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

(Stock Code : 2355)

Annual Report 2005

Contents

Note: Notice of 2005 Annual General Meeting was dispatched separately to shareholders on 7 April 2006

Construction is an everlasting business

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Baoye Group Company Limited

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Business Network

Baoye Group Company Limited

Building Materials Business

- Shaoxing Keqiao Manufacturing Base
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- Wuhan Manufacturing Base (proposed to construct)

Construction Business

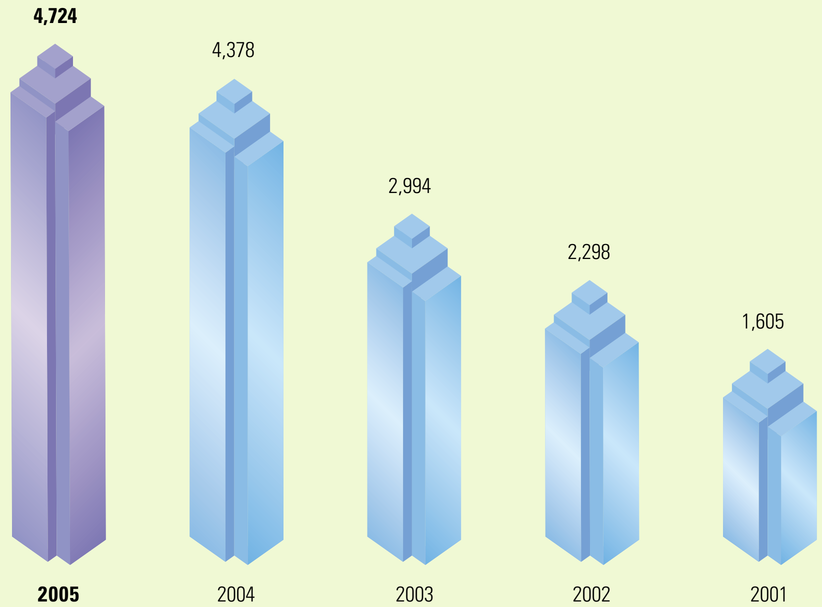
- Shaoxing
- Hangzhou
- Shanghai
- Hefei
- Wuhan
- Beijing
- Suzhou
- Nanjing
- Jiaxing
- Ningbo
- Nanchang
- Zhengzhou

Property Development Business

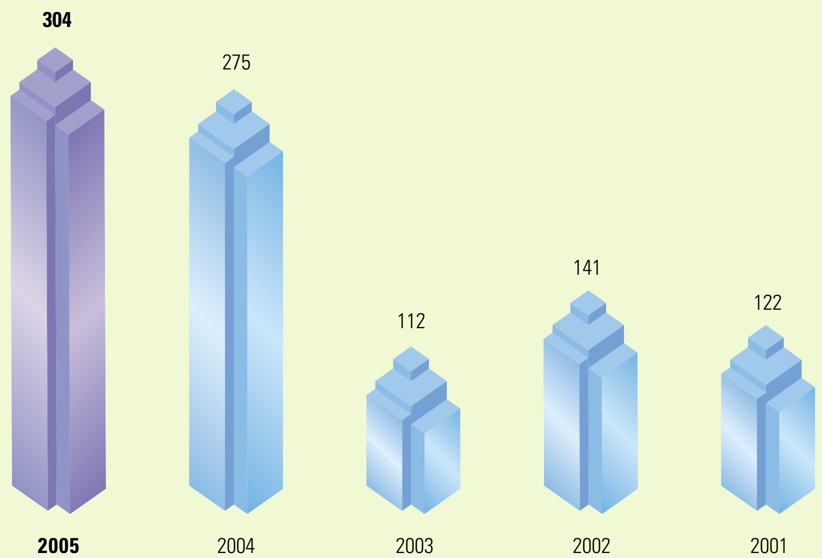
- Shaoxing
- Hangzhou
- Shanghai
- Hefei
- Wuhan

Financial Highlights

Turnover
(in RMB million)



Profit Attributable to Shareholders
(in RMB million)



