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

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

(Stock Code: 2355)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

The board of directors (the “Board”) of Baoye Group Company Limited* (the “Company”) is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2016, together with comparative figures for the year ended 31 December 2015. The following financial information is extracted from the audited consolidated financial statements prepared in accordance with Hong Kong Financial Reporting Standards as set out in the Group’s 2016 Annual Report.

* For identification purpose only

CONSOLIDATED INCOME STATEMENT

| | <i>Note</i> | Year ended 31 December | |
|--|-------------|-------------------------------|-----------------------|
| | | 2016 | 2015 |
| | | <i>RMB'000</i> | <i>RMB'000</i> |
| Revenue | 2 | 18,196,134 | 18,216,083 |
| Cost of sales | | <u>(17,031,690)</u> | <u>(16,973,082)</u> |
| Gross profit | | 1,164,444 | 1,243,001 |
| Other income | 3 | 118,799 | 116,351 |
| Other gains – net | 4 | 39,370 | 79,746 |
| Selling and marketing costs | | (85,166) | (72,943) |
| Administrative expenses | | <u>(471,356)</u> | <u>(407,522)</u> |
| Operating profit | | 766,091 | 958,633 |
| Finance costs | | – | – |
| Share of loss of joint ventures | | (1,070) | (68,642) |
| Share of loss of associates | | <u>(478)</u> | <u>(9,072)</u> |
| Profit before income tax | | 764,543 | 880,919 |
| Income tax expense | 5 | <u>(230,133)</u> | <u>(281,922)</u> |
| Profit for the year | | <u>534,410</u> | <u>598,997</u> |
| Profit attributable to: | | | |
| – Owners of the Company | | 526,933 | 563,655 |
| – Non-controlling interests | | <u>7,477</u> | <u>35,342</u> |
| | | <u>534,410</u> | <u>598,997</u> |
| Earnings per share for profit attributable to the owners of the Company | 6 | | |
| – Basic and diluted (expressed in RMB per share) | | <u>0.86</u> | <u>0.91</u> |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Year ended 31 December | |
|---|-------------------------------|----------------|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| Profit for the year | 534,410 | 598,997 |
| Other comprehensive income: | | |
| <i>Items that may be reclassified to profit or loss</i> | | |
| Transfer of reserves to income statement upon sale of available-for-sale financial assets, net of tax | (14,992) | (3,097) |
| Change in fair value of available-for-sale financial assets, net of tax | 14,235 | 3,389 |
| | <hr/> | <hr/> |
| Other comprehensive income for the year, net of tax | (757) | 292 |
| | <hr/> | <hr/> |
| Total comprehensive income for the year | 533,653 | 599,289 |
| | <hr/> | <hr/> |
| Total comprehensive income attributable to: | | |
| – Owners of the Company | 526,176 | 563,947 |
| – Non-controlling interests | 7,477 | 35,342 |
| | <hr/> | <hr/> |
| Total comprehensive income for the year | 533,653 | 599,289 |
| | <hr/> | <hr/> |

CONSOLIDATED BALANCE SHEET

| | | As at 31 December | |
|---|------|--------------------------|--------------------------|
| | | 2016 | 2015 |
| | Note | RMB'000 | RMB'000 |
| ASSETS | | | |
| Non-current assets | | | |
| Land use rights | | 498,057 | 480,752 |
| Property, plant and equipment | | 1,304,910 | 1,240,692 |
| Investment properties | 8 | 597,079 | 597,079 |
| Goodwill | | 16,534 | 16,534 |
| Investments in joint ventures | | 86,430 | 50,573 |
| Loans to joint ventures | | – | 9,868 |
| Investments in associates | | 13,741 | 28,218 |
| Available-for-sale financial assets | | 8,697 | 9,707 |
| Deferred income tax assets | | 289,924 | 74,538 |
| | | <u>2,815,372</u> | <u>2,507,961</u> |
| Current assets | | | |
| Inventories | | 146,199 | 131,737 |
| Properties under development | 9 | 4,873,996 | 4,625,616 |
| Completed properties held for sale | 10 | 2,160,415 | 2,390,148 |
| Due from customers on construction contracts | 11 | 2,965,894 | 3,127,617 |
| Trade receivables | 12 | 2,840,194 | 1,423,938 |
| Other receivables and prepayments | | 1,838,620 | 1,710,932 |
| Loan to an associate | | – | 51,146 |
| Loans to joint ventures | | 61,528 | – |
| Available-for-sale financial assets | | 678,590 | 624,310 |
| Financial assets at fair value through profit or loss | | 796,269 | – |
| Restricted bank deposits | | 633,571 | 188,009 |
| Term deposits with initial term of over three months | | 11,925 | 45,419 |
| Cash and cash equivalents | | 2,885,736 | 3,170,058 |
| | | <u>19,892,937</u> | <u>17,488,930</u> |
| Total assets | | <u>22,708,309</u> | <u>19,996,891</u> |

