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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2005

FINANCIAL HIGHLIGHTS

- Turnover was RMB2,550,957,000, representing an increase of 14% over the corresponding period last year.
- Profit attributable to shareholders was RMB176,659,000, representing an increase of 17% over the corresponding period last year.
- Earnings per share was RMB0.31, representing an increase of 11% over the corresponding period last year.

The board of directors (the "Board") of Baoye Group Company Limited (the "Company") are pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005 prepared in accordance with the Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, together with comparative figures for the corresponding period in 2004. The interim accounts had been reviewed by the audit committee of the Company and approved by the Board.

During the period, the Group's unaudited condensed consolidated income statement and condensed consolidated balance sheet are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited Six months ended 30 June	
			(Restated)
		2005	2004
	Notes	*RMB'000*	*RMB'000*
Turnover	*3*	2,550,957	2,245,116
Cost of sales		(2,293,871)	(1,977,292)
Gross profit		257,086	267,824
Other gains-net		59,713	15,252
Selling and marketing costs		(2,404)	(1,096)
Administrative expenses		(50,356)	(48,201)
Operating profit		264,039	233,779
Finance costs		(22,416)	(10,174)
Profit before income tax		241,623	223,605
Income tax expense	*4*	(65,189)	(70,305)
Profit for the period		176,434	153,300
Attributable to:			
Equity holders of the Company		176,659	151,170
Minority interests		(225)	2,130
		176,434	153,300
Earnings per share for profit attributable to the equity holders of the Company during the period			
– basic (expressed in RMB per share)	*5*	0.31	0.28

* *For identification purposes only*

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	Unaudited 30 June 2005 RMB'000	(Restated) 31 December 2004 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		452,697	462,284
Investment properties		5,188	5,188
Land use rights		102,087	69,561
Goodwill		1,045	1,045
Properties under development		395,401	547,692
Deferred income tax assets		11,991	13,009
		968,409	1,098,779
Current assets			
Inventories		54,287	37,314
Properties under development		273,721	474,344
Completed properties held for sale		120,066	31,527
Due from customers on construction contracts		514,576	412,580
Amounts due from minority shareholders		22,302	24,127
Amounts due from a shareholder		–	421
Loans to a jointly controlled entity		–	45,500
Trade receivables	7	392,540	320,552
Other receivables		676,493	590,378
Restricted bank deposits		28,080	22,051
Cash and Cash equivalents		701,437	543,877
		2,783,502	2,502,671
Total assets		3,751,911	3,601,450
EQUITY			
Capital and reserves attributable to the Company's equity shareholders			
Share capital		567,563	531,426
Other reserves		245,950	134,827
Retained earnings		484,208	306,309
Proposed dividend		–	81,502
		1,297,721	1,054,064
Minority interests		63,351	104,578
Total equity		1,361,072	1,158,642
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		6,428	5,499
Current liabilities			
Trade payables	8	395,434	283,499
Other payables		318,266	299,109
Receipts in advance		133,632	388,297
Current income tax liabilities		93,465	134,754
Due to customers on construction contracts		437,892	330,518
Amounts due to minority shareholders		2,229	1,488
Amounts due to shareholders		7,330	7,217
Amount due to a jointly controlled entity		–	12,807
Dividend payable		40,293	–
Provision for warranty		3,870	2,620
Borrowings		952,000	977,000
		2,384,411	2,437,309
Total liabilities		2,390,839	2,442,808
Total equity and liabilities		3,751,911	3,601,450
Net current assets		399,091	65,362
Total assets less current liabilities		1,367,500	1,164,141

Notes:

1. **Basis of preparation and accounting policies**

This unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

This condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2004.

The accounting policies and methods of computation used in the preparation of these condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (collectively "new HKFRS") which are effective for accounting periods commencing on or after 1 January 2005.

This interim financial information has been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing these information (August 2005). The HKFRS standards and interpretations that will be applicable at 31 December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial information.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 2 below.

2. Changes in accounting policies

Effect of adopting new HKFRS

In 2005, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS Int 15	Operating Leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciated Assets
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 32, 33, 39 and HKAS-Int 15 did not result in substantial changes to the Group's accounting policies.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment.

