



From Construction  
to Manufacturing  
**China's  
Urbanization  
Operator**

Annual  
Report  
**2004**



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



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

(a joint stock limited company incorporated in the People's Republic of China)  
(stock code: 2355)

## 2004 Annual Report

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*Note:* Notice of 2004 Annual General Meeting was despatched separately to shareholders on 4th April 2005

## CORPORATE PROFILE

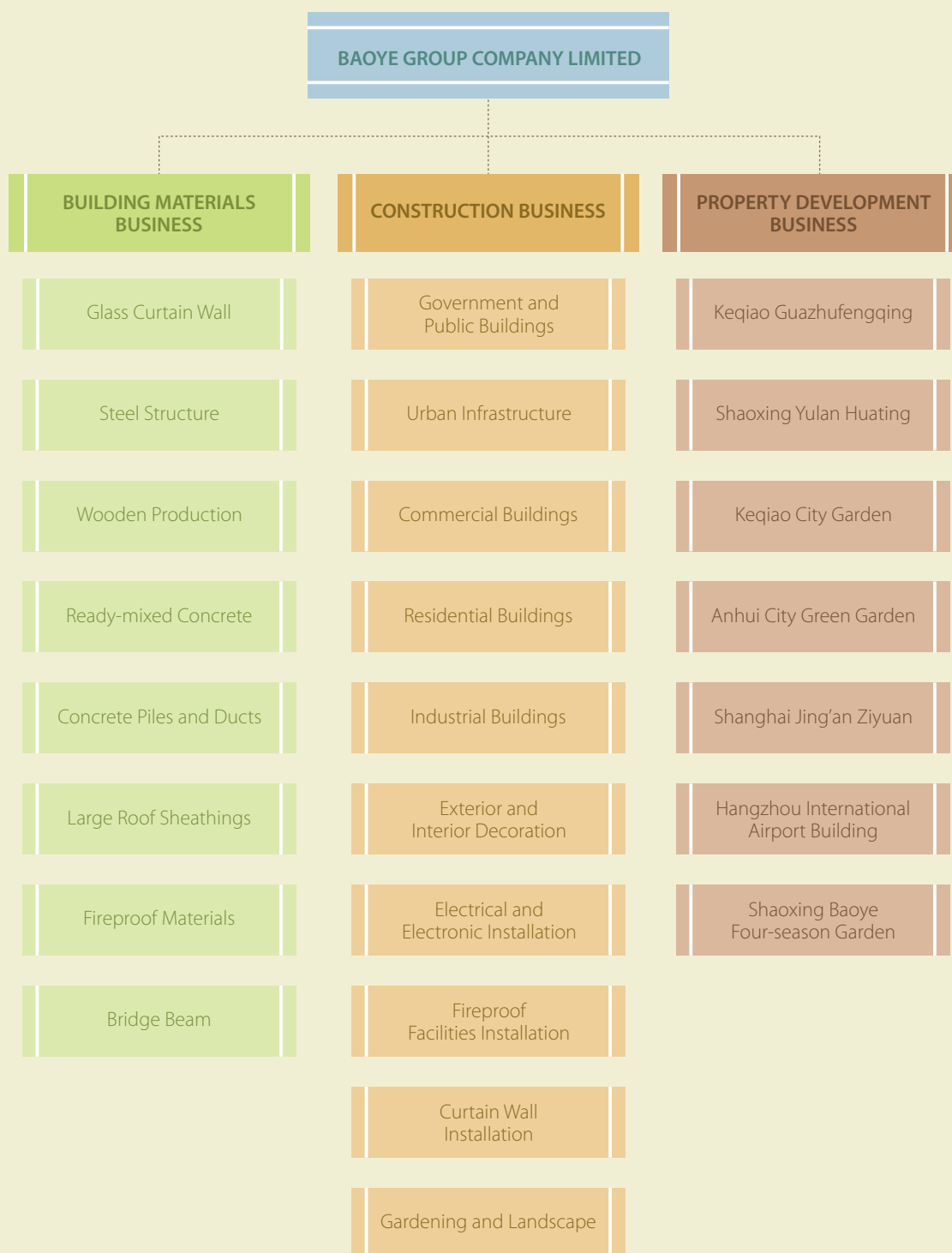


Baoye Group was established in February 1975 and principally engaged in undertaking and implementation of construction projects, research and development, production and sale of building materials and property development. Baoye Group is a vertically integrated construction enterprise with construction, prefabricated building materials and property development. The Group is based in Zhejiang Province of Yangtze River Delta, and its business radiates to nationwide.

In June 2003, the Company issued 180,684,000 H shares and listed on the main board of HKEx on 30th June 2003, which enables the Company to have access to the international capital market in line with the world advanced mode of management. In January 2005, the Company completed a placement of 36,136,800 H shares, which were listed on the main board of HKEx on 21st January 2005.

Since its establishment in 1975, the Group, has been capitalising the rapid growth of the China economy, seizing the precious opportunity of urbanization, sticking to the concept of "keeping reliable and slighting ourselves, using creditable and favoring others". It has gathered talents, expanded markets and won recognition acclaims in the industry. After 30 years of steady growth, Baoye Group has successfully evolved from a pure construction company to an integrated enterprise that includes construction, prefabricated building materials and property development, and entered to a comprehensive integration of upstream and downstream businesses. The Group is the largest and most profitable privately owned integrated construction enterprise in China.

## CORPORATE PROFILE



## FINANCIAL HIGHLIGHTS



### REVIEW

- Turnover was **RMB4,378,434,000**, representing an increase of **46%** over the previous year.
- Profit attributable to shareholders was **RMB275,082,000**, representing an increase of **145%** over the previous year.
- Earnings per share was **RMB0.518**, representing an increase of **103%** over the previous year.
- Proposed final dividend amounted to **RMB0.1436** per share, representing an increase of **126%** over the previous year.

## FINANCIAL HIGHLIGHTS

### PROSPECTS

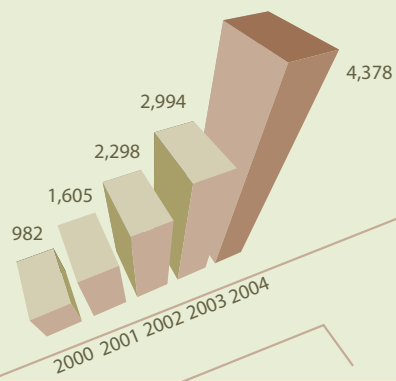
- As at 31st December 2004, the Group's total construction contract value was approximately **RMB8.24 billion**, a robust growth of **70%** over the previous year.
- As at 31st December 2004, the Group's total construction contract value under construction plus new contracts being signed approximated to **RMB9.6 billion**, 50% of which is expected to be recognized in 2005 by percentage of completion method.
- A significant portion of the property projects that is expected to be recognized in 2005 have been pre-sold. As at 31st December 2004, the pre-sale receipt in advance amounted to approximately **RMB390 million**.
- As a result of the recent PRC government policies of promoting energy-saving and environmental friendly construction, the demand of prefabricated building materials is expected to be greatly increased, which will boost the building materials business of the Group.



# FINANCIAL HIGHLIGHTS

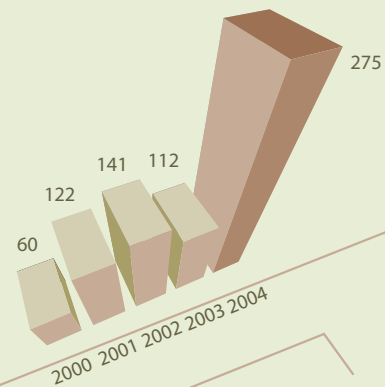
## Turnover

(in million RMB)



## Profit Attributable to Shareholders

(in million RMB)



## FINANCIAL HIGHLIGHTS

	Year Ended 31st December				
	2004	2003	2002	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>RESULTS</b>					
Turnover	<b>4,378,434</b>	2,994,472	2,297,526	1,604,574	981,896
Profit attributable to shareholders	<b>275,082</b>	112,409	141,075	122,053	59,734
Basic Earnings per Share	<b>RMB0.518</b>	RMB0.255	RMB0.402	RMB0.348	RMB0.341
<b>ASSETS AND LIABILITIES</b>					
Total Assets	<b>3,547,537</b>	2,539,428	1,378,971	1,309,804	874,952
Total Liabilities	<b>2,493,473</b>	1,723,020	921,426	978,081	666,523
Shareholders' Funds	<b>1,054,064</b>	816,408	457,545	331,723	208,429



# CHAIRMAN'S STATEMENT



Mr. Pang Baogen

## CHAIRMAN'S STATEMENT

I have the pleasure to report to our shareholders the audited consolidated financial results of the Group for the year ended 31st December 2004. During the year, the Group achieved turnover of RMB4,378,434,000, representing an increase of 46% over the preceding year; profit attributable to shareholders amounted to RMB275,082,000, representing an increase of 145% over the preceding year; Earnings per share reached RMB0.518, representing an increase of 103% over the preceding year. The Board proposed a final dividend of RMB0.1436 per share for the year ended 31st December 2004, representing an increase of 126% as compared to the same period last year.

2004 set a key milestone for the development of the Group. In the past 30 years, the Group, through our dedication and expansion thrust, has been developed from a regional construction company into a conglomerate enterprise, comprising of construction, production and sales of modern building materials as well as property development on a nationwide basis. The Group's operating results will enter into a new era of growth resulting from the expansion thrust in the years to come. Simultaneously, sales from the relatively higher profit margin building materials operations and property development operations have increased, and constituted a higher proportion of the Group's turnover year-by-year, it is expected that the Group would be able to benefit from the enhancement of gross profit margin in the next few years.

In 2004, the Chinese economy had remained stable throughout; this was the result of prudent macroeconomic control measures implemented by the Chinese government, which have paved a sound macroeconomic environment for the future development of construction industry. In addition, the continuous increases in urbanization together with "industrialization of building materials" have become the driving force for the construction industry. Statistics show that every one percentage point of increase in urbanization rate induces a two

percentage point of growth in GDP. Assuming China's domestic urban population grew by 16 million per annum; and one person requires an average of 20 square meters living space, it will translate into an additional living space requirement of 320 million square meters, upon which would call for corresponding community facility and urban infrastructure requirements, to match with this increased housing demand. The "industrialization of building materials" also represents a revolutionary trend using modern materials to replace traditional materials in the construction industry, giving rise to a market potential of several trillions of RMB. Buoyed by the "industrialization of building materials" and urbanization, the Group's core businesses in construction, building materials, and property development will continue to foster and sustain high growth rates in the years to come.

Leveraging on the Group's financial strength and excellent "Baoye" brand, the three core businesses of the Group all achieved commendable operating results in 2004.

### CONSTRUCTION BUSINESS

Construction is the Group's primary core business. After 30 years of development, it has become one of the 43 construction companies, the first batch of construction companies receiving the premium class

## CHAIRMAN'S STATEMENT

certificate of general contractors, allowing the Group to intake contracts of any size or any level of architectural complexity. In this connection, the Group is, among all other awardees, qualified to bid for over tens of thousands high-end construction projects in China every year. Over the past few years, the Group's competitive advantage in the industry was that large-size projects, projects with technical entry barriers, high-profit projects such as public works, city and town planning, and traffic projects undertaken by the Group have increased in numbers and registered higher percentages of the Group's construction business year-by-year. Macroeconomic control measures have made the construction business increasingly regulated, which have led a number of Baoye's competitors gone out from the market, allowing the Group to obtain ever greater market share and to pitch on high margin construction projects selectively. These, coupled with the significant increase in revenue of construction contracts, have made the profit margin of construction business to rise steadily. In addition, the Chinese government is currently promoting the policy of "State Retreat, People Forward." This policy provides tremendous opportunities for the Group to extend its foothold on a nationwide basis. In the next two years, the Group intends to acquire one or two sizable construction companies in Northern and Central China. Negotiations are underway and have already entered into advance stages.

### **BUILDING MATERIALS BUSINESS**

As one of the market leader in the "industrialization of building materials" in China, the Group has always dedicated itself to developing high quality semi-finished building materials which are both cost effective and in line with China's environmental friendly and energy conservation policies. To this end, the Group advocates its business mission "from

construction to manufacturing" in order to capture the revolutionary trend in the industry by introducing modern building materials to replace traditional ones. Expected market potential for these building materials will amount to several trillion RMB. For this reason, the building materials business will become the main driver of growth in profits for the Group. During the year, the Group's first housing industrial park in Shaoxing County, which is the nation's largest in size, has commenced commercial production; while the second industrial park in Hefei has begun construction. In the next few years, the Group will continue to build additional industrial parks in different areas across the country, in conjunction with the development of the Group's construction business road map. The Group is in talks with renowned international manufacturers in prefabricated building materials business on possible strategic cooperation in housing industrialization business, with an objective to realizing our goal "from construction to manufacturing" prior to 2010 and establishing a conglomerate enterprise that could generate revenue of tens of billions of RMB.

### **PROPERTY DEVELOPMENT BUSINESS**

In 2004, the property development business continued to gain momentum in China and the Group's also saw high growth in this business segment. From the longer term perspective, the increases in urbanization would definitely call for increase in demand for residential properties. To capture this growing demand, property developers will do two fundamental measures to preserve their continued successes, they are: first, to increase their land reserves at low cost; and second, to provide the market with good quality housing products. Land determines the size and cost of development of properties. The Group has constantly adopted

## CHAIRMAN'S STATEMENT

strategies to accumulate or acquire land and projects in cities or towns in their initial phase of urbanization where the Group sees vibrant economic growth. From 2001 onwards, the Group has begun accumulating over 1 million square meters of high-quality land reserves in the areas of Zhejiang, Shanghai and Anhui, which will be sufficient for use in the next 3 to 5 years. By comparing the current market value, the costs for these land reserves are extremely inexpensive, which would provide assurance for higher profitability when properties prices rise. Even when properties prices fall, profitability level will remain higher than industry average, all of which would provide the Group with the necessary competitive advantages in the industry. Besides this, the Group can utilize its leading edge in construction technology, modern building materials, low-cost builder, environmental friendly and energy conserving housing, in meeting government policies requirements and the needs of communities at-large. Though there were some media discussions on real estate bubble in some major cities in China, the markets targeted by the Group have not been significantly impacted and would remain stable for future development.

As and when the Group begins to develop its businesses on a nationwide level, it will adopt the current "three-in-one" business model by positioning construction as the base, modern building materials as the centre of development and property development as the supplementary business. During the year, the Group's success business model had begun to pay off in Hefei, where the first "Cloning Baoye" was established. In 2002, the Group began its businesses in Hefei and up to 2004, Baoye had solicited construction contracts in a sum of RMB470 million in the Anhui Province with an aggregate build-up areas of 486,300 square meters,

including contracts for landmark buildings such as the CBD Central Business Plaza and the Anhui Telecommunications Engineering Co.'s General Production Management Building. From June 2004, the construction of the Hefei Baoye Housing Industrial Park has been underway. It is expected that the construction work will be completed by 2007, with a planned production capacity of over RMB1.5 billion. In December 2004, Baoye's "City Green Garden Phase I" in Hefei was up for pre-selling and was fully subscribed in a short while, which truly indicates that the "three-in-one" business model had been successfully launched in Hefei. The Group plans to establish two more new housing industrial parks, in Central and Northern China. The total output of these two new industrial parks is expected to exceed the current capacity of the Group by 2010.

Taking advantage of the continuing increases in urbanization in China and our unwavering effort and believe in realizing our mission "from construction to manufacturing", the Group intends to transform itself to become the largest private construction enterprise with highest earning capability in China. The Group will endeavor to achieve good operating results to reward its shareholders in return of their continuous support and patronage.

**Pang Baogen**  
*Chairman*

1st April 2005

# MANAGEMENT DISCUSSION AND ANALYSIS



# MANAGEMENT DISCUSSION AND ANALYSIS



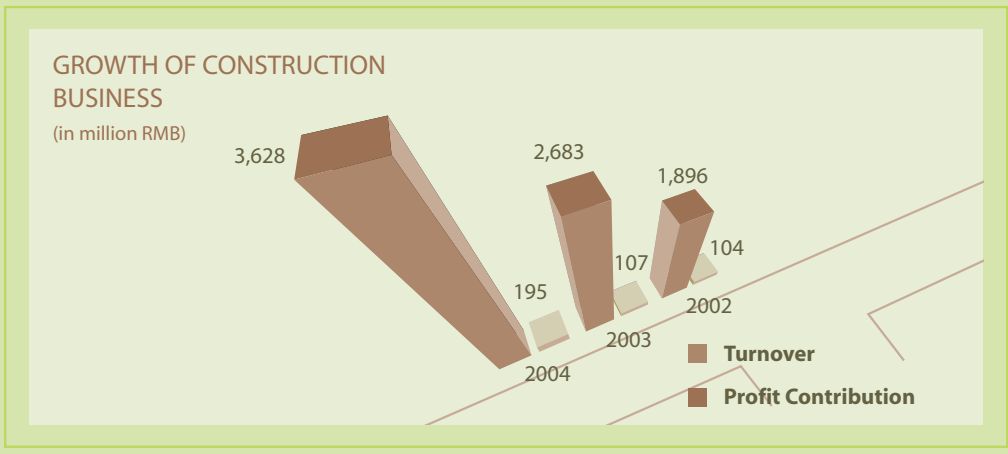
## CHINA'S MACROECONOMIC ENVIRONMENT

Chinese government macroeconomic control measures have taken remedial effect since April 2004, aiming to slow down overheated industries such as concrete and steels, controlling land supply as well as regulating and rationalizing the infrastructure of these industries. These control measures ensured a healthy development of economy in China. In 2004, the total Gross Domestic Product and private fixed assets investment for Zhejiang Province, where the Group is based, amounted to RMB1.1243 trillion and RMB594.5 billion respectively, representing an increase of 14% and 20% over 2003. China and Zhejiang Province's substantial private fixed assets investments provided enormous market opportunity to the Group's construction and building materials businesses. The consistent and renewed high economic growth rates and continuous increases in urbanization have greatly enhanced the purchasing power and demand for residential properties. This is a positive impetus for the Group's property development business. At the same time, government macroeconomic control measures have taken further steps in regulating the market activities in construction, building materials and property development, causing a number of small and medium size enterprises, to phase out from the market. For large enterprises with reputable brand name, such as Baoye, this represents an excellent development opportunity to achieve remarkable gains.