CONSOLIDATED BALANCE SHEET (CONTINUED)

| | | As at 31 December | |
|---|------|-------------------|-------------------|
| | | 2016 | 2015 |
| | Note | RMB'000 | RMB'000 |
| EQUITY | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | | 612,372 | 612,372 |
| Share premium | | 671,665 | 671,665 |
| Treasury shares | | (13,535) | – |
| Reserves | | 184,341 | 183,436 |
| Retained earnings | | 5,372,104 | 4,907,177 |
| | | <u>6,826,947</u> | <u>6,374,650</u> |
| Non-controlling interests | | 170,753 | 150,922 |
| | | <u>6,997,700</u> | <u>6,525,572</u> |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Deferred income tax liabilities | | 72,453 | 64,821 |
| | | <u>72,453</u> | <u>64,821</u> |
| Current liabilities | | | |
| Trade payables | 13 | 4,657,721 | 2,867,045 |
| Other payables | | 2,769,174 | 2,378,957 |
| Receipts in advance | | 4,635,735 | 5,024,194 |
| Current income tax liabilities | | 575,032 | 518,517 |
| Due to customers on construction contracts | 11 | 2,717,934 | 2,080,785 |
| Borrowings | | 282,560 | 537,000 |
| | | <u>15,638,156</u> | <u>13,406,498</u> |
| Total liabilities | | 15,710,609 | 13,471,319 |
| | | <u>22,708,309</u> | <u>19,996,891</u> |
| Total equity and liabilities | | 22,708,309 | 19,996,891 |

Notes:

1. BASIS OF PREPARATION

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

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

2. SEGMENT OF INFORMATION

The segment information is as follows:

| | Year ended 31 December 2016 | | | | |
|--|-----------------------------|------------------------------------|----------------------------------|-------------------|-------------------|
| | Construction RMB’000 | Property development RMB’000 | Building materials RMB’000 | Others RMB’000 | Group RMB’000 |
| Total revenue | 14,155,810 | 3,153,253 | 2,328,825 | 177,581 | 19,815,469 |
| Inter-segment revenue | (1,355,897) | – | (239,664) | (23,774) | (1,619,335) |
| Revenue (from external customers) | 12,799,913 | 3,153,253 | 2,089,161 | 153,807 | 18,196,134 |
| Operating profit | 411,099 | 286,166 | 43,762 | 25,064 | 766,091 |
| Depreciation | 26,556 | 7,750 | 50,978 | 25,650 | 110,934 |
| Amortisation | 6,361 | – | 3,681 | 2,580 | 12,622 |
| Impairment of receivables | 29,831 | – | 19,951 | – | 49,782 |
| Share of loss of joint ventures | 336 | 82 | 652 | – | 1,070 |
| Share of loss of associates | – | – | 478 | – | 478 |
| Income tax expense | 100,274 | 108,099 | 14,707 | 7,053 | 230,133 |
| | | | | | |
| | Year ended 31 December 2015 | | | | |
| | Construction RMB’000 | Property development RMB’000 | Building materials RMB’000 | Others RMB’000 | Group RMB’000 |
| Total revenue | 15,566,116 | 1,694,672 | 2,246,849 | 161,654 | 19,669,291 |
| Inter-segment revenue | (1,195,868) | – | (240,663) | (16,677) | (1,453,208) |
| Revenue (from external customers) | 14,370,248 | 1,694,672 | 2,006,186 | 144,977 | 18,216,083 |
| Operating profit | 487,925 | 352,893 | 81,709 | 36,106 | 958,633 |
| Depreciation | 31,120 | 6,154 | 46,827 | 24,352 | 108,453 |
| Amortisation | 6,646 | – | 3,518 | 2,605 | 12,769 |
| Impairment of receivables | 3,006 | – | 11,180 | – | 14,186 |
| Share of loss of joint ventures | – | 66,650 | 1,992 | – | 68,642 |
| Share of loss of associates | – | – | 9,072 | – | 9,072 |
| Income tax expense | 120,878 | 134,340 | 20,690 | 6,014 | 281,922 |

Analysis of revenue by category

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

3. OTHER INCOME

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

4. OTHER GAINS – NET

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

5. INCOME TAX EXPENSE

(a) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the year (2015: Nil).

