宝 业
BAOYE

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 2006

Financial Highlights

- Operating profit was RMB528,772,000, representing an increase of 100% over the corresponding period last year.
- Profit attributable to equity holders of the Company was RMB401,068,000, representing an increase of 127% over the corresponding period last year.
- Earnings per share was RMB0.66, representing an increase of 113% over the corresponding period last year.

The board of directors (the "Board") of Baoye Group Company Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2006 prepared in accordance with the Hong Kong Financial Reporting Standards, together with the comparative figures for the corresponding period in 2005. The interim results had been reviewed by the audit committee of the Company and approved by the Board. The following financial information is extracted from the unaudited condensed consolidated interim financial information as set out in the Group's 2006 Interim Report:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited Six months ended 30 June	
		2006	**2005**
	Note	*RMB'000*	*RMB'000*
Turnover	*2*	2,895,757	2,550,957
Cost of sales		(2,570,309)	(2,293,871)
Gross profit		325,448	257,086
Other gains – net	*3*	288,574	59,713
Selling and marketing costs		(6,291)	(2,404)
Administrative expenses		(78,959)	(50,356)
Operating profit		528,772	264,039
Finance costs		(26,524)	(22,416)
Share of losses of associates		(20)	–
Profit before income tax		502,228	241,623
Income tax expense	*4*	(97,351)	(65,189)
Profit for the period		404,877	176,434
Attributable to:			
Equity holders of the Company		401,068	176,659
Minority interest		3,809	(225)
		404,877	176,434
Earnings per share for profit attributable to the equity holders of the Company – basic (expressed in RMB per share)	*5*	RMB0.66	RMB0.31

* *For identification purpose*

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30 June 2006 *RMB'000* Unaudited	31 December 2005 *RMB'000* Audited
ASSETS			
Non-current assets			
Property, plant and equipment		727,077	486,997
Investment properties		39,813	35,981
Land use rights		794,629	460,110
Goodwill		17,043	17,043
Properties under development		204,033	95,879
Investment in associates		34,768	–
Deferred income tax assets		13,253	22,844
		1,830,616	1,118,854
Current assets			
Inventories		80,456	54,233
Land use rights		252,778	286,350
Properties under development		380,900	606,348
Completed properties held for sale		73,160	72,276
Due from customers on construction contracts		787,302	517,919
Trade receivables	7	541,643	387,223
Other receivables		893,840	687,684
Restricted bank deposits		149,822	83,742
Cash and cash equivalents		735,961	742,289
		3,895,862	3,438,064
Total assets		5,726,478	4,556,918
EQUITY			
Capital and reserves attributable to the Company's equity shareholders			
Share capital		953,735	953,735
Reserves		209,840	235,884
Retained earnings		905,677	500,738
Proposed dividend		–	73,311
		2,069,252	1,763,668
Minority interest		69,069	64,363
Total equity		2,138,321	1,828,031
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		112,185	134,970
Current liabilities			
Trade payables	*8*	757,802	374,380
Other payables		777,644	432,769
Receipts in advance		91,645	227,352
Current income tax liabilities		112,355	85,896
Due to customers on construction contracts		447,565	389,137
Dividend payable		73,311	–
Borrowings		1,211,400	1,080,513
Provision for warranty		4,250	3,870
		3,475,972	2,593,917
Total liabilities		3,588,157	2,728,887
Total equity and liabilities		5,726,478	4,556,918
Net current assets		419,890	844,147
Total assets less current liabilities		2,250,506	1,963,001

Notes:

1. Basis of preparation and accounting policies

This condensed consolidated interim financial information for the six months ended 30 June 2006 has been prepared in accordance with HKAS 34, 'Interim financial reporting'. The interim condensed financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2005. The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2005, as described in the annual financial statements for the year ended 31 December 2005.

2. 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 total revenue attributable from the above three segments is approximately RMB2,870,471,000 and RMB2,500,983,000 for the six months ended 30 June 2006 and 2005 respectively.

Other operations of the Group mainly comprise the provision of construction and decoration design services and provision of rental services. Other results also comprise the investment properties fair value gains. Neither of these constitutes a separately reportable segment.

The business segment results for the six months ended 30 June 2006 and 2005 are as follows, respectively.

