BUSINESS NETWORK

### CONSTRUCTION BUSINESS

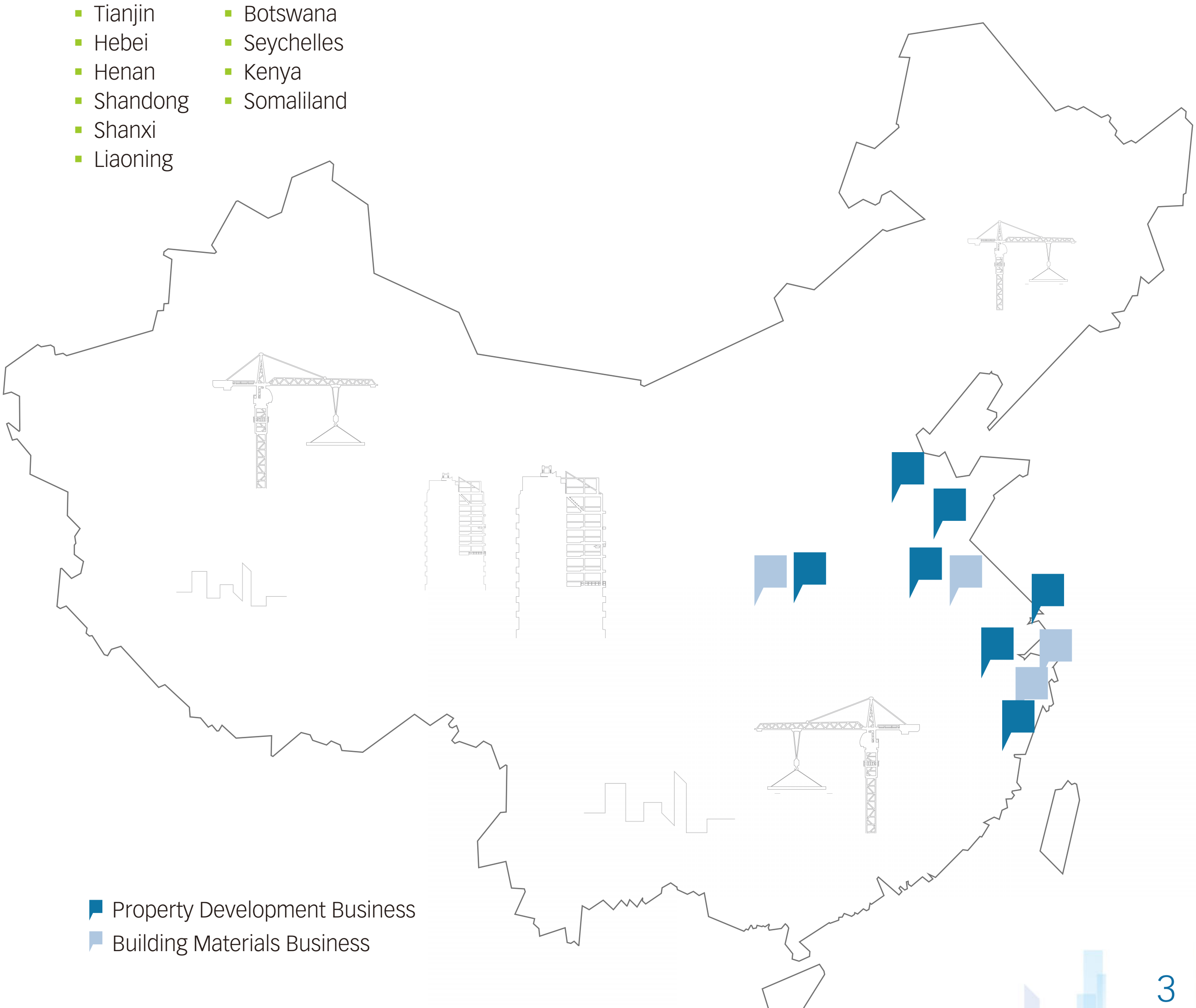
- Zhejiang
- Shanghai
- Jiangsu
- Anhui
- Hubei
- Hunan
- Beijing
- Tianjin
- Hebei
- Henan
- Shandong
- Shanxi
- Liaoning
- Sichuan
- Chongqing
- Xinjiang
- Jiangxi
- Fujian
- Guangdong
- Djibouti
- Botswana
- Seychelles
- Kenya
- Somaliland

### PROPERTY DEVELOPMENT

- Zhejiang
- Shanghai
- Hubei
- Anhui
- Henan

### BUILDING MATERIALS BUSINESS

- Zhejiang
- Anhui
- Hubei
- Shanghai
- Jiangsu



# 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
Certified Public Accountants
Registered Public Interest Entity Auditor
22/F, Prince's Building
Central, Hong Kong

### Statutory Auditor

PricewaterhouseCoopers
Zhongtian LLP
34/F Tower A, Kingkey 100
5016 Shennan East Road
Luohu District
Shenzhen, the PRC
Post Code: 518001

## LEGAL ADVISERS

### As to Hong Kong Law

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

### As to PRC Law

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

## H SHARE REGISTRAR

Tricor Tengis Limited
Level 54, 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.1687 Guazhu East Road,
Keqiao District, Shaoxing City,
Zhejiang Province, the PRC
Post Code: 312030

## CORRESPONDENCE ADDRESS 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

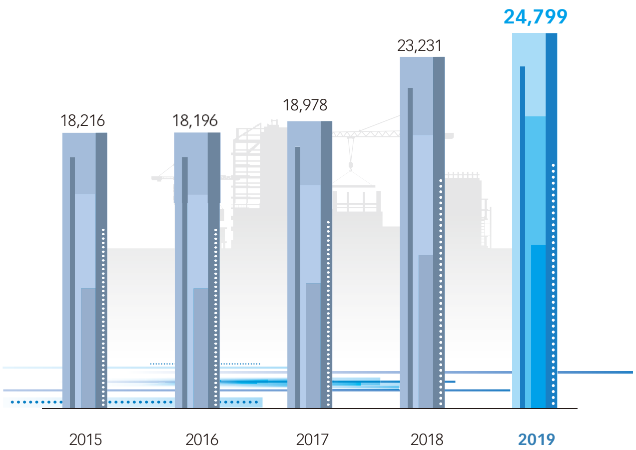
| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2019** | 2018 | 2017 | 2016 | 2015 |
| | ***RMB'000*** | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Results** | | | | | |
| Revenue | **24,799,413** | 23,230,614 | 18,978,200 | 18,196,134 | 18,216,083 |
| Gross Profit | **2,036,807** | 1,972,579 | 1,281,138 | 1,164,444 | 1,243,001 |
| Net Profit | **912,007** | 914,913 | 606,735 | 534,410 | 598,997 |
| Profit Attributable to Owners of the Company | **856,691** | 874,175 | 608,895 | 526,933 | 563,655 |
| Earnings per Share (RMB) | **1.52** | 1.53 | 1.03 | 0.86 | 0.91 |
| **Assets and Liabilities** | | | | | |
| Total Assets | **34,817,739** | 29,562,001 | 27,963,441 | 22,708,309 | 19,996,891 |
| Total Liabilities | **25,233,834** | 20,994,461 | 20,467,077 | 15,710,609 | 13,471,319 |
| Total Equity | **9,583,905** | 8,567,540 | 7,496,364 | 6,997,700 | 6,525,572 |

## KEY FINANCIAL RATIOS

| | As at 31 December | |
|---|---|---|
| | **2019** | 2018 |
| Return on Equity | **9.3%** | 10.5% |
| Net Assets Value per Share (RMB yuan) | **16.33** | 14.82 |
| Net Cash Ratio | **18.8%** | 25.3% |
| Current Ratio | **1.25** | 1.18 |
| Cash Inflow from Operating Activities (RMB'000) | **71,398** | 1,579,405 |

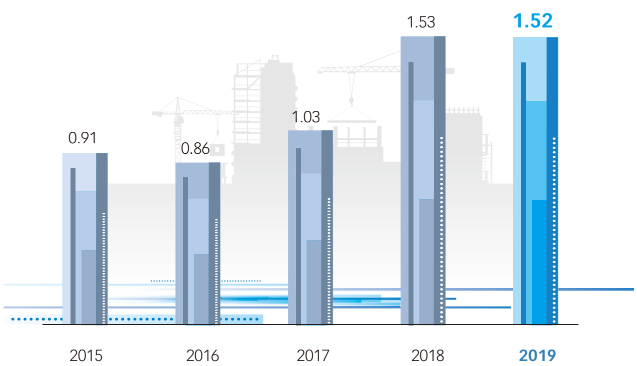
## REVENUE

(RMB million)



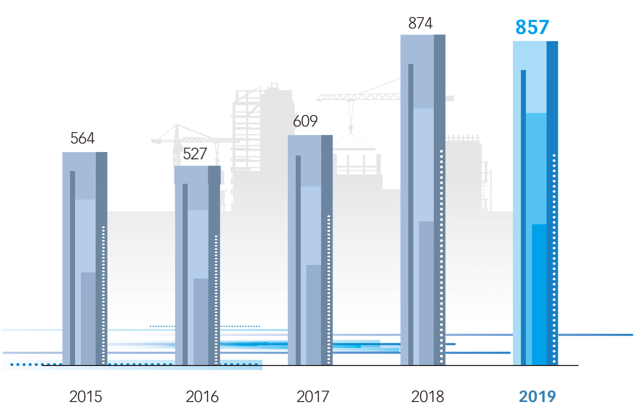

## EARNINGS PER SHARE

(RMB yuan)



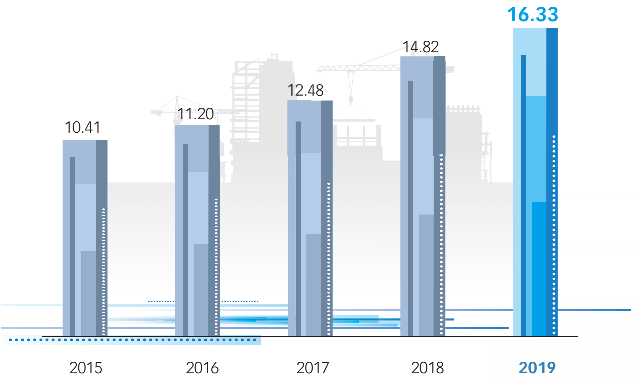

## PROFIT ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

(RMB million)




## NETS ASSETS VALUE PER SHARE

(RMB yuan)



# 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 2019. For the year ended 31 December 2019, the Group achieved audited consolidated revenue of approximately RMB24,799,413,000, representing an increase of approximately 6.8% as compared to last year; profit attributable to the owners of the Company amounted to approximately RMB856,691,000, representing an decrease of approximately 2% as compared to last year; earnings per share was RMB1.52, leveling the same period in the preceding year. The Board proposed that no final dividends be declared for the year ended 31 December 2019. Details of operating and financial performance of the Group will be discussed in the "Management Discussion and Analysis" section of this annual report.

In the past, construction activities of our projects should have been begun by now, our real estate business should have concluded a lot of sales contracts by seizing the opportunity when everyone returning home during the New Year holidays, and our construction industrialization production activities should have been underway. But the novel coronavirus pneumonia epidemic disease disrupts the rhythm of everyone's work and life. At the beginning of 2020, no one can predict that we will start a new year facing a battle against the coronavirus epidemic disease. With the joint efforts of the people throughout the country, in particular the heroic and unwavering dedication of medical staff, volunteers, and hospital builders, we will finally overcome the epidemic disease. After the event, it would be really a challenge to restore the normal order of economic life disrupted by the disease. 2019 was proven to be quite a difficult year and 2020 is another difficult year lies ahead.

Under the epidemic disease, the construction industry is more resistant to risks than the tourism, hotel and catering industries. On one hand, the New Year holidays are not at peak season for the construction business. On the other hand, the cost component, employment cost and business model of the construction industry have reduced the operating cost and hence divert the risks of closure. However, we must also clearly see that the supply chain of the construction industry is part and partial of the entire social and economic system, which means any imbalance or slippage in any of the links will expose great challenges to the whole industry. Such challenges are sometimes even fatal for enterprises. In the short term, the epidemic disease has delayed the sub-contracting progress of construction projects and back-lash the demand for housing purchase during the New Year holidays. The district separation, logistics stagnation, and resident isolation caused by the COVID-19 have delayed the resumption of business, increased the cost of epidemic prevention, and reduced work efficiency. For enterprises having high debt gearing ratios, a three-month or a further longer period of shutdown will directly lead to capital chain rupture. From the longer term perspective, the imbalances in the supply chain will cause resources shortage across the industry, which will lead to a rapid price-rise in various segments and increase the cost of construction overall ultimately.

However, every crisis generates new opportunities, and we should see the prospects behind the crisis. The negative impacts brought by the epidemic disease to our industry are temporary. In the longer run, the situation may not be very pessimistic. The government has adopted a proactive fiscal policy to hedge against the impact of the epidemic disease on the economy and investment. At present, the fiscal policy support for economic growth has begun to emerge. Banks are also increasing financial support for enterprises. Local governments have continuously issued various preferential tax policies in favor of enterprises. In some regional areas, adjustments of the land premium payment and new houses sale policies are amended to support the real estate industry. Under such a macro background, if we take this epidemic disease as a comprehensive self health check for the Company on the degree of sustainability, risk resistant level, and management and self-improvement capability in managing and withstanding these crises when dealing with emergencies and challenges.

The 2019 Central Economic Working Conference emphasized the general principle of making progress while ensuring stability. Under the guidance of the policy, although the growth of construction industry slowed down due to the downward pressure on economy, the industry as a whole still achieved stable development. Despite such a tough environment, however, Baoye has been able to manage this adverse trend and attained satisfactory results. In the Commendation Conference of 2018-2019 China Construction Engineering Luban Prize (National Prime-quality Project) held in December 2019, Baoye won 6 Luban Prizes, setting the record in Baoye's history. So far, we have won 38 Luban Prizes in total as contractor and participant. The Luban Prize is the highest honor in China's construction industry, and the best recognition from the country and the industry for the hard work of Baoye. Inspired by the award, we will stick to the "craftsmanship spirit" and commit ourselves to creating more "high-quality and high-technology" projects. We shall strive for international advanced level and create prime-quality projects with ingenuity. 2020 is the final year of the "Thirteenth Five-Year Plan". To ensure the successful conclusion of the plan, both of the construction of sponge cities, comprehensive underground corridors and parking lots, and the reconstruction of shantytown and urban-rural dilapidated house need the support of construction industry. Additionally, construction of various large-scale infrastructures and acceleration of the process of urbanization are also inseparable from the construction industry which is deeply related to the people's livelihood and national economy. Therefore, we should have taken a considerable confidence for the construction industry. Facing the general economic ebb, the construction industry will still remain as an important focus and mainstay in "stabilizing growth."

With respect to the real estate industry, the central government pointed out that: "We should increase housing supply for urban residents in need, strengthen urban renewal, upgrade existing housing, renovate old urban quarters and vigorously developing rental housing. We must insist that housing are for living, not for speculation. We must ensure the implementation of long-term management mechanisms for stabilizing land prices, housing prices and expectations in order to promote stable and healthy development for the real estate market. "On July 30, 2019, the central government once again re-emphasized that housing

should not be for speculation, and asked to implement a long-term real estate management mechanism, and proposed not to treat real estate as a short term method to stimulate the economy. In December 2019, the Central Political Bureau reiterated that "housing is for living, not for speculation" position and stressed the continued implementation of policy adjustments based on different situations of different cities. Through these frequent policy statements, we can see that housing will gradually return to its residential and self-use nature in the future, and the market is bound to pay more attention on the real value and quality of housing. Baoye, who will never forget why we started our business and always adhere to our own corporate culture, insist on providing the market with high-quality, high-tech, comfortable and low-carbon products that can last for more than a hundred years. I believe that with the promotion and change of consumer preference, Baoye's business belief would be more receptive and attractive to consumers which sets out a wider perspective for Baoye in the years to come.

The new decade has just begun. After the baptism of this epidemic disease, both hurdles and opportunities are being magnified and tabled before us. If an enterprise wants to survive the tide of the times at a macro level, it must perceive the pulse of the times, advocate CPC's leadership, follow the national development strategy and recognize development trend of the industry; from a micro point of view, it is necessary to improve internal control, to enhance the vitality and competitiveness of the company, and to deeper the moat of technology. Only in this way, can a company become the bamboo quoted from an ancient poem: "regardless from whichever direction the winds leap, I remain strong, though having many blow." For more than 40 years, Baoye pursues perfectionism, adheres to the principle of "sincerity, honesty and integrity", and has formed a business model which integrates the entire industry chain and mainly focuses on the trinity of construction business, real estate development and construction industrialization. Baoye has always aimed at establishing a century-old enterprise, and will continue our steady and sustainable development.