(b) PRC Corporate income tax

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

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

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

Save as aforesaid, the Company and other subsidiaries are subject to CIT at a rate of 25% (2015: 25%).

(c) **PRC land appreciation tax**

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

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

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

6. EARNINGS PER SHARE

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

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

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

7. DIVIDENDS

| | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> |
|-------------------------|-------------------------------|------------------------|
| Proposed final dividend | – | 61,237 |

The board of directors did not recommend any payment of a final dividend for the year ended 31 December 2016 (2015: RMB61,237,000).

8. INVESTMENT PROPERTIES

| | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> |
|-------------------------------|-------------------------------|------------------------|
| At 1 January | 597,079 | 596,583 |
| Fair value change | – | 496 |
| At 31 December, at fair value | 597,079 | 597,079 |

9. PROPERTIES UNDER DEVELOPMENT

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

10. COMPLETED PROPERTIES HELD FOR SALE

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

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

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

12. TRADE RECEIVABLES

| | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> |
|------------------------------------|-------------------------------|------------------------|
| Trade receivables | 2,965,228 | 1,499,190 |
| Less: provision for doubtful debts | <u>(125,034)</u> | <u>(75,252)</u> |
| | 2,840,194 | 1,423,938 |

Customers are generally granted credit terms of 1 to 3 months for construction business, 1 to 12 months for building materials business and no credit terms for property development business (except for instalment arrangement for certain villas and town houses projects). The net book value of trade receivables approximates their fair value. As at 31 December 2016, the ageing analysis of the trade receivables based on invoice date is as follows:

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

13. TRADE PAYABLES

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

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

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 13 June 2017 (the “AGM”). The notice of the AGM will be published and dispatched to the shareholders of the Company in the manner as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 13 May 2017 to 13 June 2017, both dates inclusive, during which period no share transfers will be effected. In order to qualify for attending and voting at the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company’s H Shares registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong (for holders of H Shares), or to the Company’s office address at No.501 Shanyin West Road, Keqiao District, Shaoxing City, Zhejiang Province, the PRC (Post Code: 312030) (for holders of Domestic Shares) no later than 4:30 pm on 12 May 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Results Review

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

Revenue

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

Operating profit

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

Construction Business

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

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

By project nature

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

By region

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

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

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

The Group focuses on brand building. It was the leader of all competitions in industry awards during the year in Zhejiang, which helped to enhance the Group’s reputation. In 2016, the Group received a total of 79 awards, the key awards are appended as follows:

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

Property Development Business

Property Sales

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

For the year ended 31 December 2016, revenue of property sales was mainly derived from the following projects, details of which are set out below:

| Project | Location | Average Selling Price (RMB/Sqm) | Floor Areas Sold (Sqms) | Revenue (RMB'000) |
|-------------------------------|-----------------|--|--|------------------------------|
| Baoye Wanhuacheng | Shanghai | 15,578 | 95,812 | 1,492,530 |
| Baoye Guanggu Lidu | Wuhan | 7,813 | 87,980 | 687,423 |
| Baoye Mengdie Luyuan | Mengcheng | 4,614 | 134,959 | 622,730 |
| Baoye Taihe City Green Garden | Taihe | 4,649 | 41,654 | 193,668 |

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

Projects under development

As at 31 December 2016, the Group's property projects under development are set out below:

| Project Name | Location | Total Estimated Gross Floor Area under Development (Sqms) | Equity Interest of the Group |
|-------------------------------|-----------------|--|---|
| Baoye Four Seasons Garden | Shaoxing | 447,000 | 100% |
| Baoye Xinqiao Fengqing | Shaoxing | 136,000 | 100% |
| Baoye Guanggu Lidu | Wuhan | 46,216 | 100% |
| Hubei Baoye Centre | Wuhan | 88,000 | 100% |
| Shanghai Baoye Centre | Shanghai | 27,000 | 100% |
| Baoye Ido | Shanghai | 88,000 | 100% |
| Baoye Xiaoyao Luyuan | Bozhou | 131,000 | 50% |
| Baoye Xuefu Luyuan | Bengbu | 199,700 | 63% |
| Baoye Taihe City Green Garden | Taihe County | 365,645 | 55% |
| Baoye Longhu Yucheng | Kaifeng | 153,000 | 60% |
| Baoye Yihe Yayuan | Lishui | 67,657 | 100% |