The Group adopted the proportionate consolidation under HKAS 31 to account for its interests in jointly controlled entities. In prior years, the Group's interests in jointly controlled entities were accounted for by the equity method. The adoption of the proportionate consolidation approach under HKAS 31 represents a change in accounting policy.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values are recorded in the income statement as part of other income. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

- Amortised on a straight-line basis over a period of not exceeding 20 years; and
- Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

- The Group ceased amortisation of goodwill from 1 January 2005;
- Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;
- From the year ending 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is an indication of impairment.
- For the acquisition of equity interest of subsidiaries occurred on or after 1 January 2005, if the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement and is not treated as negative goodwill anymore.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- HKAS 40 since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information, any adjustment should be made to the retained earnings as at 1 January 2005, including the reclassification of any amount held in revaluation surplus for investment property.
- HKFRS 3 – prospectively after the adoption date.

(i) The adoption of revised HKAS 17 resulted in:

	As at	
	30 June 2005	**31 December 2004**
	RMB'000	*RMB'000*
Decrease in property, plant and equipment	102,087	69,561
Increase in land use rights	102,087	69,561

(ii) The adoption of HKAS 31 resulted in:

	As at	
	30 June 2005	**31 December 2004**
	RMB'000	*RMB'000*
Decrease in interest in a jointly controlled entity	–	9,082
Decrease in loans to a jointly controlled entity	–	45,500
Decrease in amount due to a jointly controlled entity	–	12,807
Increase in properties under development	–	88,033
Increase in property, plant and equipment	–	411
Increase in cash and cash equivalents	–	12,782
Increase in other receivables	–	7,269
Increase in borrowings	–	65,000
Increase in other payables	–	1,720

	For the year ended 31 December 2004 *RMB'000*	For the six months ended 30 June 2005 *RMB'000*	For the six months ended 30 June 2004 *RMB'000*
Decrease in share of loss of a jointly controlled entity	2,100	–	299
Increase in expenses	2,100	–	299

3. Segment information

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

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

The Group previously reported and classified manufacture and sale of glass curtain wall and assembly furniture supplied by two subsidiaries of the Company, namely Zhejiang Baoye Curtail Wall Decoration Co., Ltd. and Zhejiang Guangyi Construction and Decoration Co., Ltd., within the construction business segment. The Directors believe that it is a more appropriate presentation of the Group's activities to classify those activities of the similar nature within the building materials business segment. Reclassification has been made to the comparative information for the six months ended 30 June 2004.

The business segment results for the six months ended 30 June 2005 is as follows:

	Unaudited Six months ended 30 June 2005					
	Construction *RMB'000*	Building materials *RMB'000*	Property development *RMB'000*	Other operations *RMB'000*	Elimination *RMB'000*	Consolidated *RMB'000*
External turnover	1,686,585	286,220	528,178	49,974	–	2,550,957
Internal turnover	80,000	9,587	–	–	(89,587)	–
Total turnover	1,766,585	295,807	528,178	49,974	(89,587)	2,550,957
Segment results	74,688	14,167	116,991	(1,520)	–	204,326
Other gains-net						59,713
Operating profit						264,039
Finance costs						(22,416)
Profit before income tax						241,623
Income tax						(65,189)
Profit for the period						176,434
Other information						
Depreciation	6,432	10,548	903	459	–	18,342
Amortisation of land use rights	2,175	–	–	–	–	2,175
Provision for doubtful debts	150	1,225	–	172	–	1,547

	Six months ended 30 June 2004 (Restated)					
	Construction *RMB'000*	Building materials *RMB'000*	Property development *RMB'000*	Other operations *RMB'000*	Elimination *RMB'000*	Consolidated *RMB'000*
External turnover	1,757,049	221,309	265,190	1,568	–	2,245,116
Internal turnover	190,000	14,846	–	–	(204,846)	–
Total turnover	1,947,049	236,155	265,190	1,568	(204,846)	2,245,116
Segment results	84,533	17,521	115,004	1,469	–	218,527
Other gains-net						15,252
Operating profit						233,779
Finance costs						(10,174)
Profit before income tax						223,605
Income tax						(70,305)
Profit for the period						153,300
Other information						
Depreciation	1,214	14	8,317	498	–	10,043
Amortisation of land use rights	596	43	–	–	–	639
Provision for doubtful debts	1,289	415	–	–	–	1,704

	As at 30 June 2005					
	Construction *RMB'000*	Building materials *RMB'000*	Property development *RMB'000*	Other operations *RMB'000*	Elimination *RMB'000*	Consolidated *RMB'000*
Assets						
Segment assets	2,291,144	1,117,146	302,776	47,119	(27,165)	3,731,020
Unallocated assets						20,891
						3,751,911
Liabilities						
Segment liabilities	1,266,434	532,558	320,599	28,741	(202,506)	1,945,826
Unallocated liabilities						445,013
						2,390,839
Capital expenditure	17,031	52,887	–	1,652	–	71,570