## 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.

Facing the sudden outbreak of the novel coronavirus pneumonia epidemic disease, the Group has actively responded to the government's call, proactively implemented corporate social responsibility, donated goods and materials and built square cabin hospitals and isolated observation points. Internally, the Group preserves health and benefits of employees by adjusting working form and holiday policy without layoff and salary cut. Externally, the group maintains timely communications between companies and local governments, as well as upstream and downstream supply chains. After the epidemic disease, we must not only be able to survive, but also be able to seize the opportunity, turns the crisis into opportunity, and lives as a healthier enterprise.

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, details of which are shown on the "Environmental, Social and Governance Report 2019" published at the websites of the Company and the Stock Exchange 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*
31 March 2020

# MANAGEMENT DISCUSSION AND ANALYSIS

## RESULTS REVIEW

For the year ended 31 December 2019, the Group achieved a consolidated revenue of approximately RMB24,799,413,000 (2018: RMB23,230,614,000), representing an increase of approximately 6.8% compared to the previous year; operating profit reached approximately RMB1,483,662,000 (2018: RMB1,393,588,000), representing an increase of approximately 6.5% compared to last year; profit attributable to the owners of the Company amounted to approximately RMB856,691,000 (2018: RMB874,175,000), representing a decrease of approximately 2% from last year, earnings per share was RMB1.52 (2018: RMB1.53), leveling the relative level in the preceding year.

In 2019, under the complex macroeconomic environment, buoyed by the Group's synergy in three business segments, the Group still achieved stable operating results. Due to the fierce competition in the industry and increasing uncertainties in the external environment, the Group relies on the "three-in-one" business model of construction, real estate development, and construction industrialization, all of which have achieved good development progress. In 2019, under the premises of securing the Group's capital chain, the Group take advantage of healthy cash flow to increase land reserve of over RMB5 billion. At the same time, in the construction sector, the Group also tried to expand the proportion of self-operated business. In the construction industrialization sector, the Group also continued to expand the distribution of construction industrialization bases in order to strengthen the Group's position in the construction industrialization industry. In view of the foregoing, the Board of Directors does not recommend the payment of the final dividend for 2019.

## Revenue

| | For the year ended 31 December | | | | Change |
|---|---|---|---|---|---|
| | 2019 | | 2018 | | |
| | *RMB'000* | *% of total* | *RMB'000* | *% of total* | |
| Construction | 19,029,840 | 77% | 17,342,995 | 75% | 10% |
| Property Development | 2,089,186 | 8% | 3,084,867 | 13% | –32% |
| Building Materials | 3,203,090 | 13% | 2,502,560 | 11% | 28% |
| Others | 477,297 | 2% | 300,192 | 1% | 59% |
| Total | 24,799,413 | 100% | 23,230,614 | 100% | 7% |

## Operating profit

| | For the year ended 31 December | | | | Change |
|---|---|---|---|---|---|
| | 2019 | | 2018 | | |
| | *RMB'000* | *% of total* | *RMB'000* | *% of total* | |
| Construction | 467,100 | 31% | 505,819 | 36% | –8% |
| Property Development | 757,445 | 51% | 760,720 | 55% | 0% |
| Building Materials | 156,238 | 11% | 67,249 | 5% | 132% |
| Others | 102,879 | 7% | 59,800 | 4% | 72% |
| Total | 1,483,662 | 100% | 1,393,588 | 100% | 6% |

## CONSTRUCTION BUSINESS

For the year ended 31 December 2019, the Group's construction business achieved revenue of approximately RMB19,029,840,000, up approximately 10% over last year; operating profit amounted to approximately RMB467,100,000, down approximately 8% over last year. The increase of revenue and decrease of operating profit of the construction business was mainly due to the increased construction capacity of construction projects and lower profit margin in 2019.

In 2019, the external economic environment was complicated and difficult brought by the Sino-US trade disputes while the domestic economy experienced a down turn. In order to stabilize economic growth, the domestic monetary policy has been loosen, and fixed asset investment has also maintained certain momentum. However, under the policy background of "housing is for living, not for speculation", it is unrealistic to expect the real estate market returning to the high growth rates in the past. There was also great uncertainty in the investment in manufacturing facilities affected by the external environment. As the pillar industry of the national economy, its development is closely related to economic development for the country as a whole. According to the 2020 National Economic Statistics Report released by the National Bureau of Statistics in January 2019, the total output value of the national construction industry in 2019 still reached RMB24,844.6 billion, a year-on-year increase of 5.7%, which was slightly lower than the GDP growth rate of 6.1%. In 2019, the Group's construction continued to implement the "big customer" strategy, optimized regional layout, enhanced public construction project market sharing, and established the corporate brand image by undertaking local public and iconic projects. In 2019, the construction business continued to contribute most of the Group's operating income and steady profits. The contract value of new projects was approximately RMB28.8 billion (2018: approximately RMB23.6 billion), an increase of approximately 22% from last year. The Group undertook a number of high-quality vanity projects, such as the Shaoxing Public Security Bureau's business and technology rooms, Shaoxing People's Hospital Jinghu Headquarters, Reconstruction and Expansion Project of Shaoxing Restaurant, Hangzhou Qiantang River Museum, Hangzhou Bay Area Accounting Academy and so on.

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 2019, the Group received a total of 49 awards, the key awards are appended as follows:

| Projects Name | Awards |
|---|---|
| Djibouti Presidential Palace | Luban Price |
| Djibouti Tajura New Port Project | Luban Price |
| Kaifeng Haihui Center | Luban Price |
| Kaifeng Haihui Center Curtain Wall Project | Luban Price |
| Kaifeng Haihui Center Interior Project | Luban Price |
| HVAC installation project of Cixi Grand Theater | Luban Price |
| Expansion Project of Alibaba Hangzhou Software Production Base Phase II | National Quality Project |
| Hefei Binhu Center Building No.2 | Huangshan Cup |
| China Textile CBD Commercial Center Project | China Textile Town Cup |
| Dapu River Tributaries Connection Project Phase II | West Lake Cup |

| Projects Name | Awards |
|---|---|
| No.701 Research Institute of China Shipbuilding Industry Corporation (No. 7 Scientific Research Building) | Huanghe Award |
| New Housing Project of Military Economics Institute | Huanghe Award |
| Guanggu Lidu Phase III Building No.18 | Huanghe Award |
| Wuhan Baoye Center | Huanghe Award |
| Yichang International Trade Edifice Phase III | Chutian Cup |
| Jiangxi Hangxin Edifice | Jiangxi Quality Structure Project |

## Adhering to the spirit of craftsman, Winning awards

At the Commendation Conference of 2018-2019 China Construction Engineering Luban Prize (National Prime-quality Project) held on December 10, 2019, six projects of the Group won the Luban Award. We contracted for three of the six projects, namely Kaifeng Haihui Centre project, Djibouti Tajura Port Project and Djibouti's new presidential palace project, and participated the construction of the other three projects, namely curtain wall and interior engineering project of Kaifeng Haihui Centre and HVAC installation of Ningbo Cixi Grand Theatre. Winning 6 Luban awards in one time sets record breaking in Baoye's history. As of 2019, the Group has won a total of 38 Luban Awards (19 as contractor and 19 as participant).

The Luban Award is the highest award in China's construction industry, also the highest honor for Baoye's adherence to the "craftsman spirit" and high-quality construction. As a veteran who has been working hard in the construction industry for more than 40 years, we will always apply rigorous construction standards and scientific quality control in each of our construction projects.

## Property Development Business

*Property Sales*

For the year ended 31 December 2019, revenue of the Group's property development business amounted to approximately RMB2,089,186,000, representing a decrease of approximately 32% from last year. Operating profit amounted to approximately RMB757,445,000 which is approximating the same level of last year. The decline in real estate development business turnover while maintaining the same level of operating profit was mainly due to the decrease in the recognized revenue in 2019, but the higher profit margins of the units recognised.

For the year ended 31 December 2019, revenue of property sales was mainly derived from the following projects, details of which are set out below:

| Project | Location | Average Selling Price *(RMB yuan/ Sqm)* | Floor Areas Sold *(Sqms)* | Revenue *(RMB'000)* |
|---|---|---|---|---|
| Baoye Ido | Shanghai | 39,003 | 11,906 | 464,369 |
| Baoye Xuefu Green Garden | Bengbu | 6,348 | 67,571 | 428,914 |
| Baoye Xinqiao Fengqing | Shaoxing | 14,111 | 27,256 | 384,596 |
| Baoye Four Seasons Garden | Shaoxing | 35,628 | 10,433 | 371,709 |
| Baoye Junyue Green Garden | Luan | 4,742 | 29,326 | 139,072 |

For the year ended 31 December 2019, the sales contracts of the Group's property development business amounted to approximately RMB2.56 billion (2018: RMB2.78 billion) and a contract sale area of approximately 237,041 square metres, excluding the property sales registered under joint ventures that will be progressively completed, delivered and recognised as revenue in the next two years.

*Projects under development*

As at 31 December 2019 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% |
| Daban Green Garden | Shaoxing | 145,700 | 100% |
| Xialv Project • Yunxili | Shaoxing | Under Planning | 60% |
| Guanyun Road Project | Shanghai | 94,722 | 100% |
| Huajie Fengqing | Lishui | 260,363 | 100% |
| Xingyu Fu | Wuhan | 259,056 | 100% |
| Binhu Lvyuan | Mengcheng | 201,572 | 100% |
| Fuxing Jiayuan | Jieshou | 467,293 | 100% |
| Baoye City Luyuan | Taihe | 95,770 | 55% |
| Baoye Longhu Yucheng | Kaifeng | 300,598 | 60% |
| Baoye Junyue Green Garden | Lu'an | 129,665 | 100% |
| Zhengzhou Project • Fuxi Town | Zhengzhou | Under Planning | 51% |
| Sizhou Green Garden | Sixian | 124,907 | 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, all fully equipped with supporting facilities, such as a golf club, a five-star resort hotel, two leisure parks, a sport park, a shopping arcade, kindergarten and a central lakeside garden. Phase I still a few spare houses for sale. Phase II of approximately 300,000 square meters is currently under planning. The presale of the first part of terrace house has begun and is in good condition.

Daban Green Garden, located in Keqiao District, Shaoxing City, Zhejiang Province, has a site area of 80,945 square meters and a plot ratio of 1.8, and a gross floor areas of 145,700 square meters on the floor and approximately 100,000 square meters under the floor. The project will be built in a prefabricated method and fully and well decorated. The project is very close to the Banhu Lake and the railway station of Hangzhou and Shaoxing. It enjoys well-developed facilities of convenient transportation, scenic environment, hospitals, schools and shopping malls. The project will be a landmark of residential building in the Banhu area of Keqiao.

Xialv Project consists of three separate parcels of land with a total cost of RMB511,036,354 and a total land site area of 262,862 square meters, pursuant to which the Group is interested in 60%. The Group acquired the land use rights through public auction in 2017. As of now, Baoye Yunxili, one of the three parcels of land has begun planning.

Guanyun Road Project, located at the south of Guanyun Road, Qingpu District, Shanghai City, is very close to the Dianshanhu Road Station of Line 17. The project has a site area of approximately 38,649 square meters, and a gross floor area of approximately 94,722 square meters with a plot ratio of 1.5. The Group acquired this parcel of use rights at a total consideration of RMB913,630,000 in September 2019. This project has residential and commercial parts, and is positioned as a construction art respecting to architecture and facing the future. The project will be built as a landmark with green, healthy, intelligent, civilized and artificial and artistic characteristics.

Baoye Huajie Fengqing is located in Liandu District, Lishui City, Zhejiang Province. It covers an 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 58,790 square meters are owned by Baoye and presale has begun in October 2019.

Xingyufu project, located in Xinzhou District, Wuhan City, Hubei Province, has a total land area of 129,528 square meters and planned construction area of approximately 259,056 square metres. The Group acquired this parcel of land use right in December 2017 at a consideration of RMB780 million. At the end of 2019, presale has begun.

Mengcheng Binghu Green Garden, located in Mengcheng County, Anhui Province has a total land 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 RMB366,000,000. The project has started presale in the second half of 2019.

Baoye Fuxing Jiayuan, located in Jieshou City, Fuyang City, Anhui Province, has a total site area of 172,656 square meters and a total 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 RMB370,348,000. The project has started the construction and is expected to be delivered in 2020. The project will be repurchased by the local government upon completion.

Baoye Taihe City Green Garden is located in Taihe County, Anhui Province with a total gross floor area of 420,000 square metres, comprising of unique and niche residential units, elegance shopping arcade, an international bilingual kindergarten and high-end swimming pool facilities. Personalized and scientific design in dividing motor vehicle flow and pedestrian flow enable residents to enjoy quality and comfortable living. The project is closed to an eco-friendly park with rich community facilities, which sets the new generation in the City. The project will be developed in four phases, among which Phase I, II and III had already been delivered to customers, and 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 will be developed in 5 phases. Nearly 100,000 square meters of Phase I was delivered to the owners, and the remaining 70,000 square meters are under construction and will be delivered by the end of 2020. Phase II of about 140,000 square meters is under presale. Phase III is currently under construction.

Baoye Junyue Green Garden is located in Lu'an city, Anhui Province. Baoye bided the project through judicial auction in September 2017. The project has a site area of approximately 54,220 square meters, and an estimated gross floor area of approximately 129,665 square meters, and the remaining site area of 7,220 square meters is clean land for development. The project enjoys well-developed facilities, convenient transportation with parks, banks and shopping malls. The project will be developed in two phases. In February 2019, the Company obtained a parcel of land use right on the west side of this project with a total land area of approximately 111,947 square meters, which is currently under presale.

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, Xinmi City, Zhengzhou City, with convenient transportation, spectacular scenery and historical culture. The project is under planning currently.

Sizhou Green Garden, located in the economy development zone of Sixian County, Suzhou City, Anhui Province, has a total site area of 46,888 square meters, and a total gross floor areas of 124,907 square meters. The Group acquired this parcel of land use right at a total consideration of RMB113,500,000 in May 2019 through public tendering in which the Group is interested 51%. This project enjoys well-developed facilities, convenient transportation and education resources. The project has begun presale at the beginning of 2020 and is expected to be delivered in 2021.

## New Land Reserve

During the year in 2019, the newly acquired land reserve is tabulated below:

| Time table | Location | Cost *(RMB'000)* | Land area *(Sqms)* | Equity |
|---|---|---|---|---|
| February, 2019 | Lu'an, Anhui | 221,000 | 111,947 | 100% |
| May, 2019 | Sixian, Anhui | 73,900 | 30,521 | 51% |
| May, 2019 | Sixian, Anhui | 39,600 | 16,367 | 51% |
| July, 2019 | Shaoxing, Zhejiang | 115,278 | 33,369 | 60% |
| July, 2019 | Shaoxing, Zhejiang | 1,885,000 | 80,944.8 | 100% |
| September, 2019 | Shanghai | 913,630 | 38,648.6 | 100% |
| November, 2019 | Wuhan, Hubei | 245,000 | 27,992 | 100% |
| December, 2019 | Fuyang, Anhui | 235,425 | 63,545 | 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.

## Increased Investment in Property Development

During the year in 2019, the newly increased investment in property development is tabulated below:

| Location | Cost *(RMB'000)* | Land area *(Sqms)* | Equity |
|---|---|---|---|
| Xinzhou, Hubei | 276,000 | 73,880 | 49% |
| Wuhan, Hubei | 760,800 | 64,991 | 70% |
| Quzhou, Zhejiang | 799,780 | 84,633 | 34% |

## Building Materials Business

For the year ended 31 December 2019, revenue of the Group's building materials business amounted to approximately RMB3,203,090,000, representing an increase of approximately 28% over last year; operating profit was approximately RMB156,238,000, representing a surge of approximately 132% from last year. In 2019, the revenue and operation profit have achieved an obvious increase as the selling prices of building materials segments increased obviously.