## BUSINESS REVIEW

### 1) Construction Business

For the year ended 31st December 2004, the Group's construction business achieved a turnover of RMB3,628,005,000 (approximately 83% of the Group's total turnover), profit contribution of RMB194,759,000 (approximately 48% of the Group's total profit), representing a growth of 35% and 82% respectively over the previous year. The Group adopted the percentage of completion method to recognise revenue of the construction business.



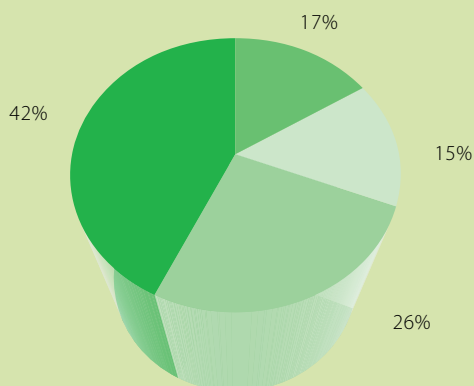
## MANAGEMENT DISCUSSION AND ANALYSIS

In 2004, the Group's total construction contract value was RMB8,242,626,000, representing an increase of approximately 70% from the previous year. Details are as follows:

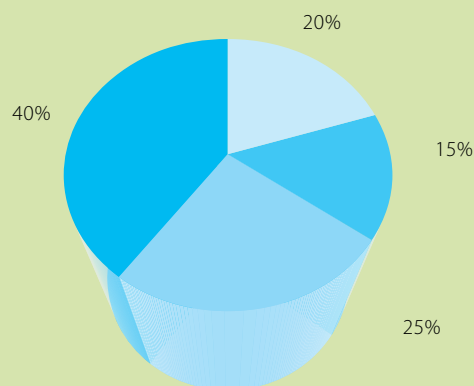
### By category

	2004		2003		Change
	RMB'000	% of total	RMB'000	% of total	
Public Buildings	3,469,043	42%	1,946,175	40%	+78%
Urban Infrastructure Projects	2,147,054	26%	1,200,088	25%	+79%
Residential Projects	1,240,586	15%	738,354	15%	+68%
Industrial Projects	1,385,943	17%	965,841	20%	+43%
	8,242,626	100%	4,850,458	100%	+70%

### 2004



### 2003

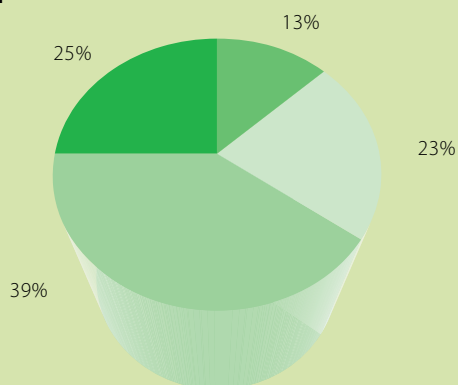


### By Region

	2004		2003		Change
	RMB'000	% of total	RMB'000	% of total	
Shaoxing County	2,062,331	25%	1,417,304	29%	+46%
Other Counties of Zhejiang Province	3,213,831	39%	1,853,360	38%	+73%
Shanghai	1,842,081	23%	1,422,154	29%	+30%
Other Provinces	1,124,383	13%	157,640	4%	+613%
	8,242,626	100%	4,850,458	100%	+70%

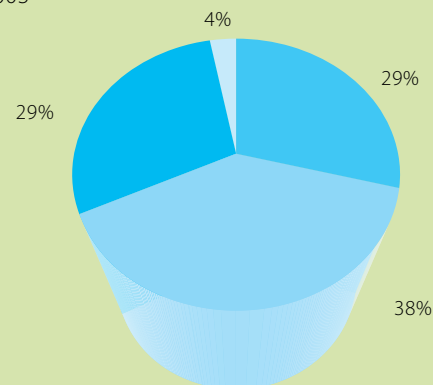
## MANAGEMENT DISCUSSION AND ANALYSIS

2004



■ Shaoxing County      ■ Other Counties of Zhejiang Province  
■ Shanghai      ■ Other Provinces

2003



■ Shaoxing County      ■ Other Counties of Zhejiang Province  
■ Shanghai      ■ Other Provinces

In 2004, while the Group continued to consolidate its position in the Zhejiang and Shanghai markets, it also extended its foothold in the neighbouring cities, Central China and Northern China regional markets. For the year ended 31st December 2004, the Group has obtained 386 new construction projects with contract value totaling RMB6.18 billion, representing an increase of 25% over the same period last year. Moreover, large-size projects, projects with technical entry barriers, high profit projects, such as public works, city and town planning, and traffic projects undertaken by the Group have increased in numbers and registered higher percentages of the Group's construction business year-by-year. Macroeconomic control measures have made the construction business increasingly regulated, which have led to a number of Baoye's competitors gone out from the market, allowing the Group to obtain even greater market share.

As at 31st December 2004, the total amount of construction contract orders under construction plus new contracts being signed amounted to approximately RMB9.6 billion, it is expected 50% of which will be recognized in 2005 based on percentage of completion method.

The Group received awards for the following completed projects in 2004.

### Award

Silver Medal of the State Outstanding Construction Projects

Qianjiang Cup

Bai Yulan Cup

### Project

– Shaoxing Administrative Centre Project

– Shaoxing Civil Administration Welfare Centre, Seniors Activities Centre

– Shaoxing Skill Quality Supervisory Bureau, Administrative Examination Centre, Office Examination Building

– Shaoxing Wenli Institute Centre Library

– Jiaxing Construction Bureau Building

– Wuyi No. 1 People's Hospital Emergency Building

– Shanghai Gaohang Town Government Office Building

– Shanghai Normal University Preparatory High School Apartments



# MANAGEMENT DISCUSSION AND ANALYSIS

### Award

### Project

Orchid Cup

- Shaoxing Civil Administration Welfare Centre, Seniors Activities Centre
- Shaoxing Wenli Institute Centre Library
- Shaoxing Intermediate People's Courthouse
- Shaoxing Skill Quality Supervisory Bureau, Administrative Examination Centre, Office Examination Building
- Shaoxing Keqiao Economic Development Zone Public Service Centre Main Building
- Shaoxing Commerce Bureau Main Building
- Xinchang Liqun Power Station

Pujiang Cup

- Shanghai New Times Garden Phase IV, No. 3-10
- New Times Garden, Grade 2 No. 8
- Shanghai Golden Xijiao City Phase I, No. 7

West Lake Cup

- Hangzhou Yellow Dragon Building
- Hangzhou Gardens, Apartment Building C

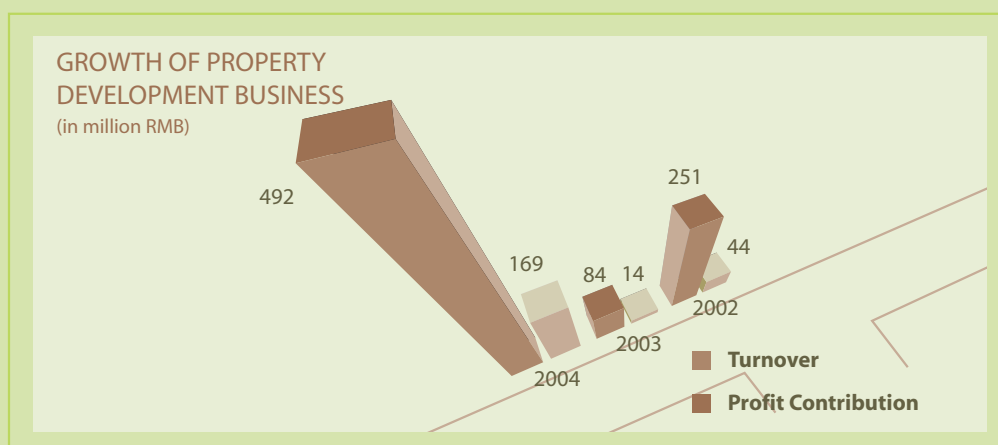


## MANAGEMENT DISCUSSION AND ANALYSIS

### 2) Property Development Business

#### *Real Estate Sales*

In 2004, the turnover of the Group's property development business was RMB492,194,000 (approximately 11% of the Group's total turnover), profit contribution was RMB168,889,000 (approximately 42% of the Group's total profit), representing a robust growth of 488% and 1,146% respectively over the same period last year. The Group adopted the completion method to recognize the revenue of property development, which complies with the revised HK GAAP, which was effective in 2005.



The outstanding achievement of the Group's property development in 2004 was primarily attributable to the Shaoxing's Guazhu Fengqing project. Approximately 125,000 square metres of floor space of Guazhu Fengqing was sold, achieving a turnover of RMB477,060,000; average selling price per square metre in 2004 was RMB3,816, representing an increase of 19% as compared to RMB3,200 per square metre when it was initially launched in 2003.

real scenic view of Guazhu Fengqing



## MANAGEMENT DISCUSSION AND ANALYSIS

### Projects under Development

As at 31st December 2004, the Group's projects under development can be summarized as follows:

Name of Project	Location	Salable Area (In square meters)	Equity Interest of the Group
Yulan Huating	Shaoxing	81,100	100%
City Gardens Phase III	Shaoxing	44,850	100%
City Green Garden Phase I	Hefei	142,559	50%
Jing'an Ziyuan	Shanghai	51,344	70%



Yulan Huating

The Yulan Huating project is situated in Shaoxing's downtown area, next to national Band 1 schools. It has a gross floor area of 48,804 square metres. It is primarily dedicated to residential apartments with spaces for commercial activities. Construction for this project is basically completed and expected to be sold in the near future, with revenues and profits to be booked in 2005.

City Garden Phase III, located in downtown Shaoxing's Keqiao Centre, bordering City Gardens Phases I and II, is also developed by the Group. It is surrounded by commercial buildings, schools and hospitals, with convenient shopping and transportation, covering a floor area of 20,087 square metres. It is primarily a residential property project with certain areas allocated for commercial purpose. Construction for this project is basically completed and expected to be sold in the near future, with revenues and profits to be booked in 2005.



City Gardens Phase III

City Green Garden Phase I is located on the south end of Heping Road, Hefei's Yaohai District, occupying a total floor area of 67,628 square metres in one of Hefei's Special Development Zones with convenient transportation. City Green Garden Phase I is primarily designed for residential use, including stores and offices. Construction of this project began in October 2004, with 25,000 square metres presold by 31st December 2004. All presale units were sold out on the first day. This project is expected to be completed by the end of 2005, with revenues and profits to be booked in 2006.



City Green Garden Phase I

# MANAGEMENT DISCUSSION AND ANALYSIS

Jing'an Ziyuan is located on Jiangning Road in Shanghai's Jing'an District, 500 metres from the downtown Golden Triangle of Nanjing West Road, in a truly prime location. This project has a total land area of 8,337 square metres, to be developed as service apartments. Construction began in November 2004. According to recent service apartment sales in Shanghai, this project is anticipated to make a relatively large contribution to the Group's revenue in 2006.



Jing'an Ziyuan

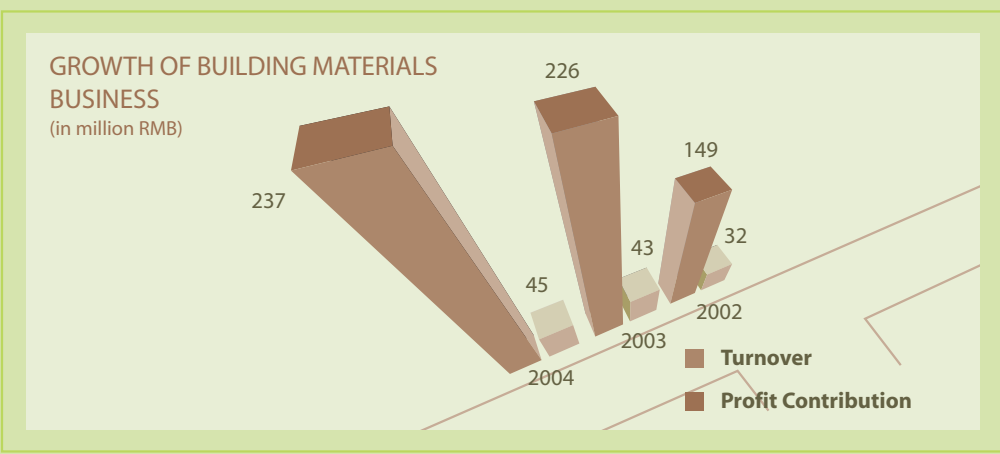
### Land Reserves

As at 31st December 2004, the Group possessed a total land area of 1,264,253 square metres for future development, primarily in Shaoxing County, Zhejiang Province (approximately 1,047,190 square metres), Hangzhou, Zhejiang Province (approximately 9,898 square metres), and Hefei, Anhui Province (approximately 207,165 square metres), which will be sufficient for the Group's property development for the next three to five years. The Group's strategy on land reserves is to identify and acquire low cost land with high growth potential. The Group will not acquire land by bidding at excess price without prudent consideration.

### 3) Building Materials Business

For the year ended 31st December 2004, the Group's building materials business achieved a turnover of RMB236,679,000 (approximately 5% of the Group's total turnover), and a profit contribution of RMB44,896,000 (approximately 11% of the Group's total profit), representing a growth of 5% and 4% respectively over the previous year.

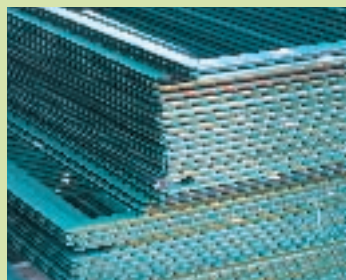
During 2004, due to the changes in city and town planning policy, part of the Group's factories in Keqiao Economic Development Zone Kedong Industrial Park had to be moved to the Baoye Residential Industrial Park in Shaoxing's Keqiao Economic Development Zone. The Group's building materials business was considerably affected by suspension in production resulting from the relocation of factories.



## MANAGEMENT DISCUSSION AND ANALYSIS

During the year, turnover of the Group's building materials business are as follows:

<b>Products of Building Materials</b>	<b>Turnover</b> <i>(RMB'000)</i>	<b>% of total</b>
Ready-mixed Concrete	152,379	64%
Concrete Piles	37,471	16%
Concrete Ducts	10,820	5%
Large Roof Sheathings	17,811	7%
Fireproof Materials	6,661	3%
Bridge Bream Plates	5,912	3%
Steel Structures	5,625	2%
<b>Total</b>	<b>236,679</b>	<b>100%</b>



In 2004, the Group continued to deploy the investment capital solicited from initial public offering to the Baoye Residential Industrial Park in Shaoxing Keqiao Economic Development Zone. RMB33,346,000 was used to procure production line facilities for steel structure and RMB10,600,000 was used in the construction of a research and development centre. As at 31st December 2004, the construction for glass curtain wall production plant, wooden manufacturing production plant and steel structures production plant all have been completed and their commercial production have been commenced in due course.



## MANAGEMENT DISCUSSION AND ANALYSIS

- To seize the opportunity provided by the government policy of "State Retreats, Private Forwards" in acquiring suitable state-owned construction enterprises outside the Zhejiang Province, which would fit in our legal and financial initiatives.
- To continue consolidating the construction markets of Zhejiang and Shanghai, being the two-largest markets of the Group; and progress towards developing Central China regional markets with base in Hebei and Wuhan; effectively upbring the Group's market share in Central and Western China.
- To utilize the Group's expertise in prefabricated building materials to develop projects in high end market with technical entry barriers and obtain high returns.

### 2) Property Development

Apart from certain regions where property markets may be overheated, the overall development of China's real estate business is relatively healthy, especially in large cities of Central-Western China and small and medium cities in developed regions, in which property developers have fairly large room for growth. In 2004, the Chinese government strengthened the control on properties, and it is anticipated that the government will continue to tighten up macroeconomic control measures including



reducing land supply, increasing the current interest rates, controlling credit and decreasing the size of relocation of old-city areas etc. from 2005 and onwards. However, the fundamental goal for these measures is to impose stricter standards in order to pave a more stable and healthy development platform for property development business.