	As at 31 December 2004 (Restated)					
	Construction	**Building materials**	**Property development**	**Other operations**	**Elimination**	**Consolidated**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets						
Segment assets	1,944,606	758,289	949,776	34,521	(114,518)	3,572,674
Unallocated assets						28,776
						3,601,450
Liabilities						
Segment liabilities	945,414	431,045	626,764	16,788	(112,011)	1,908,000
Unallocated liabilities						534,808
						2,442,808
Capital expenditure	29,924	210,068	355	12,308	(4,439)	248,216

No geographical segments information is presented as substantially all the Group's business activities were carried out in the People's Republic of China ("PRC").

4. **Income tax expense**

The Company and its subsidiaries are subject to PRC Enterprise Income Tax at a rate of 33% (2004: 33%).

The amounts of taxation charged to the income statement represent:

	Six months ended 30 June	
	2005	**2004**
	RMB'000	*RMB'000*
PRC current income tax	63,242	70,511
Deferred income tax	1,947	(206)
	65,189	70,305

5. **Earnings per share**

Basic

The calculation of earnings per share for the six months ended 30 June 2005 is based on the Group's profit attributable to equity holders of the Company of RMB176,659,000 (2004: RMB151,170,000) and the weighted average number of 564,541,339 (2004: 531,426,053 shares) ordinary shares in issue during the six months ended 30 June 2005.

Diluted

No fully diluted earnings per share is presented as the Company has no potential dilutive shares.

6. **Dividend**

The Board has resolved not to declare an interim dividend in respect of the six months ended 30 June 2005 (2004: Nil).

7. **Trade receivables**

	30 June 2005	**31 December 2004**
	RMB'000	*RMB'000*
Trade receivables	402,478	329,693
Less: provision for doubtful debts	(9,938)	(9,141)
	392,540	320,552

At 30 June 2005, the ageing analysis of the trade receivables is as follows:

	30 June 2005	**31 December 2004**
	RMB'000	*RMB'000*
0 to 3 months	211,796	244,138
3 months to 1 year	144,841	52,182
1 to 2 years	35,040	26,635
2 to 3 years	10,326	6,037
Over 3 years	475	701
	402,478	329,693

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.

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

8. **Trade payables**

At 30 June 2005, the ageing analysis of the trade payables is as follows:

	30 June 2005	**31 December 2004**
	RMB'000	*RMB'000*
1 to 3 months	220,006	117,956
3 months to 1 year	143,186	140,881
1 to 2 years	28,050	17,999
2 to 3 years	2,665	4,356
Over 3 years	1,527	2,307
	395,434	283,499

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The macroeconomic control measures of the Chinese government have further regulated the construction, building materials and real estate industry sectors and have provided a clear policy guidance to market driven economy to facilitate optimization of resources allocation, eliminating weaker players, and encouraging corporate acquisitions, merger and restructuring in these industry sectors. For enterprises with abundant capital, advanced technology and reputable brand name, these measures undoubtedly offer excellent growth and development opportunity.

Despite these macroeconomic control measures, the Group still managed to capture business opportunities generated from increases in urbanization in China to strengthen its three core businesses, leveraging on its well-established foundation in the construction industry. As a result, the Group continued to achieve favorable growth during the period under review. For the six months ended 30 June 2005, the Group's turnover was RMB2,550,957,000, representing an increase of 14% over the same period last year; profit attributable to shareholders was RMB176,659,000, up 17% over the corresponding period last year; earnings per share was RMB0.31, representing an increase of approximately 11% when compared with the same period a year ago; net assets value per share amounted to RMB2.4, surged 27% over the same period in preceding year.

1. Construction Business

During the period under review, the Group's construction business achieved a turnover of RMB1,686,585,000 (representing 66% of the Group's turnover), profit contribution of RMB74,688,000 (representing 37% of the Group's profit), a decrease of approximately 4% and 12% respectively over the corresponding period in the previous year. The Group adopts the percentage of completion method to account for revenue of its construction business.

Although the turnover and profit contribution from the construction business decreased slightly from the same period in the previous year, the Group's total construction projects in progress reached RMB10.1 billion, up 53% from the same period in the previous year. Moreover, the Group managed to solicit 170 new construction contract orders in the sum of RMB2.97 billion, up 6% over the same period last year. The increase in new contract orders has ensured the sustained growth of the Group's construction business in the future. Building on its technology advancement and excellent reputation, the Group has received numerous industry awards during the period under review.