For the year ended 31 December 2019, revenue from the Group's building materials is analysed below:

| | For the year ended 31 December | | | | Change |
|---|---|---|---|---|---|
| | 2019 | | 2018 | | |
| | RMB'000 | % of total | RMB'000 | % of total | |
| Curtain Wall | 1,153,159 | 36% | 1,173,115 | 47% | –2% |
| Ready-mixed Concrete | 1,162,318 | 36% | 717,815 | 29% | 62% |
| Furnishings and Interior Decorations | 212,381 | 7% | 205,096 | 8% | 4% |
| Wooden Products and Fireproof Materials | 104,874 | 3% | 90,083 | 4% | 16% |
| PC assembly plate | 362,840 | 11% | 158,069 | 6% | 130% |
| Steel structure | 34,325 | 1% | 27,222 | 1% | 26% |
| Others | 173,193 | 6% | 131,160 | 5% | 32% |
| Total | 3,203,090 | 100% | 2,502,560 | 100% | 28% |

All major segments of the Group's building materials business are under fierce competition, and are highly inter-related to the real estate industry and national infrastructure construction. In 2019, the Group's building materials business adhered to the "price-cost-profit" business principle, strengthened accounts receivable management, and implemented the "big customers" strategy by coordinating team work with the construction business. In accordance with the Group's development strategy, Construction industrialization business advanced in an orderly manner. As at now, the Group's construction industrialization bases have been deployed in Zhejiang, Shanghai, Hubei, Anhui, Jiangsu and so on. The extensive layout of the construction industrialization bases are not only the fruit of the successful market expansion of the construction business in the past, but also a good foundation for the coordinated development of construction business and real estate business in the future. Prefabricated construction, as the leading industry of the urban manufacturing industry after automobiles and home appliances, is an important carrier for the transformation and upgrading of the real estate industry and the construction industry. The Group has accumulated rich experience through more than 20 years of continuous research and development in the construction industrialization industry. We believe that as the market matures, the construction industrialization business will bring sustainable fruitful business results and profits to the Group.

## BUSINESS PROSPECT

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

At present, China's economic development is in the transition phase from investment-driven to consumption-driven, but this transition phase takes time, so the function of investment in stimulating the economy is still very obvious. In accordance with the guidance of the State Council, the special debt issued in 2020 will be used in more than 10 infrastructure areas such as transportation, municipal administration, and environmental protection. The increase in infrastructural investment can effectively stimulate the development of the construction industry. In addition, the process of urbanization in China has entered into its mid-tier phase. Urban agglomerations will become the main carriers of China's urbanization and urban population growth will merge in between metropolitan cities and sub-urban counties. Anywhere population accumulates, investment will pour in, where the market will be. As the pillar industry of the national economy, the construction industry is closely linked to infrastructural construction and real estate investment. In the future, the state will "make up for shortcomings" in people's livelihood projects, so the construction of public service projects and the construction of living environment will provide a huge market for building construction business. In the new development period, Baoye will continue to consolidate its management, strengthen process control, deepen service awareness, pay close attention to project quality and safety and forge advanced productive force in order to enhance our core competitiveness. Leveraging the demands from customers, projects and the industry as the starting point, Baoye shall keep providing its unique products and services to the market.

### Property development business contributes substantial profit for the Group

In the past year, the central government repeatedly emphasized the "no speculation" positioning of the real estate industry. Then, at the end of last year, the Central Economic Working Conference sets out the general direction of the "stability in six aspects". Under such background, we expect that the general direction of the state's regulation of the real estate market will remain unchanged. It will continue to maintaining the stability of the real estate market according to different situations in different cities. Although the golden demand stage for housing was peaked under the prevailing severe economic conditions but the demand is partially compensated by the continuous urbanization and mobility of population policies, such as the impact of the second-child policy, urban population growth increasing demand for urban renewal and transformation, and demand for improvement in living environment. The demand for residential real estate remains strong which has paved a huge potential room for growth.

As one of the core businesses of the Group, Baoye's real estate development business has adhered to the ingenious concept of "Baoye builds good houses" at all time. In the future, we will continue to cultivate in the markets where we are familiar and increase land reserves at reasonable prices. We firmly uphold the concept that "If housing changes, society changes". Relying on the latest research results of the National Research Institute of Housing Technology and incorporating advanced Japanese and German technology elements into our products, we are able to supply the market with highly comfortable and low-carbon technology housing which can save, store and create energy.

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

In recent years, the energy-saving and environmental-friendly prefabricated construction industry has become a hit because of the aging of the population, the gradual decline of the demographic dividend, environmental pollution and resources problems. The central and local governments have intensively introduced incentive policies to promote the development of construction industrialization and the prefabricated construction. There are also many companies rushing head-to-head into this field. It seems that all construction companies or building material manufacturers can be transformed into construction industrialization companies overnight. However, any single link, like industrialized manufacturing of building components or equipments for industrialized components, cannot be called construction industrialization. As we always emphasize, the industrialization of construction is a system engineering and an urban manufacturing industry. It must be characterized by design standardization, components classification, and construction mechanization. It is a new sustainable production mode that fully integrates the entire industrial chain, including design, production, construction, and operation, to fully realize the energy-saving and environmental-friendly features of the building which maximizes the value of the building's entire life cycle.

Baoye not only has more than 20 years of experience in research and development on construction industrialization, but also intensively cultivates in the field of general construction which includes building construction and real estate development for more than 40 years. We can proudly say that we master better about architecture. We are better in understanding operations and the inherent need of improving quality. Through field assembly and industrialized production, we have completed the transformation and upgrade of the traditional construction industry during the past two decades. We have truly transform construction into manufacturing, and make the life span of our construction products last beyond 100 years. In the future, Baoye will continue to explore ways to improve the traditional construction industry, while we increase the technological content of products through the industrialized construction method, and promote the coordinated development of the three major industries of the Group.

## The Impact of the Outbreak of Novel Coronavirus

In 2020, the rapid outbreak of COVID-19 imposes a major test to the global economy. The Chinese government has introduced and implemented a series of effective control measures. Thanks to the hard work of the people throughout the country, especially medical professionals, the epidemic disease in China is now under well control, but the situation remains severe elsewhere in the world. The Group has comprehensively assessed the impact of the epidemic disease on the Group's three business segments and the construction business, real estate sales and production resumption of our regional companies. We believe that the epidemic disease will have a short-term negative impact on our business. But so far, except for Hubei, projects in other regions have been resumed one after another in an effort to make up for the lost time. The Group is full of confidence and convinced that as long as we work together, we will vanquish the disease. As at the date of this report, the Group does not anticipate any significant financial impact resulting from the COVID-19, following which the Group will pay close attention to the situation of the COVID-19 and continue to assess the impact of the epidemic disease on the Group's finances and operations from time to time, as the case may be. At the same time, the Group will ensure the steady development as always by improving internal management, valuing "preserving cash as king and focusing on receivable management", and continuously optimizing business management model, while enhancing our brand image to ensure continuous stable development.

# FINANCIAL REVIEW

## Financial Policies

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

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

## Financial Resources and Liabilities

With the support of steady increase in cash flow, sound credit record and excellent reputation in the industry, the Group preserved the AAA credit rating by a credit rating institution recognised by the People's Bank of China. Such excellent credit rating will benefit the Group's financing activities and allow the Group to continue to enjoy the prime rate offered by the banks. During the year, the Group maintained part of its borrowings on an unsecured basis. The amount of secured debt accounted for approximately 51.7% of the total borrowings (2018: 14.5%). In addition, approximately 45.7% of the total borrowings (2018: 76.4%) were guaranteed by the Company; approximately 1.3% of the total borrowings (2018: 2.5%) were jointly guaranteed by the Company and non-controlling interests; approximately 1.0% of the total borrowings (2018: 2.2%) 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.

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 2019 the Group has unutilized banking facilities amounting to approximately RMB6.6 billion. Details of which are analysed below:

| | As at 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | ***RMB'000*** | *RMB'000* |
| Cash and cash equivalents | **5,504,968** | 3,698,252 |
| Term deposits with initial term of over three months | **303,390** | 85,704 |
| Restricted bank deposits | **719,015** | 628,485 |
| Less: total borrowings | **(4,799,689)** | (2,299,487) |
| Net cash | **1,727,684** | 2,112,954 |
| Total equity attributable to the owners of the Company | **9,190,044** | 8,336,806 |
| Net cash ratio | **18.8%** | 25.3% |

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

## Other Key Financial Ratios

| | As at 31 December | |
|---|---|---|
| | **2019** | 2018 |
| Return on equity | **9.3%** | 10.5% |
| Net assets value per share (RMB yuan) | **16.33** | 14.82 |
| Current ratio | **1.25** | 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 decreased by approximately 2% over the previous year. The return on shareholders' equity has decreased by approximately 11% over the previous year. But the net assets value per share have increased by approximately 10% as compared to last year. As at 31 December 2019, the Group was still in a net cash position with a net cash ratio of 18.8%.

## Cash Flow Analysis

| | | For the year ended 31 December | |
|---|---|---|---|
| | | **2019** | 2018 |
| | Note | ***RMB'000*** | *RMB'000* |
| Cash inflow from operating activities | i | **71,398** | 1,579,405 |
| Cash outflow from investing activities | ii | **(859,266)** | (1,222,795) |
| Cash inflow from financing activities | iii | **2,594,584** | 761,045 |
| Net increase in cash and cash equivalents | | **1,806,716** | 1,117,655 |
| Exchange gains on cash and cash equivalents | | **–** | 4,880 |

Notes:

i During the year, the net cash inflow from operating activities was approximately RMB71,398,000, an decrease of approximately RMB1,508,007,000 compared to the net cash inflow of approximately RMB1,579,405,000 of last year. The main reason is the increase in land reserve during the year.

ii During the year, the net cash outflow from investing activities was approximately RMB859,266,000, which was mainly due to the payment of RMB872,564,000 for construction, land and equipment for the construction industrialization base.

iii During the year, the net cash inflow from financing activities is approximately RMB2,594,584,000 mainly due to the increase of banking borrowings in meeting cash flow requirement for operational purposes.

## 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 2019, the Group's land appreciation tax amounted to approximately RMB127,273,000.

## Other Gains – Net

During the year of 2019, the Group recorded other gains – net of approximately RMB135,016,000, representing a significant increase of approximately RMB102,584,000, mainly due to the gains of RMB48,470,000 and RMB5,667,000 from disposals of Hebao and Zhejiang Baohong Construction Industrialisation Manufacturing Company Limited respectively.

## Administrative Expenses

The Group's administrative expenses amounted to approximately RMB664,081,000 for the year ended 31 December 2019, representing an increase of approximately 13% over last year of RMB585,760,000, primarily due to the business expansion and increase of staff welfare expenditures.

## Finance Costs

During the year ended 31 December 2019, the Group recorded finance costs of approximately RMB99,192,000 (2018: RMB26,767,000). The increase in finance costs was mainly due to the increase in the Group's borrowings.

## Income Tax Expense

During the year ended 31 December 2019, income tax expense comprised of PRC corporate income tax of RMB332,359,000 (2018: RMB330,866,000) and PRC land appreciation tax of RMB127,273,000 (2018: RMB129,136,000), representing a total decrease of approximately RMB370,000, which was mainly due to the decrease in profit before tax.

## Financial Guarantee

| | **31 December 2019** ***RMB'000*** | 31 December 2018 *RMB'000* |
|---|---|---|
| Guarantees given to banks in respect of mortgage facilities granted for certain purchasers | **410,222** | 913,832 |

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

## Details of the Charges on the Group's Assets

As at 31 December 2019, properties under development, properties held for sale, property, plant and equipment, right-of-use assets of which are land use rights and land use right at a total value of approximately RMB3,752,327,000 (as at 31 December 2018: RMB600,511,000) were pledged to banks as security in securing bank and other 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.

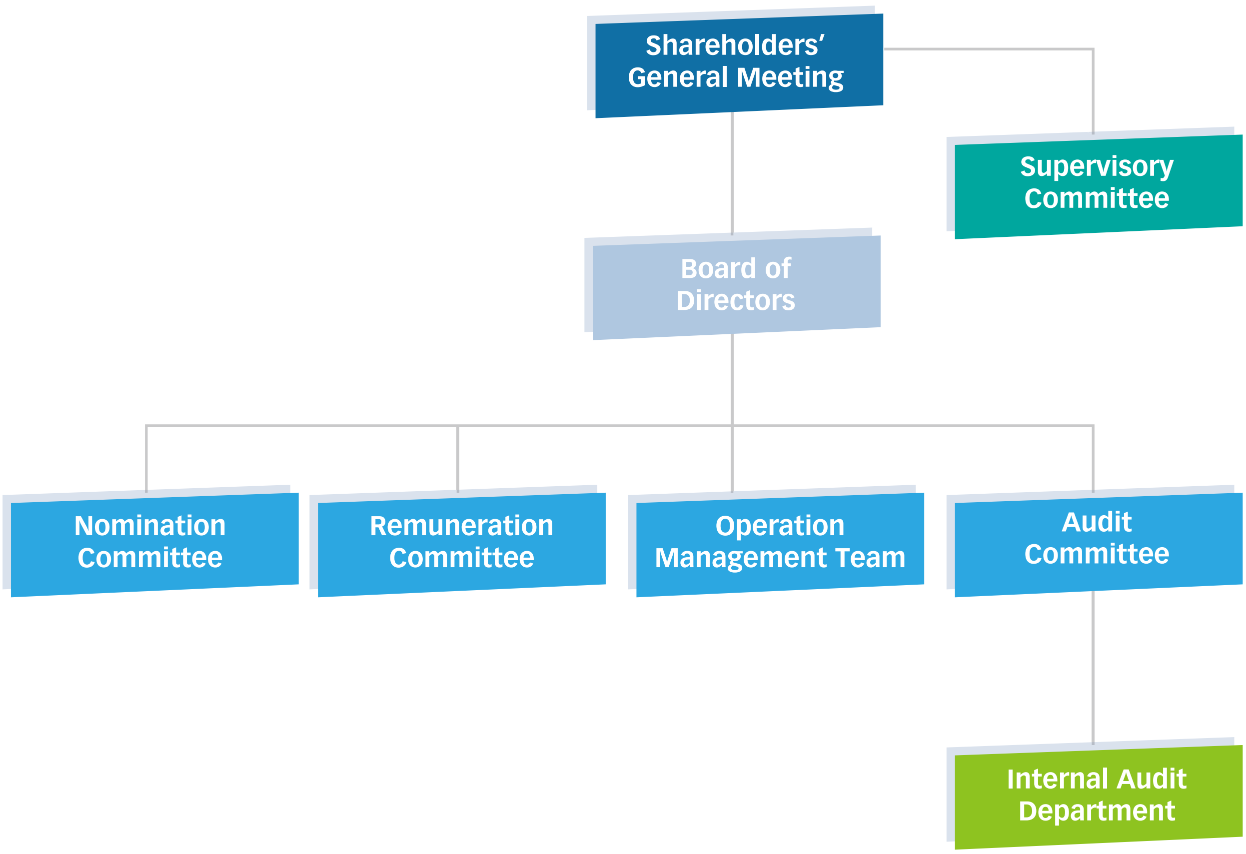
## CORPORATE GOVERNANCE CODE

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

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

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

## CORPORATE GOVERNANCE STRUCTURE




Set out below is a detailed discussion of the corporate governance practices adopted and observed by the Company during the year ended 31 December 2019.

## 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 of 2019. If any related employees possess information which may be considered as sensitive to the Company's share price and such information is not public, such employee has to comply with the written guidelines, which is as strict as the Model Code.

## BOARD OF DIRECTORS (THE "DIRECTOR")

### Duties of the Board of the Company (the "Board")

The Board formulates overall strategic plans and key policies of the Group, 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. Liang Jing has rich experience in project management and audit, the diverse composition of the Board brings the Board different views, and also reflects a balance between effectiveness and independence.

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 2019.

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 2019.

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 51 to 53 of the annual report.

## BOARD DIVERSITY

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

The remunerations of each of the Directors of the Company are disclosed on an individual basis, details of which are set out in note 43 to the consolidated financial statements.

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

| | **2019 Number of individuals** | 2018 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 2018 annual report, 2019 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 2019

| **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 2019, 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 2019, 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, 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 (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 2019. 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.

## AUDITORS' REMUNERATION

The remuneration of the auditors in the year 2019 is set out as follows:

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **Audit fees** *RMB'000* | **Other fees** *RMB'000* | Audit fees *RMB'000* | Other fees *RMB'000* |
| PwC Hong Kong and PwC ZT | **3,950** | **120** | 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 perform their specific duties in accordance with their respective written terms of reference.

## AUDIT COMMITTEE

The audit committee of the Company consists of two independent non-executive Directors, namely, Mr. Chan, Dennis Yin Ming and Mr. Li Wangrong, and one non-executive Director, Mr. Fung Ching, Simon, with Mr. Chan, Dennis Yin Ming as the chairman of the audit committee.