In recent years, the property development business has contributed greatly to the total profitability of the Group and has become a core business of the Group in its pursue to establish as a nationwide all-rounded construction enterprise. However, the Group is extremely cautious with regard to its property development operations. The Group will only increase its land reserves if there is an opportunity to acquire low cost land with high growth potential. In the next few years, the Group will concentrate in developing four large projects: the Four Seasons Garden in Shaoxing County, Zhejiang Province, the International Airport Building in Hangzhou, Zhejiang Province, the Jing'an Ziyuan in Shanghai and the City Green Garden in Hefei, Anhui Province. All of these projects will be developed and built in the next three to five years. The abundant low cost land reserve coupled with synergy from excellent construction and advanced prefabricated building materials of the Group

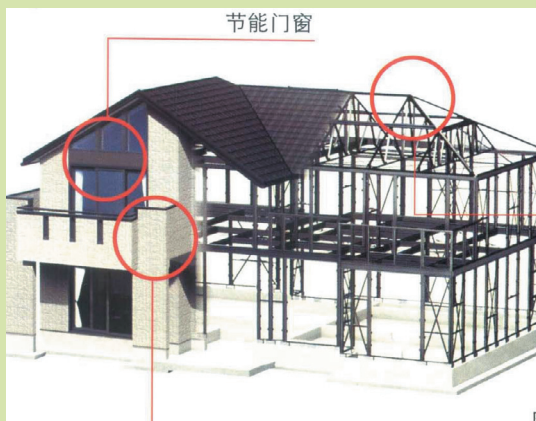


# MANAGEMENT DISCUSSION AND ANALYSIS

would guarantee the profitability of these property projects when the property price goes up. Even if property prices decline, these projects may still be able to generate profit above the industry average figure, putting the Group in a very advantageous position. The Group believes that China's property development enterprises will enter into a period of quality and brand competition in the future. Thus the Group seeks to consolidate and enhance its dominant quality and brand positioning of Baoye property development operation.

### 3) Building Materials Business

China's huge investment in private fixed assets and rapid urbanisation not only boost the development of the construction and property industries, but also provided enormous market opportunity for the building materials industry. The transformation of the Chinese construction industry's model from construction to manufacturing has already evolved as an irreversible trend, but the key element to



the realization of this revolutionary reform lies in the rapid development of prefabricated building materials products.

As a leader in the "industrialization of China's building materials", the Group has always been dedicated to developing cost-effective and environmental friendly high-quality building materials, including light steel structures, curtain walls, wooden doors, ready-mixed concrete, concrete piles, concrete ducts, large roof sheathings and fireproof materials. Due to the fact that

the market capacity of the "industrialization of building materials" could worth several trillions of RMB in the coming years, the prefabricated building materials business will become the major driver of the Group's profit growth. In 2004, the Group's first Residential Industrial Park in Shaoxing, the largest in China, has been completed and commenced production. The construction of the second Residential Industrial Park in Hefei will begin in 2005.

In the coming years, the Group will continue to establish more industrial parks across China with the expansion of construction business. Simultaneously, the Group is in talks with renowned international "prefabricated building materials" manufacturers on possible strategic cooperation on residential industrialization business in China, with an aim to realize our goal, "from construction to manufacturing" and to establish an conglomerate enterprise that could support growth in every facet or segment of our core businesses.



# MANAGEMENT DISCUSSION AND ANALYSIS



# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Treasury Policies

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

The Group has established a Financial Settlement Centre, which has centralized funding for all its subsidiaries at the group level. This policy achieves better control of treasury operations; avoid financing risks and lower average cost of funding.

### Financial Resources and Liabilities

The Group anticipated fluctuation and integration of its business in the coming months resulting from the macroeconomic control measures implemented by the Chinese government. Hence, the Group seized various golden opportunities to increase the land reserves and properties held for development, which led to an increase in bank borrowings to RMB912,000,000 at 31st December 2004 (31st December 2003: RMB542,950,000), representing an increase of approximately 68% over the pervious year.

With the support of steady growth in cash flow, sound credit record and excellent reputation in the industry, the Group was awarded an AAA credit rating in 2004 by a credit rating institution recognized by the People's Bank of China. Such excellent credit rating is beneficial to the Company's financing activities and allows the Group to continue to enjoy the prime rate under the interest rate policy of the People's Bank of China. During the year, the Group maintained most of its borrowings on an unsecured basis. The amount of unsecured debt represents approximately 95% of the total borrowings as at 31st December 2004. If permissible, the Group will continue to maintain its borrowings on an unsecured basis whenever possible.

As at 31st December 2004, the Group's bank borrowings, net of bank and cash balances amounted to RMB358,854,000 (31st December 2003: RMB44,258,000). The Group's gearing ratio, calculated on the basis of net bank borrowings (total bank borrowing less bank and cash balances) over total assets is 10% (31st December 2003: 2%). The Group will also continue its policy of maintaining a prudent gearing ratio.



## MANAGEMENT DISCUSSION AND ANALYSIS

Bank borrowings are solely denominated in RMB and have been arranged on a floating rate basis. The Group anticipates that fluctuation in the RMB exchange rate will not have a substantial effect on the business performance and the financial status of the Group.

On 13th January 2005, the Group entered into a placing agreement with UBS AG in relation to the placing of aggregate of 36,136,800 H shares in the share capital of the Company at HK\$4.05 per placing Share. The net proceeds of the placing was HK\$140,424,000. The Board intends to apply the net proceeds for possible expansion of business outside the Zhejiang Province and as general working capital. This placing has further strengthened the financial position of the Group and provides necessary funding for business development.

### Use of Proceeds

The total amount raised by the issue of H shares by the Group in 2003 was approximately RMB236,830,000. During the year, the Company basically used the proceeds pursuant to the prospectus of the Company issued in June 2003, details of which are as follows:

	<i>RMB'000</i>
Balance as at 1st January 2004 of unused proceeds	43,946
Proceeds used during the year, including:	
– Construction of production lines and purchase of facilities for steel structure	33,346
– Construction of a research and development centre for building materials	10,600
Total	43,946

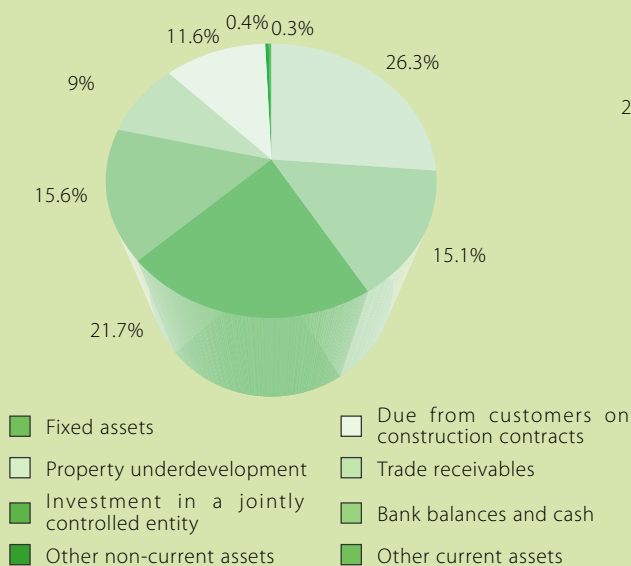
All unused proceeds of RMB43,946,000 as at 1st January 2004 have been fully utilised during the year.

# MANAGEMENT DISCUSSION AND ANALYSIS

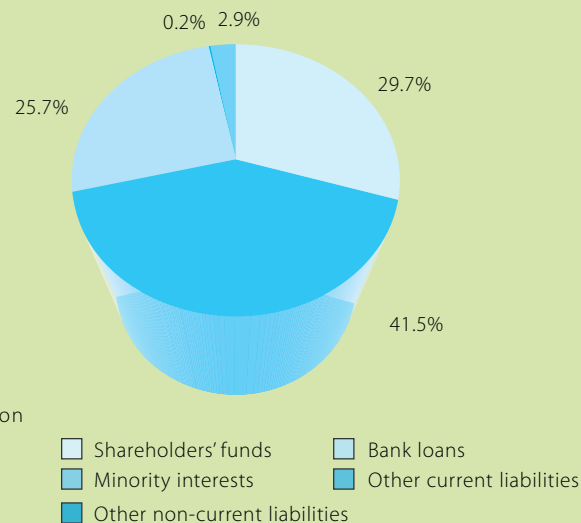
## Capital Structure Analysis

	Note	Year ended 31st December				Changes %
		2004		2003		
		RMB'000	% of total	RMB'000	% of total	
<b>Assets</b>						
Fixed assets	(a)	536,622	15.1%	324,147	12.8%	+65.5%
Properties under development	(b)	934,003	26.3%	497,054	19.6%	+87.9%
Investment in a jointly controlled entity	(c)	9,082	0.3%	44,182	1.7%	-79.4%
Other non-current assets		14,054	0.4%	157,756	6.2%	-91.1%
Due from customers on construction contracts	(d)	412,580	11.6%	234,852	9.2%	+75.7%
Trade receivables	(e)	320,552	9.0%	143,836	5.7%	+122.9%
Bank balances and cash		553,146	15.6%	498,692	19.6%	+10.9%
Other current assets		767,498	21.7%	638,909	25.2%	+20.1%
<b>Total</b>		<b>3,547,537</b>	<b>100.0%</b>	<b>2,539,428</b>	<b>100.0%</b>	<b>+39.7%</b>
<b>Share capital and liabilities</b>						
Shareholders' funds	(f)	1,054,064	29.7%	816,408	32.1%	+29.1%
Minority interests		104,578	2.9%	72,606	2.9%	+44.0%
Other non-current liabilities		5,499	0.2%	6,042	0.2%	-9.0%
Bank loans	(g)	912,000	25.7%	542,950	21.4%	+68.0%
Other current liabilities		1,471,396	41.5%	1,101,422	43.4%	+33.6%
<b>Total</b>		<b>3,547,537</b>	<b>100.0%</b>	<b>2,539,428</b>	<b>100.0%</b>	<b>+39.7%</b>

### 2004 Assets Structure



### 2004 Share Capital and Liabilities Structure



## MANAGEMENT DISCUSSION AND ANALYSIS

### Capital Structure Analysis (continued)

Note:

- (a) Fixed assets increased by RMB212,475,000 for the year, of which RMB102,903,000 was contributed to the purchase of machinery, which were mainly purchasing production facilities for factories of building materials business of the Group, and RMB34,974,000 was contributed to the construction in progress, which were mainly construction of new factory plants in the Baoye Residential Industrial Park in Shaoxing.
- (b) Properties under development increased from RMB497,054,000 last year to RMB934,003,000 this year. The amount of due for completion within one year was RMB474,344,000, mainly represented property projects for "Yulan Huating" and "City Garden Phase III". The amount of due for completion in more than one year was RMB459,659,000, mainly represented property projects, "Four Season Garden" located in Kuaiji Mountain tour district.
- (c) The jointly controlled entity is Hefei Qingfangcheng Baoye Real Estate Co., Ltd., whose main business is development of "City Green Garden" in Hefei.
- (d) The Group adopted the percentage of completion method to account for revenue of construction business. The increase in due from customers on construction contracts of RMB177,728,000 were mainly for construction projects such as "Suzhou Industry Park", "CBD Central Plaza" in Anhui Hefei, and "Yiwu International Commercial City".
- (e) As at 31st December 2004, the ageing analysis of the trade receivables is as follows:

	<b>2004</b>	<b>2003</b>
	<i>RMB'000</i>	<i>RMB'000</i>
0 to 3 months	244,138	67,239
3 months to 1 year	52,182	64,578
1 to 2 years	26,635	16,972
2 to 3 years	6,037	467
Over 3 years	701	855
	<hr/>	<hr/>
	329,693	150,111
Less: provision for doubtful debts	(9,141)	(6,275)
	<hr/>	<hr/>
	320,552	143,836

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.

- (f) Shareholders' funds increased by RMB237,656,000, which was contributed by profit for the year of RMB275,082,000 and net of 2003 dividend paid of RMB33,746,000 and revaluation reserve recognised in consolidated profit and loss account upon sale of completed properties of RMB3,680,000.
- (g) Short-term bank loans increased by RMB369,050,000 for the year. All of them are unsecured and with interest bearing at 5% to 6% per annum.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Cash Flow Analysis

	Note	Year ended 31st December		Changes %
		2004 RMB'000	2003 RMB'000	
Net cash inflow/(outflow) from operating activities	(a)	59,132	(161,642)	+137%
Net cash outflow from investing activities	(b)	(353,406)	(242,688)	+46%
Net cash inflow from financing activities	(c)	342,962	649,757	-47%

Note:

- (a) The net cash inflow generated from operations was RMB165,689,000 for the year, an increase of RMB265,749,000 as compared to the net cash outflow of RMB100,060,000 for the previous year. This was mainly attributed to the significant increase in turnover of the Group, the profit before taxation for the year has increased by RMB232,489,000 as compared to that of last year.
- (b) The increase in net cash outflow from investing activities was mainly caused by the acquisition of 90% equity interest in Hangzhou International Airport Mansion Development Co., Ltd. at a consideration of RMB83,077,000, of which RMB72,000,000 had been settled by cash during the year. In addition, loans of RMB106,000,000 had been provided to a jointly controlled entity, Hefei Qingfangcheng Baoye Real Estate Co., Ltd.
- (c) The significant decrease in net cash inflow from financing activities were mainly due to the payment of 2003 final dividend of RMB33,746,000 and there was IPO proceeds of RMB274,224,000 raised in the previous year.

### Capital Commitments

As at 31st December 2004, the Group had no capital commitments (31st December 2003: RMB65,673,000).

### Progress of The Three Projects Negotiated Through Baoye Investment in 2003

Zhejiang Baoye Industrial Investment Company Limited ("Baoye Investment") paid the guarantee money in respect of the three projects on behalf of the Group in 2003. During the first half of 2004, the Group paid such guarantee money directly instead. The bidding/acquisition of the three projects had been completed, details are set out in note 3 of the accounts. The Group do not have any fund advances or other transactions with Baoye Investment since then.

# CORPORATE GOVERNANCE



## CORPORATE GOVERNANCE



The Group sought listing in Hong Kong not only to raise fund but also to align its operations with international practice and improve its corporate governance structure. Through enhancing transparency, the Group will be able to attract appropriate strategic partners from around the world. It can also draw professional talents and learn from the experiences of listed companies in legal compliance, financial management and building investor relations.

The Group has been actively and conscientiously improving its corporate governance structure in accordance with relevant requirements of the HKEx and the China Securities Regulatory Commission.

Pursuant to the Listing Rules, a listed issuer must have at least one independent non-executive director who possesses appropriate professional qualifications or accounting or related financial management expertise. The Group appointed Mr. Dennis Yin Ming Chan as its independent non-executive Director at the extraordinary general meeting held on 23rd September 2004. Mr. Dennis Yin Ming Chan, aged 51, is an associate member of the Chartered Institute of Management Accountants, United Kingdom (ACMA), an associate member of the Institute of Chartered Secretaries and Administrators, United Kingdom (ACIS), a member of the Chartered Institute of Purchasing and Supply, United Kingdom (MCIPS) and a member of the Canadian Institute of Chartered Accountants (CA). Mr. Chan is presently the President and Chief Executive Officer of Asiapac Investment Group Ltd. Mr. Chan has more than 28 years of experience in public accountancy, management consultancy, manufacturing, distribution, retailing and financial services.

Furthermore, the Company has appointed Mr. Fung Ching Simon, a Hong Kong qualified accountant, as the Chief Financial Officer of the Company on a full time basis in order to enhance the Group's financial management. Mr. Fung, aged 36, is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the CPA Australia. Prior to joining the Company, he had over 10 years of experience in auditing, accounting and business advisory with one of the "Big-4" international accounting firms.

According to the Code Provisions of Listing Rules, the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. The division of the responsibilities between the chairman and chief executive officer should be clearly established. Mr. Pang Baogen and Mr. Wei Falin are the Chairman and the Chief Executive Officer of the Company respectively. The Chairman is in charge of presiding shareholders' meetings and convening and presiding board meetings, overseeing the implementation of board resolutions and other rights authorized by the Board; the Chief Executive Officer, appointed by the Board, is in charge of daily operation, management and administration of the Board's resolutions.

### AUDIT COMMITTEE

The audit committee of the Company was established since its listing in Hong Kong pursuant to the Listing Rules. All members of the audit committee comprise independent non-executive Directors, including Mr. Wang Youwei, Mr. Yi Deqing and Mr. Dennis Yin Ming Chan. The primary duties of the audit committee are to review and supervise the Group's financial reporting process, internal control systems, appointment and replacement of auditors as well as assessing the auditors' performance and whether their service fees are reasonable, and providing related recommendations to the Board. The accounts of the Group for the year ended 31 December 2004 had been reviewed by the audit committee and approved by the Board.

### REMUNERATION COMMITTEE

According to the new amendments to the Listing Rules relating to Corporate Governance Issues, listed companies should establish a remuneration committee with specific written terms of reference stating clearly its authorities and duties. A majority of the members of the remuneration committee should be independent non-executive Directors. The Board approved the establishment of a remuneration committee at its meeting on 1st April 2005. Members of the remuneration committee comprise two independent non-executive Directors, namely Mr. Dennis Yin Ming Chan (the Chairman), Mr. Yi Deqing and an executive Director, Mr. Pang Baogen.