	Year Ended 31 December				
	2005 **_RMB'000_**	2004 _RMB'000_	2003 _RMB'000_	2002 _RMB'000_	2001 _RMB'000_
RESULTS					
Turnover	**4,723,797**	4,378,434	2,994,472	2,297,526	1,604,574
Profit attributable to shareholders	**304,226**	275,082	112,409	141,075	122,053
Basic earnings per share (RMB)	**RMB0.537**	RMB0.518	RMB0.255	RMB0.402	RMB0.348
ASSETS AND LIABILITIES					
Total Assets	**4,556,918**	3,601,450	2,539,428	1,378,971	1,309,804
Total Liabilities	**2,728,887**	2,442,808	1,723,020	921,426	978,081
Shareholders' Funds	**1,828,031**	1,158,642	816,408	457,545	331,723

Financial Highlights

Key Financial Ratio

	Year ended 31 December	
	2005	2004
Return on equity (%)	**17.3%**	26.1%
Net assets value per share (RMB)	**2.89**	1.98
Net gearing ratio (%)	**14.4%**	39%
Current ratio	**1.33**	1.03
Net cash inflow/(outflow) from operating activities (RMB)	**11,398,000**	(49,238,000)

Prospects

- As at 31 December 2005, the total contract value of construction-in-progress of the Group amounted to approximately RMB12 billion representing an increase of approximately 46% over the previous year;

- On 21 February 2006, the Group acquired the Hubei Construction Group at a consideration of RMB132,855,000. This acquisition has enabled the Group to extend its construction business into Hubei as well as the balance of Central China. The Hubei Construction Group has a total land reserve of approximately to 500,000 square meters which may be used for the purposes of residential and commercial property development as soon as approval has been obtained from the relevant Chinese government authorities.

- On 23 December 2005, the Group acquired the remaining 50% equity interest of Hefei Baoye at a consideration of RMB 145,000,000. Upon completion of the acquisition, Hefei Bayoe became a wholly owned subsidiary of the Group. The Group's revenue on property development business in 2006 will be mainly derived from the sale of City Green Garden Phase I developed by Hefei Baoye. The Phase I has a gross floor area of 142,599 square meters, of which 74,000 square meters were pre-sold as at the end of March 2006.

- On 8 March 2006, the Group entered into a technical cooperation agreement with Daiwa House to form a strategic alliance in the co-development of technological skills for the manufacture of industrialised residential units for a term of 10 years. This will strengthen the Group's technical know-how in the manufacture of industrialised residential units and establish a foundation of any possible further co-operation and joint-venture with Daiwa House.

Chairman's Statement

Mr. Pang Baogen
Chairman

2005 was a year of robust economic growth for China, which recorded a GDP growth rate of 9.9%. According to the Government Work Report delivered by Premier Wen Jiabao at the Fourth Session of the Tenth National People's Congress, the PRC's annual average economic growth rate is targeted at 7.5% under the "11th Five-Year Plan", while per capita income will increase simultaneously. At present, the per capita income in China is increasing rapidly from USD1,000 to USD3,000. This, coupled with the world's largest level of urbanisation scale in China, has set an unprecedented golden era for the China construction industry.

Such golden era has enabled the Group to expand its business rapidly. Following 31 years of development, the Group established its unique "three-in-one" business model by positioning construction as the base, industrialisation of construction (prefabricated building materials) as the centre of development and property development as the supplementary business. The Group will continue to adopt the current "three-in-one" business model to develop its business on a nationwide level. Such expansion model was proved to be successful in Anhui, Hefei and will be implemented in Central China region following the Group's acquisition of the Hubei Construction Group in early 2006. The Group has also planned to extend its reach to areas such as Beijing, Tianjin, Hebei, Shandong and Jiangxi in the coming five years and completed its strategic positioning in five to six major areas in China, with the view to expanding the similar business scale of the Group in each of these areas.

2005 was the first year for the Group to implement its new development strategy. As the only Hong Kong-listed conglomerate engaging in the businesses of construction, production of building materials as well as property development, based on its prominent strength and the prestigious brand of "Baoye", the Group achieved satisfactory performance in both its business operations and management of financial resources.