	Six months ended 30 June 2006				
	Construction	**Building materials**	**Property development**	**Others**	**Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total turnover	2,107,437	483,803	391,007	37,895	3,020,142
Inter-segment turnover	(76,541)	(35,235)	–	(12,609)	(124,385)
External turnover	2,030,896	448,568	391,007	25,286	2,895,757
Operating profit	315,707	41,578	168,147	3,340	528,772
Finance costs					(26,524)
Share of losses of associates					(20)
Profit before income tax					502,228
Income tax expense					(97,351)
Profit for the period					404,877
Other information					
Depreciation	10,096	12,378	601	1,073	24,148
Amortisation	1,442	36	322	–	1,800
Impairment of receivables	1,047	1,290	–	–	2,337

	Six months ended 30 June 2005				
	Construction	**Building materials**	**Property development**	**Others**	**Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total turnover	1,766,585	295,807	528,178	49,974	2,640,544
Inter-segment turnover	(80,000)	(9,587)	–	–	(89,587)
External turnover	1,686,585	286,220	528,178	49,974	2,550,957
Operating profit	95,000	51,403	117,390	246	264,039
Finance costs					(22,416)
Profit before income tax					241,623
Income tax expense					(65,189)
Profit for the period					176,434
Other information					
Depreciation	6,432	10,548	903	459	18,342
Amortisation	2,175	–	–	–	2,175
Impairment of receivables	150	1,225	–	172	1,547

Inter-segment transactions were entered into under normal commercial terms and conditions that would also be available to unrelated third parties.

The segment assets and liabilities as at 30 June 2006 and capital expenditure for the six months ended 30 June 2006 are as follows:

	Construction	**Building materials**	**Property development**	**Others**	**Unallocated**	**Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets	3,772,707	764,682	973,519	127,736	53,066	5,691,710
Associates	–	–	34,768	–	–	34,768
Assets	3,772,707	764,682	1,008,287	127,736	53,066	5,726,478
Liabilities	2,113,757	483,961	479,374	42,879	468,186	3,588,157
Capital expenditure	239,615	42,767	106	52	–	282,540

The segment assets and liabilities as at 31 December 2005 and capital expenditure for the six months ended 30 June 2005 are as follows:

	Construction	Building materials	Property development	Others	Unallocated	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets	2,508,681	715,629	1,233,359	40,424	58,825	4,556,918
Liabilities	1,623,717	380,078	616,198	22,998	85,896	2,728,887
Capital expenditure	16,585	52,887	–	1,652	–	71,124

Segment assets consist primarily of land use rights, property, plant and equipment, properties under development, completed properties held for sale, inventories, amounts due from customers on construction contracts, receivables and operating cash. They exclude items such as deferred tax assets and investment properties.

Segment liabilities comprise operating liabilities including amounts due to customers on construction contracts. They exclude items such as certain borrowings and income tax liabilities.

Capital expenditure comprises additions to property, plant and equipment, including additions resulting from acquisitions through business combination.

3. Other gains – net

	Six months ended 30 June 2006	2005
	RMB'000	*RMB'000*
Excess of the fair value of the net assets of subsidiaries acquired over the acquisition costs *(Note a)*	212,547	26,436
Interest income	34,925	20,424
Fair value gains on investment properties	3,832	–
Gains/(losses) on disposals of property, plant and equipment *(Note b)*	32,870	(27,468)
Government compensation	–	36,804
Others	4,400	3,517
	288,574	59,713

Notes:

a. Please refer to the paragraph headed "Construction business" under the section headed "Management Discussion and Analysis" of this announcement.

b. The gain on disposal of property, plant and equipment for the period under review arose from the disposal of a building previously occupied by the Group as office premises.

4. Income tax expense

No provision for Hong Kong profits tax has been made as the Group has no assessable profit earned in or derived from Hong Kong for the six months ended 30 June 2006.

The Group is subject to Enterprise Income Tax of the People's Republic of China ("PRC" or "China") at a rate of 33% (six months ended 30 June 2005: 33%).

The amounts of income tax expenses charged to the condensed consolidated interim income statement represent:

	Six months ended 30 June 2006	2005
	RMB'000	*RMB'000*
PRC current income tax	110,545	63,242
Deferred income tax	(13,194)	1,947
	97,351	65,189

5. Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2006 is based on the Group's profit attributable to equity holders of the Company of RMB401,068,000 (six months ended 30 June 2005: RMB176,659,000) and the ordinary shares in issue of 610,927,013 shares (six months ended 30 June 2005: weighted average number of 564,541,339 shares) during the six months ended 30 June 2006.

