

Annual Report 2003 年年報

From Building to Manufacturing
China's Urbanization Operator

從建造到製造
中國城市化經營商



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

Our Mission 企業使命

To be the Key Player in 致力成為
China's Construction Industry
中國建築業之行業翹楚





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Corporate Information

DIRECTORS

Executive Directors

Mr. Pang Baogen, *Chairman*
Mr. Gao Jiming
Mr. Gao Lin
Mr. Zhou Hanwan

Non-executive Directors

Mr. Wu Weimin
Mr. Hu Shaozeng

Independent Non-executive Directors

Mr. Wang Youwei
Mr. Yi Deqing
Mr. Xu Yangsheng

SUPERVISORS

Supervisors

Mr. Sun Guofan
Mr. Xie Qisheng

Independent Supervisors

Mr. Sun Machuan
Mr. Chen Xingquan
Mr. Yu Zengmin

AUDITORS

PricewaterhouseCoopers
22nd Floor
Prince's Building
Central, Hong Kong

LEGAL ADVISERS

As to Hong Kong law:
Kwok & Yih
37th Floor, Gloucester Tower
The Landmark
Central, Hong Kong

As to PRC law:
Jingtian & Gongcheng
15th Floor
The Union Plaza
20 Chaoyang Menwaidajie
Beijing 100020, The PRC

LEGAL ADDRESS

Yangxunqiao Township
Shaoxing County
Zhejiang Province
The PRC

PLACE OF BUSINESS IN HONG KONG

Rooms 3705-6, 37th Floor
Gloucester Tower
The Landmark
Central, Hong Kong

COMPANY SECRETARY

Ms. Chung Oi Yin, Irene ACS, ACIS

AUTHORISED REPRESENTATIVES

Mr. Pang Baogen
Mr. Gao Jiming

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai, Hong Kong

PRINCIPAL BANKERS

Agriculture Bank of China
Bank of Communications
China Construction Bank

INVESTOR RELATIONS

Strategic Financial Relations (China) Limited
Unit A, 29th Floor, Admiralty Centre I
18 Harcourt Road, Hong Kong
Website: www.strategic.com.hk

STOCK CODE

2355

Financial Highlights

(in RMB'000)

Year Ended 31st December	Consolidated			
	2003	2002	2001	2000
Turnover	2,994,472	2,297,526	1,604,574	981,896
Gross profit	252,752	262,818	195,208	130,355
Operating profit	206,145	219,528	185,693	94,232
Profit attributable to shareholders	112,409	141,075	122,053	59,734
Basic earnings per Share	RMB0.255	RMB0.402	RMB0.348	RMB0.341

As at 31st December	2003	2002*	2001*	2000*
	Total assets	2,539,428	1,378,971	1,309,804
Total liabilities and minority interests	1,723,020	921,426	978,081	666,523

* The adoption of revised SSAP 12 "Income taxes" represented a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

Corporate Structure

Baoye Group Company Limited
(HK Stock Code: 2355)

Building Materials Business

Research, development and sale of building materials and semi-finished building materials

Ready-mixed concrete

Concrete piles

Concrete ducts

Large roof sheathings

Fire-proof materials

Construction Business

Undertaking and implementing construction projects

Public utilities/
Construction for public use

Urban works and
infrastructure

Commercial buildings

Residential buildings

Industrial buildings

Exterior and
interior decoration

Electrical and electronic
facilities installation

Fire-proof facilities
installation

Curtain wall installation

Roads, bridges and
marine channels

Real Estate Business

Development of real estate projects

Keqiao City Garden Phase I
柯橋城市花園一期

Keqiao City Garden Phase II
柯橋城市花園二期

Keqiao City Garden Phase III
柯橋城市花園三期

Guazhu Fengqing
瓜渚湖風情小區

Jingan Zibao
靜安紫寶

Yulan Grand Palace
毓蘭華庭

Anhui City Greenland
安徽城市綠苑



Chairman's statement

For Baoye Group Company Limited (the "Company") and its subsidiaries (the "Group" or "Baoye Group"), the year of 2003 was an exciting year because we have been established for 29 years and is now preparing to celebrate its 30th anniversary. With hearts of union and unyielding team spirit, the H shares of the Company have successfully been listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30th June 2003 – an important milestone for the Group.

Mr. Pang Baogen, Chairman

Chairman's Statement

The Baoye Group is based in Zhejiang Province and the Yangtze River Delta. The Group's core business is the undertaking and implementation of construction projects. Together with research, development and sale of semi-finished building materials, and real estate development, the Group has extended its business upstream and downstream and emerged as a vertically integrated construction enterprise. The Group is one of China's distinctive one-stop construction enterprises, and with our commitment to the development of high-quality major construction projects in more than two decades since our establishment, we become a symbol of excellence in the construction industry in China. With sustained rapid growth, Baoye has become one of the leading privately-owned construction enterprises in China.

In 2002, Baoye Group became one of China's 43 construction enterprises to obtain the premium class certificate for general building construction contracting works, the highest qualification issued by the Ministry of Construction. This qualification allows the Group to contract for construction projects of any size and any complexity. Since attaining this certificate, the number of projects undertaken by the Group has increased while many of the completed projects have received awards. In 2003, on top of achieving the record of winning the "Lu Ban Award for Chinese Construction Projects" six times, the Group won a total of 59 quality awards for its completed projects, including "Silver Medal of the State Outstanding Construction Projects", "National Construction Decoration Award", "Zhejiang Province's Qianjiang Cup", "Shanghai's Bai Yulan Cup", and "User Satisfaction Award for Shanghai Residential Projects". These qualifications and accolades further affirm the Group's lofty status within the industry, giving us an absolute competitive advantage when bidding for large-scale and high-profit projects. The general contracting for construction projects is the platform from which the Group develops its three main businesses, and is driven by the high growth brought about by urbanisation.



The Group is actively developing high-quality semi-finished building materials that are cost-effective and in line with the concept of energy conservation in China. To tie in with the government policy of 'Building Materials Industrialisation', the Group started to build a building materials industrial park in the Kexi Industrial Park in the Keqiao Economic Development Zone of Shaoxing County, Zhejiang Province in 2002. The development was named "Baoye Residential Industry (Building Materials) Park" ("Building Materials Park"). During the year, the Group actively accelerated the construction of the Building Materials Industrial Park, the construction of two of the projects was completed, the construction of two of the projects has commenced, while one project is in the planning stage. The quality building materials researched and developed by the Group received enthusiastic response and the Group has become the leader in the industrialisation of building materials in Zhejiang Province. Sales growth of ready-mix concrete and concrete piles was outstanding with sales growing steadily and rapidly. The building materials business represents the Group's evolution "from building to manufacturing", and has special historical significance. Although this



Chairman's Statement

business contributed only a limited portion of the Group's total revenue, the Group firmly believes that led by this revolutionary business development, the building materials business will be an important point of business and profit growth.

China continued to implement its proactive financial policy in 2003 and the Chinese economy maintained its robust growth. The growth in the people's income has stimulated the demand for residential property, resulting in constantly rising property prices. During the year, the Group maintained stable development in real estate business. The kick-off of key national projects, the construction projects related to the large-scale development of Western China, China's urbanisation process and the sustained property development boom have resulted in the development of the China construction industry at unprecedented speeds. According to statistics, Zhejiang Province ranked first in China's construction industry in 2003, with an output value of RMB310.0 billion, an increase of 21.4% over the previous year. These have provided vast business opportunities for the Group.

With our unwavering faith and our commitment to continuous improvement in our construction business, Baoye Group has obtained satisfactory results and gained market recognition, and becoming a leader in China's construction industry. In future, the Group will continue to focus on developing its construction business. Based on a 'vertical integration' model, the Group will develop both its upstream building materials business and downstream real estate business, capitalising on the synergy among the three businesses and leveraging the 'Baoye' brand – now a symbol of excellence in the construction industry – to bring all its business activities into harmony. Our objective is to ride on the advantage of 'click and brick' to realise the target of "from building to manufacturing", and to capitalise on the inevitable trend of urbanisation in China to consolidate our Group's leadership in China's construction industry. The Group will try its best to repay our shareholders.

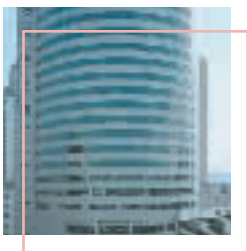


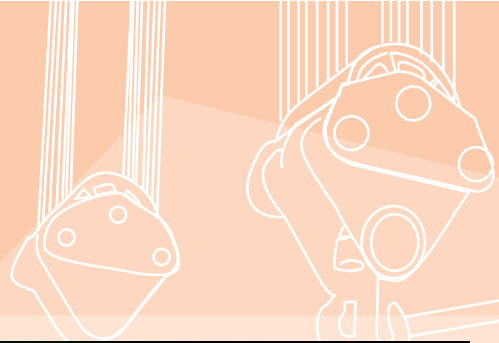
The great achievements of Baoye Group were the results of the accumulated effort of its staff. I would like to express my heartfelt thanks to our devoted staff and would like to share with them our success with great pleasure.



Pang Baogen
Chairman

28th May 2004





Management Discussion and Analysis

The directors of the Company (the “Directors”) are pleased to present the annual results for the year ended 31st December 2003.

RESULTS

During the year, despite having to face the adverse effects of undesirable events including the war in Iraq and Serious Acute Respiratory Syndrome, China maintained steady development with the 9.1% growth in GDP to a total of RMB11,670 billion. The GDP of the Yangtze River Delta, where the Group is located, accounted for almost 20% of China’s overall GDP, at RMB2,277.5 billion.

The overall fixed assets investment in China and Zhejiang Province amounted to approximately RMB5,511.8 billion and RMB494.683 billion, respectively in 2003, representing a year-on-year growth of 26.7% and 38.1%, respectively. The healthy and rapid growth in economy, investments and people’s income helped the Group’s three major businesses: the general contracting of construction works, the manufacture and sale of building materials, and real estates development all maintained a fast, healthy and steady growth.

For the year ended 31st December 2003, the Group recorded a turnover of RMB2,994.5 million, an increase of 30.3% over the previous year. Profit attributable to shareholders was RMB112.4 million (2002: RMB141.1 million). Earnings per share were RMB25.5 fens (2002: RMB40.2 fens).

The Group recorded pre-sale receipt in advance of approximately RMB300 million from the sales of Phase I of Guazhu Fengqing (瓜渚湖風情小區), a residential project developed by the Group’s subsidiary Zhejiang Baoye Real Estate Group Co., Ltd. in 2003, which will bring a net profit of around RMB70 million to the Group. Since the profit was not recognised in the accounts of 2003, profit attributable to shareholders decreased by 20.3%. However, such profit will be recognised in 2004.

At the board meeting held on 28th May 2004, the Directors declared a final dividend of RMB0.0635 per ordinary share for the year ended 31st December 2003. The proposed dividend is not reflected as a dividend payable in the accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2004.

BUSINESS REVIEW

Based in the Zhejiang Province and the Yangtze River Delta, our main businesses are general contracting for construction works, manufacture and distribution of building materials and development and sale of properties in the PRC. During the year under review, the Group recorded stable development in its businesses.

Management Discussion and Analysis

CONSTRUCTION BUSINESS

The Group is principally engaged in general contracting for the urban public works, roads, bridges and marine channels, industrial and civil construction works, as well as other specialised construction projects, such as indoor and outdoor decoration works, electrical and mechanical equipment installation, fire services equipment installation, and the production and installation of different kinds of curtain walls.

The continual urbanisation of cities in China has allowed the country's construction industry to maintain consistent development. In 2002, the Ministry of Construction ("MOC") adjusted its grading system on the qualifications of construction enterprises and tightened the criteria on entrance into the industry. The Group holds a premium class certificate for general building construction contracting works, the highest qualifications awarded by the MOC in the PRC. The adjustment has brought out the edge of the Group and enhances its position to further expand its business.

During the year under review, the Group, with its competitive edges of quality, reputation and brandname, completed 233 construction projects with a total gross floor area of 1,778,000 sq.m., bringing in an income of RMB2,683.1 million, equivalent to 89.6% of the aggregate turnover of the Group. While the Group kept up its efforts in consolidating its business in Zhejiang and Shanghai, its markets were extended to Jiangsu, Anhui and Beijing. It is worth noting that the Group won bids of quality projects including the Shanghai Xijiao Shiji Hua Cheng (上海西郊世紀華城) with a contract sum of RMB600 million, the Suzhou Industrial Park Modern Building (蘇州工業園現代大廈) with a contract sum of RMB122.68 million and the Hefei CBD Plaza (合肥CBD廣場) with a contract sum of RMB126.34 million, during the year.

The projects completed included (by category):

- 36 urban works projects, such as Binjiang Avenue (濱江大道), Huxi Park (湖西公園), Changxin Western Ring Road Project (長興西環線工程), the Road network of Pujiang Industrial Park (浦江工業園區區間道路), Ferry Pier of Lishui and Kubei (麗水雲和庫北交通碼頭).
- 109 public utilities projects such as the Shaoxing Wenli Institute Library (紹興文理學院圖書館), Paojiang International Logistics Centre (袍江國際物流中心), Civil Affairs Welfare Office (民政局福利院), Shaoxing Grand Theatre (紹興大劇院), Wuyi People's Hospital (武義人民醫院).
- 59 residential projects such as the Shanghai Four-Season Spring House (上海四季春別墅), Bai Yulan Garden Phase III (白玉蘭花園三期) and Shanghai New Times Garden (上海新時代花園).
- 29 industrial projects such as the Hangzhou Huaye Technology Company Limited Standard Factory (杭州華業科技有限公司標準廠房), Yutai Industrial and Commercial Company Limited Factory (裕泰工貿有限公司廠房) and Ningbo Mrs. Fang Kitchen Utensils Factory (寧波方太廚具廠房).

Management Discussion and Analysis

CONSTRUCTION BUSINESS *(continued)*

The construction projects categorised by geographical location are as follows:

- 111 projects in the Shaoxing Region, such as Industrial and Commercial Department Office Building (工商局大樓), Shaoxing County Public Transport Company Office Building (紹興市公交公司辦公樓) and Kebei Avenue (柯北大道).
- 53 projects in other parts of Zhejiang Province, such as the Lishui Teachers' School Lecture Building (麗水師專教學樓), Wuyi People's Hospital (武義人民醫院), Hangzhou Baima Apartment (杭州白馬公寓), Fuyang Yongtai Office Building (富陽永泰辦公樓), Huangyanbin Binjiang Century Highrise Apartment (黃岩濱江世紀高層公寓) and Rui An – Cangnan Section of the Yong'an Expressway (甬安高速公路瑞安至蒼南段).
- 69 projects in the Shanghai Municipality and other parts of China, such as New Times Garden Phase III (新時代花園三期), Bai Yulan Garden Phase II (玉蘭花園二期), Four-Season Spring House (四季春別墅), Shangcai Factory Product Exhibition Centre (上柴廠產品展示中心), Hubei Yinfeng Textiles Company Limited (湖北銀豐紡織有限公司) and new students' hostel in Anhui University (安徽大學新校學生公寓).