I have the pleasure to report to our shareholders the audited consolidated financial results of the Group for the year ended 31 December 2005. The Group's turnover was RMB4,723,797,000, up 8% over last year; profit attributable to shareholders amounted to RMB304,226,000, soared 11% as compared to same period last year; and earnings per share reached RMB0.537, an increase of 4% from the previous year. The Board proposed a final dividend of RMB0.12 per share for the year ended 31 December 2005.

Business Operation

Construction Business

During 2005, due to the Group's unique and superior qualification as a general contractor in the construction industry and the "Baoye" reputable brand, the Group's construction business witnessed a significant increase in the amount of contracts, in which high-end projects, such as public works, municipal and traffic projects have been increased in proportion to overall increase. As at 31 December 2005, the contract amount of the Group's construction projects on hand reached approximately RMB12 billion.

As the base of the Group's "three-in-one" business model and the Group's pioneer in business expansion, the Group's construction business fully capitalised on the opportunities brought by government policies on increased urbanisation and privatisation and mastered expansion thrust to the major regional markets on one hand while rapidly penetrating into high-end construction segments such as railway, water infrastructure, traffic and bridges through merger and acquisition on the other hand. With the increase in high-end construction projects, it is expected that the overall profit margin of the construction business would be gradually enhanced.

On 21 February 2006, the Company had successfully completed the acquisition of the Hubei Construction Group, which possesses excellent reputation and qualities. There are 12 operating units under the Hubei Construction Group, of which 7 are construction enterprises, 5 are general contractors with first class qualifications and the other 2 are general contractors with second class qualifications. In addition, the Hubei Construction Group has a land bank of approximately 500,000 square meters, the majority of which is located in the metropolitan area of Wuhan and may be used for residential and commercial property development purposes as soon as approval has been obtained from the relevant Chinese government authorities. Wuhan, located at the heart of Central China, is the major city with development priority under the "11th Five-year Plan" of the Chinese government. The Group believes that the economy of Wuhan and the entire Hubei Province, will experience robust growth in the coming five years, which will bring enormous business opportunities for the construction and related industries. Leveraging on its prevailing excellent reputation and qualities, as well as economic business model, the Hubei Construction Group is set to be a substantial contributor of the Group's future turnover and profitability.

Building Materials Business

As a pioneer in the "industrialisation of construction" in China setting out the industry standards, the Group has always dedicated itself to developing high quality building materials which are both cost effective and in line with China's environmental friendly and energy conservation policies, in bridging the industry's revolutionary trend of replacing traditional building materials with modern materials. During the year, with tremendous contribution from its first housing industrial park in Shaoxing County, which is the largest in size in the country, the Group experienced a significant growth in its building materials business, which marked a solid foundation for the development "from construction to manufacturing".

The "11th Five-year Plan" clearly mapped out the priorities of building and developing resource-saving society, and environmental friendly and energy conserving housing, which indicates that the industry will soon enter into high growth period. The current industrialisation rate of Japan in construction has already exceeded 70% compared to that of just about 20% in China, the upsurge in demand for modern building materials would call for several trillion RMB in terms of capacity requirement in the coming years. The Group entered into an agreement with Japan's Daiwa House Industry Co., Ltd ("Daiwa House") on 8 March 2006 in relation to forming a strategic alliance in the co-development of technological skills for the manufacture of industrialised residential units for a term of ten years. Daiwa House is regarded as one of the world's top 500 corporations. Listed in Japan in 1961, Daiwa House now has a market capitalization exceeding USD 10 billion. It is one of the pioneers in the manufacture of industrialised residential units and the most advanced enterprises in Japan. Its business model is similar to the "three-in-one" business model of the Group. Therefore, the Group is of the view that it will follow the footsteps of Daiwa House. The only difference is that the Chinese market where the Group is positioning is much larger and hence the pace and scale of development will be much faster and larger. In future, the Group will cooperate with the world's leading enterprises in the area of "industrialisation of building materials" on longer term basis and at higher level. It will also speed up the process of establishing industrial parks across the country, in conjunction with the development of the Group's construction business, with the view to achieving the Group's business expansion mission "from construction to manufacturing" as soon as possible.