No fully diluted earnings per share is presented as the Company has no potential dilutive shares for both 2006 and 2005 interim periods.

6. Dividends

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2006. A final dividend of RMB0.12 per ordinary share for 2005, amounting to total dividend of RMB73,311,000 was approved at the annual general meeting of the Company held on 1 June 2006, which was paid on 12 July 2006.

7. Trade receivables

	30 June 2006	31 December 2005
	RMB'000	*RMB'000*
Trade receivables	697,542	399,470
Less: provision for doubtful debts	(155,899)	(12,247)
	541,643	387,223

At 30 June 2006, the ageing analysis of the trade receivables is as follows:

	30 June 2006 *RMB'000*	31 December 2005 *RMB'000*
Within 3 months	221,358	214,652
3 months to 1 year	286,991	138,534
1 to 2 years	102,833	36,352
2 to 3 years	37,219	9,552
Over 3 years	49,141	380
	697,542	399,470

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 2006, the ageing analysis of the trade payables is as follows:

	30 June 2006 *RMB'000*	31 December 2005 *RMB'000*
Within 3 months	398,874	231,944
3 months to 1 year	190,510	104,404
1 to 2 years	75,270	29,436
2 to 3 years	36,742	2,938
Over 3 years	56,406	5,658
	757,802	374,380

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Following the implementation of the macroeconomic control measures in 2005, the PRC Government continued to launch a series of macroeconomic control measures in the first half of the year 2006. The implementation of the macroeconomic control measures demonstrates the determination of the PRC Government to ensure a healthy economic growth and to prevent the economy from becoming overheated. The macroeconomic control policies will remain unchanged aiming to eliminate market concerns with respect to changes and instability in PRC Government policies. The policies include tightening credit, controlling land supply and regulating taxation, which will further regularise the development of construction, building materials and property business. The policies will provide positive impact on the market environment and help optimising resources allocation, creating good environment and opportunity for merger and acquisition for enterprises within the industries. To Baoye Group, which is a good corporate citizen with solid financial strength and is responsible for the society and the Government, this undoubtedly presents a great opportunity for growth and expansion.

During the first half of the year 2006, the Group grasped the above opportunity and acquired the Hubei Construction Group successfully. It also achieved the best operating results ever, marching towards a new milestone. For the six months ended 30 June 2006, the Group's turnover was RMB2,895,757,000, representing an increase of 14% over the same period last year. Operating profit reached RMB528,772,000, representing an increase of 100% from the corresponding period last year. Profit attributable to equity holders of the Company amounted to RMB401,068,000, soared 127% as compared to same period in 2005. Earnings per share was RMB0.66, representing an increase of 113% compared with the corresponding period of the previous year; and net assets per share reached RMB3.39, representing an increase of 42% over the same period last year.

1. Construction Business

During the period, the Group's construction business achieved a turnover of RMB2,030,896,000 (representing approximately 70% of the Group's total turnover). It also contributed an operating profit of RMB315,707,000 (representing approximately 60% of the Group's total operating profit), representing an increase of approximately 20% and 232% over the same period last year respectively.

On 21 February 2006, the Group acquired the entire interest of the Hubei Construction Group for an aggregate consideration of RMB132,855,000, which was another critical step for the Group in its nation-wide strategic planning after the acquisition of Hefei Qingfangcheng Baoye Real Estate Co., Ltd. The 12 operating units under the Hubei Construction Group were engaged in construction and related business. After the integration, the Group can take advantage of the abundant resources both of the Hubei Construction Group and of Hubei Province to rapidly expand the markets in Hubei and Central China.

The acquisition of the Hubei Construction Group did not only go with the policy of "nation retreats, people proceed", but also solved the problem about state-owned enterprises for the local government. The Group is also going to build a residential housing industrial park in Wuhan for production and sale of new building materials as well as to carry out its property development business. This will contribute much to the local economy and employment. Therefore, the Group has received tremendous support from the local government. The excess of the fair value of the net assets acquired from the Hubei Construction Group exceeds our cost of acquisition, amounting to approximately RMB212,547,000, which was recognised in the income statement (included in the operating profit of the construction business). The resulting excess of the fair value mainly arose from that of the Hubei Construction Group, which underwent debt restructuring exercise during the acquisition process, by using RMB43,000,000 in cash to discharge the entire bank loans' principal plus the then accrued interest of RMB222,707,000, leading to an increase of its net assets value by RMB179,707,000 accordingly.