The terms of reference of the Company's audit committee are formulated in accordance with the Appendix 14 to the Listing Rules and the recommendations in "A Guide for Effective Audit Committee" published by the Hong Kong Institute of Certified Public Accountants. The primary duties of the audit committee are to review and supervise the Group's financial reporting procedures and internal audit scheme formulated by the internal audit department of the Company, 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 2019.

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 2019

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

## REMUNERATION COMMITTEE

The remuneration committee comprises two independent non-executive Directors, namely, Mr. Chan, Dennis Yin Ming and Ms. Liang Jing, and one executive Director, namely, Mr. Pang Baogen, with Mr. Chan, Dennis Yin Ming as the chairman of the remuneration committee.

The major responsibilities of the Remuneration Committee are to make recommendation to the Board on the Company's policy and structure for remuneration of the Directors, Supervisors and senior management of the Company, to review and approve the management's remuneration recommendation according to the Board's policy and target. To take the market forces and comparable industries into consideration when determining the remuneration packages of the Directors, Supervisors and senior management of the Company. The terms of reference of the remuneration committee are available on the websites of the Company and the Stock Exchange. The remuneration committee of the Company held one meeting during the year of 2019.

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 2019

| 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 2019.

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 2019

| 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 2019, 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 67 to 73 of the annual report.

## CORPORATE GOVERNANCE FUNCTIONS

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

- to develop and review the Company's policies and practices on corporate governance and make recommendations on changes and updating;
- to review and monitor the training and continuous professional development of Directors;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual applicable to Directors and employees;

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

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

## COMPANY SECRETARY

Mr. Chow Chan Lum has been a member of the Institute of Chartered Accountants of Scotland and is also a member of the Hong Kong Institute of Certified Public Accountants, which fulfills the requirement under Rules 3.28 and 3.29 of the Listing Rules. As an external employee of the Company, the company secretary supports the Board, ensures good information flow within the Board and Board policy and procedures are followed; advises the Board on governance matters, facilitates induction and, monitors the training and continuous professional development of Directors. During the year, the company secretary confirms that he has attained not less than 15 hours of relevant professional training. 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 2019

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

## SHAREHOLDERS' RIGHTS

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

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

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

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

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

Room A, 7th Floor, Southern Commercial Building,
11 Luard Road,
Wanchai, Hong Kong

The headquarter address of the Company is as follows:

No.1687 Guazhu East 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 2019. 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 2019.

## 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,2019, 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 | Approximate Percentage of the Total Registered Share Capital of the Company |
|---|---|---|---|
| Wu Xueqin | 29,304,000 | 13.83% | 5.21% |
| Zhu Yicai (Note 1) | 29,304,000 | 13.83% | 5.21% |

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

## IMPORTANT FINANCIAL DATES

| Events | Date |
|---|---|
| Issued Interim Results Announcement of 2019 | On 23 August 2019 |
| Issued Annual Results Announcement of 2019 | On 31 March 2020 |
| Closure of register of members of the Company | From 18 May 2019 to 16 June 2020 (both days inclusive) |
| Annual General Meeting of 2019 | On 16 June 2020 |
| Class meeting for holders of H Shares | On 16 June 2020 |
| Class meeting for holders of Domestic Shares | On 16 June 2020 |

The annual general meeting of the company ("AGM") was held at 2nd Floor, Baoye Group, No.1687 Guazhu East Road, Keqiao District, Shaoxing City, Zhejiang Province, the PRC on 24 June 2019. 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 24 June 2019. All the Directors attended this AGM.

## ARTICLES OF ASSOCIATION

There were no changes to the articles of association during the year.

# 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, the National Outstanding Entrepreneur, apprentice of Luban, the Top 10 Outstanding Entrepreneurs of Construction Industry in Zhejiang Province, Outstanding Entrepreneur in Hubei Province, Outstanding builders of socialism with Chinese characteristics in Hubei Province, Model Worker of Hubei Province, Outstanding businessman in 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 Federation of Industry and Commerce in Hubei Province, the vice chairman of the Hubei Enterprises Union, and vice-chairman of Construction Industry Association in Hubei, the vice chairman of Wuhan Construction Industry Association, Member of the Twelfth Committee of the CPPCC 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 Huebei 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 was awarded outstanding entrepreneur in Hubei province. 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 16th People's Representative Congress of Hefei City, a representative of the 11th Party Congress of Hefei City, the chairman of Zhejiang Enterprises Union in Anhui,vice chairmans of the Anhui Journalist Union and the Hefei Industrial and Commercial Chamber, The chairman of high-end entrepreneurial talent association in Xinzhan District, he was awarded the Model Worker of Anhui province. 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 a director and the general manager of Zhejiang Baoye Construction Group Company Limited. Mr. Jin graduated from the China University of Geosciences, majoring in civil engineering and holds a professor level senior engineer qualification. 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, member of the Chinese People's Political Consultative Conference in Keqiao and deputy of people's congress of Yangxunqiao Town. He was awarded the National Excellent Decoration Entrepreneur, National Excellent Construction Entrepreneur, An advanced worker in National construction industry, a senior professional manager of the construction industry in China, Outstanding Entrepreneur in Zhejiang Province, 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. He has participated in the "5.12" 2008 Wenchuan Earthquake Relief Assistance and Construction Work and was honored as a "Third Class". Mr. Jin joined the Group in 1985.

## Non-executive Directors

**Mr. Fung Ching, Simon**, born in 1969, is an non-executive Director and a member of audit committee of the Company and is currently the chief financial officer of Logan Property Holdings Company 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 Company secretary of Greentown China Holdings Limited between 2010 and 2019, and served as the chief financial officer and secretary to the board of Directors of Baoye Group between 2004 and 2010. He worked in PricewaterhouseCoopers between 1994 and 2004. Mr. Fung has over 16 years of experience in managing finance and accounting functions, mergers and acquisitions, fund raising and investor relations for various listed companies 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, was 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 the 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 2019.

## 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 Highlight for the proceeding five years, Chairman's Statement, Management Discussion and Analysis, Environmental, Social and Governance Report 2019 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 2019 are set out in the balance sheets of the consolidated financial statements prepared in accordance with HKFRS on pages 74 to 75.

The results of the Group for the year ended 31 December 2019 prepared in accordance with HKFRS are set out in the consolidated income statement on page 76.

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 23 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 RMB813,755,000 as at 31 December 2019 (2018: RMB746,384,000).

## DIVIDENDS

At the board meeting held on 31 March, 2020, the Board proposed no final dividend be declared for the year ended 31 December 2019 (2018: nil).

## SEGMENT INFORMATION

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

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

The segment information for the year ended 31 December 2019 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 RMB5,492,000 (2018: RMB4,267,000).

## BORROWINGS

As at 31 December 2019, details of borrowings of the Group are set in the note 27 to the consolidated financial statements.

## DIRECTORS AND SUPERVISORS

The Directors and Supervisors of the Company for 2019 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 51 to 55 of the annual report.

## REMUNERATION OF DIRECTORS

The remuneration of the Directors of the Company is disclosed on an individual named basis in note 43 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 43 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

At the end of the reporting period, 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 | 17,479,537 | – | 3.11% |
| **Senior Management** | | | | | |
| Mr. Lou Zhonghua | The Company | Individual | 4,533,172 | – | 0.81% |
| Mr. Wang Rongbiao | The Company | Individual | 2,638,026 | – | 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 | / |
| 2019 | / | / | / | 856,691,000 | / |
| Total | 1,181,190,000 | | 995,821,095 | | |

## SHARE CAPITAL

As at the end 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

For the year ended 31 December 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## PUBLIC FLOAT

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

## CONNECTED TRANSACTIONS

During the year of 2019, the Group had no connected transaction that would require disclosure under the Listing Rules.

## CONTINGENT LIABILITIES

As at 31 December 2019, neither the Company nor the Group had any significant contingent liabilities.

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

On 29 March 2019, the Group entered into the agreement with the independent party regarding the disposal of the Company's 33% interest in Hebao (Nantong) Property Company Limited. The disposal will enable the Company to reallocate resources to the property markets which our management team is more experienced in and familiar with. For details of the disposal, please refer to the announcement of the Company dated 29 March 2019.

Saved as the above disposal, the Group did not have any other material acquisitions and disposals of subsidiaries and associates during the year of 2019.

## 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.

## HUMAN RESOURCES

As at 31 December 2019, the Group had a total of 5,801 permanent employees (as at 31 December 2018: 5,465). Also, there were approximately 73,379 indirectly employed construction site workers (as at 31 December 2018: 72,356). These workers were not directly employed by the Group. For the year ended 31 December 2019, the total employee benefit expenses amounted to approximately RMB4,972,992,000. Employee benefit expenses include salaries, insurance and other benefits. Remuneration is determined by reference to market terms as well as the performance, qualification and experience of the individual employee. The Group is subject to social insurance contribution plans organised by the PRC local government. In accordance with relevant national and local labor and social welfare laws and regulations, employee benefits provided by the Group include pension and medical insurance coverage, injury insurance, maternity insurance and unemployment insurance. The Group highly values human resources management, and is devoted to establishing a high quality team to support its long term business development. The Board is continuously working on devising, revising and implementing a more effective employee incentive plan and training plan to encourage superior performance of employees to fit into the Group's long term development plan.

## LITIGATION AND ARBITRATION

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

## ENTRUSTED DEPOSITS AND OVERDUE TIME DEPOSITS

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

## 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 2020, the "Environmental, Social and Governance Report 2019" will be published at the Stock Exchange and the Company's websites.

## AUDITORS

The re-appointment of PricewaterhouseCoopers (the "PwC Hong Kong") as the Company's international auditor and the re-appointment of PricewaterhouseCoopers Zhongtian LLP (the "PwC ZT") as the Company's PRC statutory auditor were approved at the annual general meeting held on 24 June 2019.

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 18 May 2020 to 16 June 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (for holders of H Shares), or to the Company's office address at No. 1687 Guazhu East Road, Keqiao District, Shaoxing City, Zhejiang Province, the PRC (Post Code: 312030) (for holders of Domestic Shares) no later than 4:30 pm on 15 May 2020.

## 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
31 March, 2020

# SUPERVISORS' REPORT

To the Shareholders,

In the year 2019, 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 2019 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
31 March, 2020

# 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 74 to 174, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- 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 2019, 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 |
|---|---|
| ***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.<br><br>Revenue from provision of construction services for the year ended 31 December 2019 amounted to RMB19,029,840,000 which represented approximately 77% of the Group's total revenue.<br><br>For construction services contracts, the Group recognises revenue over time by reference to the progress towards complete satisfaction of performance obligation which is measured 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.<br><br>We focused on this area as the revenue from provision of construction services was material and the determining of the total costs of construction contracts and the related revenue involved significant judgments and estimates made by management. | We have performed the following procedures to address this key audit matter:<br><br>(i) Understood, evaluated and tested the internal controls over the recognition of revenue from provision of construction services.<br><br>(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.<br><br>(iii) Tested the actual costs incurred in relation to construction contracts by tracing to the supporting documents, such as invoices received from suppliers, on a sample basis.<br><br>(iv) Assessed the reasonableness of the gross profit margin of material construction contracts with benchmark based on our industry knowledge.<br><br>(v) Checked the contract price to original construction contracts and, if applicable, variation orders.<br><br>We found that the significant judgments and estimates made by management in determining the total costs of construction contracts and the related revenue were properly supported by available evidence. |

| Key Audit Matter | How our audit addressed the |
|---|---|
| ***Impairment loss on trade receivables*** | |
| Refer to Note 5 (Critical accounting estimates and judgments) and Note 17 (Trade receivables) to the consolidated financial statements.<br><br>As at 31 December 2019, gross trade receivables amounted to RMB5,185,563,000, which represented approximately 15% of the total assets of the Group, and a total loss allowance of RMB271,589,000 was provided against the gross amount of trade receivables.<br><br>Management assessed the impairment loss on trade receivables based on assumptions about expected credit loss rates. The Group used judgments 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.<br><br>We focused on this area as the balance of trade receivables was material and the assessment on the impairment loss on these receivables involved significant judgments and estimates made by management. | We have performed the following procedures to address this key audit matter:<br><br>(i) Understood, evaluated and tested the internal controls in relation to collection of trade receivables and assessment on the related impairment loss.<br><br>(ii) Requested confirmations of debtor balances on a sample basis. Where a reply was not received, we performed alternative procedures by inspecting the underlying invoices or goods delivery notes, as appropriate.<br><br>(iii) Assesed the reasonableness of the expected credit loss rates of different group of ageing and type of customers.<br><br>(iv) Tested, on a sample basis, the accuracy of the ageing of trade receivables and checked the accuracy of the calculation of impairment loss allowance.<br><br>We found that the significant judgments and estimates made by management in assessing 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 Chin Hoo.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 31 March 2020

# CONSOLIDATED BALANCE SHEET

| | | As at 31 December | |
|---|---|---|---|
| | | **2019** | 2018 |
| | Note | **RMB'000** | RMB'000 |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Land use rights | 7 | **–** | 616,765 |
| Property, plant and equipment | 8 | **2,628,086** | 2,077,820 |
| Right-of-use assets | 3 | **675,895** | – |
| Investment properties | 9 | **766,435** | 742,768 |
| Goodwill | | **16,534** | 16,534 |
| Investments in joint ventures | 11(a) | **457,465** | 244,322 |
| Loans to joint ventures | 11(b) | **593,705** | 325,914 |
| Investments in associates | 12(a) | **44,724** | 323,693 |
| Loans to associates | 12(b) | **232,410** | 622,549 |
| Financial assets at fair value through other comprehensive income | 13 | **228,197** | 232,801 |
| Financial assets at fair value through profit or loss | 19 | **8,486** | 8,727 |
| Deferred income tax assets | 28 | **273,097** | 237,224 |
| | | **5,925,034** | 5,449,117 |
| **Current assets** | | | |
| Inventories | 14 | **193,689** | 243,392 |
| Properties under development | 15 | **5,075,556** | 3,685,492 |
| Completed properties held for sale | 16 | **3,265,564** | 3,429,544 |
| Contract assets and contract acquisition costs | 6 | **3,814,297** | 3,681,687 |
| Trade receivables | 17 | **4,913,974** | 3,943,479 |
| Other receivables and prepayments | 18 | **4,244,874** | 4,126,542 |
| Loans to joint ventures | 11(b) | **290,054** | 61,385 |
| Loans to associates | 12(b) | **9,324** | 11,102 |
| Financial assets at fair value through profit or loss | 19 | **558,000** | 517,820 |
| Restricted bank deposits | 20, 21 | **719,015** | 628,485 |
| Term deposits with initial term of over three months | 21 | **303,390** | 85,704 |
| Cash and cash equivalents | 21 | **5,504,968** | 3,698,252 |
| | | **28,892,705** | 24,112,884 |
| **Total assets** | | **34,817,739** | 29,562,001 |

| | | As at 31 December | |
|---|---|---|---|
| | | **2019** | 2018 |
| | Note | **RMB'000** | RMB'000 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | 22 | **562,664** | 562,664 |
| Share premium | 22 | **481,433** | 481,433 |
| Reserves | 23 | **209,296** | 205,263 |
| Retained earnings | 24 | **7,936,651** | 7,087,446 |
| | | **9,190,044** | 8,336,806 |
| **Non-controlling interests** | | **393,861** | 230,734 |
| **Total equity** | | **9,583,905** | 8,567,540 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Bank and other borrowings | 27 | **1,961,000** | 434,057 |
| Lease liabilities | 3 | **1,947** | – |
| Deferred income tax liabilities | 28 | **179,934** | 143,400 |
| | | **2,142,881** | 577,457 |
| **Current liabilities** | | | |
| Contract liabilities | 6 | **6,940,932** | 6,522,661 |
| Trade payables | 25 | **7,463,614** | 6,934,169 |
| Other payables | 26 | **5,318,181** | 4,628,528 |
| Lease liabilities | 3 | **7,803** | – |
| Bank and other borrowings | 27 | **2,838,689** | 1,865,430 |
| Current income tax liabilities | | **521,734** | 466,216 |
| | | **23,090,953** | 20,417,004 |
| **Total liabilities** | | **25,233,834** | 20,994,461 |
| **Total equity and liabilities** | | **34,817,739** | 29,562,001 |

The notes on pages 81 to 174 are an integral part of these consolidated financial statements.

The financial statements on pages 74 to 174 were approved by the Board of Directors on 31 March 2020 and were signed on its behalf.