Details of the Group's contracts under construction can be analysed as follows:

By category

	First half year of 2005		First half year of 2004		Change
	RMB million	*% of total*	*RMB million*	*% of total*	
Public Buildings	4,343	43%	2,842	43%	49%
Urban Infrastructure Projects	2,424	24%	1,653	25%	41%
Residential Projects	1,515	15%	1,058	16%	34%
Industrial Projects	1,818	18%	1,058	16%	100%
Total	10,100	100%	6,611	100%	53%

By Region

	First half year of 2005		First half year of 2004		Change
	RMB million	*% of total*	*RMB million*	*% of total*	
Shaoxing County of Zhejiang Province	2,121	21%	1,454	22%	46%
Other Counties of Zhejiang Province	3,636	36%	2,578	39%	41%
Shanghai	2,525	25%	1,851	28%	36%
Other Provinces in China	1,818	18%	727	11%	150%
Total	10,100	100%	6,611	100%	53%

2. Property Development Business

Property Sales

During the period under review, the turnover of the Group's property development was RMB528,178,000 (representing 21% of the Group's turnover), an increase of approximately 99% over the same period last year and contributed profit of RMB116,991,000 (representing 57% of the Group's profit), a slight increase of approximately 2% over the same period last year. The Group adopts the completion method to recognize the revenue of its property development business.

During the period under review, the achievement of the Group's property development business was primarily attributable to the City Garden Phase III project and Yulan Huating Project, both situated in Shaoxing. Approximately 43,459 square metres of floor area of City Garden Phase III were sold, achieving a turnover of RMB140,941,000; and an average selling price of RMB3,243 per square metre was registered. As regards Yulan Huating, 64,576 square metres of floor area were sold, giving a turnover of RMB369,830,000 and registering an average selling price of RMB5,727 per square metre.

Most of the Group's property development projects are located at the second tier cities in PRC's economic developed regions. The upsurge of real estate prices in those cities were not substantial, hence the Group's property business in these cities is not significantly affected by the Chinese government's macroeconomic control measures. During the first half of this year, the construction progress and sales of the Group's property projects remained strong.

Projects under Development

As at 30 June 2005, the Group's projects under development can be summarized as follows:

Name of Project	**Location**	**Saleable Area** *(square meters)*	**Equity Interest of the Group**
City Green Garden Phase I	Hefei	142,559	50%
Jing'an Ziyuan	Shanghai	51,344	70%

City Green Garden development project is located on the south end of Heping Road, Hefei's Yaohai District, one of Hefei's Special Development Zones with convenient transportation. The project mainly comprises high-end residential properties, retail shops and offices. City Green Garden has a total planned floor area of approximately 275,000 square metres and a total planned gross floor area of approximately 480,000 square metres, in which Phase I of the project has a planned floor area of approximately 68,000 square metres and a planned gross floor area of approximately 142,559 square metres. Construction of Phase I began in October 2004. During the period under review, all low rise buildings have already completed its capping. The high rise and multi-storey buildings are expected to be completed by the end of this year and the middle of next year respectively. A total of 348 residential units were pre-sold in Phase I. The pre-sale received overwhelming market response attracting a group of high networth individuals, ranging from civil servants to sole proprietors or businessmen. To date, all units offered have principally been sold out, at an average selling price of RMB3,300 per square metre.

Jing'an Ziyuan is located on Jiangning Road in Shanghai's Jing'an District, 500 metres from the downtown prominent area of Nanjing West Road, which is a truly prime location. This project, with a floor area of 8,341 square metres and a planned gross floor area of 51,344 square metres, will be developed into luxury service apartments. Construction of the project began in November 2004 and underground works are currently in progress, which is expected to be completed by the end of this year. The whole project is expected to complete capping by the end of 2006.

In addition to the above, the Group still has certain commercial or retail shops and parking spaces that are planned to be sold in the second half of the year, of which approximately 5,700 square metres are from City Garden Phase III Project and 6,000 square metres are from Yulan Huating Project.

3. Prefabricated Building Materials Business

During the period under review, the Group's prefabricated building materials business achieved a turnover of RMB286,220,000 (amounting to 11% of the Group's turnover), representing a growth of approximately 29% over the same period last year, and a profit contribution of RMB14,167,000 (amounting to 7% of the Group's total profit), representing a decrease of approximately 19% over the same period last year.