Baoye Four Seasons Garden is located in Kuaijishan Tourist Resort Zone, a “province-rank” resort district in Zhejiang Province. With historical culture and spectacular scenery, the area is where ancient civilisation flourished. Other than its profound cultural tradition and being the origin of many myths and folklores, the area also has a large number of historical heritages. Being only 5 kilometres from the downtown of Shaoxing City, it is known as the “natural treasure in the heart of a city”. Baoye Four Seasons Garden has a site area of approximately 1,050,000 square metres with 0.5 time plot ratio and a planned gross floor area of approximately 525,000 square metres for the development of deluxe villas, semi-detached villas and town houses. It also consists of a golf club, a five-star resort hotel, two leisure parks, a sport park, a shopping arcade, kindergarten and a central lakeside garden fully equipped with supporting facilities. This project is developed in 12 phases, of which, Lotus Garden, Liu Garden and He Garden, had been delivered to owners, Ming Garden, Run Garden Phase I and Phase II have almost been sold out; Xi Garden, Jing Garden and Fu Garden are under pre-sale.

Baoye Xinqiao Fengqing is located in Beihai community, Yuecheng District, the west of Shaoxing City, supported by convenient transportation, well developed community facility and school resources. The project has a site area of approximately 41,158 square metres and an estimated gross floor area of approximately 136,000 square metres, aiming to be developed as a 14 high-rise building project with river view, of which 4 buildings will be constructed by adoption of PC-manufacture methodology as planned. The project is expected to begin pre-sale in the first half year of 2017 and to begin delivery at the end of 2018.

Baoye Guanggu Lidu is located in the East Lake New Technology Development Zone in Wuhan City with a total site area of approximately 120,000 square metres and an estimated gross floor area of approximately 300,000 square metres. The project comprises 18 high-rise residential buildings and commercial units, aiming to build reasonably scaled residential units with well-developed facilities, convenient transportation with a rich cultural connotation. The project is developed in three phases, of which, phase I and phase II have been delivered, phase III is expected to be launched for pre-sale in 2017.

Hubei Baoye Centre is located at the junction of Jianshe 1st Road and Jiangang south Road, Qingshan District, Wuhan City. It has an estimated gross floor area of approximately 88,000 square metres, pursuant to which, approximately 65,600 square metres were above-ground levels and approximately 22,400 square metres at underground levels, will be developed as office buildings. The construction of this project commenced in the second half of 2015 and is expected to be completed by 2018.

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

Baoye Ido is located in the east end of new Qingpu District, in Shanghai with convenient transportation. It is designed as a prefabricated construction project with a 30% prefabricated rate and 2.0 times plot ratio. It has a total gross floor area of 88,000 square metres, pursuant to which, approximately 56,000 square metres are above-ground, will be developed as 8 high-rise prefabricated residential buildings, of which, Phase I has begun pre-sale in 2016.

Baoye Xiaoyao Luyuan, located in new district of south of Mengcheng County, Bozhou City, Anhui Province, has a total site area of approximately 131,000 square metres, comprising of semi-detached villas, garden house, high-rise residential and commercial buildings, which will be developed as a new district centre featuring its refined distinctive classy, fashionable and diversified character. The construction has been started in November 2015 and is expected to be completed in 2017.

Baoye Xuefu Luyuan, is located in Bengbu City, Anhui Province. It has a total site area of approximately 62,600 square metres and an estimated gross floor area of approximately 199,700 square metres of which approximately 20,000 square metres are affordable housing. The project comprises 15 buildings and has commenced construction in July 2014. It began its pre-sale in the first half year of 2015, of which phase I comprising approximately 96,560 square metres is expected to be delivered to owners in 2017.

Baoye Taihe City Green Garden is located in Taihe County, Anhui Province with a total gross floor area of 420,000 square metres, comprising of unique and niche residential units, elegance shopping arcade, an international bilingual kindergarten and high-end swimming pool facilities. Personalized and scientific design in dividing motor vehicle flow and pedestrian flow enable residents to enjoy quality and comfortable living. The project is closed to an eco-friendly park and rich community facilities, which sets the new living style in the City. Phase I of the project has begun delivery in 2016 and phase II, phase III are under pre-sale.