**Mr. Pang Baogen**
*Director*

**Mr. Gao Jiming**
*Director*

# CONSOLIDATED INCOME STATEMENT

| | Note | Year ended 31 December 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **Revenue** | 6 | **24,799,413** | 23,230,614 |
| Cost of sales | 31 | **(22,762,606)** | (21,258,035) |
| **Gross profit** | | **2,036,807** | 1,972,579 |
| Other income | 29 | **149,890** | 116,706 |
| Other gains – net | 30 | **135,016** | 32,432 |
| Selling and marketing costs | 31 | **(101,131)** | (82,764) |
| Administrative expenses | 31 | **(664,081)** | (585,760) |
| Net impairment losses on financial and contract assets | 4.1(b) | **(72,839)** | (59,605) |
| **Operating profit** | | **1,483,662** | 1,393,588 |
| Finance income | 33 | **5,505** | – |
| Finance costs | 33 | **(104,697)** | (26,767) |
| Finance costs – net | 33 | **(99,192)** | (26,767) |
| Share of results of joint ventures | 11(a) | **(4,176)** | 17,038 |
| Share of results of associates | 12(a) | **(8,655)** | (8,944) |
| **Profit before income tax** | | **1,371,639** | 1,374,915 |
| Income tax expense | 34 | **(459,632)** | (460,002) |
| **Profit for the year** | | **912,007** | 914,913 |
| **Profit attributable to:** | | | |
| – Owners of the Company | | **856,691** | 874,175 |
| – Non-controlling interests | | **55,316** | 40,738 |
| | | **912,007** | 914,913 |
| **Earnings per share for profit attributable to the owners of the Company** | | | |
| – Basic and diluted (expressed in RMB yuan per share) | 35 | **1.52** | 1.53 |

The notes on pages 81 to 174 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | | Year ended 31 December | |
|---|---|---|---|
| | | **2019** | 2018 |
| | Note | **RMB'000** | RMB'000 |
| **Profit for the year** | | **912,007** | 914,913 |
| | | | |
| **Other comprehensive income:** | | | |
| *Items that will not be reclassified to profit or loss* | | | |
| Changes in the fair value of equity investments at fair value through other comprehensive income | 23 | **(3,453)** | 400 |
| **Other comprehensive income for the year, net of tax** | | **(3,453)** | 400 |
| **Total comprehensive income for the year** | | **908,554** | 915,313 |
| **Total comprehensive income attributable to:** | | | |
| – Owners of the Company | | **853,238** | 874,575 |
| – Non-controlling interests | | **55,316** | 40,738 |
| **Total comprehensive income for the year** | | **908,554** | 915,313 |

The notes on pages 81 to 174 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to the owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share Capital RMB'000 | Share premium RMB'000 | Reserves RMB'000 | Retained earnings RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| **Balance at 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 | – | – | 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 | (23,546) | (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 | – | – | (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 |

| | Note | Attributable to the owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Share Capital RMB'000 | Share premium RMB'000 | Reserves RMB'000 | Retained earnings RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| **Balance at 1 January 2019** | | 562,664 | 481,433 | 205,263 | 7,087,446 | 8,336,806 | 230,734 | 8,567,540 |
| **Comprehensive income** | | | | | | | | |
| Profit for the year | | – | – | – | 856,691 | 856,691 | 55,316 | 912,007 |
| Other comprehensive income | 23 | – | – | (3,453) | – | (3,453) | – | (3,453) |
| **Total comprehensive income** | | – | – | (3,453) | 856,691 | 853,238 | 55,316 | 908,554 |
| **Transactions with owners in their capacity as owners** | | | | | | | | |
| Transfer of statutory surplus reserves | | – | – | 7,486 | (7,486) | – | – | – |
| Capital contributions by non-controlling interests | | – | – | – | – | – | 120,825 | 120,825 |
| Dividends paid to non-controlling interests | | – | – | – | – | – | (13,014) | (13,014) |
| **Total transactions with owners** | | – | – | 7,486 | (7,486) | – | 107,811 | 107,811 |
| **Balance at 31 December 2019** | | 562,664 | 481,433 | 209,296 | 7,936,651 | 9,190,044 | 393,861 | 9,583,905 |

The notes on pages 81 to 174 are an integral part of these consolidated financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

| | Note | Year ended 31 December 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 37 | **708,034** | 2,214,752 |
| Interest paid | | **(234,315)** | (110,768) |
| Income tax paid | | **(402,321)** | (524,579) |
| **Net cash generated from operating activities** | | **71,398** | 1,579,405 |
| **Cash flows from investing activities** | | | |
| Payments for investments in joint ventures | 11(a) | **(200,603)** | (116,500) |
| Repayment of loans by joint ventures | 11(b) | **210,282** | 2,303 |
| Loans to joint ventures | 11(b) | **(693,589)** | (18,509) |
| Payments for investments in associates | 12(a) | **–** | (158,225) |
| Repayment of loans by associates | 12(b) | **402,868** | – |
| Loans to associates | | **(4,000)** | (395,750) |
| Purchase of financial assets at fair value through profit or loss | 19 | **(929,400)** | (896,800) |
| Disposal of financial assets at fair value through profit or loss | | **911,833** | 647,163 |
| Disposal of an associate | 12(a) | **318,784** | – |
| Disposal of subsidiaries, net of cash disposed of | 40 | **4,202** | – |
| Purchase of property, plant and equipment | | **(782,096)** | (398,141) |
| Disposal of property, plant and equipment | 37(b) | **72,415** | 2,160 |
| Purchase of right-of-use for land use rights | | **(90,468)** | (139,833) |
| Advance from government for housing demolition and relocation | | **6,914** | 143,677 |
| (Increase)/decrease of term deposits with initial term of over three months | | **(217,686)** | 4,495 |
| Interest received | | **131,278** | 101,165 |
| **Net cash used in investing activities** | | **(859,266)** | (1,222,795) |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | **5,418,613** | 2,510,724 |
| Repayments of borrowings | | **(2,851,344)** | (1,966,264) |
| Repayments of corporate bonds | | **(299,771)** | – |
| Issue of corporate bonds | | **299,771** | – |
| Principal elements of lease payments | | **(7,419)** | – |
| Capital contributions by non-controlling interests | | **120,825** | 35,150 |
| Buy-back of shares | | **–** | (105,536) |
| Advances from non-controlling interests | | **(73,077)** | 324,471 |
| Acquisition of non-controlling interests | | **–** | (22,000) |
| Dividends paid to non-controlling interests | | **(13,014)** | (15,500) |
| **Net cash generated from financing activities** | | **2,594,584** | 761,045 |
| **Net increase in cash and cash equivalents** | | **1,806,716** | 1,117,655 |
| Cash and cash equivalents at beginning of the year | | **3,698,252** | 2,575,717 |
| Exchange gains on cash and cash equivalents | | **–** | 4,880 |
| **Cash and cash equivalents at end of the year** | | **5,504,968** | 3,698,252 |

The notes on pages 81 to 174 are an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 GENERAL INFORMATION

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

The address of the Company's registered office is Yangxunqiao Township, Shaoxing County, Zhejiang Province, the PRC.

The principal activities of the Company and its subsidiaries (collectively the "Group") are the provision of construction services, 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 31 March 2020.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. 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.

## 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:

- HKFRS 16 Leases
- Prepayment Features with Negative Compensation – Amendments to HKFRS 9
- Long-term Interests in Associates and Joint Ventures – Amendments to HKAS 28
- Annual Improvements to HKFRS Standards 2015–2017 Cycle
- Plan Amendment, Curtailment or Settlement – Amendments to HKAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments.

The adoption of these existing standards that are effective for the financial year beginning 1 January 2019 do not have a material impact on or are not relevant to the Group, except for HKFRS 16 "Leases" ("HKFRS 16").

The Group had to change its accounting policies as a result of adopting HKFRS 16. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. The impact of the adoption of HKFRS 16 is disclosed in Note 3 and the new accounting policy adopted is set out in Note 2.28.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.1 Basis of preparation (continued)

*2.1.1 Changes in accounting policies and disclosures (continued)*

(b) New, revised and amended standards and interpretations not yet adopted

Certain new and revised standards, amendments and interpretations to existing standards have been published that are not effective in current year and have not been early adopted by the Group.

| | | Effective for the financial year beginning on or after |
|---|---|---|
| Amendments to HKFRS 3 | Definition of a business | 1 January 2020 |
| Amendments to HKAS 1 and HKAS 8 | Definition of material | 1 January 2020 |
| Revised Conceptual Framework for Financial Reporting | | 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 and revised standards, amendments and interpretations to existing standards are effective for annual periods beginning after 1 January 2020 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*

Subsidiaries are all entities (including structured entities) 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 to direct the activities of the entity. Subsidiaries are fully 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 also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and fair value of any pre-existing equity interest in the subsidiary. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Subsidiaries (continued)

*2.2.1 Consolidation (continued)*

(a) Business combinations (continued)

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest 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. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured 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 directly in profit or loss.

Intra-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. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(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 or transferred to another category if equity as specified/permitted by applicable HKFRSs.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Subsidiaries (continued)

*2.2.2 Separate financial statements*

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

### 2.3 Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of results of an associate' in profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognised in profit or loss.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.4 Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Dividends received or receivable from joint ventures are recognised as a reduction in the carrying amount of the investment. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the 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 joint ventures.

The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount adjacent to 'share of results of a joint venture' in profit or loss.

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

### 2.5 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.

### 2.6 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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.6 Foreign currency translation (continued)

(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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.7 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 |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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 2.9).

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.

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)

### 2.8 Investment properties

Investment properties, principally comprising leasehold land and buildings, are held for long-term rental yields or for capital appreciation or both, and that are 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)

### 2.9 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.

### 2.10 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 ("OCI"), 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 OCI. 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)

### 2.10 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 the consolidated income statement.

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 OCI, 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 OCI 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.

- 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)

### 2.10 Financial assets (continued)

*(b) Recognition and measurement (continued)*

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 OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as "Other gains – net" when the Group's right to receive payments is established.

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

### 2.11 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. Note 4.1(b) details how the Group determines whether there has been a significant increase in credit risk.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial assets.

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. The provision matrix is determined based on historical observed default rates over the expected life of the contract assets and trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

### 2.12 Land use rights

*Accounting policies applied until 31 December 2018 – 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 or completed properties held for sale (Note 2.13 and Note 2.14). 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.12 Land use rights (continued)

*Accounting policies applied until 31 December 2018 – Land use rights (continued)*

As stated in Note 2.28, leases of land held by the Group for own use which are stated at cost and subsequently amortised in the profit or loss on a straight-line basis over their lease period, are reclassified as right-of-use for land as a result of adoption of HKFRS 16. The Group has applied HKFRS 16 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.

### 2.13 Properties under development

Properties under development are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses and the anticipated costs to completion, or by management estimates based on prevailing marketing conditions.

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.

Properties under development are classified as current assets when the construction of the relevant properties commences unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

Costs to fulfil a contract comprise the development cost and land use right cost directly related to an existing contract that will be used to satisfy performance obligations in the future. The costs to fulfil a contract are recorded in properties under development if they are expected to be recovered. The amount is amortised on a systematic basis, consistent with the pattern of revenue recognition of the contract to which the asset relates.

### 2.14 Completed properties held for sale

Completed properties remaining unsold at year end are stated at the lower of cost and net realisable value.

Cost comprises development costs attributable to the unsold properties.

Net realisable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on prevailing marketing conditions.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.15 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.

### 2.16 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.

### 2.17 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.

### 2.18 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.19 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.

### 2.20 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of assets are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

### 2.21 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.22 Borrowings

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 is recognised in profit or loss over the period of the borrowings using the effective interest method.

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 end of the reporting period.

### 2.23 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Borrowing costs include interest expense, finance charges in respect of finance lease and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differences between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on interest rates on similar borrowings in the entity's functional currency.

### 2.24 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.24 Current and deferred income tax (continued)

*(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, 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 end of 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.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale. 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.

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 liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint ventures, except for deferred income tax liability 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. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the joint venture's or associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.24 Current and deferred income tax (continued)

*(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.

### 2.25 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.

### 2.26 Revenue recognition

*(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)

### 2.26 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 the progress towards complete satisfaction of that performance obligation which is measured 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 materials are 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. For property sales contracts for which the control of the property is transferred over time, revenue is recognised over time when the Group's performance do not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance obligation completed to date.

*Hotel operation and membership services*

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

*(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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.27 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 presented as finance income where is earned from financial assets that are held for cash management purposes. Any other interest income is included in 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).

### 2.28 Leases

The Group leases various warehouses, buildings and land. Rental contracts are typically made for fixed periods of 2 to 50 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

Until 31 December 2018, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease; leases of land were classified as land use rights.

From 1 January 2019, leases of property, plant and equipment are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. In addition, leases of land are reclassified as right-of-use for land.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.28 Leases (continued)

- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, eg term, country, currency and security

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.28 Leases (continued)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting HKFRS 16.

### 2.29 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.30 Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

- the amount determined in accordance with the expected credit loss model under HKFRS 9, 'Financial Instruments' and

- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of HKFRS 15 Revenue from Contracts with Customers.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

## 3 CHANGES IN ACCOUNTING POLICIES

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

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.27%.

## 3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### (a) Practical expedients applied

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

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

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

## 3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### (b) Measurement of lease liabilities

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

| | 2019<br>RMB'000 |
|---|---|
| Operating lease commitments disclosed as at 31 December 2018 | 25,305 |
| Discounted using the lessee's incremental borrowing rate at the date of initial application | 19,932 |
| Less: short-term leases recognised on a straight-line basis as expense | (2,993) |
| Lease liabilities recognised as at 1 January 2019 | 16,939 |
| Of which are: | |
| Current lease liabilities | 7,140 |
| Non-current lease liabilities | 9,799 |
| Total lease liabilities | 16,939 |
| Lease liabilities recognised as at 31 December 2019 | 9,750 |
| Of which are: | |
| Current lease liabilities | 7,803 |
| Non-current lease liabilities | 1,947 |
| | 9,750 |

## 3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### (c) Measurement of right-of-use assets

Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following type of assets:

| | **31 December 2019 RMB'000** | 1 January 2019 RMB'000 |
|---|---|---|
| Properties | **10,074** | 16,939 |
| Land use rights | **665,821** | 616,765 |
| Total right-of-use assets | **675,895** | 633,704 |

As at 31 December 2019, total carrying value of right-of-use assets of which are land use rights pledged as collateral for the Group's bank borrowings amounted to RMB99,829,000 (2018 land use rights: RMB19,627,000) (Note 27(a)).

The following table presents the changes of right-of-use assets for the year ended 31 December 2019:

| | RMB'000 |
|---|---|
| Balance at 31 December 2018 | – |
| Adjustment on adoption of HKFRS 16 | 633,704 |
| Opening net book amount, as restated | 633,704 |
| Additions | 90,698 |
| Disposal of subsidiaries | (15,812) |
| Other disposals | (7,532) |
| Depreciation | (25,163) |
| Closing net book amount | 675,895 |

## 3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### (d) Amounts recognised in the consolidated income statement

The consolidated income statement shows the following amounts relating to leases:

| | 2019<br>RMB'000 |
|---|---|
| Depreciation charge of right-of-use assets | |
| – Properties | **(7,095)** |
| – Land use rights | **(18,068)** |
| | **(25,163)** |
| Interest expense (included in finance cost) | **(688)** |
| Expense relating to short-term leases (included in cost of goods sold and administrative expenses) | **–** |

The total cash outflow for leases in 2019 was RMB8,107,000.

### (e) Adjustments recognised in the balance sheet on 1 January 2019

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

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

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

### (f) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of HKFRS 16.

# 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 cash flow and fair value 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 2019 and 2018, 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 2019 and 2018 were as follows:

| | **As at 31 December** | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB'000** | RMB'000 |
| **Assets** | | |
| USD | **243,262** | 280,868 |

## 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) | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB'000** | RMB'000 |
| RMB against USD: | | |
| Strengthened by 5% | **(9,122)** | (10,533) |
| Weakened by 5% | **9,122** | 10,533 |

(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 2019, 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) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from interest-bearing bank deposits, bank and other borrowings and corporate bonds. Bank deposits, bank and other borrowings with variable interest rates expose the Group to cash flow interest-rate risk. Bank and other borrowings and corporate bonds 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 2019, 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 RMB655,000 (2018: RMB1,474,000), the properties under development would increase/decrease by RMB3,168,000 (2018: RMB5,432,000) and constructions in progress by RMB413,000 (2018: RMB1,007,000).