Although the large number of construction contracts of the Group have called for a high demand of inter-company prefabricated building materials, ensuring the stable growth of the Group's building materials business, the macroeconomic control measures imposed by the PRC government still have some impacts on the performance of the Group's prefabricated building materials business, leading to the decrease in gross profit margin. In addition, the slowdown in government fixed asset investment had, to a certain extent, impacted the growth rate of the Group's prefabricated building materials business.

Taking advantage of its environmental friendly and energy saving products, the Group's strengths and capability in building materials production and internal integration are beginning to pay off. The Group received a number of significant contract orders during the period, including a RMB130,000,000 order of curtain wall for Zhejiang Electric Power Building (浙江省電力大廈), and a RMB100,000,000 order of decoration and wood-based products and a RMB42,000,000 order of curtain wall for Ningbo Chamber of Commerce Building (寧波商會大廈). In addition, a RMB72,000,000 order of steel structures for Shanghai Development Building (上海發展大廈) is under active negotiation.

The macroeconomic control measures imposed by the PRC government will gradually phase out inefficient, pollutive and low technology building materials manufacturers and further enhance market mechanism. These measures will facilitate the rapid development of the Group's building materials business in the long run. In the meantime, the Group will further enhance the level of synergies in its prefabricated buildings materials, construction and property development businesses and draw on its research and development capability to strengthen its core competencies and competitive edges.

During the period under review, turnover of the Group's building materials business can be analyzed as follows:

Building Materials Products	**Turnover for the Period** *(RMB'000)*	**2005** **% of the Turnover of Building Materials Business**
Ready-mixed Concrete	75,569	26%
Glass Curtain Wall	71,454	25%
Assembly Furniture	55,883	20%
Steel Structures	29,863	10%
Concrete Piles	26,215	9%
Concrete Ducts	14,868	5%
Large Roof Sheathings	6,695	3%
Fireproof Materials	5,673	2%
Total	286,220	100%

BUSINESS PROSPECTS

The stable growth of the PRC economy and government fixed asset investment created a favorable macroeconomic environment for the healthy development of the Group's three core businesses, whilst the continuous urbanization fuels the rapid development of the construction, building materials and real estate markets. From the macroeconomic control measures imposed in the PRC since April 2004, the Group observed that the Chinese government policy strives to encourage enterprises to produce environmental friendly and energy saving products; upgrade the entry barriers for the construction, building materials and real estate industries, thus creating a favorable environment for corporate acquisitions, merger and restructuring in these industries. The Board believes that the Group, being a leading industry player capable of responding quickly to the market demand and equipped with resourceful management experiences, will benefit from the macroeconomic control measures undertaken by the Chinese government in fostering the Group's leading position in these industries and facilitating relevant acquisition plans, while at the same time enhancing the Group's confidence of producing building materials that meet the national standards of energy savings and environmental protections and the industry requirements.

1. Construction Business

During the first half of the year, the rapid development of the construction industry was hindered to some extent by the slowdown in government fixed asset investment, which recorded a year-on-year growth of 25.4%, but growth rate was down by 3.2% compared to the corresponding period last year. Nevertheless, as the continuous and rapid urbanization in the PRC drives the development of construction markets relating to infrastructure, energy, industrial, environmental, sports stadium and residential property, the PRC's construction industry would still retain its growth momentum.

Construction business will remain as the focus of the Group's future development. The Group has further positioned its market presence in Zhejiang and Shanghai, and has extended its market reach in Central and Northern China, with new business development in the construction markets in Shandong, Jiangxi and Tianjin. In particular, the aggregate contract sum of the three development projects in Tianjin (Hongqi Road, Yicheng (億城紅旗路), residential area in a duty-free zone (保税區生活區) and International Trade Center (國際商貿城)) amounts to RMB170,000,000. Judging from these achievements in the first half, it appears that the impact of the Chinese government macroeconomic control measures on the Group's construction business is minimal. The Group will continue to strengthen its presence in existing markets, and to increase its market share in Central and Northern China market by actively pursuing co-operation and acquisition opportunities. The Company at present has identified a state-owned construction group in Wuhan as its acquisition target. Negotiation is in progress and no agreement has been reached as at the date of this announcement. In the future, the market competition in the construction industry will be drawn on brand name, reputation and technology. With its solid experiences in the construction industry and increasing core competencies and competitive edges, the Board believes that the construction business will continue to be the major profit contributor for the Group.