# INVESTOR RELATIONS



## INVESTOR RELATIONS





# INVESTOR RELATIONS

Building strong investor relations has always been a primary focus of the management of the Group. We put great efforts on strengthening corporate governance, ensuring full disclosure of information to investors, enhancing corporate transparency and preserving corporate identity. This helps to reinforce the Company's relationships with investors facilitating investors' understanding and recognition for the Group, thereby maximizing its corporate value.

The Group actively communicates with investors through investor relations activities, so as to strengthen communication, increase the Group's transparency, full disclosure of the Group's business, thus receiving trust and support from more investors. The Group has been able to continuously boost its reputation and recognition. During the period, the Group actively participated in investor forums, conducted roadshows, and met with institutional investors and stock analysts, we announced results at the earliest possible time and held press conference to communicate thoroughly the Group's business review and strategies to the investing public.

These activities are recapitulate as follows:

## 2004

- January: Seminar on financial cooperation and corporate finance between Hong Kong and Zhejiang.
- February to March: Several top international institutional investors like JP Morgan and Delaware came to visit the Group several times.
- May: CLSA China Investment Forum in Qingdao, carried out one-on-one meetings with a number of fund managers and institutional investors.
- August: Analysts from UOB Singapore and Deutsche Bank visited the Group.
- August: Organized press conference to announce interim results and briefings for fund managers and analysts.

- October: 12 fund managers from India led by CLSA visited the Group.
- November: Japanese institutional investors led by ASHU IR Inc. (Japan) Company visited the Group.
- December: Arranged by UOB Kay Hian, the Company conducted a roadshow in Singapore.

## 2005

- January: Mr. Pang Baogen, Chairman of the Board delivered key note speech at UBS Greater China Conference in Shanghai.
- February: Arranged by BNP Paribas Peregrine, the Company conducted a roadshow in Hong Kong and Singapore.
- March: Fund managers with Martin Currie (UK) visited the Group.

Both CITIC Frontier and BNP Paribas Peregrine published brilliant research reports on Baoye released on 7th December 2004 and 21st January 2005 respectively. The report related the macro-economic environment and the development trend of the Group as well as the historical and current operational capabilities of the Group to provide an objective, careful and in depth analysis of the future development of the Group's three main businesses. The reports have enabled more investors to gain a better understanding about Baoye.



## MAJOR EVENTS FOR THE YEAR

### 2004

- January** – Baoye Group Company Limited awarded as a “Famous Brand” of Zhejiang Province (浙江省著名商標)
- February** – Baoye Group Company Limited named as one of the Top 50 privately-owned enterprises in Zhejiang Province (浙江省 50 強民營企業)
- March** – Baoye Group Company Limited awarded as a “Diamond-class Customer” of Shenzhen Development Bank Hangzhou Branch (深圳發展銀行杭州分行鑽石客戶)
- May** – Mr. Pang Baogen, Chairman of the Board, was among the delegation of Chinese entrepreneurs led by Premier Wen Jiabao to visit European countries.
- July** – Major Japanese housing industrial enterprises, like Daiwa and Toyota Housing visited Baoye
- August** – Mr. Pang Baogen, Chairman of the Board, addressed the Shaoxing-Hong Kong Conference
- August** – Sales of Keqiao City Garden Phase III commenced and was quickly sold out
- September** – Baoye Group organised the 4th China Urbanization Housing Seminar
- September** – Zhejiang Baoye Steel-Structure Company Limited commenced operation
- October** – Won the bid to construct the 239 metres Shanghai Development Building, the highest construction project yet undertaken by the Group
- December** – Anhui City Green Garden Phase I commenced sales and Hefei Baoye Concrete Company Limited commenced production

### 2005

- January** – Placement of 36,136,800 new H shares with UBS as underwriter

# MAJOR EVENTS FOR THE YEAR





## BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### DIRECTORS

#### Executive Directors

**Mr. Pang Baogen**, born in 1957, is the executive Director, chairman and founder of the Company. He holds a professor level senior engineer qualification. He is well respected and recognised in the construction industry in China and received awards 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) as well as Youth and Mature Scientist with Outstanding Contributions 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 vice-chairman of Zhejiang Provincial Association of Construction Entrepreneur (浙江省建築企業家協會), the vice-chairman of Zhejiang Construction Association (浙江省建築業協會), the vice-chairman of Shaoxing City Entrepreneurs Association (紹興市企業家協會), the representative of the Fifth Shaoxing City People's Congress (紹興市第五屆人民代表大會) and the 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**, born in 1962, is an executive Director and Deputy General Manager of the Company. 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), a subsidiary of the Company. He holds a senior engineer qualification. Mr. Gao joined the Group in 1978.

**Mr. Gao Lin**, born in 1970, is an executive Director and Deputy General Manager of the Company. 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), 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**, born in 1954, is an executive Director and Deputy General Manager of the Company. 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 the committee member of the Concrete Section of China Construction Industry Association, the deputy secretary of Concrete Association of Zhejiang Province and the vice-chairman of Concrete Association of Shaoxing City.

#### Non-executive Directors

**Mr. Hu Shaozeng**, born in 1935, is a non-executive Director of the Company. Mr. Hu graduated from the Tongji University of Shanghai (上海同濟大學) specializing 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 Zhejiang Provincial Department of Construction. Mr. Hu is currently the vice-chairman 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).

## BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Mr. Wu Weimin**, born in 1966, is a non-executive Director of the Company. Mr. Wu obtained his Master degree from University of Zhejiang (浙江大學) majoring in civil engineering. He is qualified as a senior engineer. Mr. Wu is currently 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**, born in 1945, is an independent non-executive Director and chairman of the Audit Committee of the Company. 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 the committee member of the National Committee for the Appraisal of Industrial Laws Company 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), the consultant of the Expert Panel of the Government of Beijing City (北京市政府專家顧問團), the committee member of the China Construction Academic Association (中國建築學會), the managing director of the China Construction Fireproof Research Association (中國建築防火研究會), the managing director of the China Fireproof Association (中國消防協會), the director of the National Research Centre of Construction Engineering (國家建築工程研究中心), the committee member of the National Committee of Building Materials Industry Science Committee (國家建材工業科教委員會) and the chief editor of the Construction Structure Journal (建築結構學報).

**Mr. Yi Deqing**, born in 1935, is an independent non-executive Director and a member of Audit Committee of the Company. He graduated from University of Zhejiang (浙江大學) in 1956 specialising in civil engineering, and holds the qualifications of National Chartered First-Class Structural Engineer and professor-level senior engineer. Mr. Yi has been awarded the Master of China Construction Design (中國工程設計大師) and model worker of the Ministry of Construction. He is currently a chief engineer of the Zhejiang Province Construction Design Research Institute, the committee member of the China Civil Engineering Association, the deputy managing director of Zhejiang Civil Engineering Construction Association (浙江省土木建築學會) and the senior consultant of the Zhejiang Observation Design Association (浙江省勘察設計協會).

**Mr. Dennis Yin Ming Chan**, born in 1954, is an independent non-executive Director and a member of Audit Committee of the Company. Mr. Chan is an associate member of the Chartered Institute of Management Accountants, United Kingdom (ACMA), an associate member of the Institute of Chartered Secretaries and Administrators, United Kingdom (ACIS), a member of the Chartered Institute of Purchasing and Supply, United Kingdom (MCIPS) and a member of the Canadian Institute of Chartered Accountants (CA). Mr. Chan is currently the Chief Executive Officer of Asiapac Investment Group Ltd. Prior to that, Mr. Chan had been a director and chief financial officer of various listed companies in Hong Kong, Singapore and the United States of America. Mr. Chan has more than 28 years of experience in public accountancy, management consultancy, manufacturing, distribution, retailing, logistics and financial services.

## BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### SUPERVISORS

**Mr. Sun Guofan**, born in 1962, is a Supervisor of the Company. Mr. Sun graduated from 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 the deputy manager of the finance department, the deputy director of the financial supervisory office and the secretary of the divisional committee of the Chinese Communist Party of the Group.

**Mr. Xie Qisheng**, born in 1976, is a supervisor of the staff representative of the Company. He graduated from Nanjing Construction Engineering College (南京建築工程學院) specializing in industrial equipment installation and is qualified as an assistant engineer. Mr. Xie joined the Group in 1996 and is currently the Deputy General Manager of Baoye's Anhui branch.

### INDEPENDENT SUPERVISORS

**Mr. Chen Xinquan**, born in 1928, is an independent supervisor of the Company. Mr. Chen is a certified public accountants in the PRC and is experienced in accounting, auditing and financial management.

**Mr. Yu Zengmin**, born in 1939, is an independent supervisor of the Company. Mr. Yu graduated from Zhejiang University (浙江大學) specializing in civil engineering, and holds the qualification of professor level senior engineer, he was previously a professor of Zhejiang University (浙江大學), Mr. Yu was also the deputy general manager and chief engineer of the Zhejiang Great Wall Construction Group Company Limited (浙江長城建設集團股份有限公司).

**Mr. Li Yongsheng**, born in 1940, is an independent supervisor of the Company. Mr. Li was the procurator general of Shaoxing Procurator Bureau during the period between 1994 and 1998. Currently he is the honorable consultant of Shaoxing Sports Association (紹興市體育總會) and the vice president of the Union of Political Consultative Congress in Shaoxing (紹興市政協之友聯誼會).

### SENIOR MANAGEMENT

**Mr. Wei Falin**, born in 1967, is the Chief Executive Officer of the Company and secretary to the Board. Mr. Wei graduated from Zhejiang Forestry College (浙江林學院) in 1989 specializing in economics and civil engineering, and further his studies in the Chinese Central Communist Party School (中央黨校) in 2001 specializing in economic management. Mr. Wei has been the mayor and secretary of the People's Government of the Jianhu 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 (浙江省人民政府外事辦). He joined the Group in March 2002 and was appointed as the General Manager of the Company on 30th October 2003.

**Mr. Huang Fenyong**, born in 1956, is the Deputy General Manager of the Company and Managing Director of Zhejiang Baoye Building Materials Industrialisation Company Limited ("Baoye Industrialisation"), a subsidiary of the Group. Mr. Huang graduated from Changchun Metallurgy and Construction School (長者冶金建築學校) in 1977. He holds an engineer qualification. He was the deputy officer of the Shaoxing City Construction Management Bureau (紹興市建築業管理局), vice-chairman of the Shaoxing City Construction Association (紹興市建築學會), and vice supervisor of the Economic Development Area of Eastern Shaoxing City (紹興市城東經濟開發區). Mr. Huang joined the Group in June 2003.



## BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Mr. Fung Ching Simon**, born in 1969, is the Chief Financial Official of the Group. Mr. Fung graduated from the Queensland University of Technology Australia and obtained a bachelor degree in accountancy. Mr. Fung joined the Group in August 2004. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the CPA Australia. Prior to joining the Group, he has over 10 years of experience in auditing, accounting and business advisory with a "Big-4" international accounting firm. Mr. Fung was also appointed as an independent non-executive director of Hainan Meilan International Airport Company Limited (海南美蘭國際機場股份有限公司).

**Mr. Gao Jun**, born in 1972, is the General Manager of Baoye's Anhui branch. Mr. Gao graduated from Shaoxing Wenli Institute specializing in economics management and holds an engineer qualification. He was previously the deputy General Manager of Baoye Construction, General Manager of Baoye Real Estate and assistant General Manager of the Group.

**Mr. Xu Jianbiao**, born in 1968, is the General Manager of Baoye Construction, a subsidiary of the Group. Mr. Xu graduated from Zhejiang Broadcasting and Television University (浙江廣播電視大學) specializing in industrial and residential construction and is qualified as a senior engineer. Mr. Xu was previously a General Manager of Baoye Construction in Shanghai branch and a deputy General Manager of Baoye Construction.

**Mr. Lou Zhonghua**, born in 1968, is the General Manager of Baoye Real Estate, a subsidiary of the Group. Mr. Lou graduated from Zhejiang Yucai Worker's University (浙江育才職工大學) specializing in industrial and residential construction and is a qualified engineer. He was previously the General Manager of Zhejiang Baoye Decoration Engineering Company Limited (浙江寶業建築裝飾工程有限公司) and Deputy General Manager of Baoye Construction.

**Mr. Wang Rongbiao**, born in 1968, is the General Manager of Baoye Industrialization (浙江寶業住宅產業股份有限公司), a subsidiary of the Group. Mr. Wang graduated from Zhejiang Yucai Workers' University (浙江育才職工大學) specializing in industrial and residential construction and holds a senior engineer qualification. He joined the Group in 1985. He was previously the operation manager of Baoye Construction.

## REPORT OF THE DIRECTORS

The Board is pleased to present their annual report and the audited accounts of the Group for the year ended 31st December 2004.

### PRINCIPAL ACTIVITIES

The principal activities of the Group are the provision of construction service, manufacture and distribution of building materials and property development. The activities of the Company's subsidiaries and the 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.

### FINANCIAL RESULTS

The results of the Group for the year ended 31st December 2004 prepared in accordance with HK GAAP are set out in the consolidated profit and loss account on page 57.

The financial positions of the Group and the Company as at 31st December 2004 are set out in the balance sheets of the accounts prepared in accordance with HK GAAP on pages 58 to 60.

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 7 of this report.

### RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in the note 29 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 RMB87,889,000 as at 31st December 2004 (2003: RMB53,087,000).

### DIVIDENDS

At the board meeting held on 1st April 2005, the Directors declared a final dividend of RMB0.1436 (2003: RMB0.0635) per ordinary share for the year ended 31st December 2004. 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 2005.

## REPORT OF THE DIRECTORS

### SEGMENT INFORMATION

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

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

The primary reporting of business segments for the year ended 31st December 2004 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 14 to the accounts.

### PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

During the year, 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. Yi Deqing  
 Mr. Kwok Lam-kwong, Larry (resigned on 10th March 2004)  
 Mr. Xu Yangsheng (resigned on 21st September 2004)  
 Mr. Dennis Yin Ming Chan (appointed on 23rd September 2004)

#### Supervisors

##### *Supervisors*

Mr. Sun Guofan  
 Mr. Xie Qisheng

##### *Independent Supervisors*

Mr. Chen Xinquan  
 Mr. Yu Zengmin  
 Mr. Sun Machuan (resigned on 23rd September 2004)  
 Mr. Li Yongsheng (appointed on 23rd September 2004)

## REPORT OF THE DIRECTORS

### INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board has obtained written confirmations from all Independent Non-executive Directors concerning their independence in accordance with rule 3.13 of the Listing Rules of HKEx. The Directors are in the opinion that the existing Independent Non-executive Directors are independent based on the guidelines set out in rule 3.13 of the Listing Rules of HKEX.

### CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Mr. Dennis Yin Ming Chan was appointed as an Independent Non-executive Director of the Company on 23rd September 2004.
2. Mr. Kwok Lam-Kwong, Larry and Mr. Xu Yangsheng resigned as an Independent Non-executive Director of the Company on 10th March 2004 and 21st September 2004 respectively.
3. Mr. Li Yongsheng was appointed as an Independent Supervisor of the Company on 23rd September 2004.
4. Mr. Sun Machuan resigned as an Independent Supervisor of the Company on 23rd September 2004.
5. The Company had convened a board meeting on 5th August 2004. At the board meeting, the Board resolved to appoint Mr. Simon Fung Ching as the Chief Financial Officer of the Group.

### 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 37 to 40 of the annual report.

### HIGHEST PAID INDIVIDUALS

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

### DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and Supervisors had entered into a service contract with the Company and shall continue until the conclusion of the 2004 annual general meeting of the Company and thereafter, subject to the approval of the shareholders' meeting of the Company, each service contract may be renewed.

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 2004, the interest and short position of each director, supervisor and senior management 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 they were 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	Capacity	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 (Note 1)	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. Sun Guofan	The Company	Individual	11,705,283	2.2%
Mr. Gao Lin	The Company	Individual	9,544,775	1.8%
Mr. Zhou Hanwan	The Company	Individual	8,233,510	1.5%
Mr. Xu Jianbiao	The Company	Individual	7,524,884	1.4%
Mr. Gao Jun	The Company	Individual	5,794,259	1.1%
Mr. Lou Zhonghua	The Company	Individual	5,633,172	1.1%
Mr. Wang Rongbiao	The Company	Individual	2,647,911	0.5%

*Note 1:* On 26th February 2005, an acquisition agreement was entered into between the Company and Mr. Pang Baogen, the Chairman of the Board, whereby the Company has conditionally agreed to acquire and Mr. Pang has conditionally agreed to dispose of his 19% of equity interests in Zhejiang Baoye Building Materials Industrialization Company Limited. The consideration for the Acquisition is RMB11,514,000. Details of this transaction were set forth in the announcement dated 26th February 2005.

## REPORT OF THE DIRECTORS

### DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Except for the transactions as disclosed in the other intra-group transactions under paragraph headed "Connected Transactions" of this report, no contract of significance in relation to the Company's business to which the Company, its subsidiaries or its jointly controlled entities was a party and in which the Directors or the Supervisors of the Company had a material interests, whether directly or indirectly, subsisted at the end of the year or at any time during the year (excluding Directors' service contracts).

### DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from disclosed under the paragraph headed "Interests of Directors, Supervisors and Senior Management", at no time during the year was the Company, its subsidiaries or its jointly controlled entity, a party to any arrangement to enable the Directors, the Supervisors and their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of 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 Listing Rules.