Projects undertaken by the Group constantly gain industry recognition. During the year, 59 of the Group's projects received awards and the major awards received included:

Awards	Project
Silver Medal of the State Outstanding Construction Projects	– Shanghai Lianyang Garden
National Construction Decoration Award	– Huzhou County Electrical Power Allocation Centre
Zhejiang Province's Qianjiang Cup	– Shaoxing Wenli Institute Nanshan Company – Area A of Taizhou Telecom Allocation Management Office – Fuyang Yongtai Office Building – Shaoxing Agriculture Bank Keqiao Finance Centre – Shaoxing Province Administration Centre
Shanghai's Bai Yulan Cup	– Bai Yulan Garden Phase II G2, 3, 5 – Four-Season Spring House No. 6-12 – Aviation Electronic R&D Testing Building Phase II
Shanghai's Pujiang Cup	– New Times Garden Phase III Building No. 2-11 – Daan Garden Club House

Management Discussion and Analysis

CONSTRUCTION BUSINESS *(continued)*



The Group had 343 projects in progress as at 31st December 2003, including 71 municipal and infrastructure projects, 111 public utilities projects, 89 residential projects and 72 industrial projects, with a total contract sum of approximately RMB6,500 million. Among these, over 200 projects are expected to be completed in 2004.

BUILDING MATERIALS BUSINESS

The Group is determined to develop quality semi-finished building materials that are cost-effective and in line with policy of energy conservation adopted in the PRC. These materials include ready-mixed concrete, concrete piles, concrete ducts, large roof sheathings, and fire-proof materials. While there was pressure to increase product prices as prices of raw materials, such as cement and steel increased, the demand for building materials grew as a result of huge investment on fixed assets in Zhejiang Province. Responding to these market forces accordingly, and through extending its sales channels, the Group's turnover from building materials business was RMB226.0 million (2002: RMB148.7 million), accounted for 7.5% (2002: 6.5%) of the Group's total turnover.

The Group's semi-finished building materials are proven to be very popular. The growth of sales for ready-mixed concrete was most significant. During the year, the sales and growth rate of various semi-finished building materials were as follows:

Semi-finished building materials	Sales in 2003 (RMB'000)	Proportion in building materials sales	Growth (year on year)
Ready-mixed concrete	163,141	72%	62%
Concrete piles	24,927	11%	35%
Concrete ducts	24,696	11%	26%
Large roof sheathings	5,291	2%	48%
Fire-proof materials	7,933	4%	25%

As the Group has innovated and improved its building materials in the past few years, production costs were reduced accordingly. The Group could sell building materials at relatively lower prices allowing it to capture a larger market share. Operating results (before taxation and finance costs) amounted to RMB43.1 million, representing an increase of 33.1% over the previous year.

Management Discussion and Analysis

BUILDING MATERIALS BUSINESS *(continued)*



To further improve its building materials business, and to tie in with the Government's "Building Materials Industrialisation Policy", the Group has started to develop a building materials industrial park – Baoye Residential Industry (Building Materials) Park (寶業住宅產業(建材)園區) ("Building Materials Park") in the Kexi Industrial Park (柯西工業園) in the Keqiao Economic Development Zone, Shaoxing County, Zhejiang Province in 2002. The total investment involved was RMB220 million, and as at 31st December 2003, RMB119 million has already been injected into the project, of which RMB85,054,000 was come from proceeds of H share issue. The Park consists of a research and development centre for building materials and several building material production lines, including:

Production Lines	Date of completion	Date of mass production	Annual production capacity
Curtain wall	November 2003	December 2003	400,000 sq.m.
Wooden door	November 2003	May 2004	75,000 sets
Steel structure	Under Construction	August 2004	70,000 tonnes

REAL ESTATE BUSINESS

The Group has expanded its business in recent years to cover downstream real estate, and also extended the scope of geographic coverage from Zhejiang Province to other parts of Eastern China. The Group capitalised on its well-established brand of "Baoye" to drive its real estate sales. During the year, sales of real estate totalled RMB84 million, representing 2.9% of the Group's turnover. The Group has 3 projects under development of a total construction area of approximately 250 thousand sq.m., including Keqiao City Garden Phase III, in Shaoxing County, Zhejiang Province and Guazhu Fengqing and Yulan Grand Palace.

Due to the rising property prices, the selling prices of the Group's properties increased. The gross profit margin grew from 29% in the previous year to 41% during the year.

With the Shaoxing government introducing policies to build Greater Shaoxing and to integrate the county into the Yangtze River Delta, the property price in county has skyrocketed. Besides favorable government policies, the demand for housing and property prices hikes were fuelled also by the rising expectations on living standards of Shaoxing citizens whose per capita income ranked 3rd among cities and counties in the Yangtze River Delta, and the continuous urbanisation of the area, as a result of considerable number of relocating households and the growing number of peasants moving into cities. Helped by the above factors and its prominent brandname, the Group successfully instilled in customers the impression "Baoye builds good houses".



The Group also attaches great emphasis to land reserves. Earlier, we had acquired a considerable amount of quality land at quite low cost, and the current land reserves which mainly located at Hefei, Shaoxing and Shanghai, are sufficient for development in the coming five years.

Management Discussion and Analysis

PROSPECTS

The infrastructure and building materials business will definitely grow continuously with the accelerated urbanisation in China. Currently, the rate of urbanisation in the country has reached 40.9% and is expected to rise to about 44% in 2010. According to the plan spelt out in 《中國21世紀人口與發展》 (Population and Development of China in 21st Century), the population of China is to be kept under 1.4 billion in 2010 with urban population, expected to grow by 30% to 620 million. This means in the next 10 years there will be an increase of 160 million in urban population, resulting in a tremendous need for infrastructure. According to a survey conducted by an authoritative institution, for every percentage point increase in urbanisation in China, there will be:



- 2% growth in GDP.
- 16 million growth in urban population.
- If the average living space for every individual is 20 sq.m., the area needed to house the expanded urban population will be 320 million sq.m.. By the year 2010, the need for new housing will reach 3 billion sq.m..
- The need for 20 km of roads for every 100 sq.km. of urbanised land. The related construction of government buildings and hospitals etc. will be a stronger growth driver for the construction industry and real estate market than the demand for new housing.



Increased investment in residences and infrastructure will be translated into huge development potential for the construction sector, which is expected to outgrow the national economy by 3-5% and to become the pillar industry of the country. The income from construction business is anticipated to grow at a compound annual growth rate of 15% in the next five years. Growth in the output value of the construction industry in the Yangtze River Delta area, where Zhejiang Province is located, leads with the highest GDP and GDP per capita in the country, is expected to exceed 20%.

Located in Zhejiang Province, the sixth largest metropolitan area in the world, the Group is well positioned for the enormous opportunities arising from economic unification of the Yangtze River Delta and Eastern China. Urban development and redevelopment have also brought about new business opportunities for the Group. With the sustained development of the Chinese economy and the rise in people's standard of living, China's sustained urbanisation and fixed assets investments will continue to increase. China's entry into the World Trade Organisation, the 2008 Olympics in Beijing and the 2010 World Exposition in Shanghai will also generate infinite opportunities for the industry.

Management Discussion and Analysis

PROSPECTS *(continued)*

The accelerated urbanisation and geographical advantage of the Group's major market have provided Baoye with tremendous development opportunities. The Group will capitalise on its industry leading qualifications, its brandname and expertise, to effectively capture these opportunities.

The accelerated urbanisation has stimulated the demand for infrastructure, but at the same time has caused pollution in the cities. To curb pollution and meet rising expectations on the quality of living and on the construction sector, the Chinese government clearly states in its 《關於推進住宅產業現代化提高住宅質量的若干意見》 (Certain Options Concerning the Promotion of Industrialisation of Building Materials to Improve Housing Quality) the need for industrialisation and standardisation of the building materials industry and that the initial stages of the initiatives are to be completed by 2005. The paper also specifically called for the acceleration of the use of advanced construction technology and techniques and encouraged the use of steel structures and concrete bricks by the construction industry.

The Group's Building Materials Park is currently the largest and the only production base for the manufacture of building materials in Zhejiang Province. The Group has insisted on manufacturing building materials that are standardised, institutionalised and in compliance with the PRC's requirements on environmental protection for more efficient use, shorter construction time and reduced pollution and energy consumption of the building. With a thorough understanding of the expectations on the industry and its inherent competitiveness, the Group expects to play a leading role in the revolutionary transformation of the construction industry in China. It will also be a major beneficiary of the revolution.

Looking ahead, with superb know-how and valuable experience in the industry, the Group will be able to grasp every opportunity in the construction and real estate businesses and consolidate its leading industry position. We will strive to strictly control costs, enhance construction quality, and maintain our growth momentum. The Group will expand its income sources, laying a solid foundation for future development and for generating rewarding returns for our shareholders.

To further expand our business, the Group planned to acquire a 90% equity interest of a PRC company which is engaged in a major property development at Hangzhou, and to bid for a piece of land and two construction projects through Baoye Investment. The total investment in the four projects amounted to RMB177,000,000. It was paid by the Company's working capital. Preliminary negotiation of the acquisition of a PRC company has been completed and details of the formal agreements are being finalised. The piece of land concerned has been acquired and construction of the site has commenced. Bidding for the other construction projects will be opened soon. The Management believes the projects will be smoothly implemented and will bring profitable income to the Group in the coming years.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December 2003, the Group's cash and cash equivalent balances amounted to RMB482.4 million, compared with RMB237 million as at 31st December 2002. As at 31st December 2003, the shareholders' fund of the Group amounted to RMB816.4 million, representing an increase of RMB358.9 million from RMB457.5 million as at 31st December 2002.

As at 31st December 2003, the Group had outstanding bank loans amounting to RMB543 million, representing an increase of RMB399 million from RMB144 million as at 31st December 2002. All of the outstanding bank loans was repayable within one year.

As at 31st December 2003, the gearing ratio of the Group was 65% (as at 31st December 2002: 62%) which was arrived at by dividing total liabilities by total assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

Save for (i) the acquisition of Shaoxing Baogang Woodwork Co., Ltd.; (ii) the establishment of Shaoxing Baoye Construction Intelligent Technology Co., Ltd.; and (iii) the disposal of Fuzhou Baoyue Real Estate Development Company Limited, the Group did not undertake any significant acquisition or disposal of subsidiaries or associated companies during the year ended 31st December 2003. Details of these acquisition and disposal are set out in note 13 to the accounts.

Biographical Details of Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Mr. PANG Baogen, borned in 1957, is the chairman and founder of the Group. He holds a professor level senior engineer qualification. He was well respected and recognised in the construction industry in China and received many awards for his achievements, including Model Worker of National Construction System (全國建設系統勞動模範), Excellent Manager of the National Construction Enterprises (全國優秀建築企業經理), Entrepreneur with Outstanding Contributions to Zhejiang Province (浙江省突出貢獻經營者) and Young Scientific Officer with Outstanding Contribution to Zhejiang Province (浙江省有突出貢獻的中青年科技人員). In addition, Mr. Pang has served as the representative of the Third Shaoxing City People's Congress (紹興市第三屆人民代表大會) and the deputy director of The Construction Academic Committee of Zhejiang Civil Engineering Association (浙江省土木工程委員會). He is currently the deputy chairman of Zhejiang Provincial Association of Construction Entrepreneur (浙江省建築企業家協會), managing director of Zhejiang Construction Association (浙江省建築業協會), vice chairman of Shaoxing City Entrepreneurs Association (紹興市企業家協會), a representative of the Fifth Shaoxing City People's Congress (紹興市第五屆人民代表大會) and a committee member of the Twelfth Shaoxing County People's Congress (紹興縣第十二屆人民代表大會).

Mr. GAO Jiming, borned in 1962, is a director and deputy general manager of the Group. Mr. Gao is also the Chairman of Zhejiang Baoye Real Estate Development Co., Ltd ("Baoye Real Estate") (浙江寶業房地產集團有限公司) ("寶業房地產"), a subsidiary of the Group. He holds a senior engineer qualification. Mr. Gao joined the Group in 1978.

Mr. GAO Lin, borned in 1970, is a director and deputy general manager of the Group. He is also the Chairman of Zhejiang Baoye Construction Group Co., Ltd ("Baoye Construction") (浙江寶業建設集團有限公司) ("寶業建設"), a subsidiary of the Group. He holds a senior engineer qualification. Mr. Gao joined the Group in July 1987. He is currently the deputy chairman of the Shaoxing Construction Association.

Mr. ZHOU Hanwan, borned in 1954, is a director and deputy general manager of the Group. Mr. Zhou is responsible for personnel management of the Group. He holds a senior engineer qualification. Mr. Zhou joined the Group in 1984. He is currently a director of the Concrete Section of China Construction Industry Association, deputy head of secretary of Concrete Association of Zhejiang Province and vice chairman of Concrete Association of Shaoxing City.

Biographical Details of Directors, Supervisors and Senior Management

DIRECTORS (continued)

Non-executive Directors

Mr. HU Shaozeng, borned in 1935, is a non-executive director of the Group. Mr. Hu graduated from the Tongji University of Shanghai (上海同濟大學) specialising in industrial and residential construction and holds a senior engineer qualification. He has served as the Dean of the Construction Committee of Zhejiang Province (浙江省建築委員會) and the Dean and deputy chief engineer of the Zhejiang Provincial Department of Construction. Mr. Hu is currently the vice-chairman of the Quality Section of the China Construction Industry Association (中國建築業協會) and vice-chairman and secretary of the Zhejiang Construction Industry Association (浙江省建築業協會).

Mr. WU Weimin, borned in 1966, is a non-executive director of the Group. Mr. Wu obtained his Master's degree from Zhejiang University (浙江大學) majoring in civil engineering. He is qualified as a senior engineer. Mr. Wu has been the Dean of the Zhejiang Research Institute of Construction, Science and Design (浙江省建築科學設計研究院).