2. Property Development Business

The impact of the Chinese government macroeconomic control measures on the real estate market segment is relatively more severe. In the first half of the year, property development investment in the PRC increased by 23.5%, the growth rate decreased 5.2% compared with the corresponding period last year. It should be noteworthy that the primary objective of these measures is to slow down overheated property market and to stabilize property prices, though painful and irresistible, it paves a healthy development in the long run. At present, the annual supply of real estate properties only amounts to 300,000,000 square metres, which is still fallen short of actual demand. The demand for residential units will continue to grow due to increases in urbanization in the PRC and per capita income. It is anticipated that the real estate market will remain buoyant for the next 15 to 20 years.

Going forward, the Group will remain prudent on the development of its property development business and will focus on the development of its existing land bank. Nevertheless, the Group will continue to acquire high quality land at low cost for future development when opportunities arise.

3. Prefabricated Building Materials Business

Although the growth in government fixed asset investment in the PRC has slowed down, the economic growth and increase in investment in urbanization nationwide remain strong, upon which has laid a solid foundation for stable and continuous development for the domestic building materials industry.

In July this year, the National State Council promulgated an important memorandum regarding the construction of resources-saving societies "關於做好建設節約型社會近期重點工作的通知", in which it requires the construction industry to set up resources-saving platform and mechanism as soon as possible so as to lay down a uniform resources-saving model and spending pattern, through effective re-use or recycling of wastes or resources, to ensure that continuous development of economy and societies can be attained.

The rapid development of the prefabricated building materials industry is the key for transforming China's construction industry from "construction to manufacturing". As a pioneer in the "industrialization of China's building materials", the Group has been dedicated to developing cost-effective and environmental friendly high quality semi-finished building materials. It will also set up a research centre to foster its research and development capability in building materials products. In light of the enormous business opportunities generated from "industrialization of building materials", the Board believes that innovative, environmental friendly and energy-saving building materials will be the focus of the industry's development, and hence the future growth momentum of the Group. The Group will continue to expand its building materials business in the next few years. It will actively pursue feasible opportunities to co-operate with leading international manufacturers in the "industrialization of building materials" in order to enhance its core competencies and competitive edges as and when opportunities arise.

FINANCIAL REVIEW

Treasury Policies

The Group continues to adopt prudent financial policies and exercise tight risk management control over its investment, financing and treasury. Its capital structure has always remained sound and solid. The Group will adjust its investment, financing and capital structure from time to time according to its future development and internal resources available, with a view to optimizing the capital structure of the Group.

The Group has established a Financial Settlement Center, which centralizes funding for all its subsidiaries at group level. The Board believes that such policy can achieve better control of the treasury operations, minimize financing risks and lower average cost of funding.

Financial Resources and Liabilities

With the support of steady growth in cash flow, sound credit record and excellent reputation in the industry, the Group was awarded an AAA credit rating in 2005 by a credit rating institution recognized by the People's Bank of China. Such excellent credit rating will benefit the Company's financing activities and allows the Group to continue to enjoy the prime rate under the interest rate policy of the People's Bank of China. During 2005, the Group maintained most of its borrowings on an unsecured basis. The amount of unsecured debt accounted for 89% of the total borrowings. Leveraging on its excellent credit rating, the Group continues to obtain its borrowings on an unsecured basis, which will be complemented by secured project loans when necessary.

As at 30 June 2005, the Group's bank borrowings, net of restricted bank deposits and cash and cash equivalents amounted to RMB222,483,000 (30 June 2004: RMB370,823,000). The Group's gearing ratio (calculated on the basis of net bank borrowings over total shareholder equity) is 17% (30 June 2004: 40%). The Group will continue to adopt prudent policy in respect of its gearing ratio.

Key Financial Ratios

	As at 30 June	
	2005	**2004**
Return on equity (%)	13.6%	16.2%
Net assets value per share (RMB)	2.4	1.9
Net gearing ratio (%)	17%	40%
Current ratio	1.17	1.03

Return on equity	=	earnings attributable to shareholders/total shareholders' equity
Net assets value per share	=	net assets/shares in issue at the end of the period
Net gearing ratio	=	net bank borrowings/total shareholders' equity
Current ratio	=	current assets/current liabilities

The key financial ratios of the Group were healthy and in its increasing improvement trend, largely attributable to the management's continued efforts in improving operating and financial performance of the Group. The return on equity decreased from 16.2% last period to 13.6% in the current period, which was primarily due to the fact that a significant amount of revenue from property development business was recognized according to completion method in the first half year of 2004. Although the Company conducted a placement exercise by issuing 36,136,800 new H shares during the period, the Company expects that the return on equity ratio will be further improved for the whole year, in anticipation of increased earnings in the balance of the year.