Baoye Longhu Yucheng, is located in a prime area of Eastern New City, Kaifeng County, Henan Province. It has a total site area of approximately 648,000 square metres and an estimated gross floor area of approximately 972,000 square metres. After completion, it will become the city's new business centre and leisure centre. The project is being developed in 5 phases, of which, phase I with 69,543 square metres has been delivered to owners in 2015, and phase II with 134,000 square metres has commenced construction in the first half year of 2017.

Baoye Yihe Yayuan, located in Liandu District, Lishui City, Zhejiang Province, has a site area of 26,918 square metres and a total gross floor area of 67,657 square metres with 1.8 time plot ratio. The project will be developed to 11 buildings by adoption of PC-manufacture methodology with a 20% prefabricated rate, of which, 3 buildings are properties for sale and the rest 8 buildings are cater for relocation households by the government. It has commenced construction in October 2016.

New Land Reserve

In 2016, the Group has acquired two parcels of land use rights through public tender and auction at a total consideration of approximately RMB228,000,000 with a total site area of 125,526 square metres in Liuan City, Anhui Province and acquired another land use right at total consideration of approximately RMB41,000,000 with a site area of 26,918 square metres in Lishui City, Zhejiang Province. The Group continues to adopt a prudent but proactive attitude in land acquisition and business expansion. The Group has land reserve in cities in the Eastern and Central China, such as Zhejiang, Hubei, Shanghai, Anhui and Henan, which can ensure its profits and capability of risk resistance benefitting from low land cost and reasonable regional coverage.

Building Materials Business

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

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

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

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

BUSINESS PROSPECT

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

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

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

Property development business contributes substantial profit for the Group

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

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

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

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

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

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

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

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

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

FINANCIAL REVIEW

Financial Policies

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

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

Financial Resources and Liabilities

With the support of steady increase in cash flow, sound credit record and excellent reputation in the industry, the Group preserved the AAA credit rating by a credit rating institution recognised by the People's Bank of China. Such excellent credit rating will benefit the Group's financing activities and allow the Group to continue to enjoy the prime rate offered by the banks. During the year, the Group maintained part of its borrowings on an unsecured basis. The amount of secured debt accounted for approximately 17.7% (2015: 6.5%) of the total borrowings. In addition, approximately 31.9% of the total borrowings (2015: 26.0%) were jointly guaranteed by the chairman of the Board, Mr. Pang Baogen and the Company to the lending banks. Leveraging on its excellent credit rating, the Group intends to continue to obtain its borrowings on an unsecured basis, which will be supplemented by project financing when necessary.

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

The Group's financial position has been satisfactory and has continued to maintain a net cash position. The Group has sufficient capital resources to expand its business. As at 31 December 2016, the Group has had unutilized banking facilities amounting to approximately RMB6 billion. Details of which are analysed below:

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

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

Other Key Financial Ratios

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

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

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

Current ratio = current assets/current liabilities

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

Cash Flow Analysis

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

Note:

- i During the year, the net cash inflow from operating activities was approximately RMB944,618,000, a decrease of approximately RMB938,302,000 compared to the net cash inflow of approximately RMB1,882,920,000 of last year, which mainly attributable to the decreased property for pre-sale.
- ii During the year, the net cash outflow from investing activities was approximately RMB907,878,000, which was primarily due to the purchase of financial assets of fair value through profit or loss at the end of the year.
- iii During the year, the net cash outflow from financing activities is approximately RMB321,062,000, mainly due to repayment of bank borrowings and payment of final dividend, as well as the buy-back of H Shares.

Land Appreciation Tax

The Group has consistently complied with the tax rules and regulations in the PRC and conformed to the Hong Kong Financial Reporting and Accounting Standards in accounting for such tax provision, and has also prepaid the land appreciation taxes based on the sale values by applying assessable rates determined by the respective local tax authorities where the properties are located. For the year ended 31 December 2016, the Group's land appreciation tax provision amounted to approximately RMB50,385,000, and the reversal of prior years' provision for land appreciation taxes amounted to approximately RMB17,075,000.

Administrative Expenses

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

Finance Costs

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

Financial Guarantee

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

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

Details of the Charges on the Group's Assets

As at 31 December 2016, land use rights and property, plant and equipment at a total value of approximately RMB62,685,000 (as at 31 December 2015: RMB10,491,000) were pledged to banks as security in securing bank borrowings.