Independent Non-executive Directors

Mr. WANG Youwei, borned in 1945, is an independent non-executive director and chairman of the audit committee of the Group. He graduated from Tongji University of Shanghai (上海同濟大學) in 1968 specialising in underground construction and holds the qualification of researcher. Mr. Wang has served as the director of the Office of New Technology Promotion and Application (新技術促進應用辦公室) of the Ministry of Construction and a committee member of the National Committee for the Appraisal of Industrial Laws and Regulations (國家級工業法規評定委員會). He is currently the deputy dean of the China Construction Science Research Institute (中國建築科學研究院), a consultant of the Expert Consulting Team of the Government of Beijing City (北京市政府專家顧問團), director of the China Construction Academic Association (中國建築學會), managing director of the China Construction Fireproof Research Association (中國建築防火研究會), managing director of the China Fireproof Association (中國消防協會), director of the National Research Centre of Construction Engineering (國家建築工程研究中心), a committee member of the National Committee of Building Materials Industry Science Committee (國家建材工業科教委員會) and chief editor of the Construction Structure Journal (建築結構學報).

Prof. XU Yangsheng, borned in 1958, is an independent non-executive director and a member of audit committee of the Group. Prof. Xu obtained his doctorate degree from the University of Pennsylvania of the USA. He has been teaching at the Carnegie Mellon University of the USA since 1989 (now as part-time professor). Prof. Xu is a professor and has been the head of the department of automatic and computeraided engineering of the Chinese University of Hong Kong (香港中文大學) since 1997. Prof. Xu is also a fellow of the International Institute of Europe and Asia Science, a fellow of the Association of International Electrical and Electronics Engineers and a fellow of The Hong Kong Institution of Engineers, director of Automation Association of China (中國自動化學會), member of Hong Kong Productivity Council and Engineering Panel of The Research Grants Council of Hong Kong.

Biographical Details of Directors, Supervisors and Senior Management

DIRECTORS *(continued)*

Independent Non-executive Directors *(continued)*

Mr. YI Deqing, borned in 1935, is an independent non-executive director and a member of audit committee of the Group. He graduated from Zhejiang University (浙江大學) specialising in civil engineering, and holds the qualifications of a National Chartered First-class Structural Engineer and professor-level senior engineer. Mr. Yi has been awarded as The Master of China Engineering Design (中國工程設計大師) and High Technology Practitioner (先進科技工作者) of the MOC. He is currently a chief engineer of the Zhejiang Province Construction Design Research Institute, director of the China Civil Engineering Association (中國土木工程學會), a member of the Committee of Construction Structure of the China Construction Academic Association (中國建築學會建築結構學術會員會), vice managing director and chief secretary of Zhejiang Civil Engineering Construction Association (浙江省土木建築學會) and a senior consultant of the Zhejiang Observation Design Association (浙江省勘察設計協會).

SUPERVISORS

Mr. SUN Guofan, borned in 1962, is a supervisor of the Group. Mr. Sun graduated from the Hangzhou College of Commerce (杭州商學院) specialising in finance and accounting, and is qualified as an accountant. Mr. Sun joined the group in 1988. He was assistant manager of the finance department and deputy director of the financial supervisory office of the Group and secretary of the Party Committee of the Group.

Mr. XIE Qisheng, borned in 1976, is a supervisor of the Group. He graduated from Nanjing Construction Engineering College (南京建築工程學院) specialising in industrial equipment installation and is qualified as an assistant engineer. Mr. XIE joined the Group in 1996 and has been a manager of the equipment hiring department and deputy general manager stationed in Anhui.

Mr. SUN Machuan, borned in 1954, is an independent supervisor of the Group. He graduated from Zhejiang University (浙江大學) specialising in economics and is qualified as an engineer.

Mr. CHEN Xinquan, borned in 1928, is an independent supervisor of the Group. Mr. Chen is a certified public accountant of the PRC and is experienced in accounting, auditing and related managing function.

Mr. YU Zengmin, borned in 1939, is an independent supervisor of the Group. Mr. Yu graduated from Zhejiang University (浙江大學) specialising in civil engineering, and holds the qualification of professor level senior engineer, a professor of Zhejiang University (浙江大學) previously, Mr. Yu was also the deputy general manager and chief engineer of the Zhejiang Great Wall Construction Group Company Limited.

Biographical Details of Directors, Supervisors and Senior Management

SENIOR MANAGEMENT

Mr. WEI Falin, borned in 1967, is the general manager of the Group and secretary to the Board. Mr. Wei graduated from Zhejiang Forestry College (浙江林學院) in 1989 specialising in economics and civil engineering, and from Central Party School (中央黨校) in 2001 specialising in economic management. Mr. Wei has been the mayor and secretary of the People's Government of the Jian Hu Township of Shaoxing County (紹興縣鑿湖鎮) and the deputy director of the office of Foreign Affairs of the People's Government of Zhejiang Province. He joined the Group in March 2002 and was appointed as the general manager of the Group on 30th October 2003.

Mr. HUANG Fenyong, borned in 1956, is the deputy general manager of the Group. Mr. Huang graduated from Changchun Metallurgy and Construction School in 1977. He holds an engineer qualification. He was the deputy head of the Shaoxing City Construction Management Bureau, vice chairman of the Shaoxing City Construction Association, and vice supervisor of the Eastern Economic Development Area of Shaoxing City. Mr. Huang joined the Group in June 2003.

Mr. GAO Jun, borned in 1972, is the assistant general manager of the Group. Mr. Gao graduated from Shaoxing Wenli Institute (紹興文理學院) specializing in economics management and holds an engineer qualification. He was previously the deputy general manager of Baoye Construction, and general manager of Baoye Real Estate (寶業房地產).

Mr. XU Jianbiao, borned in 1968, is the general manager of Baoye Construction. Mr. Xu graduated from Zhejiang Broadcasting and Television University (浙江廣播電視大學) in 1992 specializing in industrial and residential construction and is qualified as a senior engineer. Mr. Xu was previously deputy general manager of Baoye Construction (寶業建設).

Mr. LOU Zhonghua, borned in 1968, is the general manager of Baoye Real Estate. (寶業房地產) Mr. Lou graduated from Zhejiang Yu Cai Workers' University specialising in industrial and residential construction and is a qualified engineer. He was previously the general manager of Zhejiang Baoye Decoration Engineering Company Limited and deputy general manager of Baoye Construction.

Mr. WANG Rongbiao, borned in 1968, is the general manager of Zhejiang Baoye Building Materials Industrialisation Company Limited. Mr. Wang graduated from Zhejiang Yu Cai Workers' University specialising in industrial and residential construction and holds a senior engineer qualification. He joined the Group in 1985 and held positions including operation manager of Baoye Construction.

Report of the Directors

The board of directors of the Company (the “Board”) is pleased to present to the shareholders their report and the audited accounts of the Company and the Group for the year ended 31st December 2003.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the undertaking and implementation of construction projects, production and sale of building materials and real estate development. The activities of the Company’s subsidiaries and jointly-controlled entity are set out in notes 16 and 17 to the accounts. There were no significant changes in the nature of the Group’s principal activities during the year.

RESULTS AND PROFIT APPROPRIATION

The results of the Group for the year ended 31st December 2003, prepared in accordance with the accounting standards generally accepted in Hong Kong, and its financial position as at the same date, are set out on pages 37 and 38 of the annual report.

RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in note 27 to the accounts.

DISTRIBUTABLE RESERVES

According to the relevant laws and regulations in the PRC, the reserves of the Company available for distribution to shareholders amounted to RMB53,087,000 as at 31st December 2003. The Company had no distributable reserves as at 31st December 2002.

DIVIDENDS

At the board meeting held on 28th May 2004, the Directors declared a final dividend of RMB0.0635 per ordinary share for the year ended 31st December 2003. The proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2004.

FINANCIAL HIGHLIGHTS

The Group’s summaries of consolidated results and assets and liabilities for the last four years are set out on page 3 of the annual report.

Report of the Directors

SEGMENT INFORMATION

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

- Construction – undertaking and implementing construction projects.
- Building materials – research and development, manufacture and distribution of building materials.
- Property development – development of properties and sale of developed properties.

The primary reporting of business segments for the year ended 31st December 2003 is set out in note 4 to the accounts.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the five largest customers and purchases from the five largest suppliers of the Group accounted for less than 30% of the Group's aggregate turnover and purchases respectively.

None of the directors, their associates or any shareholders (which, to the knowledge of the directors own more than 5% interests of the Group's share capital) had any interest in the above major suppliers or customers.

FIXED ASSETS

Details of the movements in fixed assets of the Group during the year are set out in note 13 to the accounts.

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

During the period from 30th June 2003 when the Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") to 31st December 2003, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Report of the Directors

DIRECTORS AND SUPERVISORS

The directors and supervisors of the Company for the year are as follows:

Directors

Executive Directors

Mr. Pang Baogen (*Chairman*)

Mr. Gao Jiming (*Deputy general manager*)

Mr. Gao Lin (*Deputy general manager*)

Mr. Zhou Hanwan (*Deputy general manager*)

Non-executive Directors

Mr. Wu Weimin

Mr. Hu Shaozeng

Independent Non-Executive Directors

Mr. Wang Youwei

Mr. Xu Yangsheng

Mr. Yi Deqing

Mr. Kwok Lam-Kwong, Larry

(resigned on 10th March 2004)

Supervisors

Supervisors

Mr. Sun Guofan

Mr. Xie Qisheng

Independent Supervisors

Mr. Sun Machuan

Mr. Chen Xingquan

Mr. Yu Zengmin

Report of the Directors

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Pang Baogen, Mr. Gao Jiming, Mr. Gao Lin and Mr. Zhou Hanwan were appointed as Executive Directors of the Company on 30th August 2002. Mr. Hu Shaozeng and Mr. Wu Weimin were appointed as Non-executive Directors of the Company on 30th August 2002 and 15th October 2002 respectively. Mr. Wang Youwei, Mr. Yi Deqing and Mr. Xu Yangsheng were appointed as Independent Non-executive Directors of the Company on 15th October 2002. Mr. Kwok Lam-Kwong, Larry was appointed as an Independent Non-executive Director of the Company on 8th June 2003 and resigned as an Independent Non-executive Director of the Company on 10th March 2004.

Mr. Sun Guofan and Mr. Xie Qisheng were appointed as supervisors of the Company on 30th August 2002. Mr. Sun Machuan was appointed as independent supervisor of the Company on 30th August 2002 and Mr. Yu Zengmin and Mr. Chen Xingquan were both appointed as independent supervisors of the Company on 15th October 2002.

As requested by Mr. Pang Baogen, the Company had convened a board meeting on 30th October 2003. At the board meeting, the Board accepted Mr. Pang's resignation as the Company's general manager and resolved to appoint Mr. Wei Falin as the general manager of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Brief biographical details of directors, supervisors and senior management of the Group are set out on pages 17 to 20 of the annual report.

HIGHEST PAID INDIVIDUALS

During the year, the five individuals with the highest remuneration in the Group are all directors of the Company. The relevant information is disclosed in note 12 to the accounts.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the executive Directors and Supervisors has entered into a service contract with the Company on or around 30th October 2002 and shall continue until the conclusion of the annual general meeting of the Company in 2005 and thereafter, subject to the approval of the shareholders' meeting of the Company, each service contract may be renewed each time for three years.

No Director or Supervisor has a service contract with the Company, which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Report of the Directors

INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As at 31st December 2003, 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 (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) 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 (for this purpose, the relevant provisions of the SFO will be interpreted as if applicable to supervisors) were as follows:

Director/ Supervisor/ Senior Management	Relevant entity	Type	No. of domestic shares held (Long position)	Approximate percentage of the total registered capital of the relevant entity
Mr. Pang Baogen	(i) The Company	Individual	198,753,054	37.4%
	(ii) Zhejiang Baoye Building Materials Industrialization Company Limited	Individual	11,514,000	19%
Mr. Hu Shaozeng	Zhejiang Baoye Building Materials Industrialization Company Limited	Individual	606,000	1%
Mr. Gao Jiming	The Company	Individual	13,024,647	2.5%
Mr. Gao Lin	The Company	Individual	9,544,775	1.8%
Mr. Zhou Hanwan	The Company	Individual	8,233,510	1.5%
Mr. Sun Guofan	The Company	Individual	11,705,283	2.2%
Mr. Gao Jun	The Company	Individual	5,794,259	1.1%
Mr. Xu Jianbiao	The Company	Individual	7,524,884	1.4%
Mr. Lou Zhonghua	The Company	Individual	5,633,172	1.1%

Report of the Directors

INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS

No Director or Supervisor has, or at any time during the year had, any interest, in anyway, directly or indirectly, in any contract with the Company or its subsidiaries which was significant in relation to the business of the Company.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from disclosed under the headings "Interests of Directors, Supervisors and Senior Management", at no time during the year was the Company, or its subsidiaries, 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 shares in, or debentures of, the Company or any other body corporate.