Property Development Business

In an attempt to cool down the overheated property sector in certain regions and maintain economic stability and the heathyness of the financial sector, the Chinese government had increased its regulated efforts on the real estate industry in the first half of 2005 by exercising more stringent control over real estate credit and land supply. The regulated and control measures included the cancellation of preferential rates for mortgage loans and the imposition of business tax on the transfer of property, aiming to curbing speculative demands, encouraging demand for self-use, stabilizing property prices and ensuring long term prudent and stable growth and development of the real estate industry. In the long run, the continuous and rapid growth of the economy and the acceleration of urbanisation will definitely lead to a continuous growth in the demand for housing in the coming years. Those premium enterprises, with adequate land and capital resources, would benefit from these regulated and control measures. Their cost control measures would be key determinant for future profitability growth.

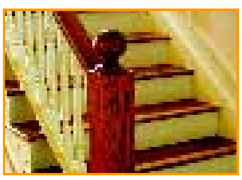
The competitive edge of the Group's property development business lies in the resources and networks that have long been established by its construction business, which enable the Group to secure a large scale of quality land at low cost. On the other hand, the synergy created by the "three-in-one" business model results in an effective cost control for the property development business.

The Company will acquire large scale of quality land at low cost in cities during their initial phases of economic growth and urbanisation. The Group will focus on the development and acquisition of land reserve in areas such as Zhejiang, Wuhan and Hefei. Leveraging on its sufficient land reserve and effective cost control, the Group is confident in becoming as one of the most profitable enterprises in the China real estate industry.

Conclusion

To ensure greater accountability to our shareholders, investors, staff, customers, suppliers and the communities-at-large, the Company shall adhere to the principle of honesty and integrity. While committed to maximising profitability, the Company also takes due diligence care to ensure full compliance with applicable laws, regulations and environmental protection ordinances in pursuing various aspect of businesses. Efforts are also made in enhancing its corporate governance, and participating in charity and environmental protection activities in discharging its social responsibility. The Group believes that a healthy social environment is instrumental to the continuous development of an enterprise, and it is the Group's responsibility and obligation to improve the well-being of society and environment to make it a better one to live. The Group is therefore committed to developing energy conserving and environmental friendly prefabricated building materials, exercising stringent control over construction quality and safety and developing low-cost quality residential complex. Concurrently, taking the advantage of accelerated level of urbanisation in China, the Group aims to enhance shareholders value and create excellent returns for its shareholders.

Pang Baogen
Chairman
7 April 2006



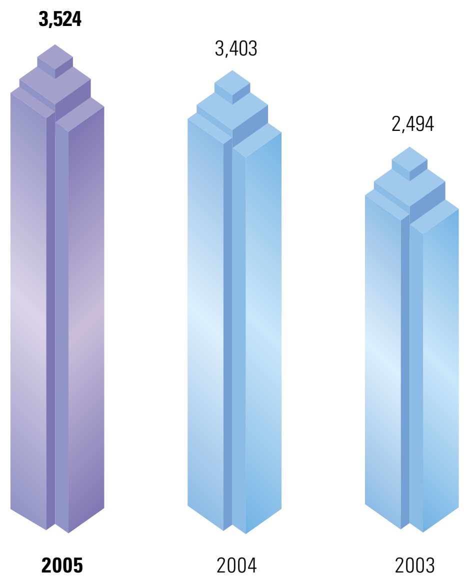
For the year ended 31 December 2005, the Group's turnover amounted to RMB4,723,797,000, representing an increase of approximately 8% as compared to last year. Profit attributable to shareholders amounted to RMB304,226,000, an increase of approximately 11% from last year and earnings per share reached RMB0.537, an increase of approximately 4% from last year. Net assets per share was RMB2.89, representing a growth of approximately 46% from last year.