Capital Expenditure Plan

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

Fluctuation of RMB Exchange Rate and Foreign Exchange Risks

The majority of the Group's business and all bank borrowings are denominated and accounted for in RMB. Therefore, the Group does not have significant exposure to foreign exchange fluctuation. The Board does not expect the fluctuation of RMB exchange rate and other foreign exchange fluctuations will have material impact on the business operations or financial results of the Group.

CONNECTED TRANSACTIONS

For the year ended 31 December 2016, the Group had no connected transaction that would require disclosure under the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

From December 2016 to January 2017, the Company has repurchased H Shares for 7 times in aggregate of 14,964,000 H Shares, representing 5.7195% and 2.4436% of the total number of H Shares and the total number of issued Shares of the Company respectively. Total amount paid was HK\$86,143,300 (excluding transaction charges). Details of the H shares were as shown in the next day disclosure returns for the period from 12 December 2016 to 10 January 2017 published on the website of the Stock Exchange.

HUMAN RESOURCES

As at 31 December 2016, the Group had a total of 4,550 permanent employees (as at 31 December 2015: 4,335). Also, there were approximately 71,980 indirectly employed construction site workers (as at 31 December 2015: 71,258). These workers were not directly employed by the Group. For the year ended 31 December 2016, the total employee benefit expenses amounted to approximately RMB4,305,382,000. Employee benefit expenses include salaries, insurance and other benefits. Remuneration is determined by reference to market terms as well as the performance, qualification and experience of the individual employee. The Group is subject to social insurance contribution plans organised by the PRC local government. In accordance with relevant national and local labor and social welfare laws and regulations, employee benefits provided by the Group include pension and medical insurance coverage, injury insurance, maternity insurance and unemployment insurance. The Group highly values human resources management, and is devoted to establishing a high quality team to support its long term business development. The Board is continuously working on devising, revising and implementing a more effective employee incentive plan and training plan to encourage superior performance of employees to fit into the Group's long term development plan.

LITIGATION AND ARBITRATION

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

ENTRUSTED DEPOSITS AND OVERDUE TIME DEPOSITS

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

CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code during the period (the “CG Code”) contained in Appendix 14 to the Rules (the “Listing Rules”) Governing the Listing of Securities on the Stock Exchange as its own code of corporate governance. For the year ended 31 December 2016, the Company has complied with all the code provisions as set out in the CG Code, except for deviation of provisions as mentioned below:

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

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

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

The Board and the Supervisory Committee have adopted the Model Code as its own code of conduct for securities transactions by the Directors and Supervisors. Specific enquiries have been made by the Company and all the Directors and Supervisors have confirmed that they have complied with the Model Code throughout the year of 2016. If any related employees possess information which may be considered as sensitive to the Company’s share price and such information is not public, such employee has to comply with written guidelines, which is as strict as the Model Code.

AUDIT COMMITTEE

The audit committee of the Company consists of two independent non-executive directors, namely Mr. Chan Yin Ming, Dennis (chairman), Mr. Li Wangrong and one non-executive director, Mr. Fung Ching, Simon. The audit committee held two meetings on 21 March 2016 and 22 August 2016. Mr. Chan Yin Ming, Dennis, Mr. Li Wangrong and Mr. Fung Ching, Simon attended the meetings. The audit committee has discussed the accounting policies, the critical accounting estimates and assumptions, the audit objectives and the scope of the Group’s internal audit department with management. They also discussed with the auditors on their audit plans and key audit areas. The audited consolidated financial statements and the annual results announcement of the Group for the year ended 31 December 2016 had been reviewed by the audit committee before submission to the Board for adoption and approval.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet and the related notes thereto for the year ended 31 December 2016 as set out in the announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the announcement.

PUBLICATION OF ANNUAL REPORT

The full text of the Group's 2016 Annual Report will be sent to the shareholders of the Company and posted on the websites of The Stock Exchange (www.hkexnews.hk) and the Company (www.baoyegroup.com) respectively in due course.

APPRECIATION

The Board would like to take this opportunity to express its gratitude to the Company's shareholders, customers, suppliers, banks, intermediaries and employees of the Group for their continuous patronage and support.

By order of the Board
Baoye Group Company Limited*
Pang Baogen
Chairman

Zhejiang, the People's Republic of China
24 March 2017

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

* For identification purpose only