Cash Flow Analysis

		For the six months ended 30 June		
		2005	**2004**	**Changes**
	Notes	*RMB'000*	*RMB'000*	
Net cash inflow/(outflow) from operating activities	*1*	78,349	(143,416)	154.6%
Net cash outflow from investing activities	*2*	(55,298)	(177,331)	68.8%
Net cash inflow from financing activities	*3*	147,291	269,050	(45.3%)
Increase/(decrease) in cash and cash equivalents		170,342	(51,697)	
Cash and cash equivalents at 1 January		531,095	487,796	
Cash and cash equivalent at 30 June	*4*	701,437	436,099	60.8%

Notes:

1. Cash flow from operating activities has changed from a net outflow of RMB143,416,000 in the corresponding period last year to a net inflow of RMB78,349,000 of 2005, which has greatly improved the cash flow position of the Group. This was primarily attributed to the increase in operating revenue during the period, and management's effort to collect outstanding debts.
2. Cash outflow from investing activities was mainly used in acquiring an additional 35% equity interest in Zhejiang Baoye Building Materials Industrialization Company Limited.
3. Cash inflow from financing activities was mainly attributable to the placing of new H Shares, which raised net proceeds of approximately RMB148,499,000.
4. Cash and cash equivalent increased 60.8% to RMB701,437,000 in 2005 from RMB436,099,000 in 2004. The increase was primarily attributed to the net proceeds raised from the placing of new H shares, which has not been put to use; and the Group's prudent financial policies and tight risk management control over its investment, financing and treasury activities.

Details of the charges on the Group's assets

As at 30 June 2005, land use rights of the Group with net book value of approximately RMB58,461,000 were pledged to banks for securing guarantee of bank loans for the Group.

External Guarantee and Fulfillment

	At 30 June 2005	At 31 December 2004
	RMB'000	*RMB'000*
Guarantee given to banks in respect of mortgage facilities granted to third parties	41,500	58,690

The Group has issued performance guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of property projects developed by the subsidiaries of the Group. The bank will release such guarantee only upon the building ownership certificates of such properties are delivered to the banks as security.

Adjustment of RMB Exchange Rate and Foreign Exchange Risks
The Group's business activities and bank borrowings are all denominated and accounted for in RMB, and therefore do not have any direct exposures to foreign exchange fluctuation. The Board does not expect the adjustment of RMB exchange rate and other foreign exchange fluctuations will have any direct impact on the business operations of the Group.

Use of Proceeds
The total amount raised by the IPO of H Share by the Group in 2003 was approximately RMB236,830,000. In 2004, the Company has fully utilised the proceeds according to the proposed usage specified in the prospectus of the Company dated 17 June 2003.

In January 2005, the Company issued 36,136,800 new H shares, raising a net proceeds of approximately RMB148,499,000. Such proceeds will be used for business expansion outside Zhejiang Province and as general working capital.

Interests of Directors, Supervisors and Senior Management
As at 30 June 2005, the interests and short positions of each director, supervisor and chief executive of the Company in the shares, underlying shares or debentures of the Company or any associated corporation which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange were as follows:

Director/Supervisor/ Senior Management	Associated Corporation	Type of interests	Number of domestic shares held (long position)	Approximate percentage of the total registered capital
Mr. Pang Baogen	The Company	Individual	198,753,054	35.02%
Mr. Gao Jiming	The Company	Individual	13,024,647	2.29%
Mr. Sun Guofan	The Company	Individual	11,705,283	2.06%
Mr. Gao Lin	The Company	Individual	9,544,775	1.68%
Mr. Zhou Hanwan	The Company	Individual	8,233,510	1.45%
Mr. Xu Jianbiao	The Company	Individual	7,524,884	1.33%
Mr. Gao Jun	The Company	Individual	5,794,259	1.02%
Mr. Lou Zhonghua	The Company	Individual	5,633,172	0.99%
Mr. Wang Rongbiao	The Company	Individual	2,647,911	0.47%

Directors' and Supervisors' Rights to Acquired Shares or Debentures
Apart from those disclosed in the paragraph headed "Interests of Directors, Supervisors and Senior Management", at no time during the period was the Company, its subsidiaries or its jointly controlled entity a party to any arrangement to enable the Directors, the supervisors and their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of share in, or debentures of, the Company or any other legal entities.