Management Discussion & Analysis

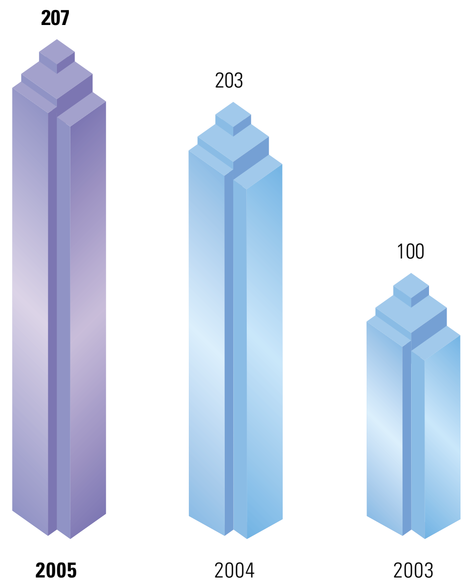
Business Review

Management Discussion and Analysis

Turnover of Construction Business
(in RMB million)



Profit Contribution of Construction Business
(in RMB million)



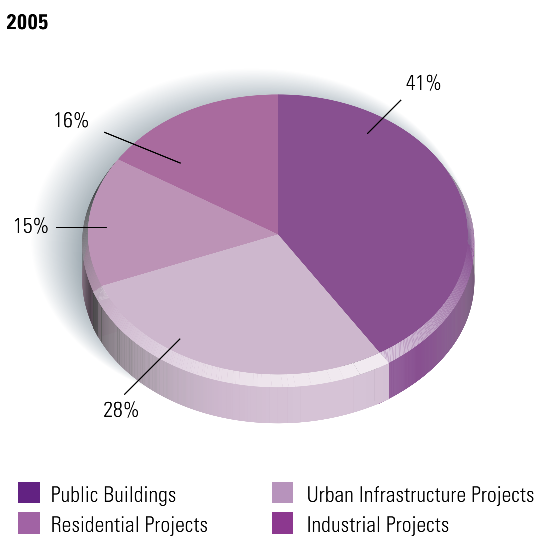
Business Review

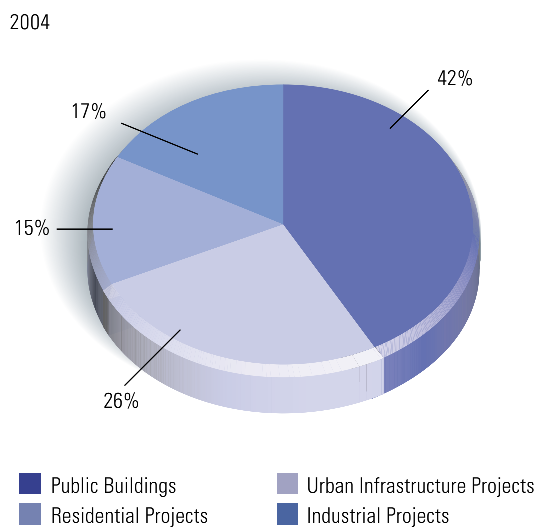
For the year ended 31 December 2005, the Group's total turnover amounted to RMB4,723,797,000, representing an increase of approximately 8% as compared to last year. Profit attributable to shareholders amounted to RMB304,226,000, an increase of approximately 11% from last year and earnings per share reached RMB0.537, an increase of approximately 4% from last year. Net assets per share was RMB2.89, representing a growth of approximately 46% from last year.

1) Construction Business

For the year ended 31 December 2005, the Group's construction business achieved a turnover of approximately RMB3,524,178,000 (approximately 74% of the Group's total turnover), and a profit contribution of approximately RMB206,955,000 (approximately 46% of the Group's total profit), representing a growth of approximately 4% and 2% respectively over the corresponding period of last year. Impacted by the macroeconomic austerity measures in tightening up bank credits in 2005, completion of certain construction projects of the Group have been slowed down. By adopting the percentage of completion method to recognise revenue of construction business, the Group's construction business only registered a marginal growth in terms of turnover and profitability as compared to 2004.

Total Contract Value for Construction-in-Progress of Construction Business – By Nature