After the acquisition, the Hubei Construction Group contributed RMB162,828,000 to the Group's turnover and suffered a net loss of RMB11,444,000 during the period from 22 February 2006 to 30 June 2006. In the first half of the year 2006, following the acquisition by the Group, the Hubei Construction Group underwent various post-acquisition corporate and business restructuring and re-organisation as well as rationalisation of human resources, the progress of which was good and has exceeded performance targets. It is expected that the Hubei Construction Group would be able to contribute to the Group's profit in the coming year. In the coming three to five years, the Group will base on its construction business to start its building materials and property development business in Hubei. It will follow its "3-in-1" business model in Hubei, developing "Hubei Baoye" to the Group's base in Central China with its scale comparable to that of the current Group's base in the Yangtze Delta region.

Breakdown of the Group's total contract value of construction-in-progress are as follows:

By project nature

	For the six months ended 30 June				
	2006		**2005**		
	RMB million	*% of total*	*RMB million*	*% of total*	*Change*
Government & Public buildings	6,036	43%	4,343	43%	+39%
Urban infrastructure	3,650	26%	2,424	24%	+51%
Residential projects	1,965	14%	1,515	15%	+30%
Industrial projects	2,387	17%	1,818	18%	+31%
Total	14,038	100%	10,100	100%	+39%

By region

	For the six months ended 30 June				
	2006		**2005**		
	RMB million	*% of total*	*RMB million*	*% of total*	*Change*
Shaoxing County of Zhejiang Province	842	6%	2,121	21%	-60%
Other Counties of Zhejiang Province	4,633	33%	3,636	36%	+27%
Shanghai	2,667	19%	2,525	25%	+6%
Other provinces in China	5,896	42%	1,818	18%	+224%
Total	14,038	100%	10,100	100%	+39%

Approximately RMB700,000,000 in the above contract value of construction-in-progress came from the newly acquired Hubei Construction Group.

As noted from the above analysis by region, construction business of our Group has been outbreaked successfully from Zhejiang Province as substantiated by the significant increase in percentage of business in other provinces. This demonstrates the effectiveness of our business expansion strategy and speeds up the pace in transforming our Group from a regional enterprise to a nation-wide enterprise.

2. ***Property Development Business***

Property Sales

During the period under review, the turnover of the Group's property development business amounted to RMB391,007,000 (representing approximately 14% of the Group's total turnover), representing a decrease of 26% over the same period last year. The Group's property development business contributed an operating profit of RMB168,147,000 (representing approximately 32% of the Group's total operating profit), representing a growth of 43% from the same period in 2005.

During the period under review, the revenue of the Group's property development business was mainly derived from City Green Garden in Hefei, Anhui. The total floor space of City Green Garden sold was approximately 103,000 square metres, achieving a turnover of approximately RMB356,000,000. The average selling price per square metre was approximately RMB3,500, up 6% over the target selling price per square metre of RMB3,300. As the selling prices fall within the affordable income level of local buyers, sales of City Green Garden has remained massive since its opening. The Group purchased the land at an appropriate time, the "3-in-1" business model enjoys cost savings and offers superior quality of properties for sales, therefore, even the selling prices were set at affordable level, these properties offered for sales still managed to attain 43% of operating profit margin.

Projects under Development

Project Name	**Location**	**Saleable Area (square metres)**	**Equity Interest of the Group**
City Green Garden Phase II	Hefei	170,000	100%
Zhejiang Commercial City	Hefei	100,000	75%
Jing'an Ziyuan	Shanghai	51,000	70%
Linjiang Green Garden	Shaoxing	56,000	100%
Four Seasons Garden	Shaoxing	525,000	100%

3. ***Building Materials Business***

During the period under review, the turnover of the Group's building materials business was RMB448,568,000 (representing approximately 15% of the Group's total turnover), representing an increase of 57% over the same period last year. The Group's building materials business contributed an operating profit of RMB41,578,000. The Group has been devoted to implement industrialisation of construction in China. The pre-fabricated building materials developed by the Group have received accreditation from the construction industry. Together with increased efforts in market development, the Group achieved a considerable growth in turnover and profit.