INTERESTS OF DIRECTORS IN COMPETING BUSINESS

During the year and up to the date of this report, none of the Directors has any interest in business, which competes or may compete with the business of the Group under The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

DETAILS OF SHARE OFFERING AND LISTING

Class of shares listed:	H share
Listing place:	Main board of the Stock Exchange
Offer price:	HK\$1.43 per H share
Listing date:	30th June 2003
Number of issued H shares:	180,684,000 H shares

SHARE CAPITAL

As at 31st December 2003, there were a total share capital of 531,426,053 shares of the Company which include:

	Number of shares	Approximate percentages of total share capital
Domestic Shares	350,742,053	66%
H Shares	180,684,000	34%

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

At 31st December 2003, so far as was known to the Directors, the following persons had an interest or short position in the shares or the underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any members of the Group:

Name	Name of Company	Number of shares or equity interest held (Long position)	Approximate percentage of the total registered capital of the relevant entity
1. Mr. Pang Baogen	(i) The Company	198,753,054 (Domestic shares)	37.4%
	(ii) Zhejiang Baoye Building Materials Industrialisation Company Limited	RMB11,514,000	19%
2. Mr. Cheah Cheng Hye	The Company	14,116,000 (Note 1) (H shares)	7.81% (Note 2)
3. Value Partners Limited	The Company	14,116,000 (Note 1) (H shares)	7.81% (Note 2)
4. Mr. Wu Zhen Dong	The Company	12,452,000 (H shares)	6.89% (Note 2)
5. Symbiospartners Investment Ltd.	The Company	9,210,000 (H shares)	5.10% (Note 2)
6. Zhejiang Baoye Construction Group Co. Ltd.	Zhejiang Baoye Building Materials Industrialisation Company Limited	RMB36,360,000	60%
7. 浙江省建築科學設計研究院 (Zhejiang Construction Science and Design Research Institute)	Zhejiang Baoye Building Materials Industrialisation Company Limited	RMB9,090,000	15%
8. 浙江省建設廳招待所 (The Reception Centre of Zhejiang Provincial Department of Construction)	Zhejiang Building Materials Industrialisation and Design Research Institute Company Limited	RMB600,000	10%

Report of the Directors

SUBSTANTIAL SHAREHOLDERS (continued)

Name	Name of Company	Number of shares or equity interest held (Long position)	Approximate percentage of the total registered capital of the relevant entity
9. 浙江環宇建設集團有限公司 (Zhejiang Huanyu Construction Group Co., Ltd.)	Shaoxing Commodity Concrete Co., Ltd.	RMB5,547,000	25.8%
10. 紹興市市政工程公司 (Shaoxing Municipal Infrastructure Company)	Shaoxing Commodity Concrete Co., Ltd.	RMB4,880,500	22.7%
11. Zhejiang Baoye Construction Group Co., Ltd.	Zhejiang Baoye Real Estate Group Co., Ltd.	RMB5,000,000	10%
12. Zhejiang Baoye Construction Group Co., Ltd.	Zhejiang Baoye Infrastructure Construction Co., Ltd.	RMB3,750,000	12.5%
13. Zhejiang Baoye Building Materials Industrialisation Company Limited	Shaoxing Baoye Fireproof Materials Company Limited	RMB351,000	11.7%
14. Zhejiang Baoye Construction Group Co., Ltd.	Shaoxing Baoye New Building Materials Co., Ltd.	RMB500,000	25%
15. Zhejiang Baoye Building Materials Industrialisation Company Limited	Shaoxing Baoye New Building Materials Co., Ltd.	RMB1,500,000	75%
16. Zhejiang Baoye Real Estate Group Co., Ltd.	Shanghai Zibao Real Estate Development Co., Ltd.	RMB9,900,000	55%
17. 上海紫德房地產開發有限公司 (Shanghai Zide Real Estate Development Co., Ltd.)	Shanghai Zibao Real Estate Development Co., Ltd.	RMB2,700,000	15%
18. 童英強 (Tong Yingqiang)	Shanghai Zibao Real Estate Development Co., Ltd.	RMB2,700,000	15%
19. 徐建軍 (Mr. Xu Jianjun)	Shanghai Zibao Real Estate Development Co., Ltd.	RMB2,700,000	15%

Report of the Directors

SUBSTANTIAL SHAREHOLDERS (continued)

Name	Name of Company	Number of shares or equity interest held (Long position)	Approximate percentage of the total registered capital of the relevant entity
20. Goldbase International Investments Limited	Shaoxing Baogang Woodwork Co., Ltd.	USD816,000	30%
21. Zhejiang Baoye Construction Group Co., Ltd.	Shaoxing Baoye Construction Intelligent Technology Co., Ltd.	RMB800,000	40%

Notes:

- The shares of Mr. Cheah Cheng Hye were held through Value Partners Limited.
- The percentage was calculated by dividing the total number of H shares held by the relevant parties by the total number of H shares in issue.

USE OF PROCEEDS OF H SHARE ISSUE

The Company issued 180,684,000 H shares in June 2003, which were listed on the Stock Exchange on 30th June 2003, raising a total amount of approximately RMB236,830,000 (net of expenses). Pursuant to the Prospectus, the Company intended to apply the proceeds of RMB85,054,000 in 5 projects, with the balance to be applied as working capital of the Group. As at 31st December 2003, the actual proceeds allocated by the Company to those projects were RMB123,260,000, with details as follows:

Project title	Proposed usage as set out in Prospectus (RMB'000)	Actual usage up to 31st December 2003 (RMB'000)	Difference between proposed and actual usages (RMB'000)
Project 1 Production lines for concrete bricks (Note 1)	41,000	9,323	(31,677)
Project 2 Production lines for steel structures and sandwich boards	32,000	30,809	(1,191)
Project 3 Production lines for curtain walls	24,000	24,000	–
Project 4 Production lines for wooden doors	14,000	14,000	–
Project 5 Research and development centre for building materials (Note 2)	18,000	6,922	(11,078)
Working Capital	107,830	107,830	–
Total	236,830	192,884	(43,946)

Report of the Directors

USE OF PROCEEDS OF H SHARE ISSUE *(continued)*

Notes:

1. During the year ended 31st December 2003, the Group utilized approximately RMB9,323,000 for the establishment of production lines for concrete bricks. The RMB9,323,000 was used for the cost of land on which the production lines will be built. These production lines are in the planning stage.
2. During the year ended 31st December 2003, the Group utilized approximately RMB6,922,000 for the establishment of research and development centre ("R&D Centre") for building materials. The RMB6,922,000 was used for the cost of land on which the R&D Centre will be built. The Group completed the design and is in the course of constructing the R&D Centre.

The Company will continue to apply the remaining balance according to the Prospectus in the coming year.

EMPLOYEES

As at 31st December 2003, the Group had 1,137 staff. The total staff costs and wages amounted to RMB481,560,000 for the year ended 31st December 2003. Remuneration is determined by reference to market terms and the performance, qualifications and experience of individual employees. Employee benefits provided by the Group include provident fund schemes and housing provident fund.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the shareholders who are entitled to attend and vote at the forthcoming annual general meeting on 30th June 2004, the register of members of the Company will be closed from 29th May 2004 to 30th June 2004 (both days inclusive), during which no transfer of shares can be registered.

For the purpose of determining the shareholders who are entitled to receive the final dividend of RMB0.0635 per ordinary share, the Company will further announce the dates of closure of register of members upon the passing of the relevant resolution at the forthcoming annual general meeting by the shareholders.

CONNECTED TRANSACTIONS

The following transactions constituted connected transactions of the Group and were discloseable under the Listing Rules:

1. Concrete Supply

Shaoxing Commodity Concrete Co., Ltd. (紹興市商品混凝土有限公司)("Concrete Company"), an approximately 51.5% owned subsidiary of the Company, has been supplying concrete to its substantial shareholders, Shaoxing Municipal Infrastructure Company (紹興市市政工程公司) ("Municipal Infrastructure") and Zhejiang Huanyu Construction Group Co., Ltd. (浙江環宇建設集團有限公司) ("Zhejiang Huanyu") (formerly known as Shaoxing Construction and Installation Engineering Company (紹興市建築安裝工程公司)), which own approximately 22.7% and 25.8% of the equity interest of Concrete Company, respectively, on normal commercial terms and in the ordinary course of business. For the year ended 31st December 2003, the supply of concrete by Concrete Company to Municipal Infrastructure and Zhejiang Huanyu amounted to approximately RMB368,000 and RMB13,082,000 respectively.

Report of the Directors

CONNECTED TRANSACTIONS *(continued)*

2. Guarantees

For the year ended 31st December 2003, the amount of intra-group guarantees was as follows:

	Guarantor	Borrower	Total Guarantee Amount (RMB'000)	Expiry Date of Guarantee
(a)	The Company	Zhejiang Baoye Real Estate Group Co., Ltd.	70,950	At various dates between 20th March 2004 to 30th April 2004
(b)	The Company	Concrete Company	6,000	At various dates between 27th January 2004 to 30th March 2004
(c)	The Company	Zhejiang Baoye Construction Group Co., Ltd.	200,000	At various dates between 20th March 2003 to 16th August 2004
(d)	The Company	Zhejiang Baoye Building Materials Industrialisation Company Limited	60,000	At various dates between 30th March 2004 to 15th August 2004
(e)	Zhejiang Shaoxing Baoye Real Estate Development Co., Ltd.	Zhejiang Baoye Construction Group Co., Ltd.	30,000	30th September 2003
(f)	Zhejiang Baoye Construction Group Co., Ltd.	Zhejiang Baoye Real Estate Group Co., Ltd.	5,000	15th October 2003
(g)	Zhejiang Baoye Construction Group Co., Ltd.	Zhejiang Baoye Building Materials Industrialisation Company Limited	38,000	29th October 2003
(h)	Zhejiang Baoye Construction Group Co., Ltd.	Concrete Company	4,000	3rd July 2003

Zhejiang Baoye Construction Group Co., Ltd. is owned by the Company as to approximately 99% while the remaining 1% is owned equally by three promoters of the Company, namely Mr. Wang Liequan, Mr. Chen Baorong and Mr. Xia Weimin.

Report of the Directors

CONNECTED TRANSACTIONS *(continued)*

3. Other intra-group transactions

Sale of materials by Zhejiang Baoye Building Materials Industrialisation Company Limited ("Building Materials Industrialisation Company") to members of the Group ("BM Sales") and contracting out of construction works by Building Materials Industrialisation Company to members of the Group ("BM Contracting") amounted to RMB22,936,000 and RMB6,977,000 respectively.

Building Materials Industrialisation Company is owned by Zhejiang Baoye Construction Group Co., Ltd., Mr. Pang Baogen (a promoter and the controlling shareholder of the Company), Zhejiang Construction Science and Design Research Institute, Zhejiang Building Materials Industrialisation and Design Research Institute Co., Ltd. and Mr. Hu Shaozeng (a Non-executive Director of the Company) as to 60%, 19%, 15%, 5% and 1% respectively.

The Independent Non-executive Directors have reviewed the aforesaid connected transactions (as for the Guarantees, limited to items (c), (d), (e) and (g)) and confirmed that the transactions have been entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms or (where there is no available comparison), on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole and in accordance with the terms of the agreements (if any) governing such transactions; and
- (iii) the relevant cap amount as stated in the Prospectus has not been exceeded.

BANK LOANS AND OTHER BORROWINGS

As at 31st December 2003, the short-term bank loans of the Group was RMB542,950,000, of which unsecured borrowing was RMB496,950,000 and secured borrowing was RMB46,000,000. Details are set out in note 25 to the accounts.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association of the Company and related laws of HK and the PRC, which would oblige the Company to offer new shares on pro-rata basis to the existing shareholders of the Company.

POLICIES ON INCOME TAX

The Company and its subsidiaries paid PRC corporate income tax at a rate of 33% of its assessable profits according to the relevant laws and regulations in the PRC.

Report of the Directors

POST BALANCE SHEET EVENTS

Save as the transactions with Zhejiang Baoye Industrial Investment Company Limited subsequent to year end as stated in Note 3 to the accounts, the Group has no significant post balance sheet event.

CONTINGENT LIABILITIES

As at 31st December 2003, the Group's contingent liabilities amounted to RMB50,000,000, arising entirely from guarantee given to banks in respect of mortgage facilities granted to outside parties. Please refer to note 30(a) of the accounts.

AUDIT COMMITTEE

The audit committee of the Company was established in accordance with the requirement of the Listing Rules. Members of the audit committee are Mr. Wang Youwei, Mr. Xu Yangsheng and Mr. Yi Deqing. The primary duties of the audit committee are to review and supervise the Group's financial reporting process and internal control system and offer advice and recommendations to the Board. The annual results of the Group for the year ended 31st December 2003 had been reviewed by the audit committee.

CODE OF BEST PRACTICE

The H shares of the Company were listed on the Stock Exchange on 30th June 2003. Since its listing up to 31st December 2003, the Company had complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

AUDITORS

The accounts of the Company was audited by PricewaterhouseCoopers. The auditor will be retired in the forthcoming annual general meeting and eligible for re-appointment.

By Order of the Board

Pang Baogen

Chairman

Shaoxing, Zhejiang, the PRC, 28th May 2004

Supervisors' Report

To the shareholders,

In the year 2003, the Supervisory Committee (the "Supervisory Committee") of Baoye Group Company Limited (the "Company"), in compliance with the provisions of the Company Law of the People's Republic of China (the "PRC Company Law"), The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Articles of Association of the Company, under their fiduciary duties, took an active role to work reasonably and cautiously to protect the interests of the Company and its shareholders.

During the year, the Supervisory Committee attended the meeting of the Board of Directors and the Extraordinary General Meeting of the Group. It provided reasonable suggestions and opinions to the Board of Directors in respect of the operations and development plans of the Company. It also strictly and effectively monitored and supervised the Company's management, to ensure that they were in compliance with the laws and regulations of the PRC and the Articles of Association of the Company, and in the interests of shareholders and employees when making significant policies and decisions.

We have reviewed and agreed to the report of the directors, audited financial statements and profit appropriation proposal to be proposed by the Board of Directors for presentation at the forthcoming Annual General Meeting. We are of the opinion that the directors, the general manager and other senior management of the Company had during the year strictly observed their fiduciary duties, acted diligently and exercised their authorities faithfully in the best interests of the Company. None of the directors, general managers and senior management staff had been found to have abused their authorities, damaged the interests of the Company and infringed upon the interests of shareholders and employees.

The Supervisory Committee is satisfied with the achievement and cost-effectiveness of the Company in 2003 and has great confidence in the future of the Company.

Finally, I would, on behalf of the Supervisory Committee, like to thank all shareholders for their support and concern for the work of the Supervisory Committee.