### DETAILS OF SHARE OFFERING AND LISTING

#### IPO

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

A placement of 36,136,800 new H shares was completed on 13th January 2005 with net proceeds of HK\$140,424,000. Details of the placement were set forth in the announcement dated 13th January 2005.

## REPORT OF THE DIRECTORS

### SHARE CAPITAL

As at 31st December 2004, there were a total share capital of 531,426,053 shares of the Company which includes:

	Number of shares	Approximate percentage of total share capital
Domestic Shares	350,742,053	66%
H shares	180,684,000	34%
<b>Total</b>	<b>531,426,053</b>	<b>100%</b>

### PUBLIC FLOAT

Based on the publicly available information and to the best knowledge of the Directors, the Company has maintained sufficient public float as at the latest practicable date prior to the date of this annual report.

### SUBSTANTIAL SHAREHOLDERS

At 31st December 2004, so far as was known to the Directors, the following person, other than the Directors, Supervisors and senior management of the Company, had an interest in the 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:

Name	Name of Company	Number of H shares held (Long position)	Approximate percentage of the total issued H shares capital
1. Mr. Cheah Cheng Hye	The Company	16,276,000 (note 1)	9% (note 1)
2. Value Partners Limited	The Company	16,276,000 (note 1)	9% (note 1)
3. Atlantis Investment Management Ltd	The Company	12,824,000	7% (note 2)
4. Symbiospartners Investments Limited	The Company	9,210,000	5% (note 3)



## REPORT OF THE DIRECTORS

### SUBSTANTIAL SHAREHOLDERS (continued)

Note:

1. The 16,276,000 H shares are held by Value Partners Limited as investment manager. Mr. Cheah Cheng Hye is interested in approximately 31.82% of the total issued share capital of Value Partners Limited. Pursuant to the SFO, Mr. Cheah Cheng Hye is deemed to be interested in the H shares held by Value Partners Limited.
2. The 12,824,000 H shares are held by Atlantis Investment Management Ltd. as investment manager.
3. the 9,210,000 H shares are held by Symbiopartners Investment Limited as beneficial owner.
4. The share capital of the Company does not consist of any state-owned shares.

Save as disclosed above, the register required to be kept under section 336 of Part XV of the SFO showed that the Company had not been notified of any other interests or short positions in the shares and underlying shares of the Company as at 31st December 2004.

### USE OF PROCEEDS

The total amount raised by the issue of H shares by the Group in 2003 was approximately RMB236,830,000. During the year, the Company basically used the proceeds pursuant to the prospectus of the Company issued in June 2003, details of which are as follows:

	<i>RMB'000</i>
Balance as at 1st January 2004 of unused proceeds	43,946
Proceeds used during the year, including:	
– Construction of production lines and purchase of facilities for steel structure	33,346
– Construction of a research and development centre for building materials	10,600
Total	43,946

All unused proceeds of RMB43,946,000 as at 1st January 2004 have been fully utilised during the year.

### HUMAN RESOURCES

As at 31st December 2004, the Group had 1,171 full time administrative staff (2003: 1,137 staff), they are the Group's permanent employee. Workers on construction site is about 41,000 (2003: 34,000 employees), these workers are not permanent employee of the Group. The total staff costs amounted to RMB672,105,000 (2003: RMB481,560,000) for the year ended 31st December 2004. Remuneration is determined by reference to market terms and the performance, qualifications and experience of individual employee. Employee benefits provided by the Group include provident fund schemes.

## REPORT OF THE DIRECTORS

### CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 20th April 2005 to 20th May 2005, (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's H shares registrar in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbor View Centre 56 Gloucester Road, Wanchai, Hong Kong (for holders of H shares) or the registered office address of the Company at Yangxunqiao Township, Shaoxing County, Zhejiang Province, the People's Republic of China (for holders of domestic shares), no later than 4:00 p.m. on 19th April 2005.

### CONNECTED TRANSACTIONS

The following transactions constituted continuing connected transactions of the Group ("Ongoing Connected Transactions") 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, on normal commercial terms and in the ordinary course of business, to its 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 the Concrete Company respectively. For the year ended 31st December 2004, the supply of concrete by the Concrete Company to Municipal Infrastructure and Zhejiang Huanyu amounted to approximately RMB482,000 and RMB8,310,000 respectively.

## REPORT OF THE DIRECTORS

### CONNECTED TRANSACTIONS (continued)

#### 2. Guarantees

For the year ended 31st December 2004, 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 Construction Group Co., Ltd	220,000	various dates between 13th April 2005 to 4th September 2005
(b) The Company	Zhejiang Baoye Building Materials Industrialization Co., Ltd	130,000	various dates between 21st May 2005 to 4th September 2005
(c) Zhejiang Baoye Real Estate Co., Ltd	Zhejiang Baoye Construction Group Co., Ltd	30,000	10th April 2005

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.

#### 3. Other intra-group transactions

Sale of materials by Zhejiang Baoye Building Materials industrialization Company Limited ("Building Industrialization") to members of the Group and contracting out of construction works by Building Industrialization to members of the Group amounted to RMB31,678,000 and RMB14,683,000 respectively.

Building Industrialization 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 Industrialization 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.

## REPORT OF THE DIRECTORS

### CONNECTED TRANSACTIONS (continued)

#### 3. Other intra-group transactions (continued)

The Independent Non-executive Directors have reviewed the aforesaid connected transactions 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.

The International Auditors of the Company has confirmed to the Board the matters set out under Rule 14A.38 of the Listing Rules in respect of those Ongoing Connected Transactions that:

- (i) the Ongoing Connected Transactions have received the approval of the Board;
- (ii) the Ongoing Connected Transactions are in accordance with the pricing policies as stated in the Company's annual report;
- (iii) the Ongoing Connected Transactions have been entered into in accordance with the terms of the agreements governing the transactions; and
- (iv) the Ongoing Connected Transactions have been conducted within the cap amounts, as specified in the conditional waiver letter of the Stock Exchange dated 18th June 2003.

### 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 basically paid PRC corporate income tax at a rate of 33% of its assessable profits according to the relevant laws and regulations in the PRC. Details of the Group's income tax information is disclosed in note 7 to the accounts.

## REPORT OF THE DIRECTORS

### EXTERNAL GUARANTEE AND FULFILLMENT

	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Guarantee given to banks in respect of mortgage facilities granted to third parties	58,690	50,000

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 the subsidiaries of the Group. The bank will release such guarantee only upon the building ownership certificates of such properties are delivered to the banks as security.

Save as disclosed above, the Group had not provide any other external guarantee during the year.

### LITIGATION AND ARBITRATION

As at the date of this report, there was no material litigation and arbitration for the Group.

### ENTRUSTED DEPOSITS AND OVERDUE TIME DEPOSITS

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

### AUDIT COMMITTEE

The Audit Committee of the Company was established since its listing in Hong Kong pursuant to the Listing Rules. Members of the Audit Committee comprise the Independent Non-executive Directors, including Mr. Wang Youwei, Mr. Yi Deqing and Mr. Dennis Yin Ming Chan. The primary duties of the Audit Committee are to review and supervise the Group's financial reporting process, internal control system, appointment and replacement of Auditors as well as assessing the Auditors' performance and reasonableness of their service fees, and providing recommendation to the Board in this regard. The annual results of the Group for the year ended 31st December 2004 had been reviewed by the Audit Committee and approved by the Board.

### 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 2004, the Company had complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

## REPORT OF THE DIRECTORS

### AUDITORS

PricewaterhouseCoopers is appointed as the Company's international auditors, and Shine Wing CPAs Co., Ltd ("Shine Wing") is appointed as the Company's statutory auditors in 2004. The accounts contained herein this annual report were prepared in accordance with HK GAAP and have been audited by PricewaterhouseCoopers.

The remuneration of the auditors in the year 2004 is set out as follows:

	2004		2003	
	Audit fees	Other fees	Audit fees	Other fees
PricewaterhouseCoopers (HK\$'000)	1,500	50	1,500	50
PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd (HK\$'000)	–	–	250	–
Shine Wing (RMB'000)	330	20	–	–

*Notes:*

1. PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd was the statutory auditors of the Company in 2003, and the Company changed its statutory auditors to Shine Wing in 2004. Save as disclosed, the Company has not changed its auditors for the preceding three years.
2. Other fees mainly represented disbursement such as travelling expenses.

A resolution will be submitted at the forthcoming annual general meeting to re-appoint Messrs. PricewaterhouseCoopers and Shine Wing as the Company's international auditors and statutory auditors respectively.

## REPORT OF THE DIRECTORS

### SUBSEQUENT EVENT

The following events took place after the financial year end of the Group.

On 13th January 2005, the Company placed 36,136,800 new H shares. The net proceeds of the placement was HK\$140,424,000. The Company intends to apply the net proceeds for possible expansion of business outside Zhejiang Province and as general working capital. Details of the placement were set forth in the announcement dated 13th January 2005.

On 26th February 2005, Zhejiang Baoye Construction Group Company Limited ("Baoye Construction"), a non-wholly owned subsidiary of the Company, entered into a construction agreement (the "Construction Agreement") with Zhejiang Minghua Textile Raw Material Exhibition City Co., Ltd ("Minghua Textile") pursuant to which Baoye Construction has conditionally agreed to perform certain design, construction and installation work of Zhejiang Textile Raw Material Exhibition City Textile Raw Material Trade Centre. As Minghua Textile is associate with Baoye Construction, the transaction under the Construction Agreement constitutes a connected transaction for the Company under the Listing Rules. The Directors propose to seek the independent shareholders' approval of the Construction Agreement at the extraordinary general meeting ("EGM") held on 20th May 2005 by way of a poll. Details of this connected transaction were set forth in the announcement dated 26th February 2005.

On 26th February 2005, an acquisition agreement was entered into between the Company and Mr. Pang Baogen ("Mr. Pang"), the Chairman of the Board, whereby the Company has conditionally agreed to acquire and Mr. Pang has conditionally agreed to dispose of his 19% of equity interests in Zhejiang Baoye Building Materials Industrialisation Company Limited at a consideration of RMB11,514,000 (the "Acquisition"). As Mr. Pang is an Executive Director and a substantial shareholder of the Company, the Acquisition constitutes a connected transaction for the Company under the Listing Rules. Pursuant to the articles of association of the Company, approval from the shareholders is required for any contract, transaction or arrangement entered into between a Director and the Company. Accordingly, the Directors propose to seek the shareholders' approval of the Acquisition Agreement at the EGM by way of a poll. Details of this connected transaction were set forth in the announcement dated 26th February 2005.

### APPRECIATION

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

By order of the Board

**Pang Baogen**

*Chairman*

Shaoxing, Zhejiang, the PRC

1st April 2005

## SUPERVISORS' REPORT

To the shareholders,

In the year 2004, the Supervisory Committee (the "Supervisory Committee") of Baoye Group Company Limited (the "Company"), in compliance with the provision 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 and the Extraordinary General Meeting of the Company. It provided reasonable suggestions and opinions to the Board in respect of the operations and development plans of the Company. It also strictly and effectively monitored and supervised the 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 directors, audited financial statements and profit appropriation proposal to be proposed by the Board for presentation at the forthcoming Annual General Meeting. We are of the opinion that the directors, the general management 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 2004 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

1st April 2005



## AUDITORS' REPORT

PRICEWATERHOUSECOOPERS 

羅兵咸永道會計師事務所

PricewaterhouseCoopers  
22/F, Prince's Building  
Central, Hong Kong  
Telephone (852) 2289 8888  
Facsimile (852) 2810 9888  
www.pwchk.com

### TO THE SHAREHOLDERS OF BAOYE GROUP COMPANY LIMITED

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

We have audited the accounts on pages 57 to 112 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 Institute of Certified Public Accountants. 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.

We planned and performed 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. 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.

#### Opinion

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 2004 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.

#### PricewaterhouseCoopers

*Certified Public Accountants*

Hong Kong, 1st April 2005

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER 2004

	Note	2004 RMB'000	2003 RMB'000
Turnover	4	<b>4,378,434</b>	2,994,472
Cost of sales		<b>(3,916,308)</b>	(2,741,720)
Gross profit		<b>462,126</b>	252,752
Other revenues and income	4	<b>68,072</b>	43,557
Distribution costs		<b>(2,957)</b>	(4,103)
Administrative expenses		<b>(87,797)</b>	(85,949)
Other operating expenses		<b>(632)</b>	(112)
Operating profit	5	<b>438,812</b>	206,145
Finance costs	6	<b>(23,981)</b>	(23,101)
Share of loss of a jointly controlled entity	17	<b>(2,100)</b>	(2,802)
Profit before taxation		<b>412,731</b>	180,242
Taxation	7	<b>(120,009)</b>	(58,347)
Profit after taxation		<b>292,722</b>	121,895
Minority interests		<b>(17,640)</b>	(9,486)
Profit attributable to shareholders		<b>275,082</b>	112,409
Dividends	9	<b>81,502</b>	33,746
Basic earnings per share	10	<b>RMB0.518</b>	RMB0.255

## CONSOLIDATED BALANCE SHEET

AS AT 31ST DECEMBER 2004

	Note	2004 RMB'000	2003 RMB'000
<b>Non-current assets</b>			
Intangible assets	13	1,045	–
Fixed assets	14	536,622	324,147
Properties held for development		–	483
Prepayment for land use rights		–	151,000
Properties under development	15	459,659	249,860
Investment in a jointly controlled entity	17	9,082	44,182
Deferred tax assets	30	13,009	6,273
		<b>1,019,417</b>	<b>775,945</b>
<b>Current assets</b>			
Inventories	18	37,314	19,852
Properties under development	15	474,344	247,194
Completed properties held for sale		31,527	19,765
Due from customers on construction contracts	19	412,580	234,852
Amounts due from minority shareholders	27	24,127	15,527
Amount due from a shareholder	27	421	–
Loans to a jointly controlled entity	17	91,000	–
Trade receivables	20	320,552	143,836
Other receivables	21	583,109	583,765
Bank balances and cash	22	553,146	498,692
		<b>2,528,120</b>	<b>1,763,483</b>
<b>Current liabilities</b>			
Trade payables	23	283,499	222,794
Other payables	24	297,389	236,730
Receipts in advance		388,297	339,570
Taxation payable		134,754	71,886
Due to customers on construction contracts	19	330,518	211,784
Amounts due to minority shareholders	27	1,488	318
Amounts due to shareholders	27	7,217	11,840
Amounts due to a jointly controlled entity	17	25,614	–
Amount due to a former subsidiary	3	–	1,500
Provision for warranty	25	2,620	5,000
Short-term bank loans	26	912,000	542,950
		<b>2,383,396</b>	<b>1,644,372</b>
<b>Net current assets</b>		<b>144,724</b>	<b>119,111</b>
<b>Total assets less current liabilities</b>		<b>1,164,141</b>	<b>895,056</b>

## CONSOLIDATED BALANCE SHEET (continued)

AS AT 31ST DECEMBER 2004

	<i>Note</i>	<b>2004</b> <b>RMB'000</b>	2003 <i>RMB'000</i>
Financed by:			
Share capital	28	<b>531,426</b>	531,426
Retained earnings	29	<b>306,309</b>	153,811
Proposed final dividend	29	<b>81,502</b>	33,746
Other reserves	29	<b>134,827</b>	97,425
<hr/>			
Shareholders' funds		<b>1,054,064</b>	816,408
Minority interests		<b>104,578</b>	72,606
Deferred tax liabilities	30	<b>5,499</b>	6,042
<hr/>			
		<b>1,164,141</b>	895,056
<hr/>			

**Pang Baogen**  
*Director*

**Gao Jiming**  
*Director*

## BALANCE SHEET

AS AT 31ST DECEMBER 2004

	Note	2004 RMB'000	2003 RMB'000
<b>Non-current assets</b>			
Fixed assets	14	114,777	68,088
Properties under development	15	227,820	–
Investments in subsidiaries	16	622,132	265,569
Investment in a jointly controlled entity	17	9,082	44,182
		<b>973,811</b>	377,839
<b>Current assets</b>			
Loans to a jointly controlled entity	17	91,000	–
Amounts due from a jointly controlled entity	17	3,184	–
Other receivables	21	71,880	230,190
Bank balances and cash	22	40,734	288,749
		<b>206,798</b>	518,939
<b>Current liabilities</b>			
Trade payables	23	150	–
Other payables	24	28,853	10,412
Taxation payable		5,896	5,719
Amount due to a former subsidiary	3	–	1,500
Short-term bank loans	26	396,000	206,000
		<b>430,899</b>	223,631
<b>Net current (liabilities)/assets</b>		<b>(224,101)</b>	295,308
<b>Total assets less current liabilities</b>		<b>749,710</b>	673,147
<b>Financed by:</b>			
Share capital	28	531,426	531,426
Retained earnings	29	6,387	19,341
Proposed final dividend	29	81,502	33,746
Other reserves	29	129,716	88,634
<b>Shareholders' funds</b>		<b>749,031</b>	673,147
Deferred tax liabilities	30	679	–
		<b>749,710</b>	673,147