During the period under review, the turnover of the Group's building material is as follows:

Building materials	**For the six months ended 30 June Turnover during the period** *(RMB'000)*		
	2006	**2005**	**Change**
Ready-mixed concrete	136,439	75,570	+81%
Glass curtain wall	96,514	71,454	+35%
Wood products	78,441	55,882	+40%
Steel structure	68,598	29,863	+130%
Concrete pipes	32,541	26,215	+24%
Concrete ducts	18,698	14,868	+26%
Large roof sheathings	8,821	6,695	+32%
Fireproof materials	8,516	5,673	+50%
Total	448,568	286,220	+57%

On 8 March 2006, the Company signed a co-operative agreement with the Daiwa House Industry Co., Ltd., pursuant to which the two parties formed a strategic alliance for 10 years in the co-development of technology advancement skills for the manufacture of industrialised residential units. At present, Daiwa House has already deployed a group of engineers from Japan to station at the Group's Shaoxing Housing Industrial Park. They are working with our research and development staff to co-develop the construction technologies and skills for the manufacture of pre-fabricated building materials and industrialised residential units that are fit and appropriate for the China market. It is expected that as our technology for pre-fabricated building materials advances, and with the economic advantage in mass production, the profit margin of the building materials business will steadily increase.

BUSINESS PROSPECT

The Group, after more than 31 years of accumulated industry experience, is one of the Mainland incorporated companies listed in Hong Kong, adopts the "3-in-1" business mode, that is, the upstream in manufacture of building materials, midstream in construction, and low-stream in property development, which helps to create its core competitive edge in the marketplace, is able to capture the high growth and expansion drive in the coming three to five years against the effect of macroeconomic control measures. Facing the anticipated high growth and rapid development phases, the Board has earmarked the following plans and road maps:

1. Construction Business

Construction industry is the fundamental industry of China. As the urbanisation process in China keeps evolving and the government investment in fixed assets keeps increasing, the construction industry will grow rapidly in the years to come vis-a-vis the market capacity.

At present, impacted by the macroeconomic austerity measures, the construction industry market in China is in a revolutionary stage and restructuring phase under regulatory development and correction for growth. "Nation retreats, people proceed" becomes the core melody of development. As the best non-state owned construction enterprise in the Mainland, and leveraging on healthy financial and human resources, sound management model as well as its prestigious brand name, the Group will continue to consolidate its current market share to which the Group operates and extend its market reach on a nation-wide basis when suitable opportunity arises.

- The Group is going to consolidate the construction market in the Yangtze Delta region. With its base in Hefei and Wuhan, the Group will further expand the market in Central China, and effectively increase the Group's current market share in these regions.
- The Group will seize the historic opportunity that Tianjin is to be made the Northern economic centre and the 2008 Beijing Olympic Games to exploit the construction market in the Northern China.
- At this critical point of time when "nation retreats, people proceed" and through merger and acquisition, the Group will enter the high-end construction market by biding for high-return construction projects such as ports and highways, further enhancing the Group's core competitiveness.

2. Property Development Business

The macroeconomic control measures are in its third year of implementation since 2004 and had basically obtained positive results. Based on the latest macroeconomic control measures being announced and implemented, the future prospects for property development industry become clearer and remain reasonably bright.

The property development business is an important part for the Group to becoming a nation-wide sizable construction conglomerate. At present, the Group focuses on five major projects, namely Four Seasons Garden in Shaoxing City, Linjiang Green Garden in Shaoxing County, Jing'an Ziyuan in Shanghai, City Green Garden and Zhejiang Commercial City in Hefei City. Besides, the quality land bank in Wuhan of approximately 500,000 square metres, which was obtained from the acquisition of the Hubei Construction Group, will be gradually developed within the next three years. The above projects will suffice the requirements for development and construction in the coming five years, and will generate huge profit for the Group. Most of the Group's land bank was secured in previous few years at extremely low cost base and will warrant good profitability when property price rises. Even when the property price decreases, it can still generate reasonable profit margin that is above the average in the industry, which enables the Group to be positioned in the forefront and competitive position.

The Group will maintain its prudent development strategy, relying on the development of existing land reserves, devoting to develop high-quality properties and enhancing the reputation of Baoye brand in this area. At the same time, the Group will fully utilise the standardisation of industry and the resources integration brought about by the macroeconomic control measures. In cities located in Central China where there exists high potential in economic development and rapid increase in income per capita, the Group will selectively acquire quality and inexpensive land as reserves.