By Order of the Supervisory Committee

Sun Guofan

Chairman

Shaoxing, Zhejiang, the PRC, 28th May 2004

Auditors' Report

PRICEWATERHOUSECOOPERS 

羅兵咸永道會計師事務所

PricewaterhouseCoopers
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Hong Kong
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AUDITORS' REPORT TO THE SHAREHOLDERS OF BAOYE GROUP COMPANY LIMITED

(incorporated in the People's Republic of China with limited liability)

We have audited the accounts on pages 35 to 94 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The directors of the Company are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

Auditors' Report

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. However, the evidence available to us was limited in respect of the material transactions entered into by the Group as described in note 3 to the accounts. We have not been able to obtain sufficient explanations and evidence relating to these transactions, and there were no practical alternative audit procedures that we could perform to satisfy ourselves as to the propriety of such transactions and their potential impact, if any, on the accounts, and as to the appropriateness and completeness of the related disclosures.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Qualified opinion arising from limitation of audit scope

Except for any adjustments and/or additional disclosures that might have been found to be necessary had we been able to obtain sufficient evidence concerning the transactions referred to in the "Basis of opinion" paragraph, in our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2003 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitation on our work relating to the transactions described above:

- We have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- We were unable to determine whether proper books of accounts have been kept.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 28th May 2004

Consolidated Profit and Loss Account

For the year ended 31st December 2003

	Note	2003 RMB'000	2002 RMB'000
Turnover	4	2,994,472	2,297,526
Cost of sales		(2,741,720)	(2,034,708)
Gross profit		252,752	262,818
Other revenues	4	43,557	40,053
Distribution costs		(4,103)	(3,339)
Administrative expenses		(85,949)	(79,129)
Other operating expenses		(112)	(875)
Operating profit	5	206,145	219,528
Finance costs	6	(23,101)	(5,502)
Share of loss of a jointly controlled entity	17	(2,802)	(1,016)
Profit before taxation		180,242	213,010
Taxation	7	(58,347)	(64,369)
Profit after taxation		121,895	148,641
Minority interests		(9,486)	(7,566)
Profit attributable to shareholders	8	112,409	141,075
Dividends	9	33,746	–
Earnings per share	10	0.255	0.402

Consolidated Balance Sheet

As at 31st December 2003

		2003	As restated 2002
	Note	RMB'000	RMB'000
Non-current assets			
Fixed assets	13	324,147	198,021
Properties held for development	14	483	8,695
Prepayment for land use rights		151,000	113,000
Properties under development	15	249,860	71,389
Investment in a jointly controlled entity	17	44,182	46,984
Deferred tax assets	28	6,273	6,794
		775,945	444,883
Current assets			
Inventories	18	19,852	11,900
Properties under development	15	247,194	22,737
Completed properties held for sale		19,765	26,549
Due from customers on construction contracts	19	234,852	204,145
Amounts due from related parties	32	15,527	20,126
Amounts due from shareholders	32	-	146
Trade and other receivables	20	727,601	397,115
Bank balances and cash	21	498,692	251,370
		1,763,483	934,088
Current liabilities			
Trade and other payables	22	711,557	359,771
Taxes payable	23	159,423	100,763
Due to customers on construction contracts	19	211,784	204,727
Amounts due to related parties	32	318	19,600
Amounts due to shareholders	32	11,840	14,015
Amounts due to directors	32	-	900
Amount due to a former subsidiary	3	1,500	-
Provision for warranty	24	5,000	4,880
Short-term bank loans	25	542,950	143,950
		1,644,372	848,606
Net current assets		119,111	85,482
Total assets less current liabilities		895,056	530,365

Consolidated Balance Sheet

As at 31st December 2003

	Note	2003 RMB'000	As restated 2002 RMB'000
Financed by:			
Share capital	26	531,426	350,742
Other reserves	27	97,425	15,137
Proposed final dividend	27	33,746	-
Retained earnings	27	153,811	91,666
Shareholders' funds		816,408	457,545
Minority interests		72,606	67,895
Non-current liabilities			
Deferred tax liabilities	28	6,042	4,925
		895,056	530,365

Pang Baogen
Director

Zhou Hanwan
Director

Balance Sheet

As at 31st December 2003

	Note	2003 RMB'000	2002 RMB'000
Non-current assets			
Fixed assets	13	68,088	1,548
Investments in subsidiaries	16	406,062	393,790
Investment in a jointly controlled entity	17	44,182	39,484
		518,332	434,822
Current assets			
Trade and other receivables	20	230,190	–
Bank balances and cash	21	288,749	760
		518,939	760
Current liabilities			
Trade and other payables	22	3,184	3,653
Taxes payable	23	12,947	11,941
Amount due to a former subsidiary	3	1,500	–
Short-term bank loans	25	206,000	–
		223,631	15,594
Net current assets/(liabilities)		295,308	(14,834)
Total assets less current liabilities		813,640	419,988
Financed by:			
Share capital	26	531,426	350,742
Other reserves	27	88,634	6,346
Proposed final dividend	27	33,746	–
Retained earnings/(accumulated losses)	27	19,341	(91,704)
Shareholders' funds		673,147	265,384
Non-current liabilities			
Amounts due to subsidiaries	16	140,493	154,604
		813,640	419,988

Pang Baogen
Director

Zhou Hanwan
Director

Consolidated Statement of Changes in Equity

For the year ended 31st December 2003

	2003	2002
Note	RMB'000	RMB'000
Total equity as at 1st January, as previously reported	461,874	338,826
Effect of change in accounting policy	(4,329)	(7,103)
	457,545	331,723
Total equity as at 1st January, as restated		
Issue of shares	274,224	–
Share issuance costs	(27,770)	(9,620)
Profit for the year	112,409	141,075
Deduct of asset revaluation reserve upon disposal of equity interest in subsidiaries	–	(5,633)
Total equity as at 31st December	816,408	457,545

Consolidated Cash Flow Statement

For the year ended 31st December 2003

	Note	2003 RMB'000	2002 RMB'000
Operating activities			
Net cash (outflow)/inflow generated from operations	29(a)	(100,060)	349,119
Interest paid		(25,611)	(5,626)
PRC taxation paid		(35,971)	(65,931)
Net cash (outflow)/inflow from operating activities		(161,642)	277,562
Investing activities			
Purchase of fixed assets		(113,543)	(53,616)
Prepayment for land use rights		(151,000)	(113,000)
Advances to a former subsidiary	3	(536,525)	–
Repayment of advances to a former subsidiary	3	538,025	–
Guarantee Money placed through a former subsidiary	3	(177,000)	–
Repayment of Guarantee Money placed through a former subsidiary	3	177,000	–
Proceeds from disposal of fixed assets		5,027	3,670
Proceeds from disposal of subsidiaries	29(c)	2,912	16,676
Investment in a jointly controlled entity		–	(48,000)
Interest received		12,416	1,639
Net cash outflow from investing activities		(242,688)	(192,631)
Net cash (outflow)/inflow before financing activities		(404,330)	84,931
Financing activities			
Proceeds from issue of shares	29(b)	274,224	–
Payment for share issuance costs		(29,570)	(7,820)
Capital injections by minority shareholders		6,755	26,620
Payment for profit appropriation to minority shareholders		(652)	–
Proceeds from bank loans		1,039,050	386,950
Repayment of bank loans		(640,050)	(443,600)
Net cash inflow/(outflow) from financing activities		649,757	(37,850)
Increase in cash and cash equivalents		245,427	47,081
Cash and cash equivalents at 1st January		236,980	189,899
Cash and cash equivalents at 31st December		482,407	236,980
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		498,692	251,370
Less: pledged deposits	21	(16,285)	(14,390)
		482,407	236,980

Notes to the Accounts

1. GENERAL

Baoye Group Company Limited (the "Company") was established as a limited liability company in the People's Republic of China (the "PRC") in May 1998 under the name Zhejiang Baoye Construction Works Group Co., Ltd..

Pursuant to a group reorganisation as described in the prospectus of the Company dated 17th June 2003, the Company became a joint stock limited company and changed to its present name, Baoye Group Company Limited, on 30th August 2002.

The H shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 30th June 2003.

The principal activities of the Company and its subsidiaries (collectively the "Group") are the provision of construction services, manufacture and distribution of building materials and development and sale of properties in the PRC.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HK GAAP"). This basis of accounting differs in certain material respects from that used in the preparation of the Group's statutory accounts in the PRC. The PRC statutory accounts of the Group have been prepared in accordance with accounting principles and financial regulations applicable to joint stock limited companies in the PRC ("PRC GAAP"). Appropriate restatements have been made to the PRC statutory accounts to conform with HK GAAP. Differences arising from the restatements are not incorporated in the Group's accounting records.

The accounts have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment properties are stated at fair value.

In the current year, the Group adopted the Statement of Standard Accounting Practice ("SSAP") 12 (revised) – "Income taxes", issued by the Hong Kong Society of Accountants, which is effective from 1st January 2003.

The effect of the change in accounting policy arising from the adoption of this revised standard by the Group is set out in note 2(o).

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove a majority of the members of the board of directors; or to cast a majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(b) Group accounting *(continued)*

(ii) Joint ventures

A joint venture is a contractual agreement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less provision for impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

(c) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries and jointly controlled entities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(d) Goodwill/negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/jointly controlled entity at the date of acquisition.

Goodwill on acquisitions is amortised using the straight-line method over its estimated useful life not exceeding 20 years.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(d) Goodwill/negative goodwill *(continued)*

Negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of.

Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

(e) Fixed assets

(i) *Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are valued at intervals of not more than three years by independent valuers; in each of the intervening years valuations are undertaken by professionally qualified executives of the Group. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) Fixed assets *(continued)*

(ii) Construction in progress

Construction in progress represents plant and properties under construction and is stated at cost, which includes development and construction expenditure incurred and other direct costs attributable to the construction and borrowing costs, less accumulated impairment losses. Construction in progress is not depreciated until such time as the assets are completed and available for use.

(iii) Other fixed assets

Other fixed assets, comprising land use rights, buildings, plant and machinery, motor vehicles and office equipment and others, are stated at cost less accumulated depreciation and accumulated impairment losses.

Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the profit and loss account in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset beyond its originally assessed standard of performances, the expenditure is capitalised as an additional cost of the asset.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) Fixed assets *(continued)*

(iv) Depreciation

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Other fixed assets are depreciated at rates sufficient to write off their cost less residual values and accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal useful lives and respective residual values are as follows:

	Useful lives	Residual values
Land use rights	over the unexpired period of rights	–
Buildings	20 years	10%
Plant and machinery	10 years	10%
Motor vehicles	5 years	10%
Office equipment and others	5 years	10%

(v) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in properties under construction and other fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(f) Properties under development

Properties under development are stated at the lower of cost and net realisable value. Cost comprises the cost of the land together with direct costs attributable to the development of the properties and borrowing costs capitalised during the period of development. Properties under development which are due for completion more than one year from the balance sheet date are shown as non-current assets while properties under development which are due for completion within one year from the balance sheet date are shown as current assets. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to complete and make the sale.

(g) Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost comprises the cost of the land together with the costs attributable to the completion of the properties. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(h) Properties held for development

Properties held for development represented land use rights held for development and are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to complete and make the sale.

(i) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(j) Construction contracts in progress

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised when incurred.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenues and expenses. The Group uses the percentage of completion method to determine the appropriate amount of revenue and costs to be recognised in a given period; the stage of completion is measured by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total costs for the contract. When it is probable total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The aggregate of the costs incurred and the profit/loss recognised on each contract is compared against the progress billings up to the year-end. Where costs incurred and recognised profits (less recognised losses) exceed progress billings, the balance is shown as due from customers on construction contracts, under current assets. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as due to customers on construction contracts, under current liabilities.

(k) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(l) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks, net of pledged bank deposits.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(m) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The Group recognises a provision for repairs of construction work still under warranty at the balance sheet date. This provision is calculated based on past history of the level of repairs.

(n) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) *Bonus plans*

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iii) *Pension obligation*

The Group contributes to a defined contributions retirement scheme organised and administered by the governmental authorities which is available to all employees. Contributions to the scheme by the Group and employees are calculated as a percentage of employees' basic salaries.

The Group's contributions to the defined contributions retirement scheme are expensed as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund. Details of the Group's retirement benefits are set out in note 11.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(o) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and jointly controlled entity, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

The impact on the adoption of the revised SSAP 12 is summarised as follows:

	As at 1st January 2002 RMB'000 Credit/(Debit)	As at 31st December 2002 RMB'000 Credit/(Debit)
Deferred tax liabilities	9,885	4,925
Deferred tax assets	(1,595)	(586)
Minority interests	(1,187)	(10)
Asset revaluation reserve	(7,103)	(4,329)

The adjustments on deferred taxation mainly relate to revaluation of investment properties, pursuant to revised SSAP 12, where the carrying amount of the investment properties is increased to their revalued amounts but the tax base remains at depreciated cost, a taxable temporary difference arises which results in a deferred tax liability. Such adjustments have no impact on the profit and loss account.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(p) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain event not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(q) Revenue recognition

When the outcome of a construction contract can be estimated reliably, contract revenue is recognised using the percentage of completion method, measured by reference to the contract costs incurred to date to estimated total contract costs for the contract. When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

Revenue from the sale of building materials is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Revenue from sales of completed properties held for sale is recognised upon execution of the sales agreements. When a developed property is sold in advance of completion, revenue is only recognised upon completion of the development. Deposits and installments received on properties sold prior to the date of revenue recognition are included in the balance sheet under "trade and other payables".

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividend income is recognised when the right to receive payment is established.

Operating lease rental income is recognised on a straight-line basis.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(r) **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(s) **Government grants**

A government grant is recognised, when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the profit and loss account over the period necessary to match them with the costs they are intended to compensate.

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

(t) **Operating leases**

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(u) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, property held for development, property under development, completed properties held for sale, inventories, amount due from customers on construction contracts, receivables and operating cash, and exclude deferred tax assets, investment in a jointly controlled entity and investment properties. Segment liabilities comprise operating liabilities including amount due to customers on construction contracts and exclude items such as deferred tax liabilities, certain borrowings and income tax payable. Capital expenditure comprises additions to fixed assets.

In respect of geographical segment reporting, sales are based on the country in which the customer is located and the total assets and capital expenditure are allocated based on where the assets are located.

3. TRANSACTIONS WITH A FORMER SUBSIDIARY

Zhejiang Baoye Industrial Investment Company Limited ("Baoye Investment") is a former subsidiary of the Company which was disposed of on 11th January 2002. Since then, Baoye Investment was owned by Mr. Li Wenjiang and Ms. Xie Qiuzhen as to 83.33% and 16.67% respectively. As advised by Baoye Investment, the interests of Mr. Li Wenjiang and Ms. Xie Qiuzhen in Baoye Investment were held by them for and on behalf of Mr. Xia Deqing and Mr. Yan Guoqiang respectively from December 2002. In March 2004, such trust arrangement was terminated and since then, Mr. Xia Deqing and Mr. Yan Guoqiang have become the registered holders of the interests in Baoye Investment.

Mr. Li Wenjiang is a director of Shaoxing Baogang Woodwork Co., Ltd., a subsidiary of the Company incorporated in the PRC and has been owned as to 30% by Goldbase International Investments Limited and 70% by the Company since July 2003. Goldbase International Investments Limited is a company incorporated in Hong Kong and is owned as to 80% by Mr. Li Wenjiang.

Notes to the Accounts

3. TRANSACTIONS WITH A FORMER SUBSIDIARY *(continued)*

Receivables from Baoye Investment

During 2003, various advances were made to, and repayments received from, Baoye Investment. The maximum amount of net receivable (the "Receivables") due from Baoye Investment during the year was approximately RMB108,700,000. The Receivables from Baoye Investment were settled by cash shortly before 31st December 2003. Movement of the Receivables during 2003 is as follows:

	Beginning balance as at 1st January 2003 RMB'000	Advances made during the year ended 31st December 2003 RMB'000	Repayments during the year ended 31st December 2003 RMB'000	Balance as at 31st December 2003 RMB'000	Maximum balance during the year ended 31st December 2003 RMB'000
Amounts due from (to)					
Baoye Investment	-	536,525	(538,025)	(1,500)	108,700

Subsequent to 31st December 2003, new advances were made to Baoye Investment. The maximum balance amounted to approximately RMB106,655,000. All such advances were finally settled by cash before 30th March 2004.

Other transactions involving Baoye Investment

The Group had nominated Baoye Investment to represent it to participate in the early discussion and negotiation in respect of four potential transactions. If Baoye Investment successfully secures the transactions for Group, the Group, rather than Baoye Investment, will be the party to enter into agreement with the relevant parties concerned.