**Pang Baogen**  
Director

**Gao Jiming**  
Director

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST DECEMBER 2004

	<b>2004</b>	2003
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Total equity as at 1st January	<b>816,408</b>	457,545
Issue of shares	–	274,224
Share issuance costs	–	(27,770)
Profit for the year	<b>275,082</b>	112,409
Revaluation reserve recognised in profit and loss account	<b>(3,680)</b>	–
Dividends	<b>(33,746)</b>	–
Total equity as at 31st December	<b>1,054,064</b>	816,408

## CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER 2004

	Note	2004 RMB'000	2003 RMB'000
Operating activities:			
Net cash inflow/(outflow) generated from operations	31(a)	165,689	(100,060)
Interest paid		(42,137)	(25,611)
PRC taxation paid		(64,420)	(35,971)
Net cash inflow/(outflow) from operating activities		59,132	(161,642)
Investing activities			
Purchase of fixed assets		(236,209)	(113,543)
Prepayment for land use rights		-	(151,000)
Advances to a former subsidiary	3	(171,655)	(536,525)
Repayment of advances to a former subsidiary	3	170,155	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 disposals of fixed assets		11,748	5,027
Purchase of subsidiaries, net of cash acquired	31(c)	(59,967)	-
Acquisition of additional equity interest in a subsidiary		(2,900)	-
Proceeds from disposal of a subsidiary		-	2,912
Loans to a jointly controlled entity		(106,000)	-
Repayment of loans from a jointly controlled entity		15,000	-
Interest received		26,422	12,416
Net cash outflow from investing activities		(353,406)	(242,688)

## CONSOLIDATED CASH FLOW STATEMENT (continued)

FOR THE YEAR ENDED 31ST DECEMBER 2004

	<i>Note</i>	<b>2004</b> <b>RMB'000</b>	2003 <i>RMB'000</i>
Net cash outflow before financing activities		<b>(294,274)</b>	(404,330)
<hr style="border-top: 1px dashed black;"/>			
Financing activities	31(b)		
Proceeds from issue of shares		-	274,224
Payment for share issuance costs		-	(29,570)
Capital injections by minority shareholders		<b>9,744</b>	6,755
Proceeds from bank loans		<b>1,813,000</b>	1,039,050
Repayment of bank loans		<b>(1,443,950)</b>	(640,050)
Dividends to minority shareholders		<b>(2,086)</b>	(652)
Dividends paid		<b>(33,746)</b>	-
Net cash inflow from financing activities		<b>342,962</b>	649,757
<hr style="border-top: 1px dashed black;"/>			
Increase in cash and cash equivalents		<b>48,688</b>	245,427
Cash and cash equivalents at 1st January		<b>482,407</b>	236,980
<hr style="border-top: 1px solid black;"/>			
Cash and cash equivalents at 31st December		<b>531,095</b>	482,407
<hr style="border-top: 1px solid black;"/>			
Analysis of balances of cash and cash equivalents:			
Bank balances and cash	22	<b>553,146</b>	498,692
Less: Restricted deposits in banks	22(a)	<b>(22,051)</b>	(16,285)
<hr style="border-top: 1px solid black;"/>			
		<b>531,095</b>	482,407
<hr style="border-top: 1px solid black;"/>			



## 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 ("Hong Kong Stock Exchange") 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 Institute of Certified Public 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 the Group 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.

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31st December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

## 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.

##### (ii) Jointly controlled entities

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

## NOTES TO THE ACCOUNTS

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (b) Group accounting (continued)

##### (ii) Jointly controlled entities (continued)

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.

The Group recognises the portion of gains or losses on the sale of assets by the Group to the jointly controlled entity that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the jointly controlled entity that result from the purchase of assets by the Group from the jointly controlled entity until it resells the assets to an independent party. However, if a loss on the transaction provides evidence of a reduction in the net realisable value of current assets or an impairment loss, the loss is recognised immediately.

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 movements in reserves.

#### (d) 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 of not exceeding 20 years.

## NOTES TO THE ACCOUNTS

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (d) Goodwill (continued)

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.

##### (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.

## NOTES TO THE ACCOUNTS

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (e) Fixed assets (continued)

##### (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.

##### (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 fixed assets other than investment properties 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.

## NOTES TO THE ACCOUNTS

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (e) Fixed assets (continued)

##### (v) *Impairment and gain or loss on sale* (continued)

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.

#### (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) 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.

## NOTES TO THE ACCOUNTS

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (j) 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.

#### (k) Inventories

Inventories comprise raw materials, work in progress, finished goods and production supplies 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.

#### (l) 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.

#### (m) 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.

## NOTES TO THE ACCOUNTS

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (n) 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 restricted bank deposits.

#### (o) 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.

#### (p) 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.



## NOTES TO THE ACCOUNTS

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (p) Employee benefits (continued)

##### (iii) Pension obligation (continued)

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.

#### (q) 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.

#### (r) 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.

## NOTES TO THE ACCOUNTS

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (s) 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 the 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 receipts in advance.

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.

#### (t) 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.

## 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 comprised additions to fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

### 3. TRANSACTIONS WITH A FORMER SUBSIDIARY

Zhejiang Baoye Industrial Investment Company Limited ("ZBI") is a former subsidiary of the Company which was disposed of on 11th January 2002. ZBI has become an independent third party to the Company since December 2002.

#### Advances to ZBI

During January 2004, advances with maximum balance of RMB106,655,000 were made to ZBI, which were fully repaid by ZBI to the Group before 30th March 2004. Such advances were unsecured and interest free.

#### Other transactions involving ZBI

The Group had nominated ZBI to represent it to participate in the early discussion and negotiation in respect of the following three projects:

- the acquisition (the "Acquisition Project") of 90% interest of Hangzhou International Airport Mansion Development Co., Ltd. ("Airport Mansion") from an independent third party;
- the bidding for a construction project (the "Tongxiang Construction Project") for Tongxiang Baoye Phoenix Real Estate Co., Ltd. ("Baoye Phoenix"). Baoye Phoenix is a company incorporated in the PRC and is owned as to 55% by ZBI and 45% by four other independent third parties; and

## NOTES TO THE ACCOUNTS

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

#### Other transactions involving ZBI (continued)

- the bidding for a construction project (the "Minghua Construction Project") for Zhejiang Minghua Textile Raw Materials Exhibition City Co., Ltd. ("Minghua Textile"). Minghua Textile 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. Mr. Li Wenjiang is a former director of Shaoxing Baogang Woodwork Co., Ltd. ("Shaoxing Baogang"), a non-wholly owned subsidiary of the Company. Mr. Li Wenjiang resigned as a director of Shaoxing Baogang on 30th April 2004.

During January 2004, the Group had provided a total of RMB72,000,000, RMB30,000,000 and RMB60,000,000 respectively to ZBI, 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 Tongxiang Construction Project and the Minghua Construction Project respectively.

In order to expedite the negotiation process, the Group has decided to participate directly in the negotiation for the above mentioned three projects. In this connection, the Group paid directly to the relevant project owners the respective Guarantee Money to replace the payments previously made on its behalf by ZBI. The Guarantee Money previously paid by ZBI was refunded by the relevant project owners to ZBI and the sum of which was fully returned to the Group in April 2004.

#### Latest development of the three projects

- *Acquisition Project:*  
On 8th July 2004, the Group entered into an agreement with an independent third party, Hangzhou International Airport Co., Ltd. ("Hangzhou Airport"), for the acquisition of 90% of the equity interest in Airport Mansion. Airport Mansion mainly owns a right to use a piece of land located in a prime site of Hangzhou. The Group plans to develop a comprehensive commercial building on that site. The total consideration of the acquisition was RMB83,077,000, of which RMB72,000,000 had already been paid in the form of Guarantee Money by the Group.
- *Tongxiang Construction Project:*  
The Group won the bidding for the Tongxiang Construction Project with a total contract sum of RMB137,800,000 with the construction agreement signed on 10th May 2004. The Guarantee Money of RMB30,000,000 paid in advance by the Company was taken as the guarantee deposit pursuant to the terms of the construction agreement. The Group had received progress payments totalling RMB44,420,000 in relation to this project up to the date of approval of these accounts.

## NOTES TO THE ACCOUNTS

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

#### Latest development of the three projects (continued)

– *Minghua Construction Project:*

On 11th June 2004, the Group won the bidding for the construction of Phase I of Minghua Textile Raw Materials Exhibition City with a total contract sum of RMB116,024,000. A construction agreement was entered into on 26th February 2005 by the Group with Minghua Textile. Minghua Textile is owned as to 67% by Mr. Li Wenjiang, a former director of Shaoxing Baogang, a non-wholly owned subsidiary of the Company. Minghua Textile is regarded as a connected person of the Company and the transaction contemplated under this construction agreement constitute a connected transaction for the Company under the Listing Rules of the Hong Kong Stock Exchange. Accordingly, the construction agreement will only be effective after approval by independent shareholders at an extraordinary general meeting of the Company, which is scheduled to be held on 20th May 2005. Pursuant to the construction agreement, RMB30,000,000 of the Guarantee Money of RMB60,000,000 paid in advance by the Group will be taken as the guarantee deposit for fulfilling the construction contract for Phase I of the project, while the remaining RMB30,000,000 will continue to be used as guarantee money for the bidding of Phase II of the construction work of the project.

## NOTES TO THE ACCOUNTS

### 4. TURNOVER, REVENUE AND INCOME AND SEGMENT INFORMATION

Revenues recognised during the year are as follows:

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Turnover		
Construction contracts revenue	<b>3,628,005</b>	2,683,114
Sale of building materials	<b>236,679</b>	225,988
Sale of developed properties	<b>492,194</b>	83,768
Others	<b>21,556</b>	1,602
	<b>4,378,434</b>	2,994,472
Other revenues and income		
Rental income from investment properties, net of business tax	<b>658</b>	692
Gain on disposals of fixed assets	<b>6,779</b>	4,322
Gain on disposal of a subsidiary	-	109
Interest income	<b>26,422</b>	12,416
Government grants	-	19,543
Government compensation (note (a))	<b>30,861</b>	-
Others	<b>3,352</b>	6,475
	<b>68,072</b>	43,557
Total revenues and income	<b>4,446,506</b>	3,038,029

- (a) The compensation was received from the local government authorities for loss of business arising from relocation of production plant at the request of these authorities during the year.

#### Primary reporting format – business segments

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

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

## NOTES TO THE ACCOUNTS

### 4. TURNOVER, REVENUE AND INCOME AND SEGMENT INFORMATION (continued)

#### Primary reporting format – business segments (continued)

Other operation of the Group mainly comprises provision of the design and research service, production and sale of construction machinery, neither of which are of a sufficient size to be reported separately.

	Year ended 31st December 2004					Group RMB'000
	Construction RMB'000	Building materials RMB'000	Property development RMB'000	Other operations RMB'000	Elimination RMB'000	
Turnover	3,912,850	287,944	492,194	42,566	(357,120)	4,378,434
Segment results	199,759	44,896	169,394	(6,311)	(5,505)	402,233
Unallocated revenues and income						37,211
Unallocated expenses						(632)
Operating profit						438,812
Finance costs						(23,981)
Share of loss of a jointly controlled entity	-	-	(2,100)	-	-	(2,100)
Profit before taxation						412,731
Taxation						(120,009)
Profit after taxation						292,722
Minority interests						(17,640)
Profit attributable to shareholders						275,082
Segment assets	2,161,378	541,517	895,861	34,521	(114,516)	3,518,761
Unallocated assets						28,776
Total assets						3,547,537
Segment liabilities	1,107,718	268,740	572,852	16,788	(112,011)	1,854,087
Unallocated liabilities						534,808
Total liabilities						2,388,895
Capital expenditures	86,538	153,455	355	12,308	(4,440)	248,216
Depreciation	15,263	12,412	2,026	1,071	-	30,772
Write back of provision for doubtful receivables, net	(4,632)	126	1,692	112	-	(2,702)

## NOTES TO THE ACCOUNTS

### 4. TURNOVER, REVENUE AND INCOME AND SEGMENT INFORMATION (continued)

#### Primary reporting format – business segments (continued)

	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
Unallocated revenues and income						43,557
Unallocated expenses						(112)
Operating profit						206,145
Finance costs						(23,101)
Share of loss of a jointly controlled entity	-	-	(2,802)	-	-	(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 for doubtful receivables, net	(1,985)	727	(322)	-	-	(1,580)



## NOTES TO THE ACCOUNTS

### 4. TURNOVER, REVENUE AND INCOME AND SEGMENT INFORMATION (continued)

#### Secondary reporting format – geographical segments

No geographical segments information is presented for both years 2003 and 2004 as substantially all the Group's businesses were carried out and all the Group's assets are located in the PRC.

### 5. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2004 RMB'000	2003 RMB'000
<i>Crediting:</i>		
Gains on disposals of fixed assets	6,779	4,322
Write back of provision for doubtful receivables, net	2,702	1,580
<i>Charging:</i>		
Depreciation of fixed assets	30,772	19,165
Staff costs (note 11)	672,105	481,560
Cost of inventories sold	3,580,662	2,445,164
Operating leases of land and buildings	2,939	1,749
Auditors' remuneration	1,800	1,855
Provision for warranty	2,400	1,700
Amortisation of goodwill	79	–

### 6. FINANCE COSTS

	2004 RMB'000	2003 RMB'000
Interest on bank loans	42,137	26,270
Less: interest capitalised in construction in progress	(4,657)	(1,555)
Less: interest capitalised in properties under development	(13,499)	(1,614)
	23,981	23,101

The capitalisation rates applied to funds borrowed generally and used for the development of properties and construction in progress were approximately 5.3% (2003: 5.1%) per annum.

## NOTES TO THE ACCOUNTS

### 7. TAXATION

The amount of taxation charged to the consolidated profit and loss account represents:

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Current taxation		
– PRC enterprise income tax	<b>127,288</b>	56,709
Deferred taxation ( <i>note 30</i> )	<b>(7,279)</b>	1,638
	<b>120,009</b>	58,347

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

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Profit before taxation	<b>412,731</b>	180,242
Calculated at a taxation rate of 33% (2003: 33%)	<b>136,201</b>	59,480
Expenses not deductible for taxation purposes	<b>838</b>	4,473
Unrecognised tax losses	<b>2,702</b>	876
Utilisation of previously unrecognised tax losses	<b>(4)</b>	(305)
Effect of partial income tax exemption	<b>(19,728)</b>	(6,177)
Taxation charge	<b>120,009</b>	58,347

(a) The Company and its subsidiaries comprising the Group are subject to PRC enterprise income tax at a rate of 33% (2003: 33%).

(b) According to the tax circulars, Shaoxingdishui Qianqingzi 2005 No. 001 to No. 005, five subsidiaries of the Company, namely, Zhejiang Baoye Real Estate Group Co., Ltd. ("Baoye Real Estate"), Zhejiang Baoye Construction Group Co., Ltd., Shaoxing Baoye Fireproof Materials Co., Ltd., Zhejiang Guangyi Construction and Decoration Co., Ltd. and Zhejiang Baoye Curtain Wall Decoration Co., Ltd., are entitled to a 10% (2003: 10%) reduction of their enterprise income taxes as they are located in villages and towns of the PRC.

## NOTES TO THE ACCOUNTS

### 7. TAXATION (continued)

- (c) According to the tax circular, Zhidishuizi 2003 No. 212 issued by the local tax bureau of Shaoxing County, a subsidiary of the Company, Zhejiang Baoye Building Materials Industrialisation Company Limited is entitled to an income tax credit of 40% on the purchase cost of certain qualified equipment manufactured in the PRC.
- (d) No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the year (2003: Nil).

### 8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB109,630,000 (2003: RMB161,309,000).

### 9. DIVIDENDS

At a meeting held on 1st April 2005 the directors proposed a final dividend of RMB0.1436 (2003: RMB0.0635) per ordinary share. This proposed dividend is not reflected as dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2005.

### 10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of RMB275,082,000 (2003: RMB112,409,000) and the 531,426,053 (2003: weighted average of 441,084,053) ordinary shares in issued during the year.

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

### 11. STAFF COSTS

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

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Wages and salaries	<b>663,611</b>	475,653
Welfare, medical and other expenses	<b>5,673</b>	3,602
Retirement benefit costs ( <i>note (a)</i> )	<b>2,821</b>	2,305
	<b>672,105</b>	481,560

## NOTES TO THE ACCOUNTS

### 11. STAFF COSTS (continued)

- (a) As stipulated by the Government regulations in PRC, the Company and its subsidiaries are required to contribute to the state-sponsored retirement scheme for all of its employees at 19% to 20% (2003: 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.

### 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:

	<b>2004</b>	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Fees for executive directors	–	–
Fees for non-executive directors	<b>340</b>	419
Fees for supervisors	<b>50</b>	60
Other emoluments for executive directors		
– Basic salaries and allowances	<b>336</b>	171
– Bonuses	<b>1,476</b>	1,339
– Retirement benefits	<b>10</b>	10
Other emoluments for non-executive directors	–	–
Other emoluments for supervisors	<b>192</b>	163
	<b>2,404</b>	2,162

The emoluments for each of the directors and supervisors fell within the band of nil to RMB1,060,000 (HKD1,000,000) during the years ended 31st December 2004 and 2003.

During the years ended 31st December 2004 and 2003, no director and supervisor waived any emoluments. Neither incentive payment for joining the Group nor compensation for loss of office was paid or payable to any directors or supervisors during the years ended 31st December 2004 and 2003.