*(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 2019, 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 |

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

| | Loans to joint ventures | | Loans to associates | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| At 1 January | **6,523** | 6,295 | **6,344** | 2,309 |
| Provision for loss allowance | **2,694** | 228 | **(3,902)** | 4,035 |
| At 31 December | **9,217** | 6,523 | **2,442** | 6,344 |
| Less: loss allowance provision against current assets | **(5,556)** | (3,231) | **(94)** | (56) |
| Loss allowance provision against non-current assets | **3,661** | 3,292 | **2,348** | 6,288 |

## 4 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 4.1 Financial risk factors (continued)

*(b) Credit risk (continued)*

(i) Loans to joint ventures and associates (continued)

As at 31 December 2019, the gross carrying amount of loans to joint ventures and loans to associates were RMB892,976,000 (2018: RMB393,822,000) and RMB244,176,000 (2018: RMB639,995,000) respectively, and thus the maximum exposure to loss of loans to joint ventures and loans to associates were RMB883,759,000 (2018: RMB387,299,000) and RMB241,734,000 (2018: RMB633,651,000) respectively.

(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 a range from 0.1% to 12%.

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 2019 and 31 December 2019 is determined as follows, the expected credit losses below also incorporate forward looking information.

# 4 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 4.1 Financial risk factors (continued)

*(b) Credit risk (continued)*

(ii) Trade receivables and contract assets (continued)

| 31 December 2019 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) | 1,897,554 | 1,852,451 | 793,735 | 443,070 | 198,753 | 5,185,563 |
| Loss allowance provision (RMB'000) | 9,082 | 36,521 | 83,674 | 79,808 | 62,504 | 271,589 |

| 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 |

# 4 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 4.1 Financial risk factors (continued)

*(b) Credit risk (continued)*

(ii) Trade receivables and contract assets (continued)

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

| | Trade receivables | | Contract assets | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| At 1 January | **207,867** | 152,533 | **3,685** | 3,792 |
| Provision for loss allowance | **63,722** | 55,334 | **10,339** | (107) |
| At 31 December | **271,589** | 207,867 | **14,024** | 3,685 |

As at 31 December 2019, the gross carrying amount of trade receivables and contract assets were RMB5,185,563,000 (2018: RMB4,151,346,000) and RMB3,828,321,000 (2018: RMB3,685,372,000) respectively, and thus the maximum exposure to loss of trade receivables and contract assets were RMB4,913,974,000 (2018: RMB3,943,479,000) and RMB3,814,297,000 (2018: RMB3,681,687,000) respectively.

## 4 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 4.1 Financial risk factors (continued)

*(b) Credit risk (continued)*

(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 | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB'000** | RMB'000 |
| At 1 January | **7,005** | 6,890 |
| Provision/(reversal) provision for loss allowance | **(14)** | 115 |
| At 31 December | **6,991** | 7,005 |

As at 31 December 2019, the gross carrying amount of other receivables was RMB1,520,671,000 (2018: RMB1,451,694,000), and thus the maximum exposure to loss of other receivables was RMB1,513,680,000 (2018: 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

| | **2019** **RMB'000** | 2018 RMB'000 |
|---|---|---|
| Provided for: | | |
| Loans to joint ventures and associates | **(1,208)** | 4,263 |
| Trade receivables and contract assets | **74,061** | 55,227 |
| Other receivables | **(14)** | 115 |
| | **72,839** | 59,605 |

*(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 and other 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 2019 | | | | |
|---|---|---|---|---|---|
| | 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 |
| Principal of bank and other borrowings | 2,838,689 | 231,000 | 1,491,000 | 239,000 | 4,799,689 |
| Interest of bank and other borrowings | 134,449 | 74,173 | 139,752 | 55,835 | 404,209 |
| Trade payables | 7,463,614 | – | – | – | 7,463,614 |
| Other payables (excluding other taxes payables, advance and salaries payables) | 4,481,785 | – | – | – | 4,481,785 |
| Lease liabilities | 7,985 | 1,995 | – | – | 9,980 |
| Financial guarantee | 410,222 | – | – | – | 410,222 |
| | 15,336,744 | 307,168 | 1,630,752 | 294,835 | 17,569,499 |

| | 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 |
| Principal of bank and other borrowings | 1,865,430 | 291,320 | 57,737 | 85,000 | 2,299,487 |
| Interest of bank and other 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 |

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" and "corporate bonds" 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 2019 and 2018, 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 2019 and 2018. See Note 9 for disclosures of the investment properties that were measured at fair value.

| | As at 31 December 2019 | | | |
|---|---|---|---|---|
| | Level 1<br>RMB'000 | Level 2<br>RMB'000 | Level 3<br>RMB'000 | Total<br>RMB'000 |
| Financial assets at FVPL | | | | |
| – Bank financial products | – | – | 558,000 | 558,000 |
| – Listed equity securities | 8,486 | – | – | 8,486 |
| Financial assets at FVOCI | | | | |
| – Unlisted equity securities | – | – | 228,197 | 228,197 |
| | 8,486 | – | 786,197 | 794,683 |

| | As at 31 December 2018 | | | |
|---|---|---|---|---|
| | Level 1<br>RMB'000 | Level 2<br>RMB'000 | Level 3<br>RMB'000 | Total<br>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 |

## 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 level 2, and level 3 fair value hierarchy classifications during the year ended 31 December 2019.

The following table presents the changes in level 3 instruments for the year ended 31 December 2019 and 2018.

| | **2019**<br>**RMB'000** | 2018<br>RMB'000 |
|---|---|---|
| At 1 January | **750,621** | 481,518 |
| Additions | **929,400** | 896,800 |
| Disposals | **(889,220)** | (628,230) |
| Fair value changes recognised in other comprehensive income | **(4,604)** | 533 |
| At 31 December | **786,197** | 750,621 |

# 4 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 4.4 Financial instruments by category

| | Note | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **Financial assets** | | | |
| Financial assets at amortised cost | | | |
| – Trade receivables | 17 | **4,913,974** | 3,943,479 |
| – Other receivables | 18 | **1,513,680** | 1,444,689 |
| – Loans to joint ventures | 11(b) | **883,759** | 387,299 |
| – Loans to associates | 12(b) | **241,734** | 633,651 |
| – Restricted bank deposits | 20 | **719,015** | 628,485 |
| – Term deposits with initial term of over three months | 21 | **303,390** | 85,704 |
| – Cash and cash equivalents | 21 | **5,504,968** | 3,698,252 |
| Financial assets at FVOCI | 13 | **228,197** | 232,801 |
| Financial assets at FVPL | 19 | **566,486** | 526,547 |
| At 31 December | | **14,875,203** | 11,580,907 |

| | Note | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **Financial liabilities** | | | |
| Financial liabilities at amortised cost | | | |
| – Trade payables | 25 | **7,463,614** | 6,934,169 |
| – Other payables (excluding other taxes payables, advance and salaries payables) | 26 | **4,481,785** | 3,667,067 |
| – Borrowings | 27 | **4,799,689** | 2,299,487 |
| – Lease liabilities | 3 | **9,750** | – |
| At 31 December | | **16,754,838** | 12,900,723 |

## 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 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 the progress towards complete satisfaction of that performance obligation which is measured 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. Significant judgments and estimates are involved in determining the total costs of construction contracts and the related revenue. In making the estimations of total costs for each construction contract, management relies on past experience and work of contractors and, if appropriate, surveyors. Changes in cost estimates in future periods can have effect on the Group's revenue recognised.

### (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 judgments 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).

### (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 consolidated 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.

## 6 SEGMENT INFORMATION (CONTINUED)

The segment information was as follows:

| | Year ended 31 December 2019 | | | | |
|---|---|---|---|---|---|
| | Construction RMB'000 | Property development RMB'000 | Building materials RMB'000 | Others RMB'000 | Group RMB'000 |
| Revenue from contracts with customers | 20,717,039 | 2,089,186 | 3,751,618 | 663,360 | 27,221,203 |
| Recognised at a point in time | – | 1,816,637 | 2,393,859 | 637,534 | 4,848,030 |
| Recognised over time | 20,717,039 | 272,549 | 1,357,759 | 25,826 | 22,373,173 |
| Revenue from other sources | | | | | |
| Rental income | – | – | – | 79,914 | 79,914 |
| Total segment revenue | 20,717,039 | 2,089,186 | 3,751,618 | 743,274 | 27,301,117 |
| Less: inter-segment revenue | (1,687,199) | – | (548,528) | (265,977) | (2,501,704) |
| **Revenue (from external customers)** | 19,029,840 | 2,089,186 | 3,203,090 | 477,297 | 24,799,413 |
| **Operating profit** | 467,100 | 757,445 | 156,238 | 102,879 | 1,483,662 |
| Depreciation | 49,642 | 9,791 | 89,356 | 40,268 | 189,057 |
| Net impairment losses on financial and contract assets | 42,778 | (3,001) | 31,638 | 1,424 | 72,839 |

## 6 SEGMENT INFORMATION (CONTINUED)

The segment information was as follows: (continued)

| | 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 |

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)

### (a) Analysis of revenue by category

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Provision of construction services | 19,029,840 | 17,342,995 |
| Sale of properties | 2,089,186 | 3,084,867 |
| Sale of building materials | 3,203,090 | 2,502,560 |
| Rental income | 79,914 | 84,870 |
| Others | 397,383 | 215,322 |
| | 24,799,413 | 23,230,614 |

### (b) Assets and liabilities related to contracts with customers

Details of contract assets and contract acquisition costs are as follows:

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Related to construction services | 3,313,205 | 3,158,981 |
| Related to sale of building materials | 515,116 | 526,391 |
| | 3,828,321 | 3,685,372 |
| Less: provision for loss allowance (Note 4.1(b)) | (14,024) | (3,685) |
| Total contract assets and contract acquisition costs | 3,814,297 | 3,681,687 |

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

## 6 SEGMENT INFORMATION (CONTINUED)

### (b) Assets and liabilities related to contracts with customers (continued)

Details of contract liabilities are as follows:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Related to construction services | **2,825,878** | 2,745,653 |
| Related to sale of properties | **3,570,940** | 3,195,812 |
| Related to sale of building materials | **544,114** | 581,196 |
| Total contract liabilities | **6,940,932** | 6,522,661 |

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

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Revenue recognised that was included in the contract liabilities balance at the beginning of the year | | |
| – Rendering of construction services | **1,650,165** | 2,026,222 |
| – Sale of properties | **1,508,367** | 2,036,803 |
| – Sale of building materials | **208,854** | 245,864 |
| | **3,367,386** | 4,308,889 |

## 6 SEGMENT INFORMATION (CONTINUED)

### (b) Assets and liabilities related to contracts with customers (continued)

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

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Expected to be recognised within one year | 21,917,189 | 20,698,767 |
| Expected to be recognised after one year | 31,334,979 | 26,925,245 |
| Total transaction price allocated to the unsatisfied contracts as of 31 December | 53,252,168 | 47,624,012 |

## 7 LAND USE RIGHTS

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Brought forward | 616,765 | 491,382 |
| Adjustment on adoption of HKFRS 16 (Note 3) | (616,765) | – |
| At 1 January | – | 491,382 |
| Additions | – | 139,833 |
| Amortisation | – | (14,450) |
| At 31 December | – | 616,765 |

## 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 2018** | | | | | | |
| 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) | – |
| 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 |
| **Year ended 31 December 2019** | | | | | | |
| Opening net book amount | **1,470,503** | **335,071** | **25,719** | **9,767** | **236,760** | **2,077,820** |
| Additions | **118,122** | **102,116** | **27,838** | **13,145** | **535,820** | **797,041** |
| Transfer from completed properties held for sale | **111,481** | **–** | **–** | **–** | **–** | **111,481** |
| Disposal of subsidiaries | **(69,783)** | **(48,707)** | **(1,539)** | **(1,039)** | **(7,514)** | **(128,582)** |
| Other transfers | **172,449** | **70,860** | **410** | **2,433** | **(246,152)** | **–** |
| Other disposals | **(51,409)** | **(3,738)** | **(3,871)** | **(332)** | **(6,430)** | **(65,780)** |
| Depreciation charge | **(83,931)** | **(51,475)** | **(14,438)** | **(14,050)** | **–** | **(163,894)** |
| Closing net book amount | **1,667,432** | **404,127** | **34,119** | **9,924** | **512,484** | **2,628,086** |
| **At 31 December 2019** | | | | | | |
| Cost | **2,328,482** | **735,569** | **117,143** | **175,345** | **512,484** | **3,869,023** |
| Accumulated depreciation | **(661,050)** | **(331,442)** | **(83,024)** | **(165,421)** | **–** | **(1,240,937)** |
| Net book amount | **1,667,432** | **404,127** | **34,119** | **9,924** | **512,484** | **2,628,086** |

Depreciation charge of RMB86,783,000 (2018: RMB83,464,000) and RMB77,111,000 (2018: RMB57,296,000) has been expensed in cost of sales and administrative expenses, respectively.

## 8 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at 31 December 2019, total carrying value of property, plant and equipment pledged as collateral for the Group's bank borrowings amounted to RMB236,013,000 (2018: RMB32,112,000) (Note 27(a)).

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

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Cost | 179,734 | 178,985 |
| Accumulated depreciation at 1 January | (67,121) | (61,485) |
| Depreciation charge for the year | (9,521) | (7,780) |
| Net book amount | 103,092 | 109,720 |
| Related rental income for the year | 37,239 | 21,504 |

## 9 INVESTMENT PROPERTIES

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| At 1 January | 742,768 | 617,169 |
| Transfer from completed properties held for sale | 26,355 | 122,601 |
| Fair value (losses)/gains (i) | (2,688) | 2,998 |
| At 31 December, at fair value | 766,435 | 742,768 |

### Amounts recognised in profit and loss for investment properties

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Rental income | 64,092 | 52,726 |
| Direct operating expenses from properties that generated rental income | (18,104) | (15,879) |
| | 45,988 | 36,847 |

## 9 INVESTMENT PROPERTIES (CONTINUED)

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

(i) Fair value (losses)/gains recognised in other gains included:

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Revaluation gains upon transfer from completed properties held for sale | 2,751 | 2,873 |
| Fair value change | (5,439) | 125 |
| | (2,688) | 2,998 |

As at 31 December 2019, the Group had no unprovided contractual obligations for future repairs and maintenance (2018: Nil).

As at 31 December 2019, total carrying value of investment properties pledged as collateral for the Group's asset-backed securities amounted to RMB612,337,000 (2018: Nil) (Note 27(c)).

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 2019, 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 30). 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.

## 9 INVESTMENT PROPERTIES (CONTINUED)

### Fair value measurements using significant unobservable inputs (Level 3)

| | Shopping malls | | Office buildings | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Opening balance | **617,169** | 617,169 | **125,599** | – |
| Transfer from completed properties held for sale | **–** | – | **26,355** | 122,601 |
| Revaluation gains upon transfer from completed properties held for sale | **–** | – | **2,751** | 2,873 |
| Net gains/(losses) from fair value adjustment | **(4,832)** | – | **(607)** | 125 |
| Closing balance | **612,337** | 617,169 | **154,098** | 125,599 |

### Valuation processes of the Group

The Group's investment properties were valued at 31 December 2019 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.

## 9 INVESTMENT PROPERTIES (CONTINUED)

### 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. |

### 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 2019 | As at 31 December 2018 | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|
| Shopping malls | Rental cash inflows | **RMB37-RMB164 per month per square meter** | RMB37-RMB156 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 | **RMB111-RMB160 per month per square meter** | RMB120-RMB137 per month per square meter | The higher the rental value, the higher the fair value |
| | Discount rate | **6%** | 6% | The higher the discount rate, the lower the fair value |
| | Capitalisation rate | **5%** | 5% | The higher the capitalisation rate, the lower the fair value |

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

## 10 SUBSIDIARIES

The following is a list of the principal subsidiaries as at 31 December 2019, 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. | 73.68% | 26.32% | – | 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 |
| 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 |

## 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 | |
| 合肥寶業房地產有限公司<br>Hefei Baoye Real Estate Co., Ltd. | – | 100% | – | 30,000 | Property development |
| 安徽華騰投資有限公司<br>Anhui Huateng Investment Co., Ltd. | – | 100% | – | 10,000 | Property development |
| 上海寶築房地產開發有限公司<br>Shanghai Baozhu Real Estate Development Co., Ltd. | – | 100% | – | 30,000 | Property development |
| 寶業湖北建工集團有限公司<br>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<br>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<br>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<br>Hubei Construction Engineering No.5 Co., Ltd. | – | 100% | – | 110,000 | Provision of construction services |
| 湖北省建工機械施工有限公司<br>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<br>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<br>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<br>Hubei Baoye Real Estate Development Co., Ltd. | – | 100% | – | 50,000 | Property development |
| 安徽金糧置業有限公司<br>Anhui Jinliang Real Estate Company Limited | – | 100% | – | 10,000 | Property development |

## 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 |
|---|---|---|---|---|---|
| 合肥中寶機械製造有限公司 Hefei Zhongbao Machinery Manufacture Co., Ltd. | – | 100% | – | 40,000 | 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 |
| 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 |
| 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 2019 and 2018, there were no non-controlling interests material to the Group.