- the possible acquisition of 90% interest of a PRC entity (the "Acquisition Project") from an independent third party;
- the bidding for a piece of land (the "Land Project") situated in the PRC from the government. A subsidiary of the Company (the "Subsidiary") also participated in the bid;

Notes to the Accounts

3. TRANSACTIONS WITH A FORMER SUBSIDIARY *(continued)*

Other transactions involving Baoye Investment *(continued)*

- the bidding for two construction projects in the PRC regarding the construction work for Zhejiang Minghua Textile Raw Material Exhibition City Co., Ltd. (the “Minghua Construction Project”) and Tongxiang Baoye Phoenix Real Estate Co., Ltd. (the “Tongxiang Construction Project”). Zhejiang Minghua Textile Raw Material Exhibition City Co., Ltd. is a company incorporated in the PRC and is owned as to 67% by Mr. Li Wenjiang and 33% by two other independent third parties. Tongxiang Baoye Phoenix Real Estate Co., Ltd. is a company incorporated in the PRC and is owned as to 55% by Baoye Investment and 45% by four other independent third parties.

During 2003, the Group had provided a total of RMB72,000,000, RMB60,000,000, RMB30,000,000 and RMB15,000,000 respectively to Baoye Investment, which in turn, on behalf of the Group, paid guarantee money (the “Guarantee Money”) which was in the nature of a refundable deposit for the Acquisition Project, the Minghua Construction Project, the Tongxiang Construction Project and the Land Project respectively by various installments.

As Baoye Investment had not succeeded in its bid for the Land Project, which was awarded to the Subsidiary, the Guarantee Money in respect of the Land Project was refunded to the Group before 31st December 2003. However, Baoye Investment also paid all the Guarantee Money in respect of the other three projects back to the Group shortly before 31st December 2003, even though the projects were still in discussion and negotiation stage. Such Guarantee Money was provided to Baoye Investment again in 2004.

Subsequent to the above, it was decided that in order to expedite the negotiation process, the Group would participate directly in the negotiation for the Acquisition Project, the Minghua Construction Project and the Tongxiang Construction Project. In this connection, the Group paid directly to the relevant parties the respective Guarantee Money to replace the payments previously made on its behalf by Baoye Investment. The Guarantee Money previously paid by Baoye Investment was refunded by the relevant parties to Baoye Investment in April 2004 and the sum of which was then returned to the Group.

Notes to the Accounts

4. TURNOVER, REVENUE AND SEGMENT INFORMATION

Revenues recognised during the year are as follows:

	2003 RMB'000	2002 RMB'000
Turnover		
Construction contracts revenue	2,683,114	1,896,354
Sale of building materials	225,988	148,696
Sale of developed properties	83,768	251,292
Others	1,602	1,184
	2,994,472	2,297,526
Other revenues		
Rental income from investment properties, net of business tax	692	1,235
Gain on disposal of fixed assets	4,322	1,419
Gain on disposal of subsidiaries	109	2,690
Interest income on bank deposits	12,416	1,639
Government grants (note)	19,543	31,274
Others	6,475	1,796
	43,557	40,053
Total revenues	3,038,029	2,337,579

Note: The government grants mainly represented the award from the Finance Bureau of Shaoxing County and its affiliated town, Yangxunqiao Town.

Notes to the Accounts

4. TURNOVER, REVENUE AND SEGMENT INFORMATION

Primary reporting format – business segments

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

- Construction – construction of real properties
- Building materials – manufacture and distribution of building materials
- Property development – development of properties and sale of developed properties

	Year ended 31st December 2003					Group RMB'000
	Construction RMB'000	Building materials RMB'000	Property development RMB'000	Other operations RMB'000	Elimination RMB'000	
Turnover	2,798,028	273,288	83,768	1,602	(162,214)	2,994,472
Segment results	112,092	43,078	14,077	(1,026)	(5,521)	162,700
Other revenues						43,557
Other operating expenses						(112)
Operating profit						206,145
Finance costs						(23,101)
Share of loss of a jointly controlled entity						(2,802)
Profit before taxation						180,242
Taxation						(58,347)
Profit after taxation						121,895
Minority interests						(9,486)
Profit attributable to shareholders						112,409
Segment assets	1,562,916	328,723	672,595	2,980	(83,430)	2,483,784
Unallocated assets						55,644
Total assets						2,539,428
Segment liabilities	717,414	139,851	589,983	1,080	(72,959)	1,375,369
Unallocated liabilities						275,045
Total liabilities						1,650,414
Capital expenditures	92,541	67,442	3,601	41	–	163,625
Depreciation	8,681	8,945	1,531	8	–	19,165
(Write back of provision) provision for doubtful receivables	(1,985)	727	(322)	–	–	(1,580)

Notes to the Accounts

4. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

	Year ended 31st December 2002					Group RMB'000
	Construction RMB'000	Building materials RMB'000	Property development RMB'000	Other operations RMB'000	Elimination RMB'000	
Turnover	1,987,114	180,746	251,292	1,184	(122,810)	2,297,526
Segment results	103,510	32,359	43,934	28	519	180,350
Other revenues						40,053
Other operating expenses						(875)
Operating profit						219,528
Finance costs						(5,502)
Share of loss of a jointly controlled entity						(1,016)
Profit before taxation						213,010
Taxation						(64,369)
Profit after taxation						148,641
Minority interests						(7,566)
Profit attributable to shareholders						141,075
Segment assets	826,314	236,667	288,332	2,986	(59,644)	1,294,655
Unallocated assets						84,316
Total assets						1,378,971
Segment liabilities	522,269	62,110	157,283	22	(54,856)	686,828
Unallocated liabilities						166,703
Total liabilities						853,531
Capital expenditures	19,472	82,091	1,548	5	-	103,116
Depreciation	8,901	5,634	1,602	6	-	16,143
Provision for doubtful receivables	8,843	917	362	-	-	10,122

Secondary reporting format – geographical segments

No geographical segments information is presented as substantially all the Group's business was carried out in the PRC.

Notes to the Accounts

5. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2003 RMB'000	2002 RMB'000
Crediting		
Gains on disposal of fixed assets	4,322	1,419
Write back of provision for doubtful receivables	2,307	–
Charging		
Depreciation of owned fixed assets	19,165	16,143
Staff costs (note 11)	481,560	292,961
Cost of inventories	2,445,164	1,751,491
Operating leases of land and buildings	1,749	561
Outgoings in respect of investment properties	36	65
Auditors' remuneration	1,855	40
Provision for doubtful receivables	727	10,122
Provision for warranty (note 24)	1,700	3,520
Loss on dilution of equity interest in subsidiaries	–	168
Land appreciation tax	5,908	17,923

6. FINANCE COSTS

	2003 RMB'000	2002 RMB'000
Interest on bank loans	26,270	6,199
Less: interest capitalised	(3,169)	(697)
	23,101	5,502

The capitalisation rates applied to funds borrowed generally and used for the development of properties and construction in progress were approximately 5.1% (2002: 5.9%) per annum.

Notes to the Accounts

7. TAXATION

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

The amounts of taxation charged to the consolidated profit and loss account represent:

	2003 RMB'000	2002 RMB'000
Current taxation		
– PRC enterprise income tax	59,985	68,718
Deferred taxation (note 28)	(1,638)	(4,349)
	58,347	64,369

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the taxation rate of the location of the Group as follows:

	2003 RMB'000	2002 RMB'000
Profit before taxation	180,242	213,010
Calculated at a taxation rate of 33% (2002: 33%)	59,480	70,293
Income not subject to taxation	–	(987)
Expenses not deductible for taxation purposes	4,473	3,928
Loss sustained by group companies	876	36
Utilisation of previously unrecognised tax losses	(305)	(253)
Effect of partial income tax exemption	(6,177)	(8,648)
Taxation charge	58,347	64,369

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB161,309,000 (2002: RMB113,030,000).

Notes to the Accounts

9. DIVIDENDS

At a meeting held on 28th May 2004 the directors declared a final dividend of RMB0.0635 per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2004.

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of RMB112,409,000 (2002: RMB141,075,000).

The basic earnings per share is based on the weighted average number of 441,084,053 (2002: 350,742,053) ordinary shares in issued during the year. In determining the weighted average number of ordinary shares deemed to be issued during the year ended 31st December 2002, a total of 350,742,053 ordinary shares were deemed to be in issue since 1st January 2002 after taking into consideration of the effect of capitalisation issue as detailed in note 26.

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

11. STAFF COSTS

Staff costs, including directors' remuneration, are as follow:

	2003 RMB'000	2002 RMB'000
Wages and salaries	475,653	288,773
Social security expenses	3,602	3,094
Retirement benefit costs (note)	2,305	1,094
	481,560	292,961

Note: As stipulated by the Government regulations in Mainland China, the Company and its subsidiaries are required to contribute to the State-sponsored retirement scheme for all of its employees at 19% to 20% (2002: 19% to 20%) of the eligible salary of its employees on a monthly basis. The State-sponsored retirement scheme is responsible for the entire pension obligations payable to all retired employees and the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the monthly contributions.

Notes to the Accounts

12. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' and supervisors emoluments

The aggregate amounts of emoluments payable to directors and supervisors of the Company during the year are as follows:

	2003 RMB'000	2002 RMB'000
Fees for executive directors	–	–
Fees for non-executive directors	419	19
Fees for supervisors	60	25
Other emoluments for executive directors		
– Basic salaries and allowances	171	331
– Bonuses	1,339	1,046
– Retirement benefits	10	14
Other emoluments for non-executive directors	–	53
Other emoluments for supervisors	163	162
	2,162	1,650

The emoluments for all the directors (executive and non-executive) and supervisors fell within the band of RMB nil to RMB1,060,000 (HK\$1,000,000) during the years ended 31st December 2003 and 2002.

During the years ended 31st December 2003 and 2002, no director or supervisor waived any emoluments. No incentive payment for joining the Group nor compensation for loss of office was paid or payable to any directors or supervisors during the years ended 31st December 2003 and 2002.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include 5 (2002: 5) directors whose emoluments are reflected in the analysis presented above.

Notes to the Accounts

13. FIXED ASSETS

Group

Year ended 31st December 2003

	Investment properties RMB'000	Land use rights RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office		Total RMB'000
						equipment and others RMB'000	Construction in progress RMB'000	
Cost or valuation:								
At 1st January 2003	29,522	8,151	85,604	77,445	50,622	9,594	12,771	273,709
Additions	-	64,033	3,718	23,812	16,243	3,034	52,785	163,625
Transfers to completed properties held for sale	(12,142)	-	(2,167)	-	-	-	-	(14,309)
Transfers	(12,192)	-	12,852	235	-	-	(895)	-
Disposal of a subsidiary	-	-	-	-	(441)	-	-	(441)
Disposals	-	-	(5,583)	(320)	(518)	(90)	-	(6,511)
At 31st December 2003	5,188	72,184	94,424	101,172	65,906	12,538	64,661	416,073
Accumulated depreciation:								
At 1st January 2003	-	290	13,535	35,233	22,016	4,614	-	75,688
Charge for the year	-	1,055	3,447	8,364	4,952	1,347	-	19,165
Transfers to completed properties held for sale	-	-	(1,114)	-	-	-	-	(1,114)
Disposal of a subsidiary	-	-	-	-	(7)	-	-	(7)
Disposals	-	-	(990)	(269)	(518)	(29)	-	(1,806)
At 31st December 2003	-	1,345	14,878	43,328	26,443	5,932	-	91,926
Net book value:								
At 31st December 2003	5,188	70,839	79,546	57,844	39,463	6,606	64,661	324,147
At 31st December 2002	29,522	7,861	72,069	42,212	28,606	4,980	12,771	198,021

Notes to the Accounts

13. FIXED ASSETS (continued)

The analysis of the cost or valuation at 31st December 2003 and 2002 of the above assets is as follows:

	Investment properties RMB'000	Land use and rights RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
At 31st December 2003								
At cost	-	72,184	94,424	101,172	65,906	12,538	64,661	410,885
At valuation	5,188	-	-	-	-	-	-	5,188
	5,188	72,184	94,424	101,172	65,906	12,538	64,661	416,073
At 31st December 2002								
At cost	-	8,151	85,604	77,445	50,622	9,594	12,771	244,187
At valuation	29,522	-	-	-	-	-	-	29,522
	29,522	8,151	85,604	77,445	50,622	9,594	12,771	273,709

All investment properties, land use rights and buildings of the Group are located in the PRC and are held on leases of between 10 to 50 years.

The investment properties were revalued at 31st December 2003 on the basis of their open market value by Shaoxing Zhongxing Asset Revaluation Limited Company, an independent qualified valuer in the PRC. The revaluation surplus net of applicable deferred income taxes was credited to other reserves in shareholders' equity (note 27).

As at 31st December 2003, the construction in progress included interest capitalised of approximately RMB1,555,000 (2002: Nil).

As at 31st December 2003, the net book value of land use rights and buildings pledged as security for the Group's short-term loans amounted to RMB 37,633,000 (2002: nil) (note 25).

Notes to the Accounts

13. FIXED ASSETS (continued)

Company

	Year ended 31st December 2003				
	Land use rights	Buildings	Motor vehicles	Office equipment and others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:					
At 1st January 2003	–	–	1,590	57	1,647
Additions	64,033	388	3,042	669	68,132
At 31st December 2003	64,033	388	4,632	726	69,779
Accumulated depreciation:					
At 1st January 2003	–	–	99	–	99
Charge for the year	1,033	–	511	48	1,592
At 31st December 2003	1,033	–	610	48	1,691
Net book value:					
At 31st December 2003	63,000	388	4,022	678	68,088
At 31st December 2002	–	–	1,491	57	1,548

As at 31st December 2003, the net book value of land use rights and buildings pledged as security for the Company's short-term loans amounted to RMB 32,160,000 (2002: nil) (note 25).

14. PROPERTIES HELD FOR DEVELOPMENT

As at 31st December 2003 and 2002, the properties held for development represented the payment for land use rights under 70 years' lease in the PRC which are held for development of real properties.

Notes to the Accounts

15. PROPERTIES UNDER DEVELOPMENT

The Group's properties under development are located in the PRC and are due for completion:

	2003 RMB'000	2002 RMB'000
Within one year	247,194	22,737
More than one year	249,860	71,389
	497,054	94,126

As at 31st December 2003 the properties under development included interest capitalised of approximately RMB713,000 (2002: RMB212,000).