## NOTES TO THE ACCOUNTS

### 12. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

#### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include 4 (2003: 5) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 1 (2003: Nil) individual during the year are as follows:

	2004 RMB'000	2003 RMB'000
Basic salaries and allowances	84	–
Bonuses	468	–
Retirement benefits	3	–
	<hr/> 555	<hr/> –

The emoluments for the individual who is not a director and supervisor, fell within the band of nil to RMB1,060,000 (HKD1,000,000) during the year ended 31st December 2004.

### 13. INTANGIBLE ASSETS

#### Goodwill

Year ended 31st December 2004	RMB'000
Opening net book amount	–
Acquisition of subsidiaries and additional interest in a subsidiary (note 16)	1,124
Amortisation charge	(79)
	<hr/> 1,045
Closing net book amount	<hr/> 1,045

	2004 RMB'000	2003 RMB'000
Cost	1,124	–
Accumulated amortisation	(79)	–
	<hr/> 1,045	<hr/> –
Net book amount	<hr/> 1,045	<hr/> –

## NOTES TO THE ACCOUNTS

### 14. FIXED ASSETS

#### Group

	Investment properties <i>RMB'000</i>	Land use rights <i>RMB'000</i>	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Office equipment and others <i>RMB'000</i>	Construc- tion in progress <i>RMB'000</i>	Total <i>RMB'000</i>
Cost or valuation:								
At 1st January 2004	5,188	72,184	94,424	101,172	65,906	12,538	64,661	416,073
Acquisition of subsidiaries	-	-	-	7,999	-	-	-	7,999
Additions	-	-	18,072	98,456	5,690	3,318	115,330	240,866
Transfers	-	-	65,018	15,338	-	-	(80,356)	-
Disposals	-	-	(589)	(4,795)	(375)	(107)	-	(5,866)
<b>At 31st December 2004</b>	<b>5,188</b>	<b>72,184</b>	<b>176,925</b>	<b>218,170</b>	<b>71,221</b>	<b>15,749</b>	<b>99,635</b>	<b>659,072</b>
Accumulated depreciation:								
At 1st January 2004	-	1,345	14,878	43,328	26,443	5,932	-	91,926
Acquisition of subsidiaries	-	-	-	649	-	-	-	649
Charge for the year	-	1,278	6,052	13,919	7,742	1,781	-	30,772
Disposals	-	-	(40)	(473)	(361)	(23)	-	(897)
<b>At 31st December 2004</b>	<b>-</b>	<b>2,623</b>	<b>20,890</b>	<b>57,423</b>	<b>33,824</b>	<b>7,690</b>	<b>-</b>	<b>122,450</b>
Net book value:								
<b>At 31st December 2004</b>	<b>5,188</b>	<b>69,561</b>	<b>156,035</b>	<b>160,747</b>	<b>37,397</b>	<b>8,059</b>	<b>99,635</b>	<b>536,622</b>
At 31st December 2003	5,188	70,839	79,546	57,844	39,463	6,606	64,661	324,147

## NOTES TO THE ACCOUNTS

### 14. FIXED ASSETS (continued)

The analysis of the cost or valuation at 31st December 2004 and 2003 of the above assets is as follows:

	Investment properties <i>RMB'000</i>	Land use rights <i>RMB'000</i>	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Office equipment and others <i>RMB'000</i>	Construc- tion in progress <i>RMB'000</i>	Total <i>RMB'000</i>
<b>At 31st December 2004</b>								
At cost	-	72,184	176,925	218,170	71,221	15,749	99,635	653,884
At valuation	5,188	-	-	-	-	-	-	5,188
	<b>5,188</b>	<b>72,184</b>	<b>176,925</b>	<b>218,170</b>	<b>71,221</b>	<b>15,749</b>	<b>99,635</b>	<b>659,072</b>
<b>At 31st December 2003</b>								
At cost	-	72,184	94,424	101,172	65,906	12,538	64,661	410,885
At valuation	5,188	-	-	-	-	-	-	5,188
	<b>5,188</b>	<b>72,184</b>	<b>94,424</b>	<b>101,172</b>	<b>65,906</b>	<b>12,538</b>	<b>64,661</b>	<b>416,073</b>

## NOTES TO THE ACCOUNTS

### 14. FIXED ASSETS (continued)

#### Company

	Land use rights RMB'000	Buildings RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Construc- tion in progress RMB'000	Total RMB'000
Cost:						
At 1st January 2004	64,033	388	4,632	726	–	69,779
Additions	–	–	371	227	3,621	4,219
Transfer from subsidiaries	–	–	–	–	44,746	44,746
Disposals	–	–	–	(64)	–	(64)
<b>At 31st December 2004</b>	<b>64,033</b>	<b>388</b>	<b>5,003</b>	<b>889</b>	<b>48,367</b>	<b>118,680</b>
Accumulated depreciation:						
At 1st January 2004	1,033	–	610	48	–	1,691
Charge for the year	1,192	18	839	171	–	2,220
Disposals	–	–	–	(8)	–	(8)
<b>At 31st December 2004</b>	<b>2,225</b>	<b>18</b>	<b>1,449</b>	<b>211</b>	<b>–</b>	<b>3,903</b>
Net book value:						
<b>At 31st December 2004</b>	<b>61,808</b>	<b>370</b>	<b>3,554</b>	<b>678</b>	<b>48,367</b>	<b>114,777</b>
At 31st December 2003	63,000	388	4,022	678	–	68,088

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

The investment properties were revalued at 31st December 2004 on the basis of their open market value by Shaoxing Zhongxing Asset Revaluation Limited Company, an independent qualified valuer in the PRC.



## NOTES TO THE ACCOUNTS

### 14. FIXED ASSETS (continued)

As at 31st December 2004, the construction in progress of the Group included interest capitalised of RMB6,212,000 (2003: RMB1,555,000). The construction in progress of the Company included interest capitalised of RMB2,058,000 (2003: Nil).

As at 31st December 2004, the net book value of land use rights and buildings secured as security for the Group's short-term bank loans amounted to RMB36,697,000 (2003: RMB37,633,000) (note 26). The net book value of land use rights and buildings secured as security for the Company's short-term bank loans amounted to RMB31,571,000 (2003: RMB32,160,000) (note 26).

### 15. PROPERTIES UNDER DEVELOPMENT

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

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Within one year	474,344	247,194	–	–
More than one year	459,659	249,860	227,820	–
	<b>934,003</b>	497,054	<b>227,820</b>	–

As at 31st December 2004, properties under development included interest capitalised of RMB13,499,000 (2003: RMB713,000).

### 16. INVESTMENTS IN SUBSIDIARIES

#### Company

	2004 RMB'000	2003 RMB'000
Investments at cost, unlisted	526,479	398,720
Amounts due from subsidiaries	135,288	7,342
Amounts due to subsidiaries	(39,635)	(140,493)
	<b>622,132</b>	265,569

The amounts due from/(to) subsidiaries are unsecured, interest free and are not requested to be repaid within one year.

## NOTES TO THE ACCOUNTS

### 16. INVESTMENTS IN SUBSIDIARIES (continued)

The following is a list of the principal subsidiaries as at 31st December 2004:

Name	Place of incorporation and entity type	Attributable equity interest held		Registered capital	Principal activities
		Directly	Indirectly		
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.	The PRC, limited liability company	90%	9.9%	RMB50,000,000	Development and sales of properties
Zhejiang Baoye Building Materials Industrialisation Company Limited ("Baoye Building Materials")	The PRC, joint stock limited company	–	63.9%	RMB60,600,000 (60,600,000 shares per RMB1 each)	Production and sales of concrete and construction materials
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 and wood fireproof doors

## NOTES TO THE ACCOUNTS

### 16. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation and entity type	Attributable equity interest held		Registered capital	Principal activities
		Directly	Indirectly		
Zhejiang Baoye Construction Design Research Institute Co., Ltd. (formerly known as 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. (note (a))	The PRC, limited liability company	–	70%	RMB18,000,000	Real estate development
Shaoxing Baogang Woodwork Co., Ltd.	The PRC, foreign invested enterprise	70%	–	USD2,720,000	Production and sales of wooden door and other wooden products
Shaoxing Baoye Construction Intelligent Technology Co., Ltd.	The PRC, limited liability company	60%	39.6%	RMB2,000,000	Installation of computer management system
Hangzhou International Airport Mansion Development Co., Ltd. (note (b))	The PRC, limited liability company	90%	–	RMB80,000,000	Development of Hangzhou International Airport Mansion

## NOTES TO THE ACCOUNTS

### 16. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation and entity type	Attributable equity interest held		Registered capital	Principal activities
		Directly	Indirectly		
Shaoxing Huaxin Ready-mixed Commodity Concrete Co., Ltd.	The PRC, limited liability company	51.5%	–	RMB20,000,000	Production and sales of concrete and construction materials
Hefei Baoye Concrete Co., Ltd.	The PRC, limited liability company	90%	9.9%	RMB10,000,000	Production and sales of concrete and construction materials
Zhejiang Baoye Steel Structure Co., Ltd.	The PRC, limited liability company	95%	4.95%	RMB20,000,000	Production, design and sales of steel structure products
Shaoxing Guangmao Logistics Co., Ltd.	The PRC, limited liability company	90%	6.4%	RMB5,000,000	Provision of freight services and sales of construction materials
Hefei Zhongbao Machinery Manufacture Co., Ltd. (note (c))	The PRC, limited liability company	–	89.9%	RMB10,000,000	Production and sales of machinery and fittings

Note:

- (a) During the year, Baoye Real Estate entered into an agreement with Mr. Xu Jianjun, a minority shareholder, to acquire an additional 15% equity interest of Shanghai Zibao Real Estate Development Co., Ltd. ("Zibao Real Estate") from Mr. Xu Jianjun for a consideration of RMB2,900,000, resulting a goodwill of RMB564,000. Following the acquisition, Baoye Real Estate owned 70% equity interest of Zibao Real Estate.
- (b) During the year, the Company entered into an agreement with Hangzhou Airport to acquire 90% equity interest of Airport Mansion from Hangzhou Airport at a consideration of RMB83,077,000, resulting a goodwill of RMB113,000.
- (c) During the year, Baoye Real Estate entered into an agreement with Hefei Qingfangcheng Baoye Real Estate Co., Ltd. ("Hefei Qingfangcheng"), a jointly controlled entity of the Company, to acquire 90% equity interest of Hefei Zhongbao Machinery Manufacture Co., Ltd. ("Zhongbao Machinery") from Hefei Qingfangcheng at a consideration of RMB9,000,000, resulting a goodwill of RMB447,000.

## NOTES TO THE ACCOUNTS

### 17. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

#### (a) The investment represents:

##### Group

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Share of net assets at 1st January	11,182	13,984
Share of loss	(2,100)	(2,802)
Share of net assets at 31st December	9,082	11,182
Amounts due from a jointly controlled entity	–	33,000
	<b>9,082</b>	44,182

##### Company

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Unlisted investments, at cost	15,000	15,000
Provision for impairment losses	(5,918)	(3,818)
Amounts due from a jointly controlled entity	–	33,000
	<b>9,082</b>	44,182

Details of the jointly controlled entity are 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%	RMB30,000,000	Real estate development

## NOTES TO THE ACCOUNTS

### 17. INVESTMENT IN A JOINTLY CONTROLLED ENTITY (continued)

- (b) The loans to a jointly controlled entity as at 31st December 2004 are unsecured, charged at the rates ranging from 5.04% to 5.32% per annum and repayable within one year.
- (c) The amounts due from/(to) a jointly controlled entity are unsecured, interest free and have no fixed repayment terms.

### 18. INVENTORIES

#### Group

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Raw materials	17,442	11,212
Work in progress	5,683	–
Finished goods	14,015	8,469
Production supplies	174	171
	<b>37,314</b>	19,852

As at 31st December 2004, no inventory is carried at net realisable value (2003: Nil).

### 19. CONSTRUCTION CONTRACTS

#### Group

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Contract costs incurred plus attributable profits less foreseeable losses to date	8,242,626	4,850,458
Less: progress billings to date	<b>(8,160,564)</b>	(4,827,390)
	<b>82,062</b>	23,068
Included in current assets/(liabilities) under the following captions:		
Due from customers on construction contracts	412,580	234,852
Due to customers on construction contracts	<b>(330,518)</b>	(211,784)
	<b>82,062</b>	23,068

## NOTES TO THE ACCOUNTS

### 19. CONSTRUCTION CONTRACTS (continued)

As at 31st December 2004, retentions and project deposits held by customers for contract work included in other receivables of the Group under note 21 amounted to RMB451,302,000 (2003: RMB286,395,000).

### 20. TRADE RECEIVABLES

#### Group

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Trade and notes receivables	<b>329,693</b>	150,111
Less: provision for doubtful debts	<b>(9,141)</b>	(6,275)
	<b>320,552</b>	143,836

The ageing analysis of the trade and notes receivables is as follows:

#### Group

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
0 to 3 months	<b>244,138</b>	67,239
3 months to 1 year	<b>52,182</b>	64,578
1 to 2 years	<b>26,635</b>	16,972
2 to 3 years	<b>6,037</b>	467
Over 3 years	<b>701</b>	855
	<b>329,693</b>	150,111

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.

## NOTES TO THE ACCOUNTS

### 21. OTHER RECEIVABLES

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Prepayments and deposits	25,160	24,258	8	526
Other receivables	56,647	43,722	21,872	274
Prepayments for a real estate development project	50,000	229,390	50,000	229,390
Retention money receivables and project deposits (note 19)	451,302	286,395	–	–
	<b>583,109</b>	583,765	<b>71,880</b>	230,190

### 22. BANK BALANCES AND CASH

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Cash on hand	9,830	6,168	808	1,296
Cash at bank	543,316	492,524	39,926	287,453
	<b>553,146</b>	498,692	<b>40,734</b>	288,749

Note:

- (a) As at 31st December 2004, certain deposits with banks amounting to RMB22,051,000 (2003: RMB16,285,000) have been confined to be used for guarantee the performance of certain construction contracts work and notes payable.
- (b) All cash and bank balances are deposited with banks in the PRC. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC Government.



## NOTES TO THE ACCOUNTS

### 23. TRADE PAYABLES

The ageing analysis of the trade and notes payables is as follows:

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
0 to 3 months	117,956	144,244	–	–
3 months to 1 year	140,881	46,863	150	–
1 to 2 years	17,999	28,005	–	–
2 to 3 years	4,356	2,777	–	–
Over 3 years	2,307	905	–	–
	<b>283,499</b>	222,794	<b>150</b>	–

### 24. OTHER PAYABLES

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Other tax payables	90,429	87,537	7,051	7,228
Other payables	124,992	88,152	20,302	1,887
Deposits from project managers	79,763	59,007	–	–
Accruals	2,205	2,034	1,500	1,297
	<b>297,389</b>	236,730	<b>28,853</b>	10,412

## NOTES TO THE ACCOUNTS

### 25. PROVISION FOR WARRANTY

#### Group

	<b>2004</b>	<b>2003</b>
	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year	<b>5,000</b>	4,880
Additional provision	<b>2,400</b>	1,700
Less: amount utilised	<b>(4,780)</b>	(1,580)
At end of the year	<b>2,620</b>	5,000

The Group gives 6 months to 5 years warranties on construction work and undertakes to repair construction work that fail to perform satisfactorily. Provision has been recognised for expected warranty claims based on the past experience of the level of repairs.

### 26. BORROWINGS

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Short-term bank loans</b>				
Unsecured	<b>866,000</b>	496,950	<b>350,000</b>	160,000
Secured	<b>46,000</b>	46,000	<b>46,000</b>	46,000
	<b>912,000</b>	542,950	<b>396,000</b>	206,000

Note:

- (a) As at 31st December 2004, the secured short-term bank loans were secured by the land use rights and buildings of the Company with net book values amounting to RMB31,571,000 (2003: RMB32,160,000) and those of its subsidiary, Baoye Construction, amounting to RMB5,126,000 (2003: RMB5,473,000).
- (b) Interest of these loans was charged on the outstanding loan balances at 5% to 6% (2003: 5% to 6%) per annum.

## NOTES TO THE ACCOUNTS

### 27. AMOUNTS DUE FROM/(TO) SHAREHOLDERS AND MINORITY SHAREHOLDERS

The balances with shareholders and minority shareholders were unsecured, interest free and had no fixed repayment terms or repayable in accordance with the terms of sales contracts entered.

- (a) The amounts due from minority shareholders mainly represented receivables arising from sales of products. The amounts due to minority shareholders mainly represented dividends payable to minority shareholders, which have not been paid out as at 31st December 2004.
- (b) The amount due from a shareholder mainly represented receivables arising from sales of real estate properties and the amounts due to shareholders mainly represented the deposits received in relation to the sale of real estate properties.

### 28. SHARE CAPITAL

The movements of share capital are as follows:

	<b>Number of shares</b> <i>(in thousand)</i>	<b>Share capital</b> <i>RMB'000</i>
At 1st January 2003	350,742	350,742
Issue of H shares <i>(note (a))</i>	180,684	180,684
<b>At 31st December 2003 and 31st December 2004</b>	<b>531,426</b>	<b>531,426</b>

*Note:*

- (a) 180,684,000 H Shares of RMB1.00 each were issued at HKD1.43 (RMB1.52) each and were fully paid up in form of cash, resulting in capital reserve of RMB56,150,000 after deducting the share issuance costs.
- (b) Details of the placing of the Company's shares that took place on 13th January 2005 are shown in note 35.