3. Building Materials Business

In the 11th Five-year-plan, the PRC government emphasises the concept of conserving energy consumption and creating energy-saving societies. This enlarges the room for development for the Group as it has long been developing and producing energy-saving and environmental friendly building materials. Since its recognition to be the only experimental enterprise in Zhejiang Province of housing industrialisation by the Ministry of Construction in 1997, the Group has been devoting to research and development of new building materials. The Group has also entered into an agreement with the Daiwa House Industry Co., Ltd., pursuant to which the two parties have agreed to form a strategic alliance in the co-development of technology advancement skills for the manufacture of industrialised residential units. This is going to strengthen the Group's technical know-how in the manufacture of industrialised residential units and will thus strengthen one of the Group's principal business lines, namely the research, development, production and sale of prefabricated building materials. Simultaneously, this has set a foundation for any possible future co-operation, joint venture or otherwise with Daiwa House in the construction and/or sale of real estate units.

At present, various kinds of the Group's building materials are being produced in the Housing Industrial Park in Shaoxing, including steel structure, glass curtain wall and wood products, with an annual production scale of capability of RMB2 billion. At the same time, construction of the Housing Industrial Park in Hefei and Wuhan has commenced and is under planning respectively. It is expected that the Group will become a sizable building materials manufacturer with a production capability of RMB10 billion before 2010. The market capacity of "industrialisation of building materials" can be as large as several thousands billion in RMB. Therefore, it is believed that the new form of building materials produced by the Group will have great demand within the coming few years, and thus becoming the highest profit enhancement contributor to the Group's profit.

The Group will continue to focus on developing its three main businesses and expand its markets in other regions in China to complete a nation-wide positioning plan. It is expected that the Group's operating results will experience rapid growth in the coming years. At the same time, as the profit from sales increases, new form of building materials and property development businesses, which have attained higher profit margins, will gradually increase over time in proportions of the Group's profitability. This will help increasing the overall gross profit margin and net profit margin of the Group in the coming years.

FINANCIAL ANALYSIS

Treasury Policies

The Group takes a prudent approach on financial policies, adopting stringent risk management measures for its investment, financing and use of cash as well as maintaining a sound capital structure. We will adjust our investment, financing and capital structure from time to time according to the future sustainable development needs and the 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 all its subsidiaries at Group level. The Board believes that such policy can achieve better controls on treasury operations, minimise financing risks and lower the average cost of capital.

Financial Resources and Liabilities

With its steady growth in cash flow, sound credit record and excellent reputation in the industry, the Group preserved the AAA credit rating by a credit rating agency recognised by the People's Bank of China in 2006. Such excellent credit rating will benefit the Company's financing activities and allows the Group to continue to enjoy the prime rate offered by the People's Bank of China. At present, the bank borrowings of the Group bear an interest of a rate between 5% and 7%. During the period, 78% of the Group's borrowings were on an unsecured basis. The Group will take advantage of its good credit to continue to take unsecured borrowings, which will be complemented by secured project loans when necessary.

As at 30 June 2006, the Group's net bank borrowings, after deducting cash and bank deposits, amounted to RMB325,617,000 (30 June 2005: RMB222,483,000). The Group's gearing ratio (net bank borrowings/total shareholders' funds) was 15.7% (30 June 2005: 17%). The Group will continue to adopt prudent policy to maintain low gearing ratio.

Use of Proceeds

In 2005, through two issues of new H shares, the Group had raised proceeds of approximately RMB366,159,000 in total (after deducting issuance expenses). The proceeds received were all utilised strictly in accordance with the proposed application plan as stated in the announcements of issue of new H shares.

	RMB
Acquisition of 50% equity interests in Hefei Qingfangcheng Baoye Real Estate Co., Ltd	145,000,000
Acquisition of the entire equity interests in the Hubei Construction Group	132,855,000
General working capital	88,304,000
Total	366,159,000

Key Financial Ratios

	As at 30 June 2006	**2005**
Return on equity (%)	19.40%	13.60%
Net asset value per share (RMB)	3.39	2.40
Net gearing ratio (%)	15.70%	17.10%
Current ratio	1.12	1.17

Return on equity	=	profits attributable to shareholders / total shareholders' funds
Net asset value per share	=	net assets / number of issued shares at the end of the period
Net gearing ratio	=	net bank borrowings / total shareholders' funds
Current ratio	=	current assets / current liabilities

The proceeds raised from the two issues of new H shares last year were immediately being applied for use in acquisition projects, generating hefty returns for the Group within a short period of time. As a result, both the return on equity and net asset value per share during the period have experienced enormous improvement compared to that of last year. Besides, the gearing ratio was further reduced. When the Group's profit continues to grow, it is expected that there is still room for improvement of the return on equity for the year 2006.