16. INVESTMENTS IN AND BALANCES WITH SUBSIDIARIES

Company

	2003 RMB'000	2002 RMB'000
Investment at cost, unlisted	398,720	381,760
Amounts due from subsidiaries	7,342	12,030
	406,062	393,790
Amounts due to subsidiaries	(140,493)	(154,604)

Notes to the Accounts

16. INVESTMENTS IN AND BALANCES WITH SUBSIDIARIES (continued)

The following is a list of the principal subsidiaries as at 31st December 2003:

Name	Place of incorporation and entity type	Attributable equity interest held		Registered capital	Principal activities
		Direct	Indirect		
Zhejiang Baoye Construction Group Co., Ltd. ("Baoye Construction")	The PRC, limited liability company	99%	–	RMB300,000,000	Construction and interior decoration
Zhejiang Baoye Curtain Wall Decoration Co., Ltd.	The PRC, limited liability company	83.1%	–	RMB10,800,000	Installation of curtain wall and steel framework
Zhejiang Baoye Infrastructure Construction Co., Ltd.	The PRC, limited liability company	87.5%	12.4%	RMB30,000,000	Construction of highway, bridge and other municipal infrastructure
Zhejiang Guangyi Construction and Decoration Co., Ltd.	The PRC, limited liability company	93.3%	6.6%	RMB15,000,000	Decoration and replenishment
Zhejiang Baoye Real Estate Group Co., Ltd. ("Baoye Real Estate") (formerly known as Zhejiang Shaoxing Baoye Real Estate Development Co., Ltd.)	The PRC, limited liability company	90%	9.9%	RMB50,000,000	Development and sales of properties
Zhejiang Baoye Building Materials Industrialisation Company Limited	The PRC, joint stock limited company	–	63.9%	RMB60,600,000	Production and sales concrete and construction materials

Notes to the Accounts

16. INVESTMENTS IN AND BALANCES WITH SUBSIDIARIES (continued)

Name	Place of incorporation and entity type	Attributable equity interest held		Registered capital	Principal activities
		Direct	Indirect		
Shaoxing Commodity Concrete Co., Ltd.	The PRC, limited liability company	51.5%	–	RMB21,500,000	Production and sales of concrete and construction materials
Shaoxing Baoye Fireproof Materials Co., Ltd.	The PRC, limited liability company	88.3%	7.5%	RMB3,000,000	Production and sales of steel, wood fireproof doors
Zhejiang Building Materials Industrialisation and Design Research Institute Co., Ltd.	The PRC, limited liability company	90%	–	RMB6,000,000	Construction and decoration design
Shaoxing Baoye New Building Materials Co., Ltd.	The PRC, limited liability company	–	72.7%	RMB2,000,000	Production and sales of construction materials
Shanghai Zibao Real Estate Development Co., Ltd.	The PRC, limited liability company	–	55%	RMB18,000,000	Development and sales of properties
Shaoxing Baogang Woodwork Co., Ltd.	The PRC, foreign invested enterprise	70%	–	USD2,720,000	Production and sales of wooden door and other wooden product
Shaoxing Baoye Construction Intelligent Technology Co., Ltd.	The PRC, limited liability company	60%	39.6%	RMB2,000,000	Installation of computer management system for building or community

Notes to the Accounts

16. INVESTMENTS IN AND BALANCES WITH SUBSIDIARIES (continued)

The following subsidiary was disposed of during the year:

Name	Place of incorporation and entity type	Attributable equity interest indirectly held	Registered capital	Principal activities
Fuzhou Baoyue Real Estate Development Company Limited ("Fuzhou Baoyue")	The PRC, limited liability company	50.5%	RMB20,00,000	Development and sales of properties

On 2nd June 2003, the Company's subsidiary, Baoye Construction, disposed of its entire 51% interest in Fuzhou Baoyue at a consideration of RMB10,200,000.

17. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Share of net assets	11,182	13,984	11,182	13,984
Amount due from a jointly controlled entity	33,000	33,000	33,000	25,500
	44,182	46,984	44,182	39,484
Share of net assets:				
Unlisted shares, at cost	15,000	15,000	15,000	15,000
Share of loss of a jointly controlled entity	(3,818)	(1,016)	-	-
Provision for impairment losses	-	-	(3,818)	(1,016)
	11,182	13,984	11,182	13,984

Details of the jointly controlled entity is as follows:

Name	Place of incorporation and entity type	Attributable equity interest directly held	Registered capital	Principal activities
Hefei Qingfangcheng Baoye Real Estate Co., Ltd.	The PRC, limited liability company	50%	RMB30,00,000	Real estate development

The amount due from a jointly controlled entity is unsecured, non-interest bearing and has no fixed repayment terms.

Notes to the Accounts

18. INVENTORIES

Group

	2003 RMB'000	2002 RMB'000
Raw materials	11,212	5,372
Work in progress	–	241
Finished goods	8,469	6,075
Production supplies	171	212
	19,852	11,900

As at 31st December 2003 and 2002, inventories were carried at cost.

19. AMOUNTS DUE FROM/(TO) CUSTOMERS ON CONSTRUCTION CONTRACTS

Group

	2003 RMB'000	2002 RMB'000
Contract costs incurred plus attributable profits less foreseeable losses to date	4,850,458	4,591,478
Less: progress billings to date	(4,827,390)	(4,592,060)
	23,068	(582)
Included in current assets/(liabilities) under the following captions:		
Due from customers on construction contracts	234,852	204,145
Due to customers on construction contracts	(211,784)	(204,727)
	23,068	(582)

As at 31st December 2003, retentions and project deposits held by customers for contract work included in trade and other receivables of the Group under note 20 amounted to approximately RMB286,395,000 (2002: RMB175,379,000).

As at 31st December 2003, advances received from customers for contract work included in trade and other payables of the Group under note 22 amounted to approximately RMB nil (2002: RMB729,000).

Notes to the Accounts

20. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Trade and notes receivables (note a)	150,111	157,078	-	-
Less: provision for doubtful debts	(6,275)	(13,290)	-	-
	143,836	143,788	-	-
Prepayments and deposits	24,258	3,853	526	-
Other receivables	43,722	19,095	274	-
Prepayment for an real estate development project (note b)	229,390	55,000	229,390	-
Retention money receivables and project deposits (note 19)	286,395	175,379	-	-
	727,601	397,115	230,190	-

Note:

(a) At 31st December 2003, the ageing analysis of the trade and notes receivables is as follows:

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
0 to 3 months	67,239	82,615	-	-
3 months to 1 year	64,578	63,599	-	-
1 to 2 years	16,972	7,129	-	-
2 to 3 years	467	1,466	-	-
Over 3 years	855	2,269	-	-
	150,111	157,078	-	-

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.

(b) As at 31st December 2003, the Group had paid RMB229,390,000 to Shaoxing City Ministry of Land Resources and Zhejiang Province Kuaiji Mountain Tour District Administration Committee for the real estate development project of Kuaiji Tour District, of which RMB222,000,000 represents bidding deposits and the remaining balance represents the prepayments for tomb-transfer.

Notes to the Accounts

21. BANK BALANCES AND CASH

All cash and bank balances are placed with banks in the PRC. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by Government of Mainland China.

Certain deposits with banks amounting to approximately RMB16,285,000 as at 31st December 2003 (2002: RMB14,390,000) have been pledged to guarantee the performance of construction contracts work and notes payable.

22. TRADE AND OTHER PAYABLES

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Trade and notes payables (note a)	222,794	224,713	-	-
Other payables	88,152	48,026	1,887	1,853
Pre-sale receipt in advance	339,570	44,184	-	-
Deposits from project managers	59,007	39,429	-	-
Advance from customers for contract work (note 19)	-	729	-	-
Accruals	2,034	2,690	1,297	1,800
	711,557	359,771	3,184	3,653

Note:

(a) At 31st December 2003, the ageing analysis of the trade and notes payables is as follows:

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
0 to 3 months	144,244	60,878	-	-
3 months to 1 year	46,863	160,262	-	-
1 to 2 years	28,005	2,801	-	-
2 to 3 years	2,777	419	-	-
Over 3 years	905	353	-	-
	222,794	224,713	-	-

Notes to the Accounts

23. TAXES PAYABLE

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
PRC enterprise income tax	71,886	33,777	5,719	4,830
Value added tax	11,547	6,838	-	-
Business tax	35,466	33,015	6,397	6,399
Others	40,524	27,133	831	712
	159,423	100,763	12,947	11,941

24. PROVISION FOR WARRANTY

Group

	2003 RMB'000	2002 RMB'000
At the beginning of the year	4,880	1,480
Additional provision	1,700	3,520
Less: amount utilised	(1,580)	(120)
At the end of the year	5,000	4,880

The Group gives warranty on construction work and undertakes to repair construction work that is not satisfactory for periods which range from 6 months to 5 years.

Notes to the Accounts

25. BORROWINGS

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Short-term bank loans				
Unsecured				
– Unguaranteed	160,000	–	160,000	–
– Guaranteed by				
The Company	336,950	120,950	–	–
Subsidiaries	–	23,000	–	–
Secured	46,000	–	46,000	–
	542,950	143,950	206,000	–

Interest was charged at 5% to 6% of the outstanding loan balances for the years ended 31st December 2003 (2002: 5% to 7%).

As at 31st December 2003, the secured short-term bank loans were pledged by the land use rights and buildings of the Company amounting to RMB32,160,000 and those of its subsidiary, Baoye Construction, amounting to RMB5,473,000.

Notes to the Accounts

26. SHARE CAPITAL

The movements of share capital are as follows:

	Number of Shares (in thousand)	Paid-in capital RMB'000	Share capital RMB'000
Balances as at 1st January 2002	N/A*	110,000	N/A*
Movement during the year ended 31st December 2002:			
Capitalisation into paid-in capital	N/A*	240,742	N/A*
Capitalisation upon transformation into shares in a joint stock limited company (registered, issued and fully paid of RMB1.00 each)	350,742	(350,742)	350,742
Balances as at 31st December 2002	350,742	–	350,742
Movement during year ended 31st December 2003:			
Issue of H shares	180,684**	–	180,684**
Balances as at 31st December 2003	531,426	–	531,426

* Prior to the transformation into a joint stock limited company in the PRC, the capital of the Company was not divided into ordinary shares and accordingly, no information regarding the number of shares is presented.

** 180,684,000 H Shares of RMB1.00 each were issued at HKD1.43 (equivalent to approximately RMB1.52) each and were fully paid up in form of cash, resulting in capital reserve (share premium) of approximately RMB56,150,000 after deducting the share issuance costs in relation to the issuing of new H Shares of approximately RMB37,390,000. The share capital had not been verified by certified public accountants in the PRC.

Notes to the Accounts

27. RESERVES

Group

	Capital reserve (note b)	Share issuance costs	Asset revaluation reserve	Statutory surplus reserve (note a(i))	Statutory public welfare fund (note a(ii))	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1st January 2003 as previously reported	-	(9,620)	13,120	10,644	5,322	91,666	111,132
Changes in accounting policy (note 2(o))							
- provision for net deferred tax liabilities	-	-	(4,329)	-	-	-	(4,329)
As at 1st January 2003 as restated	-	(9,620)	8,791	10,644	5,322	91,666	106,803
Issue of shares	93,540	-	-	-	-	-	93,540
Share issuance costs	-	(27,770)	-	-	-	-	(27,770)
Transfer	(37,390)	37,390	-	-	-	-	-
Profit for the year	-	-	-	-	-	112,409	112,409
Transfer to statutory surplus reserve	-	-	-	11,012	-	(11,012)	-
Transfer to statutory public welfare fund	-	-	-	-	5,506	(5,506)	-
As at 31st December 2003	56,150	-	8,791	21,656	10,828	187,557	284,982
Representing:							
2003 final dividend proposed						33,746	
Retained earnings						153,811	
Retained earnings as at 31st December 2003						187,557	
Company and subsidiaries	56,150	-	8,791	21,656	10,828	191,375	288,800
Jointly controlled entity	-	-	-	-	-	(3,818)	(3,818)
At 31st December 2003	56,150	-	8,791	21,656	10,828	187,557	284,982

Notes to the Accounts

27. RESERVES (continued)

Group (continued)

	Capital reserve (note b) RMB'000	Share issuance costs RMB'000	Asset revaluation reserve RMB'000	Statutory surplus reserve (note a(i)) RMB'000	Statutory public welfare fund (note a(ii)) RMB'000	Retained earnings RMB'000	Total RMB'000
As at 1st January 2002 as previously reported	-	-	21,527	19,589	9,512	178,198	228,826
Changes in accounting policy (note 2(o)) - provision for net deferred tax liabilities	-	-	(7,103)	-	-	-	(7,103)
As at 1st January 2002 as restated	-	-	14,424	19,589	9,512	178,198	221,723
Profit for the year	-	-	-	-	-	141,075	141,075
Release upon disposal of equity interest in subsidiaries	-	-	(5,633)	-	-	-	(5,633)
Capitalisation into paid-in capital (note 26)	-	-	-	(19,589)	(9,512)	(211,641)	(240,742)
Transfer to statutory surplus reserve	-	-	-	10,644	-	(10,644)	-
Transfer to statutory public welfare fund	-	-	-	-	5,322	(5,322)	-
Share issuance costs	-	(9,620)	-	-	-	-	(9,620)
As at 31st December 2002	-	(9,620)	8,791	10,644	5,322	91,666	106,803
Company and subsidiaries	-	(9,620)	8,791	10,644	5,322	92,682	107,819
Jointly controlled entity	-	-	-	-	-	(1,016)	(1,016)
At 31st December 2002	-	(9,620)	8,791	10,644	5,322	91,666	106,803

Notes to the Accounts

27. RESERVES (continued)

Company

	Capital reserve (note b) RMB'000	Share issuance costs RMB'000	Statutory surplus reserve (note a(i)) RMB'000	Statutory public welfare fund (note a(ii)) RMB'000	(Accumulated losses)/ Retained earnings RMB'000	Total RMB'000
As at 1st January 2003	-	(9,620)	10,644	5,322	(91,704)	(85,358)
Issue of shares	93,540	-	-	-	-	93,540
Share issuance costs	-	(27,770)	-	-	-	(27,770)
Transfer	(37,390)	37,390	-	-	-	-
Profit for the year	-	-	-	-	161,309	161,309
Transfer to statutory surplus reserve	-	-	11,012	-	(11,012)	-
Transfer to statutory public welfare fund	-	-	-	5,506	(5,506)	-
As at 31st December 2003	56,150	-	21,656	10,828	53,087	141,721
Representing:						
2003 final dividend proposed					33,746	
Retained earnings					19,341	
Retained earnings as at 31st December 2003					53,087	

Notes to the Accounts

27. RESERVES (continued)

Company (continued)

	Capital reserve (note b)	Share issuance costs	Statutory surplus reserve (note a(i))	Statutory public welfare fund (note a(ii))	(Accumulated losses)/ Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1st January 2002	-	-	19,589	9,512	22,873	51,974
Profit for the year	-	-	-	-	113,030	113,030
Capitalisation into paid-in capital (note 26)	-	-	(19,589)	(9,512)	(211,641)	(240,742)
Transfer to statutory surplus reserve	-	-	10,644	-	(10,644)	-
Transfer to statutory public welfare fund	-	-	-	5,322	(5,322)	-
Share issuance costs	-	(9,620)	-	-	-	(9,620)
As at 31st December 2002	-	(9,620)	10,644	5,322	(91,704)	(85,358)

(a) Reserve funds

(i) Statutory surplus reserve

The Group is required each year to transfer 10% of the profit after tax as reported under the PRC statutory financial statements to the statutory surplus reserve until the balance reaches 50% of the registered share capital. This reserve can be used to reduce any losses incurred or to increase ordinary shares. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.