Placing of New H Shares
On 13 January 2005, the Company entered into a share placing agreement with UBS, pursuant to which, UBS being the sole placing agent, agreed to procure independent investors to subscribe placing shares on a fully underwritten basis. The placing involved 36,136,800 new H shares, representing approximately 20.0% and 6.8% of H share in issue and the share capital of the Company prior to the placing respectively and approximately 16.7% and 6.4% of the H shares in issue and the share capital of the Company as enlarged by the placing respectively. The net proceeds from the placing, after deducting the commission and related expenses thereof, amounted to approximately RMB148,499,000.

Purchase, Sale or Redemption of the Company's Listed Securities
For the six months ended 30 June 2005, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Human Resources
As at 30 June 2005, the Group had 1,148 full time administrative staff (2004: 1,101) being permanent employees of the Group. There are approximately 42,000 construction site workers (2004: approximately 39,000) who are not permanent employees of the Group. Total staff costs amounted to RMB364,264,000 (2004: RMB345,055,000) for the six months ended 30 June 2005. Remuneration is determined by reference to market terms and the performance, qualifications and experience of individual employee. Employee benefits provided by the Group includes provident fund schemes.

Code of Corporate Governance Practices
In the opinion of the Directors, the Company has complied with the Code of Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") during the six months ended 30 June 2005, except that the chief executive officer of the Company is temporally assumed by Mr. Pang Baogen, the chairman of the Board.

In order to pursue his own personal career, Mr. Wei Falin tendered his resignation as chief executive officer to the Board. After serious consideration and respecting to Mr. Wei Falin's decision, the Board approved Mr. Wei's resignation as chief executive officer of the Company at the Board meeting held on 17 June 2005, while Mr. Wei agreed to act as the chief economist of the Company on a part time basis. The Board would like to express its appreciation to Mr. Wei for the invaluable achievements and contributions during his tenure. As the Company has not yet identified any suitable candidate, Mr. Pang Baogen, the chairman of the Board, will act as the chief executive officer on a temporary basis, while the Board will actively seek appropriate candidate to fulfill the vacancy.

Model Code For Securities Transactions by Directors
The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as the Code for Securities Transactions by Directors of the Company. Having made specific enquiries by the Company, the Directors have confirmed compliance with required standards set out in the Code for Securities Transactions by Directors of the Company throughout the six months ended 30 June 2005.

Remuneration Committee
The Company has established a remuneration committee on 1 April 2005 in accordance with the requirements of the Code of Corporate Governance Practice as contained in Appendix 14 of the Listing Rules. The remuneration committee comprises two independent non-executive Directors, namely Mr. Dennis Yin Ming Chan and Mr. Yi Deqing and one executive Director, namely Mr. Pang Baogen. Mr. Dennis Yin Ming Chan is the chairman of the remuneration committee.

Audit Committee
The audit committee of the Company comprises three independent non-executive Directors, namely Mr. Wang Youwei, Mr. Yi Deqing and Mr. Dennis Yin Ming Chan, whereas Mr. Wang Youwei is the chairman of the audit committee, and Mr. Dennis Ying Ming Chan is a qualified Hong Kong accountant with extensive experience in financial management. The primary duties of audit committee is to review and supervise the Group's financial reporting process and internal control system, as well as to provide relevant recommendations and advices to the Board. The interim results of the Group for the six months ended 30 June 2005 had been reviewed by the audit committee of the Company.

Disclosure of Information on the Stock Exchange's Website
Full contents of the interim report for the six months ended 30 June 2005 will be submitted to the Stock Exchange and published on the website of the Stock Exchange www.hkex.com.hk in due course.

Appreciation
The Board would like to take this opportunity to express its gratitude to all shareholders, customers, banks, professional parties and employees for their continuous patronage and support.

By order of the Board
Pang Baogen
Chairman

Shaoxing, Zhejiang, the PRC
26 August 2005

As at the date of this announcement, the Board comprises four executive directors, namely Mr. Pang Baogen, Mr. Gao Jiming, Mr. Gao Lin and Mr. Zhou Hanwan; two non-executive directors, namely Mr. Wu Weimin and Mr. Hu Shaozeng; and three independent non-executive directors, namely Mr. Wang Youwei, Mr. Yi Deqing and Mr. Dennis Yin Ming Chan.