## 11 INVESTMENTS IN AND LOANS TO JOINT VENTURES

### (a) Investments in joint ventures

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| **At 1 January** | **244,322** | 126,783 |
| Transfer from investments in subsidiaries (Note 40) | **17,000** | – |
| Other additions | **200,603** | 116,829 |
| Share of results (i) | **(4,460)** | 710 |
| **At 31 December** | **457,465** | 244,322 |
| Represented by share of net assets | **457,465** | 244,322 |

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

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Share of operating results | **(4,460)** | 710 |
| Recovery of impaired loans (b) | **284** | 928 |
| Reversal of obligations incurred to share accumulated losses (ii) | **–** | 15,400 |
| | **(4,176)** | 17,038 |

(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 2018.

As at 31 December 2019, 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

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| **At 1 January** | 393,822 | 374,453 |
| Additions | 693,589 | 18,509 |
| Interest accrued | 15,563 | 2,235 |
| Repayments | (210,282) | (2,303) |
| Recovery of impaired loans | 284 | 928 |
| | 892,976 | 393,822 |
| Less: provision for loss allowance (Note 4.1(b)) | (9,217) | (6,523) |
| **At 31 December** | 883,759 | 387,299 |
| Less: current portion | (290,054) | (61,385) |
| Non-current portion | 593,705 | 325,914 |

RMB53,477,000 (2018: RMB54,492,000) of loans to joint ventures are interest-bearing at market lending rates range from 4% to 5.28% (2018: 4%) with maturity date of 31 December 2020, 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

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| At 1 January | 323,693 | 15,547 |
| Additions | – | 317,090 |
| Disposals (i) | (270,314) | – |
| Share of results | (8,655) | (8,944) |
| At 31 December | 44,724 | 323,693 |
| Represented by share of net assets | 44,724 | 323,693 |

(i) During the year, the Group entered into an agreement with Daiwa House Industry Co., Ltd to dispose of its 33% equity interest in Hebao (Nantong) Real Estate Development Co., Ltd ("Hebao") for a cash consideration of RMB307,329,000, which resulted in gains totalling RMB48,470,000 (Note 30).

As at 31 December 2019, there were no contingent liabilities relating to the Group's interest in the associates.

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

## 12 INVESTMENTS IN ASSOCIATES AND LOANS TO ASSOCIATES (CONTINUED)

### (b) Loans to associates

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| At 1 January | **639,995** | 230,939 |
| Additions | **4,000** | 395,750 |
| Repayments (ii) | **(402,868)** | – |
| Interest accrued | **3,049** | 13,306 |
| | **244,176** | 639,995 |
| Less: provision for loss allowance (Note 4.1(b)) | **(2,442)** | (6,344) |
| At 31 December | **241,734** | 633,651 |
| Less: current portion | **(9,324)** | (11,102) |
| Non-current portion | **232,410** | 622,549 |

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

Loans to associates are unsecured and repayable on demand, none of which (2018: RMB305,574,000) are interest-bearing at market lending rates and the remaining amounts are interest-free.

## 13 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Unlisted equity investments at fair value: | | |
| **At 1 January** | 232,801 | 232,268 |
| Fair value changes | (4,604) | 533 |
| **At 31 December** | 228,197 | 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 market approach by 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 INVENTORIES

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| At cost: | | |
| Raw materials | 117,346 | 139,857 |
| Work in progress | 24,196 | 39,413 |
| Finished goods | 52,147 | 64,122 |
| | 193,689 | 243,392 |

The cost of inventories recognised as cost of sales amounted to RMB2,578,261,000 (2018: RMB1,889,379,000). No inventory provision was made as at 31 December 2019 and 2018.

## 15 PROPERTIES UNDER DEVELOPMENT

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Land use rights | 3,570,399 | 2,651,472 |
| Development costs | 1,347,463 | 980,046 |
| Interest capitalised | 157,694 | 53,974 |
| | 5,075,556 | 3,685,492 |

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

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Within the normal operating cycle included under current assets | | |
| – to be completed over one year | 4,636,827 | 2,798,962 |
| – to be completed within one year | 438,729 | 886,530 |
| | 5,075,556 | 3,685,492 |

As at 31 December 2019, properties under development included the costs to fulfil those contracts with customers, revenue from which is recognised over time amounted to RMB2,850,000 (2018: RMB52,760,000).

Cost of sales for the year included RMB51,384,000 (2018: RMB25,370,000) 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 2019, properties under development amounted to RMB2,288,468,000 (2018: Nil) were pledged as security for the Group's bank borrowings (Note 27(b)).

## 16 COMPLETED PROPERTIES HELD FOR SALE

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Land use rights | 1,006,548 | 976,939 |
| Development costs | 2,194,503 | 2,375,370 |
| Interest capitalised | 71,957 | 85,074 |
| | 3,273,008 | 3,437,383 |
| Less: provision of impairment | (7,444) | (7,839) |
| | 3,265,564 | 3,429,544 |

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

As at 31 December 2019, completed properties held for sale amounted to RMB515,680,000 (2018: RMB515,680,000) were pledged as security for the Group's bank borrowings (Note 27(b)).

## 17 TRADE RECEIVABLES

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Trade receivables | 5,185,563 | 4,151,346 |
| Less: provision for loss allowance (Note 4.1(b)) | (271,589) | (207,867) |
| | 4,913,974 | 3,943,479 |

Customers are generally granted credit terms of 1 to 3 months for construction business, 1 to 12 months for building materials business and no credit terms for property development business (except for instalment arrangement).

## 17 TRADE RECEIVABLES (CONTINUED)

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

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Within 3 months | 1,897,554 | 2,190,293 |
| 3 months to 1 year | 1,852,451 | 903,253 |
| 1 to 2 years | 793,735 | 478,874 |
| 2 to 3 years | 443,070 | 394,229 |
| Over 3 years | 198,753 | 184,697 |
| | 5,185,563 | 4,151,346 |

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9. As at 31 December 2019, a provision of RMB271,589,000 (2018: RMB207,867,000) 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:

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Denominated in: | | |
| – RMB | 5,101,374 | 4,106,073 |
| – USD | – | 10,223 |
| – Other | 84,189 | 35,050 |
| | 5,185,563 | 4,151,346 |

As at 31 December 2019, the carrying value of trade receivables approximated their fair value.

## 18 OTHER RECEIVABLES AND PREPAYMENTS

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Others receivables: | | |
| – Retention money and project deposits | **842,095** | 1,031,634 |
| – Advances to project managers (i) | **150,618** | 240,870 |
| – Bidding deposits for land use rights for property development | **122,500** | 50,652 |
| – Others | **405,458** | 128,538 |
| | **1,520,671** | 1,451,694 |
| Less: provision for loss allowance (Note 4.1(b)) | **(6,991)** | (7,005) |
| | **1,513,680** | 1,444,689 |
| Prepayments: | | |
| – Prepayments for land use rights for property development | **2,542,875** | 2,485,988 |
| – Prepaid taxes and levies | **99,346** | 98,122 |
| – Prepayments for buy-back of shares | **2,481** | 2,433 |
| – Others | **86,492** | 95,310 |
| | **2,731,194** | 2,681,853 |
| Other receivables and prepayments | **4,244,874** | 4,126,542 |

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

As at 31 December 2019, the carrying value of other receivables approximated their fair value.

As at 31 December 2019, the carrying amounts of other receivables and prepayments were mainly denominated in RMB.

## 19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| **At 1 January** | 526,547 | 258,610 |
| Additions | 929,400 | 896,800 |
| Fair value changes | (241) | (633) |
| Disposals | (889,220) | (628,230) |
| **At 31 December** | 566,486 | 526,547 |

Financial assets at FVPL included the following:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Non-current: | | |
| – Listed equity securities – the PRC | 8,486 | 8,727 |
| Current: | | |
| – Bank financial products (a) | 558,000 | 517,820 |
| | 566,486 | 526,547 |

(a) The amount represented investments in financial products issued by banks with expected returns ranging from 2.30% to 4.95% per annum. The carrying values approximated their fair values. The fair values were determined based on the discounted cash flows of the investment principal amount and expected investment return and were within level 3 of the fair value hierarchy.

## 20 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.

## 21 CASH AND CASH EQUIVALENTS

| | **2019**<br>**RMB'000** | 2018<br>RMB'000 |
|---|---|---|
| Cash and bank deposits (i) | **6,527,373** | 4,412,441 |
| Less: Term deposits with initial term of over three months (ii) | **(303,390)** | (85,704) |
| Restricted bank deposits (Note 20) | **(719,015)** | (628,485) |
| | **5,504,968** | 3,698,252 |

(i) Cash and deposits were denominated in the following currencies:

| | **2019**<br>**RMB'000** | 2018<br>RMB'000 |
|---|---|---|
| Denominated in: | | |
| – RMB | **6,239,799** | 4,119,776 |
| – USD | **243,262** | 239,192 |
| – Other | **44,312** | 53,473 |
| | **6,527,373** | 4,412,441 |

(ii) The weighted average interest rate as at 31 December 2019 of term deposits with initial term of over three months of the Group was 3.45% (2018: 1.94%).

## 22 SHARE CAPITAL AND PREMIUM

| | 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 | (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 |

| | **Number of Shares (thousands of RMB1 each)** | **Ordinary shares RMB'000** | **Share premium RMB'000** | **Total RMB'000** |
|---|---|---|---|---|
| **At 1 January 2019** | | | | |
| – 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** |
| **At 31 December 2019** | | | | |
| – 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.

## 23 RESERVES

| | Financial assets fair value reserve RMB'000 | Statutory surplus reserve RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **At 1 January 2018** | – | 206,720 | (6,606) | 200,114 |
| Appropriation from retained earnings | – | 7,353 | – | 7,353 |
| Revaluation of financial assets at FVOCI | 533 | – | – | 533 |
| Revaluation-tax | (133) | – | – | (133) |
| Acquisition of non-controlling interests in a subsidiary | – | – | (2,604) | (2,604) |
| **At 31 December 2018** | 400 | 214,073 | (9,210) | 205,263 |
| **At 1 January 2019** | **400** | **214,073** | **(9,210)** | **205,263** |
| Appropriation from retained earnings | **–** | **7,486** | **–** | **7,486** |
| Revaluation of financial assets at FVOCI (Note 13) | **(4,604)** | **–** | **–** | **(4,604)** |
| Revaluation-tax (Note 28) | **1,151** | **–** | **–** | **1,151** |
| **At 31 December 2019** | **(3,053)** | **221,559** | **(9,210)** | **209,296** |

### (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.

## 24 RETAINED EARNINGS

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| **At 1 January** | 7,087,446 | 6,220,624 |
| Profit for the year | 856,691 | 874,175 |
| Transfer to statutory surplus reserve | (7,486) | (7,353) |
| **At 31 December** | 7,936,651 | 7,087,446 |

As at 31 December 2019, included in retained earnings of the Group, RMB835,884,000 (2018: RMB705,089,000) was surplus reserve of subsidiaries attributable to the Company, of which RMB130,795,000 (2018: RMB127,542,000) was appropriated for the current year.

## 25 TRADE PAYABLES

As at 31 December 2019, the ageing analysis of the trade payables based on invoice date was as follows:

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Within 3 months | 3,737,176 | 2,448,729 |
| 3 months to 1 year | 2,554,511 | 2,291,515 |
| 1 to 2 years | 743,431 | 1,470,413 |
| 2 to 3 years | 309,436 | 333,999 |
| Over 3 years | 119,060 | 389,513 |
| | 7,463,614 | 6,934,169 |

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

## 26 OTHER PAYABLES

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Deposits from project managers | 2,470,910 | 1,884,310 |
| Loans from non-controlling interests (i) | 826,187 | 899,264 |
| Advance from government for housing demolition and relocation (ii) | 450,591 | 443,677 |
| Deposits from property purchasers | 339,511 | 243,122 |
| Other taxes payables | 298,990 | 447,664 |
| Salaries payables | 86,815 | 70,120 |
| Others | 845,177 | 640,371 |
| | 5,318,181 | 4,628,528 |

(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.

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

## 27 BANK AND OTHER BORROWINGS

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| **Non-current liabilities** | | |
| Long-term bank borrowings | | |
| – Secured (a) | 1,660,230 | 283,790 |
| – Unsecured with guarantee (b) | 77,530 | 169,597 |
| Asset-backed securities | | |
| – Secured (c) | 550,000 | – |
| | 2,287,760 | 453,387 |
| Less: current portion | (326,760) | (19,330) |
| | 1,961,000 | 434,057 |
| **Current liabilities** | | |
| Short-term bank borrowings | | |
| – Secured (a) | 271,000 | 50,000 |
| – Unsecured with guarantee (b) | 2,226,929 | 1,696,100 |
| – Guaranteed by companies within the Group | 14,000 | 100,000 |
| Current portion of non-current liabilities | 326,760 | 19,330 |
| | 2,838,689 | 1,865,430 |
| | 4,799,689 | 2,299,487 |

(a) As at 31 December 2019, secured bank borrowings of the Group were secured by completed properties held for sale of RMB515,680,000 (2018: RMB515,680,000), right-of-use assets of which are land use rights of RMB99,829,000 (2018 land use rights: RMB19,627,000), property, plant and equipment of RMB236,013,000 (2018: RMB32,112,000) and properties under development of RMB2,288,468,000 (2018: Nil).

## 27 BANK AND OTHER BORROWINGS (CONTINUED)

(b) These loans were guaranteed by:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| The Company | **2,191,429** | 1,757,167 |
| The Company and non-controlling interests (jointly) | **63,030** | 58,530 |
| Mr. Pang Baogen and the Company (jointly) | **50,000** | 50,000 |
| | **2,304,459** | 1,865,697 |

(c) On 26 December 2019, the Company entered into an asset-backed securities ("ABS") program and pursuant to which, the Company raised debt financing externally at a sum of RMB550,000,000 from the ABS holders, which are divided into (i) the Senior Class A Securities in the amount of RMB400,000,000; and (ii) the Senior Class B Securities in the amount of RMB150,000,000. The ABS have a tenor of 18 years with a redemption window every 3 years. The coupon rates fixed for the first three years of the term of the Senior Class A Securities and Senior Class B Securities are 5.9% and 6.1% per annum, respectively, and are subject to the Company's right to adjust at the end of every three years of the term of the ABS commencing from the date of issue. The ABS are collateralised by certain investment properties of the Group amounting to RMB612,337,000 as at 31 December 2019.

(d) The weighted average interest rate of borrowings was 4.79% (2018: 4.80%). The fair values of the respective borrowings approximated their carrying amounts. All the carrying amounts of the borrowings were denominated in RMB.

(e) The borrowings were repayable as follows:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Within 1 year | **2,838,689** | 1,865,430 |
| Between 1 and 2 years | **231,000** | 291,320 |
| Between 2 and 5 years | **1,491,000** | 57,737 |
| Over 5 years | **239,000** | 85,000 |
| | **4,799,689** | 2,299,487 |

## 27 BANK AND OTHER BORROWINGS (CONTINUED)

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

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| 6 months or less | **1,986,860** | 1,289,600 |
| Between 6 and 12 months | **1,300,830** | 975,888 |
| Between 1 and 5 years | **1,511,999** | 33,999 |
| | **4,799,689** | 2,299,487 |

## 28 DEFERRED INCOME TAX

The amounts shown in the balance sheet included the following:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Deferred tax assets: | | |
| – To be recovered after more than 12 months | **144,042** | 116,134 |
| – To be recovered within 12 months | **129,055** | 121,090 |
| | **273,097** | 237,224 |
| Deferred tax liabilities: | | |
| – To be settled after more than 12 months | **(113,081)** | (91,428) |
| – To be settled within 12 months | **(66,853)** | (51,972) |
| | **(179,934)** | (143,400) |

## 28 DEFERRED INCOME TAX (CONTINUED)

The movement in deferred tax assets and liabilities during the year 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 2018** | 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 both 31 December 2018 and 1 January 2019** | **64,760** | **60,496** | **127,891** | **(15,923)** | **237,224** |
| Recognised in the income statement | **18,210** | **60** | **6,164** | **11,439** | **35,873** |
| **At 31 December 2019** | **82,970** | **60,556** | **134,055** | **(4,484)** | **273,097** |

### 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 2018** | (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 both 31 December 2018 and 1 January 2019** | **(1,818)** | **(8,242)** | **(39,435)** | **(47,509)** | **(46,396)** | **(143,400)** |
| Recognised in the income statement | **60** | **272** | **(20,313)** | **(8,642)** | **(9,062)** | **(37,685)** |
| Recognised in other comprehensive income | **1,151** | **–** | **–** | **–** | **–** | **1,151** |
| **At 31 December 2019** | **(607)** | **(7,970)** | **(59,748)** | **(56,151)** | **(55,458)** | **(179,934)** |

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 RMB430,267,000 (2018: RMB386,050,000) that can be carried forward against future taxable income. These tax losses will expire up to and including year 2024 (2018: 2023).