(ii) Statutory public welfare fund

The Group is required each year to transfer 5% to 10% of the profit after tax as reported under the PRC statutory financial statements to the statutory public welfare fund. This reserve is restricted to capital expenditure for staff collective welfare facilities which are owned by the Group. The statutory public welfare fund is not available for distribution to the shareholders except upon liquidation of the Company.

Notes to the Accounts

27. RESERVES (continued)

(a) Reserve funds (continued)

(iii) Transfer from profit for the year

The amount transferred to the statutory surplus reserve and statutory public welfare fund shall be based on the profit after tax in the statutory financial statements prepared in accordance with PRC GAAP.

(b) Capital reserve

Capital reserve represents the premium on the issue of shares of the Company. Pursuant to relevant PRC regulations, capital reserve can be used to increase ordinary shares and to reduce any losses incurred, subject to approval by shareholders at general meeting.

(c) Profit distributable to shareholders

Pursuant to the articles of association of the Company, the profit after appropriation to reserves and available for distribution to shareholders shall be the lower of the accumulated distributable profits as determined based on PRC GAAP and the accumulated distributable profits adjusted according to HK GAAP.

28. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 33% (2002: 33%).

The movement on deferred tax assets/(liabilities) account is as follows:

Group

	2003 RMB'000	2002 RMB'000
At beginning of year	1,869	(6,431)
Deferred taxation (credited)/charged to profit and loss account	(1,638)	4,349
Release upon disposal of subsidiaries	-	3,951
At end of year	231	1,869

Notes to the Accounts

28. DEFERRED TAXATION (continued)

The movement in deferred tax assets and liabilities (prior to off setting of balance within in the same taxation jurisdiction) during the years are as follows:

Deferred tax assets

	Provision for doubtful receivables		Revaluation of investment properties		Interest expenses capitalised		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1st January as previously reported	6,794	3,454	(516)	(516)	(70)	(1,079)	6,208	1,859
Adjustments arising from adoption of revised accounting policy – Reclassification	-	-	516	516	70	1,079	586	1,595
Balance at 1st January as restated	6,794	3,454	-	-	-	-	6,794	3,454
(Credited)/charged to profit and loss account	(521)	3,340	-	-	-	-	(521)	3,340
Balance at 31st December	6,273	6,794	-	-	-	-	6,273	6,794

Deferred tax liabilities

	Revaluation of investment properties		Interest expenses capitalised		Total	
	2003	2002	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1st January as previously reported	-	-	-	-	-	-
Adjustments arising from adoption of revised accounting policy – Reclassification	(516)	(516)	(70)	(1,079)	(586)	(1,595)
– Investment property revaluation	(4,339)	(8,290)	-	-	(4,339)	(8,290)
Balance at 1st January as restated	(4,855)	(8,806)	(70)	(1,079)	(4,925)	(9,885)
(Credited)/charged to profit and loss account	(141)	-	(976)	1,009	(1,117)	1,009
Release upon disposal of subsidiaries	-	3,951	-	-	-	3,951
Balance at 31st December	(4,996)	(4,855)	(1,046)	(70)	(6,042)	(4,925)

Notes to the Accounts

29. CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash (outflow)/inflow generated from operations:

	2003 RMB'000	2002 RMB'000
Profit before taxation	180,242	213,010
Depreciation	19,165	16,143
Share of loss of a jointly controlled entity	2,802	1,016
(Write back of provision)/provision for doubtful receivables	(1,580)	10,122
Gain on disposal of fixed assets	(4,322)	(1,419)
Gain on disposal of subsidiaries	(109)	(2,690)
Interest income	(12,416)	(1,639)
Interest expenses	23,101	5,502
Operating profit before working capital changes	206,883	240,045
(Increase)/decrease in properties under development, properties held for development and completed properties held for sale	(357,754)	119,693
(Increase)/decrease in pledged bank deposits	(1,895)	3,978
Increase in inventories	(7,952)	(1,533)
Increase in balances with customers on construction contracts	(23,650)	(48,978)
Increase in trade and other receivables	(321,006)	(82,695)
Increase in trade and other payables	405,314	118,609
Net cash (outflow)/inflow generated from operations	(100,060)	349,119

Notes to the Accounts

29. CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing activities

	Paid-in/ share capital including capital reserve	Minority interests	Bank loans
	RMB'000	RMB'000	RMB'000
As at 1st January 2002 as previously reported	110,000	47,985	210,600
Changes in accounting policy			
– provision for net deferred tax liabilities	–	(1,187)	–
As at 1st January 2002 as restated	110,000	46,798	210,600
Capitalisation of paid-in capital	240,742	–	–
Disposal of subsidiaries	–	(6,523)	(10,000)
Net cash outflow from borrowings	–	–	(56,650)
Injections from minority shareholders	–	26,620	–
Profit attributable to minority shareholders	–	7,566	–
Effect of dilution of equity interest in subsidiaries	–	168	–
Others	–	(6,734)	–
As at 31st December 2002	<u>350,742</u>	<u>67,895</u>	<u>143,950</u>
As at 1st January 2003 as previously reported	350,742	67,905	143,950
Changes in accounting policy			
– provision for net deferred tax liabilities	–	(10)	–
As at 1st January 2003 as restated	350,742	67,895	143,950
Issue of shares	236,834	–	–
Disposal of a subsidiary	–	(9,747)	–
Net cash inflow from borrowings	–	–	399,000
Injections from minority shareholders	–	6,755	–
Profit attributable to minority shareholders	–	9,486	–
Profit appropriation to minority shareholders	–	(1,676)	–
Others	–	(107)	–
As at 31st December 2003	<u>587,576</u>	<u>72,606</u>	<u>542,950</u>

Notes to the Accounts

29. CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Disposal of a subsidiary

	2003 RMB'000
Net assets disposed:	
Bank balances and cash	7,288
Other current assets	139
Fixed assets	434
Non-current deposits	50,000
Liabilities	(38,023)
Minority interest	(9,747)
	10,091
Gain on disposal	109
Satisfied by cash	10,200
Analysis of net inflows of cash in respect of the disposal of subsidiaries:	
Cash consideration	10,200
Cash and bank balances disposed	(7,288)
	2,912

30. CONTINGENT LIABILITIES

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Guarantee given to banks in respect of mortgage facilities granted to outside parties (note a)	50,000	9,248	-	-
Guarantee given to banks in respect of bank loans granted to subsidiaries	N/A	N/A	336,950	120,950
Guarantee given to a bank in respect of a bank loan granted to a jointly controlled entity	-	20,000	-	20,000
	50,000	29,248	336,950	140,950

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

Notes to the Accounts

31. COMMITMENTS

(a) Capital commitments

- (i) At 31st December 2003, the Group and the Company had the following capital commitments in respect of the development costs of properties under development and properties held for development:

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
– Authorised but not contracted for	297,658	215,084	–	–
– Contracted but not provided for	–	400,000	–	–
	297,658	615,084	–	–

Included in the commitments as at 31st December 2002 were commitments of RMB400 million entered into by Fuzhou Baoyue Real Estate Development Company Limited which was disposed of during the year.

- (ii) At 31st December 2003, the Group and the Company had the following capital commitments authorised but not provided for in respect of land and buildings, plant and machinery:

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Land and buildings	43,245	70,578	43,245	70,578
Plant and machinery	22,428	91,395	22,428	91,395
	65,673	161,973	65,673	161,973

Notes to the Accounts

31. COMMITMENTS

(b) Commitments under operating leases

– Where the Group is the lessor

At 31st December 2003, the Group and the Company had future aggregate minimum lease receivables under non-cancellable operating leases in respect of land and buildings are as follows:

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Not later than one year	477	1,755	–	–
Later than one year and not later than five years	–	82	–	–
	477	1,837	–	–

– Where the Group is the lessee

At 31st December 2003, the Group and the Company had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Not later than one year	1,126	381	–	–
Later than one year and not later than five years	467	28	–	–
	1,593	409	–	–

Notes to the Accounts

32. BALANCES WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence, or if they are minority shareholders of the Group's subsidiaries. Related parties may be individuals or other entities.

(i) Balances with related parties

As at 31st December 2003 and 2002, the Group had the following significant balances with related parties:

	2003 RMB'000	2002 RMB'000
Amounts due from related parties		
– Shanghai Zide Real Estate Development Co., Ltd. (note a)	910	–
– Zhejiang Huanyu Construction Group Co., Ltd. ("Zhejiang Huanyu") (note a)	10,551	10,992
– Shaoxing Municipal Infrastructure Company ("Municipal Infrastructure") (note a)	4,066	3,734
– Tong Yingqiang (note a)	–	2,700
– Xu Jianjun (note a)	–	2,700
	15,527	20,126

	2003 RMB'000	2002 RMB'000
Amounts due from shareholders		
– Chen Lianlu (note b, d)	–	5
– Wang Rongfu	–	141
	–	146

Notes to the Accounts

32. BALANCES WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(i) Balances with related parties *(continued)*

	2003 RMB'000	2002 RMB'000
Amounts due to related parties		
– Labour Union Committee of Zhejiang Baoye Curtain Wall Decoration Co., Ltd.	318	–
– Shaoxing Feiyue Investment Company Limited (note a, e)	–	19,600
	318	19,600
Amounts due to shareholders		
– Xu Jianbiao (note d)	–	300
– Pang Baisong (note b, d)	–	300
– Gao Jun (note d)	–	200
– Wu Zhanglin (note d)	–	300
– Yuan Ajin (note d)	–	300
– Tang Li Ping (note b, d)	–	200
– Xia Weimin (note d)	997	300
– Xia Yahong (note b, d)	–	300
– Sun Guoxun (note b)	105	1,500
– Xia Huihua (note b, d)	–	300
– Wang Jianhua	5,884	6,500
– Wang Liequan (note d)	1,776	715
– Chen Baorong	3,078	2,800
	11,840	14,015
Amounts due to directors (note c)		
– Pang Baogen (note d)	–	300
– Gao Lin (note d)	–	300
– Zhou Hanwan (note d)	–	300
	–	900

As at 31st December 2003 and 2002, all balances with related parties were unsecured, non-interest bearing and had no fixed repayment terms.

Notes to the Accounts

32. BALANCES WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(i) Balances with related parties *(continued)*

Additional information on amounts due from related parties:

	Maximum amount outstanding during the year	
	2003	2002
	RMB'000	RMB'000
Amounts due from related parties		
– Shanghai Zide Real Estate Development Co., Ltd.	910	–
– Staff Shareholding Committee of Zhejiang Baoye Construction Works Group Company	–	60,000
– The Reception Centre of Zhejiang Provincial Department of Construction	–	600
– Zhejiang Construction Science and Design Research Institute	–	19,800
– Zhejiang Huanyu	10,992	10,992
– Municipal Infrastructure	4,066	3,734
– Tong yingqiang	–	2,700
– Xu Jianjun	–	2,700
Amounts due from shareholders		
– Sun Yongxiang	–	7
– Xu Jianbiao	–	8
– Xia Weimin	–	2,159
– Xie Baojin (note b)	–	160
– Wang Jianhua	–	664
– Chen Baorong	–	3,236
– Chen Lianlu	–	150
– Wang Rongfu	–	141
Amounts due from directors		
– Zhou Hanwan	–	2,100

Notes to the Accounts

32. BALANCES WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(i) Balances with related parties *(continued)*

- (a) Minority shareholders of the subsidiaries of the Group.
- (b) These individuals became shareholders of the Company in February 2002.
- (c) All the above directors are also shareholders of the Company.
- (d) Included in the balances as at 31st December 2002 were deposits paid in relation to the purchase of certain units in Baoye Garden (see note 32(ii)).
- (e) The balance represents the amount due to Shaoxing Feiyue Investment Company Limited by Fuzhou Baoyue. Fuzhou Baoyue was disposed of in 2003 (note 29).

Notes to the Accounts

32. BALANCES WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(ii) Related party transactions

The Group had the following significant transactions with related parties during the year:

	2003 RMB'000	2002 RMB'000
Non-continuing transactions		
Fixed fee paid to		
– Municipal Infrastructure	–	52
– Zhejiang Huanyu	–	187
Sales of real estate properties to the following parties (note f)		
Sales to directors		
– Gao Lin	1,171	–
– Zhou Hanwan	1,171	–
Sales to shareholders		
– Xu Jianbiao	1,171	–
– Gao Jun	1,171	–
– Xia Weimin	1,265	–
– Xia Yahong	850	–
– Xia Huihua	850	–
– Wang Liequan	1,171	–
– Wang Rongfu	1,171	–
Sales to related parties (note g)		
– Pang Weixiang	1,171	–
– Pang Jianhong	850	–
– Yuan Zhonghua	850	–
– Wu Yeqing	850	–
Continuing transactions		
Sales of concrete to		
– Zhejiang Huanyu	13,082	16,685
– Municipal Infrastructure	368	71

Notes to the Accounts

32. BALANCES WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(ii) Related party transactions *(continued)*

- (f) These related parties had purchased certain units in Baoye Garden, which has been constructed by Baoye Real Estate. The selling price of such units were lower than the market price but the other terms of sales were on normal commercial terms.
- (g) These individuals are direct relatives of shareholders of the Company.
- (h) Certain companies of the Group had entered into Internal Undertaking Contract of Construction Projects with the project managers. The shareholders of the Company, Mr. Xia Weimin, Mr. Chen Baorong, Mr. Wang Jianghua and Mr. Wu Xianfu were also project managers and the directors confirm that the terms of their Internal Undertaking Contract of Construction Projects are similar to those of other project managers who were not shareholders of the Company.

33. SUBSEQUENT EVENTS

Save as the transactions with Baoye Investment subsequent to year end as stated in note 3, the Company had no significant subsequent events.

34. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 28th May 2004.



寶業集團股份有限公司
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