Cash Flow Analysis

	Note	**As at 30 June 2006** *RMB'000*	**2005** *RMB'000*
Net cash (outflow)/inflow from operating activities	*1*	(140,732)	78,349
Net cash inflow/(outflow) from investing activities	*2*	29,690	(55,298)
Net cash inflow from financing activities	*3*	104,714	147,291
(Decrease)/increase in cash and cash equivalents		(6,328)	170,342

Notes:

1. Net cash outflow from operating activities during the period is mainly because the cash inflow from property sales had already been received in the previous financial year. It is expected that as the operating business steadily grows, the cash flow from operating activities towards the end of this year will increase.
2. The cash inflow from investing activities was mainly derived from the disposal of a building previously occupied by the Group as office premises.
3. During the period, cash inflow from financing activities was mainly attributable to increased bank borrowings.

External Guarantee and Fulfillment

	30 June 2006 *RMB'000*	**31 December 2005** *RMB'000*
Guarantee given to banks in respect of mortgage facilities granted to third parties	14,426	67,500

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 upon the building ownership certificates of such properties are delivered to the banks as security.

Details of the Charges on the Group's Assets

As at 30 June 2006, the Group pledged its land use rights and buildings with aggregate value of approximately RMB512,303,000 (31 December 2005: RMB306,230,000) to secure short-term bank loans.

Capital Expenditure and Commitments

In the first half of the year 2006, the Group's major capital expenditure amounting to RMB132,855,000 was used for acquisition of the Hubei Construction Group and a total of RMB42,767,000 for the purchase of factories and machines for the building materials business, in which approximately RMB20,000,000 for building the Housing Industrial Park in Hefei. Save as aforesaid, the Group had no other major capital commitments as at 30 June 2006.

Adjustment in 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 material impact on the business operations of the Group.

Connected Transactions

During the period under review, Group did not conduct any connected transaction that requires disclosure under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2006.

HUMAN RESOURCES AND REMUNERATION POLICIES

As at 30 June 2006, the Group had a total of approximately 3,524 permanent employees, including 2,000 employees of the Hubei Construction Group (the same period in 2005: 1,148), and approximately 51,000 construction workers (the same period in 2005: approximately 42,000) who are not permanent employees of the Group. For the six months ended 30 June 2006, total staff costs amounted to RMB409,103,000 (the same period in 2005: RMB364,264,000). Remuneration is determined by reference to market terms as well as the performance, qualification and experience of the individual. Other benefits provided by the Group include pension and medical insurance. The Group highly values human resources management, and devotes to build a high quality team to support its long term business development. The Board intends to implement a more effective employee incentive plan.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2006, except that the role of the chief executive officer of the Company has been assumed by Mr. Pang Baogen, the chairman of the Board, since the ex-chief executive officer of the Company resigned last year. Three general managers have been appointed to overseeing and managing the three main business activities (construction, property development and building materials) of the Group respectively, each of whom has partly 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 new policies efficient. Therefore, the Board endorsed the position of chief executive officer to be assumed by the chairman of the Board. Nevertheless, 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

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in Appendix 10 of the Listing Rules as its own code of conduct regarding the securities transactions by the directors. Specific enquiry has been made by the Company, all directors have confirmed that they have compiled with the required standards set out in the Model Code throughout the six months ended 30 June 2006.

AUDIT COMMITTEE

The audit committee of the Company consists of three independent non-executive directors, Mr. Wang Youwei, Mr. Yi Deqing and Mr. Dennis Yin Ming Chan. Mr. Dennis Yin Ming Chan possesses professional accounting qualifications with extensive experience in financial management. The audit committee held two meetings during the period. All three members attended the two meetings. The audit committee has discussed the accounting policies as well as critical accounting estimates and assumptions with management, discussed with the auditors on the audit plan and key audit areas. And the audit objectives and the scope of the internal audit department of the Group were also discussed. The interim results of the Group for the six months ended 30 June 2006 had been reviewed by the audit committee.

PUBLICATION OF INTERIM REPORT

The full text of the Company's 2006 Interim Report will be despatched to the shareholders of the Company and posted on the website of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) in due course.

APPRECIATION

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

By order of the Board
Pang Baogen
Chairman

Zhejiang, the PRC
7 September 2006

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