## 29 OTHER INCOME

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Interest income on | | |
| – Financial assets held as investments | **115,038** | 91,190 |
| – Advances to project managers | **34,852** | 25,516 |
| | **149,890** | 116,706 |

## 30 OTHER GAINS – NET

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Gains on disposal of an associate (Note 12(a)) | **48,470** | – |
| Gains on disposal of financial assets at FVPL | **22,613** | 18,933 |
| Government grants and compensation | **25,838** | 11,618 |
| Fair value (losses)/gains of investment properties | **(2,688)** | 2,998 |
| Fair value losses of financial assets at FVPL | **(241)** | (633) |
| Gains/(losses) on disposal of property, plant and equipment | **6,635** | (870) |
| Gains on disposal of subsidiaries (Note 40) | **5,667** | – |
| Donations | **(5,492)** | (4,397) |
| Net foreign exchange gains | **4,721** | 5,099 |
| Others | **29,493** | (316) |
| | **135,016** | 32,432 |

## 31 EXPENSES BY NATURE

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

| | **2019** **RMB'000** | 2018 RMB'000 |
|---|---|---|
| Depreciation of property, plant and equipment (Note 8) | **163,894** | 140,760 |
| Amortisation of land use rights (Note 7) | **–** | 14,450 |
| Depreciation of right-of-use assets (Note 3(d)) | **25,163** | – |
| Employee benefit expenses (Note 32) | **4,972,992** | 4,484,605 |
| Cost of construction contracts | **14,140,874** | 12,822,539 |
| Cost of properties sold | **1,198,907** | 2,158,331 |
| Reversal of impairment on completed properties held for sale | **(395)** | (2,568) |
| Changes in inventories of finished goods and work in progress | **27,192** | (37,848) |
| Raw materials and consumables used | **2,551,069** | 1,927,227 |
| Operating leases of buildings | **6,195** | 14,842 |
| Compensation to property purchasers and employees | **2,524** | 12,055 |
| Auditors' remuneration | | |
| – Audit services | **3,950** | 3,710 |
| – Non-audit services | **120** | 20 |
| Others | **435,333** | 388,436 |
| | **23,527,818** | 21,926,559 |

## 32 EMPLOYEE BENEFIT EXPENSES

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Wages and salaries | **4,857,778** | 4,381,622 |
| Welfare, medical and other expenses | **68,974** | 61,424 |
| Retirement benefit costs – defined contribution plans (a) | **46,240** | 41,559 |
| | **4,972,992** | 4,484,605 |

### (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% (2018: 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 (2018: 5 directors) whose emoluments are reflected in the analysis presented in Note 43.

## 33 FINANCE COSTS – NET

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Finance costs: | | |
| Interests on bank and other borrowings, corporate bonds and lease liabilities | **235,579** | 110,768 |
| Less: interest capitalised in properties under development | **(115,925)** | (66,746) |
| Less: interest capitalised in constructions in progress | **(14,945)** | (12,375) |
| | **104,709** | 31,647 |
| Net foreign exchange losses | **(12)** | (4,880) |
| | **104,697** | 26,767 |
| Finance income: | | |
| Interest income from financial assets held for cash management purposes | **(5,505)** | – |
| Finance costs – net | **99,192** | 26,767 |

The capitalisation rate applied to funds borrowed generally and used for the development of properties was approximately 4.79% (2018: 4.85%) per annum.

## 34 INCOME TAX EXPENSE

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

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Current income tax | | |
| – PRC CIT | 318,525 | 287,045 |
| – Land appreciation tax | 139,295 | 189,210 |
| Deferred income tax | | |
| – PRC CIT | 13,834 | 43,821 |
| – Land appreciation tax | (12,022) | (60,074) |
| | 459,632 | 460,002 |

### (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 (2018: 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 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% (2018: 25%).

## 34 INCOME TAX EXPENSE (CONTINUED)

### (c) PRC land appreciation tax

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

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

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Profit before income tax | 1,371,639 | 1,374,915 |
| Add: share of results of joint ventures | 4,176 | (17,038) |
| share of results of associates | 8,655 | 8,944 |
| | 1,384,470 | 1,366,821 |
| Calculated at a tax rate of 25% (2018: 25%) | 346,118 | 341,705 |
| Effects of different tax rates applicable to different subsidiaries of the Group | (6,884) | (4,073) |
| Income not subject to tax | (3,869) | (3,756) |
| Expenses not deductible for tax purposes | 3,121 | 2,489 |
| Unrecognised tax losses | 28,255 | 29,171 |
| Utilisation of previously unrecognised tax losses | (2,564) | (2,386) |
| Land appreciation tax deductible for CIT purpose | (31,818) | (32,284) |
| | 332,359 | 330,866 |
| PRC land appreciation tax | 127,273 | 129,136 |
| Income tax expense | 459,632 | 460,002 |

## 35 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.

| | 2019 | 2018 |
|---|---|---|
| Profit attributable to the owners of the Company (RMB'000) | 856,691 | 874,175 |
| Weighted average number of ordinary shares in issue during the year (thousands shares) | 562,664 | 571,940 |
| Basic earnings per share (RMB yuan) | 1.52 | 1.53 |

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

## 36 DIVIDENDS

The board of directors did not recommend any payment of final dividend for the year ended 31 December 2019 (2018: Nil).

## 37 CASH FLOW INFORMATION

### (a) Cash generated from operations

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Profit for the year | **912,007** | 914,913 |
| Adjustments for: | | |
| Income tax expense (Note 34) | **459,632** | 460,002 |
| Depreciation of property, plant and equipment (Note 8) | **163,894** | 140,760 |
| Amortisation of land use rights (Note 7) | **–** | 14,450 |
| Depreciation of right-of-use assets (Note 3(d)) | **25,163** | – |
| Net impairment losses on financial and contract assets | **72,839** | 59,605 |
| Reversal of impairment on completed properties held for sale | **(395)** | (2,568) |
| (Gains)/losses on disposal of property, plant and equipment (Note 30) | **(6,635)** | 870 |
| Gains on disposal of an associate (Note 30) | **(48,470)** | – |
| Fair value losses/(gains) on investment properties (Note 30) | **2,688** | (2,998) |
| Fair value losses of financial assets at FVPL (Note 30) | **241** | 633 |
| Gains on disposal of financial assets at FVPL (Note 30) | **(22,613)** | (18,933) |
| Gains on disposal of subsidiaries (Note 40) | **(5,667)** | – |
| Interest income (Note 29) | **(149,890)** | (116,706) |
| Share of results of joint ventures (Note 11) | **4,176** | (17,038) |
| Share of results of associates (Note 12) | **8,655** | 8,944 |
| Changes in working capital (excluded the effect of disposal of subsidiaries): | | |
| Properties under development and completed properties held for sale | **(1,553,278)** | (14,671) |
| Restricted bank deposits | **(90,530)** | 29,640 |
| Inventories | **18,453** | (64,227) |
| Contract assets and contract acquisition costs/net balances with customers on construction contracts | **(150,706)** | 106,456 |
| Trade and other receivables and prepayments | **(1,304,120)** | 124,233 |
| Contract liabilities/receipts in advance | **422,753** | (874,093) |
| Trade and other payables | **1,949,837** | 1,465,480 |
| Cash generated from operations | **708,034** | 2,214,752 |

## 37 CASH FLOW INFORMATION (CONTINUED)

**(b)** Disposals of property, plant and equipment and right-of-use assets comprised:

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Property, plant and equipment | | |
| Net book amounts (Note 8) | 65,780 | 3,030 |
| Gains/(losses) on disposals (Note 30) | 6,635 | (870) |
| Proceeds | 72,415 | 2,160 |

### (c) Net cash reconciliation

Table below presents an analysis of net cash and the movements in net cash during 2019 and 2018.

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Cash and cash equivalents | 5,504,968 | 3,698,252 |
| Term deposits with initial term of over three months | 303,390 | 85,704 |
| Restricted bank deposits | 719,015 | 628,485 |
| Borrowings – repayable within one year | (2,838,689) | (1,865,430) |
| Borrowings – repayable after one year | (1,961,000) | (434,057) |
| **Net cash** | 1,727,684 | 2,112,954 |
| Cash and liquid investments | 6,527,373 | 4,412,441 |
| Gross debt – fixed interest rates | (3,974,689) | (843,499) |
| Gross debt – variable interest rates | (825,000) | (1,455,988) |
| **Net cash** | 1,727,684 | 2,112,954 |

## 37 CASH FLOW INFORMATION (CONTINUED)

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

| | Borrowings<br>RMB'000 | Other payables – loans from non-controlling interests<br>RMB'000 | Lease liabilities<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|
| **At 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 |
| Adjustment on adoption of HKFRS 16 (Note 3) | – | – | 16,939 | 16,939 |
| **Restated balance at 1 January 2019** | **2,299,487** | **899,264** | **16,939** | **3,215,690** |
| Cash flows | | | | |
| – Inflow/(outflow) from financial activities | **2,567,269** | **(73,077)** | **(7,419)** | **2,486,773** |
| Acquisition of new lease contracts | **–** | **–** | **230** | **230** |
| Disposal of subsidiaries | **(67,067)** | **–** | **–** | **(67,067)** |
| **At 31 December 2019** | **4,799,689** | **826,187** | **9,750** | **5,635,626** |

## 38 FINANCIAL GUARANTEES

| | **2019<br>RMB'000** | 2018<br>RMB'000 |
|---|---|---|
| Guarantees given to banks in respect of mortgage facilities granted for certain purchasers | **410,222** | 913,832 |

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.

## 39 COMMITMENTS

### (a) Commitments for capital expenditure

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Contracted but not provided for | | |
| Property, plant and equipment | **227,262** | 246,809 |

### (b) Operating lease commitments – where the Group is the lessor

As at 31 December 2019, 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:

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Not later than 1 year | **152,115** | 95,860 |
| Later than 1 year and not later than 5 years | **219,975** | 278,974 |
| Later than 5 years | **57,484** | 272,600 |
| | **429,574** | 647,434 |

The Group leased investment properties, building, plants and machinery and completed properties held for sale under various agreements which will terminate between 2020 and 2035. The agreements do not include any extension option.

### (c) Commitments for investments

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Investment in and loans to joint ventures | **115,000** | 115,700 |
| Investments in and loans to associates | **251,874** | 201,627 |
| | **366,874** | 317,327 |

## 40 DISPOSAL OF SUBSIDIARIES

During the year, the Group disposed of its 66% equity interest in Zhejiang Baohong Construction Industry Co., Ltd. and its subsidiaries ("Baohong Group"), and as a result of which the Group relinquished control over Baohong Group and the remaining interest in Baohong Group has been reclassified as an investment in a joint venture. Details of the disposal are as follows:

| | RMB'000 |
|---|---|
| Disposal considerations | |
| – Cash received | **33,000** |
| – Fair value of investment in a joint venture after the disposal (Note 11(a)) | **17,000** |
| | **50,000** |
| Less: total net assets of subsidiaries disposed of | **(44,333)** |
| Gains on disposal (Note 30) | **5,667** |
| Cash proceeds from disposal, net of cash disposed of | |
| – Cash consideration received | **33,000** |
| – Less: cash and cash equivalents in the subsidiaries disposed of | **(28,798)** |
| Net cash inflow on disposal | **4,202** |

## 41 RELATED-PARTY TRANSACTIONS

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

### (a) Transactions with joint ventures

| | **2019** **RMB'000** | 2018 RMB'000 |
|---|---|---|
| Sales of goods | **75,917** | 19,035 |
| Rental income | **3,492** | 3,184 |
| Purchase of building materials | **155,963** | 43,576 |
| Purchase of technical consulting services | **5,044** | 6,136 |

### (b) Key management compensation

Key management of the Group include the directors and supervisors, whose compensation has been disclosed in Note 43.

### (c) Balances with joint ventures

| | **2019** **RMB'000** | 2018 RMB'000 |
|---|---|---|
| Trade receivables | **15,757** | 12,058 |
| Trade payables | **53,774** | 50,835 |

## 42 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

### Balance sheet of the Company

| | Note | As at 31 December 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Land use rights | | – | 3,932 |
| Property, plant and equipment | | 15,215 | 16,415 |
| Right-of-use assets | | 3,698 | – |
| Investments in subsidiaries | | 2,023,166 | 2,101,516 |
| Investments in joint ventures | | 186,797 | 153,500 |
| Investments in associates | | 22,693 | 960 |
| Financial assets at fair value through other comprehensive income | | 228,197 | 232,801 |
| | | 2,479,766 | 2,509,124 |
| **Current assets** | | | |
| Other receivables and prepayments | | 26,377 | 27,544 |
| Deferred income tax assets | | 1,018 | – |
| Loans to joint ventures | | 218,216 | – |
| Cash and cash equivalents | | 4,170 | 34,789 |
| | | 249,781 | 62,333 |
| **Total assets** | | 2,729,547 | 2,571,457 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | | 562,664 | 562,664 |
| Share premium | | 481,433 | 481,433 |
| Reserves | (a) | 218,506 | 214,473 |
| Retained earnings | (a) | 813,755 | 746,384 |
| **Total equity** | | 2,076,358 | 2,004,954 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | | – | 133 |
| **Current liabilities** | | | |
| Amounts due to subsidiaries | | 645,382 | 557,670 |
| Other payables | | 1,911 | 950 |
| Current income tax liabilities | | 5,896 | 7,750 |
| | | 653,189 | 566,370 |
| **Total liabilities** | | 653,189 | 566,503 |
| **Total equity and liabilities** | | 2,729,547 | 2,571,457 |

The balance sheet of the Company was approved by the Board of Directors on 31 March 2020 and was signed on its behalf.

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

## 42 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

### (a) Reserve and retained earnings movements of the Company

| | Reserves | | Retained earnings | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **At 1 January** | **214,473** | 206,720 | **746,384** | 680,203 |
| Profit for the year | **–** | – | **74,857** | 73,534 |
| Transfer to statutory surplus reserve | **7,486** | 7,353 | **(7,486)** | (7,353) |
| Revaluation of financial assets at FVOCI, net of tax (Note 13) | **(3,453)** | 400 | **–** | – |
| **At 31 December** | **218,506** | 214,473 | **813,755** | 746,384 |

## 43 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 2019 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 | 1,400 | – | 1,500 |
| *Executive directors* | | | | |
| Mr. Gao Lin | 100 | 1,000 | 18 | 1,118 |
| Mr. Gao Jiming | 100 | 800 | 11 | 911 |
| Mr. Gao Jun | 100 | 800 | 12 | 912 |
| Mr. Jin Jixiang | 100 | 800 | 11 | 911 |
| *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 | – | 260 | – | 260 |
| Mr. Xu Gang | – | 500 | 11 | 511 |
| Mr. Wang Jianguo | – | 500 | 14 | 514 |
| Mr. Zhang Xindao | 50 | – | – | 50 |
| Mr. Xiao Jianmu | 50 | – | – | 50 |
| | 1,132 | 6,060 | 77 | 7,269 |

## 43 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 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 |

(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 2019 and 2018, 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 2019 and 2018.

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.

## 43 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.

## 44 SUBSEQUENT EVENTS

After the outbreak of the Coronavirus Disease ("COVID-19") in early 2020, a serious of precautionary and control measures have been and continued to be implemented across the country/region. As at the date of this report, the Group does not anticipate any significant financial impact resulting from the COVID-19, following which the Group will pay close attention to the situation of the COVID-19 and continue to assess the impact of the epidemic disease on the Group's finances and operations from time to time, as the case may be.

# 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 |
| HKAS | Hong Kong Accounting Standard |
| HKEx | Hong Kong Exchanges and Clearing Limited |
| HKFRS | Hong Kong Financial Reporting Standards |
| Hubei Baoye | Baoye Hubei Construction Group Company Limited, a subsidiary of the Company |

| | |
|---|---|
| Listing Rules | The Rules governing the Listing of Securities on the Stock Exchange |
| Model Code | Model Code for Securities Transactions by Directors of Listed Issuers |
| 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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