## NOTES TO THE ACCOUNTS

### 29. RESERVES

#### Group

	Capital reserve (Note (b)) RMB'000	Investment properties revaluation reserve RMB'000	Other assets 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 2004	56,150	1,240	7,551	21,656	10,828	187,557	284,982
Transfer to profit and loss account upon sale of completed properties	-	-	(3,680)	-	-	-	(3,680)
Profit for the year	-	-	-	-	-	275,082	275,082
Transfer to statutory surplus reserve	-	-	-	27,388	-	(27,388)	-
Transfer to statutory public welfare fund	-	-	-	-	13,694	(13,694)	-
Dividends	-	-	-	-	-	(33,746)	(33,746)
<b>As at 31st December</b>							
<b>2004</b>	<b>56,150</b>	<b>1,240</b>	<b>3,871</b>	<b>49,044</b>	<b>24,522</b>	<b>387,811</b>	<b>522,638</b>
Representing:							
2004 final dividend proposed						81,502	
Retained earnings						306,309	
						<u>387,811</u>	
Company and subsidiaries	56,150	1,240	3,871	49,044	24,522	393,729	528,556
Jointly controlled entity	-	-	-	-	-	(5,918)	(5,918)
<b>At 31st December 2004</b>	<b>56,150</b>	<b>1,240</b>	<b>3,871</b>	<b>49,044</b>	<b>24,522</b>	<b>387,811</b>	<b>522,638</b>

## NOTES TO THE ACCOUNTS

### 29. RESERVES (continued)

#### Group (continued)

	Capital reserve (Note (b)) RMB'000	Share issuance costs RMB'000	Investment properties revaluation reserve RMB'000	Other assets 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 2003	-	(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	(7,551)	7,551	-	-	-	-
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	-	1,240	7,551	21,656	10,828	187,557	284,982
Representing:								
2003 final dividend proposed							33,746	
Retained earnings							153,811	
							<u>187,557</u>	
Company and subsidiaries	56,150	-	1,240	7,551	21,656	10,828	191,375	288,800
Jointly controlled entity	-	-	-	-	-	-	(3,818)	(3,818)
At 31st December 2003	56,150	-	1,240	7,551	21,656	10,828	187,557	284,982

## NOTES TO THE ACCOUNTS

### 29. RESERVES (continued) Company

	Capital reserve (Note (b)) 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 2004	56,150	21,656	10,828	53,087	141,721
Profit for the year	–	–	–	109,630	109,630
Transfer to statutory surplus reserve	–	27,388	–	(27,388)	–
Transfer to statutory public welfare fund	–	–	13,694	(13,694)	–
Dividends	–	–	–	(33,746)	(33,746)
<b>As at 31st December 2004</b>	<b>56,150</b>	<b>49,044</b>	<b>24,522</b>	<b>87,889</b>	<b>217,605</b>

Representing:

2004 final dividend proposed

81,502

Retained earnings

6,387

**87,889**

## NOTES TO THE ACCOUNTS

### 29. RESERVES (continued)

#### Company (continued)

	Capital reserve (Note (b)) RMB'000	Share issuance costs RMB'000	Statutory surplus reserve (Note (a)(i)) RMB'000	Statutory (Accumulated public welfare fund (Note (a)(ii)) RMB'000	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	
					<u>53,087</u>	

#### (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.

## NOTES TO THE ACCOUNTS

### 29. RESERVES (continued)

#### (a) Reserve funds (continued)

##### (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.

#### (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 share capital 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.

### 30. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 33% (2003: 33%).

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

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
At beginning of year	231	1,869	–	–
Credited/(charged) to profit and loss account	7,279	(1,638)	(679)	–
At end of year	7,510	231	(679)	–



## NOTES TO THE ACCOUNTS

### 30. DEFERRED TAXATION (continued)

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

#### Group

##### *Deferred tax assets*

	Provision for doubtful receivables		Tax losses		Elimination of unrealised profit resulting from intragroup transactions		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1st January	6,273	6,794	-	-	-	-	6,273	6,794
(Charged)/credited to profit and loss account	(892)	(521)	2,223	-	5,405	-	6,736	(521)
Balance at 31st December	5,381	6,273	2,223	-	5,405	-	13,009	6,273

##### *Deferred tax liabilities*

	Accelerated tax depreciation		Revaluation of assets		Interest expense capitalised		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1st January	(538)	-	(4,458)	(4,855)	(1,046)	(70)	(6,042)	(4,925)
Transfers	-	(538)	-	538	-	-	-	-
(Charged)/credited to profit and loss account	(139)	-	1,933	(141)	(1,251)	(976)	543	(1,117)
Balance at 31st December	(677)	(538)	(2,525)	(4,458)	(2,297)	(1,046)	(5,499)	(6,042)

## NOTES TO THE ACCOUNTS

### 30. DEFERRED TAXATION (continued)

The amounts shown in the balance sheet include the following:

	<b>2004</b> <i>RMB'000</i>	<b>2003</b> <i>RMB'000</i>
Deferred tax assets to be recovered after more than 12 months	7,515	5,381
Deferred tax liabilities to be settled after more than 12 months	<b>(5,400)</b>	(5,499)

#### Company

*Deferred tax liabilities*

	<b>Interest expense capitalised</b>	
	<b>2004</b> <i>RMB'000</i>	<b>2003</b> <i>RMB'000</i>
Balance at 1st January	-	-
Charged to profit and loss account	<b>(679)</b>	-
Balance at 31st December	<b>(679)</b>	-

The amounts shown in the balance sheet include the following:

	<b>2004</b> <i>RMB'000</i>	<b>2003</b> <i>RMB'000</i>
Deferred tax liabilities to be settled after more than 12 months	<b>(670)</b>	-

## NOTES TO THE ACCOUNTS

### 31. CONSOLIDATED CASH FLOW STATEMENT

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

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Profit before taxation	412,731	180,242
Depreciation	30,772	19,165
Amortisation of goodwill	79	–
Share of loss of a jointly controlled entity	2,100	2,802
Write back of provision for doubtful receivables, net	(2,702)	(1,580)
Gain on disposals of fixed assets	(6,779)	(4,322)
Gain on disposal of a subsidiary	–	(109)
Interest income	(26,422)	(12,416)
Interest expenses	23,981	23,101
<b>Operating profit before working capital changes</b>	<b>433,760</b>	206,883
Increase in properties under development, properties held for development and completed properties held for sale	<b>(214,880)</b>	(357,754)
Increase in restricted bank deposits	<b>(5,766)</b>	(1,895)
Increase in inventories	<b>(15,347)</b>	(7,952)
Increase in balances with customers on construction contracts	<b>(58,994)</b>	(23,650)
Increase in trade and other receivables and amounts due from minority shareholders	<b>(163,305)</b>	(321,006)
Increase in trade and other payables, receipts in advance, amounts due to shareholders and a jointly controlled entity and provision for warranty	<b>190,221</b>	405,314
<b>Net cash inflow/(outflow) generated from operations</b>	<b>165,689</b>	(100,060)

## NOTES TO THE ACCOUNTS

### 31. CONSOLIDATED CASH FLOW STATEMENT (continued)

#### (b) Analysis of changes in financing activities

	Share capital and capital reserve <i>RMB'000</i>	Minority interests <i>RMB'000</i>	Bank loans <i>RMB'000</i>
As at 1st January 2003	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)	–
<b>As at 31st December 2003</b>	<b>587,576</b>	<b>72,606</b>	<b>542,950</b>
As at 1st January 2004	587,576	72,606	542,950
Net cash inflow from borrowings	–	–	369,050
Injections from minority shareholders	–	9,744	–
Profit attributable to minority shareholders	–	17,640	–
Profit appropriation to minority shareholders	–	(3,256)	–
Acquisition of subsidiaries	–	10,180	–
Acquisition of interest in a subsidiary from a minority shareholder	–	(2,336)	–
<b>As at 31st December 2004</b>	<b>587,576</b>	<b>104,578</b>	<b>912,000</b>

## NOTES TO THE ACCOUNTS

### 31. CONSOLIDATED CASH FLOW STATEMENT (continued)

#### (c) Purchase of subsidiaries

During the year, as mentioned in note 16(b) and (c), the Group acquired interests in Airport Mansion and Zhangbao Machinery. Details of the cash flow arising from the acquisitions are as follows:

	<i>RMB'000</i>
Net assets acquired	
Fixed assets	7,350
Properties under development	72,529
Inventories	2,115
Trade and other receivables	18,652
Bank balances and cash	12,033
Trade and other payables	(10,982)
Minority shareholders' interests	(10,180)
	<hr/> 91,517
Goodwill	560
	<hr/> 92,077
Satisfied by	
Other payables	11,077
Amounts due to a jointly controlled entity	9,000
Cash	72,000
	<hr/> 92,077

The subsidiaries acquired during the year contributed RMB7,786,000 to the Group's net operating cash flow and no cash was paid in respect of the net returns on investments and servicing of finance, taxation and investment activities.

## NOTES TO THE ACCOUNTS

### 31. CONSOLIDATED CASH FLOW STATEMENT (continued)

#### (c) Purchase of subsidiaries (continued)

Analysis of the net outflow in respect of the purchase of the subsidiaries:

	2004 RMB'000
Cash consideration	72,000
Bank balances and cash acquired	(12,033)
	<hr/>
Net cash outflow in respect of the purchase of subsidiaries	59,967

### 32. CONTINGENT LIABILITIES

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Guarantees given to banks in respect of mortgage facilities granted to third parties (note (a))	58,690	50,000	–	–
Guarantees given to banks in respect of bank loans granted to subsidiaries	–	–	456,000	336,950
	<hr/>	<hr/>	<hr/>	<hr/>
	58,690	50,000	456,000	336,950

- (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 the subsidiaries of the Group. The bank will release such guarantee only upon the building ownership certificates of such properties are delivered to the banks as security.

## NOTES TO THE ACCOUNTS

### 33. COMMITMENTS

#### (a) Capital commitments

- (i) The Group and the Company had the following capital commitments authorised but not provided for:

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Land and buildings	-	43,245	-	43,245
Plant and machinery	-	22,428	-	22,428
	-	65,673	-	65,673

#### (b) Commitments under operating leases

- Where the Group is the lessor

At 31st December 2004, the Group had future aggregate minimum lease receivables under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2004 RMB'000	2003 RMB'000
Not later than one year	477	477

- Where the Group is the lessee

At 31st December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and building as follows:

	Group	
	2004 RMB'000	2003 RMB'000
Not later than one year	979	1,126
Later than one year and not later than five years	86	467
	1,065	1,593

The Company had no commitments under operating leases.

## NOTES TO THE ACCOUNTS

### 34. BALANCES WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS

#### (i) Balances with related parties

The Group had the following significant balances with related parties:

	2004 RMB'000	2003 RMB'000
Amounts due from minority shareholders who have significant influence on the respective subsidiaries		
– Zhejiang Huanyu Construction Group Co., Ltd. (“Zhejiang Huanyu”)	14,903	10,551
– Shaoxing Municipal Infrastructure Company (“Municipal Infrastructure”)	3,789	4,066

#### (ii) Related party transactions

Save as disclosed above, the Group had the following significant transactions with related parties during the year:

	2004 RMB'000	2003 RMB'000
Sales of concrete to		
– Zhejiang Huanyu ( <i>note (a)</i> )	8,310	13,082
– Municipal Infrastructure ( <i>note (a)</i> )	482	368
Interest charged to a jointly controlled entity, Hefei Qingfangcheng ( <i>note 17(b)</i> )	3,685	–
Sales of real estate properties to directors	–	2,342

- (a) Sales were made in accordance with the terms of the sales contracts and at market price.



## NOTES TO THE ACCOUNTS

### 35. SUBSEQUENT EVENTS

- (a) On 13th January 2005, the Company entered into a placing agreement with UBS AG in relation to the placing of an aggregate of 36,136,800 new H Shares of the Company at HKD4.05 per placing share. The net proceeds of the placing amounted to HKD140,424,000.
- (b) On 26th February 2005, a shares acquisition agreement was entered into between the Company and Mr. Pang Baogen (Mr. Pang), the chairman of the board of directors of the Company, whereby the Company conditionally agreed to acquire and Mr. Pang conditionally agreed to dispose of his 19% equity interest in Baoye Building Materials, a subsidiary of the Company. The consideration for the acquisition is RMB11,514,000.
- (c) On 26th February 2005, Baoye Construction, another subsidiary of the Company, entered into a construction agreement with Minghua Textile, pursuant to which Baoye Construction conditionally agreed to perform certain design, construction and installation work of Zhejiang Textile Raw Materials Exhibition City Textile Raw Materials Trade Centre. The total fee for the design, construction and installation work under this construction agreement amounted to RMB116,024,000. Minghua Textile is owned as to 67% by Mr. Li Wenjiang who is a former director of Shaoxing Baogang, a subsidiary of the Company.

### 36. COMPARATIVES

Where necessary, comparative figures have been adjusted to conform with changes in presentation in current year.

### 37. ULTIMATE HOLDING COMPANY

The Company's directors consider that the Company has no ultimate holding company.

### 38. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 1st April 2005.

## DEFINITION

In this annual report, unless the context otherwise requires, the following expressions have the meanings set out below:

Associate	Has the meaning ascribed to it under the Listing Rules
Baoye Construction	Zhejiang Baoye Construction Group Company Limited, a subsidiary of the Group
Baoye Industrialization	Zhejiang Baoye Building Materials Industrialization Company Limited, a subsidiary of the Group
Baoye Investment	Zhejiang Baoye Industrial Investment Company Limited
Baoye Real Estate	Zhejiang Baoye Real Estate Group Company Limited, a subsidiary of the Group
Board	The board of directors of Baoye Group Company Limited
Construction Business	The activities of undertaking and implementation of construction projects conducted by the Group
Directors	The directors of Baoye Group Company Limited
HK GAAP	Accounting principles generally accepted in Hong Kong and accounting standards issued by Hong Kong Institute of Certified Public Accountants
H shares	Overseas listed Foreign Shares of nominal value RMB1.00 each in the registered capital of the Company, which are listed on the Stock Exchange, and subscribed for in HK dollars
Independent Third Party	Party who is independent from and not connected with any of the promoters, directors, supervisors, chief executives and substantial shareholders of the Company or its subsidiaries or any of their respective associates
Listing Rules	The Rules Governing the Listing of Securities on the Hong Kong Stock Exchange

## DEFINITION

Building Materials Business	The activities of research and development, production and sale of building materials conducted by the Group
Prospectus	The prospectus of the Company dated 17th June 2003
Real Estate Business	The business of development of real estate conducted by the Group
HKEx	The Stock Exchange of Hong Kong Limited
The Company or Baoye	Baoye Group Company Limited (寶業集團股份有限公司)
The Group or Baoye Group	Baoye Group Company Limited and its subsidiaries
Supervisory Committee	The Supervisory Committee of Baoye Group Company Limited

## INFORMATION FOR SHAREHOLDERS

### 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. Dennis Yin Ming Chan

### Supervisors

#### *Supervisors*

Mr. Sun Guofan  
Mr. Xie Qisheng

#### *Independent Supervisors*

Mr. Chen Xinquan  
Mr. Yu Zengmin  
Mr. Li Yongsheng

### Company Secretary

Ms. Chung Oi Yin, Irene ACS ACIS

### International Auditors

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

### Statutory Auditors

Shine Wing CPAs  
Fuhua Tower  
No. 8 Beidajie  
Zhaoyangmen  
Dongcheng District  
Beijing 10027 PRC

### Legal Advisers

*As to Hong Kong law*  
Mallesons Stephen Jaques  
37th Floor, Two International  
Finance Centre  
8 Finance Street  
Central Hong Kong

#### *As to PRC law*

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

### Hong Kong Share Registrar

Tengis Limited  
Ground Floor  
Bank of East Asia  
Harbor View Centre  
56 Gloucester Road  
Wanchai, Hong Kong

### Investor Relations Consultant

Strategic Financial Relations  
(China) Limited  
Unit A, 29/F., Admiralty Centre  
18 Harcourt Road, Hong Kong

### Corporate Registered Address

Yangxunqiao Township  
Shaoxing County  
Zhejiang Province  
The PRC 312028

### Place of Business in Hong Kong

37th Floor, Two International  
Finance Centre  
8 Finance Street  
Central Hong Kong

### Authorized Representatives

Mr. Pang Baogen  
Mr. Gao Jiming

### Stock Code

HKEx: 2355

### Contact

Investor Relations Department  
Baoye Group Company Limited  
Tel: 86-575-4135837  
Fax: 86-575-4118792  
Web-site:  
[www.baoyegroup.com](http://www.baoyegroup.com)

## INFORMATION FOR SHAREHOLDERS

### IMPORTANT DATES IN 2005

Events	Date
Closure of register of members of the Company	20th April 2005 to 20th May 2005 (both days inclusive)
Extraordinary General Meeting of 2005	20th May 2005
Annual General Meeting of 2004	20th May 2005
Payment date of final dividend of 2004	8th June 2005

### STOCK PRICE PERFORMANCE