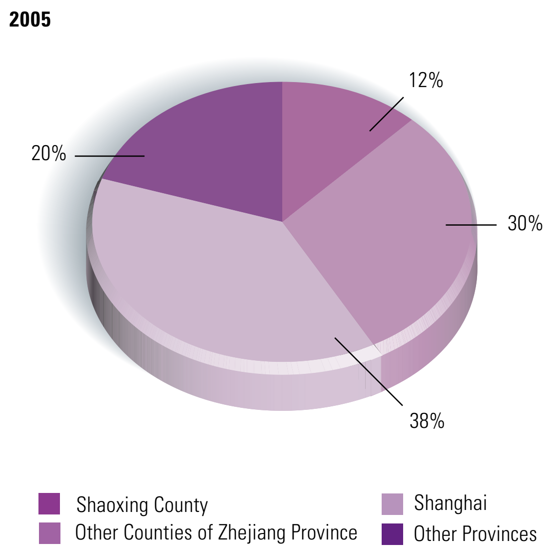


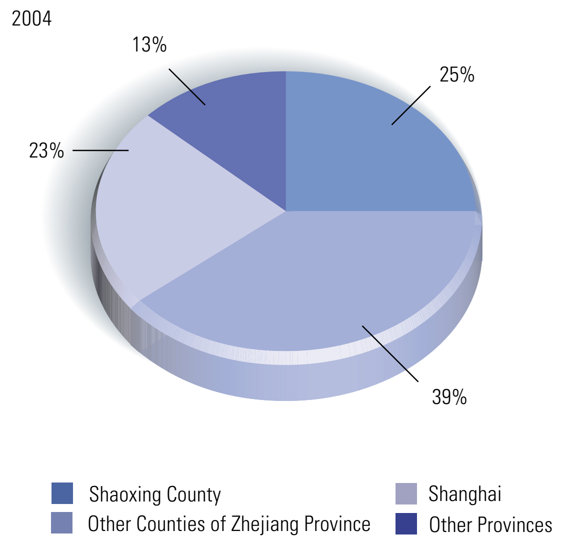
However, the Group's total contract value of construction-in-progress was approximately RMB12,006,910,000 as at 31 December 2005, representing an increase of 46% from the corresponding period of the previous year. Details are as follows:

By nature:

	2005		2004		**Change**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Public Buildings	**4,922,833**	**41%**	3,469,043	42%	+42%
Urban Infrastructure Projects	**3,361,935**	**28%**	2,147,054	26%	+57%
Residential Projects	**1,801,037**	**15%**	1,240,586	15%	+45%
Industrial Projects	**1,921,105**	**16%**	1,385,943	17%	+39%
Total	**12,006,910**	**100%**	8,242,626	100%	+46%

Total Contract Value for Construction-in-Progress of Construction Business – By Region





By region:

	2005		2004		Change
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Shaoxing County	**1,435,879**	**12%**	2,062,331	25%	-30%
Other Counties of Zhejiang Province	**3,554,875**	**30%**	3,213,831	39%	+11%
Shanghai	**4,536,214**	**38%**	1,842,081	23%	+146%
Other Provinces	**2,479,942**	**20%**	1,124,383	13%	+121%
Total	**12,006,910**	**100%**	8,242,626	100%	+46%

The Group was awarded 382 new construction projects in 2005, with total value amounting to RMB7 billion (2004: approximately RMB6.18 billion), up 13% over the previous year.

In 2005, the expansion strategy adopted by the Group's construction business bore fruit. The Group successfully extended its foothold in 3 new markets, namely Tianjin, Zhengzhou and Nanchang. Currently, the Group's construction business has been expanded into regions outside Zhejiang Province, such as Shanghai, Beijing, Tianjin, Jiangsu, Hubei, Anhui, Henan and Jiangxi. The construction business outside Zhejiang Province accounted for approximately 58% (2004: 36%) of the Group's overall construction business.

In 2005, the Group established Baoye Group Hubei Company Limited in Wuhan, Hubei Province and acquired the entire equity interests of 12 units under Hubei Construction and Engineering Holding Company (together "the Hebei Construction Group") in February 2006, in an attempt to expedite its business expansion to Hubei Province and the entire Central China region. Details of this acquisition were set out in the announcement published by the Company on 21 February 2006.

In 2005, leveraging on its reputable brand and capability, the Group managed to undertake a large number of high-end construction projects, including landmark construction projects such as the construction of Shanghai Development Tower, the third tallest building in Pudong, the basketball stadium for Beijing Olympics, Nanjing International Finance Center and Zhejiang Center for Disease Control and Prevention. These high-end landmark construction projects help to enhance the Group's reputation in other provincial markets and expedite the development of the Group's construction business in such markets.

Management Discussion and Analysis

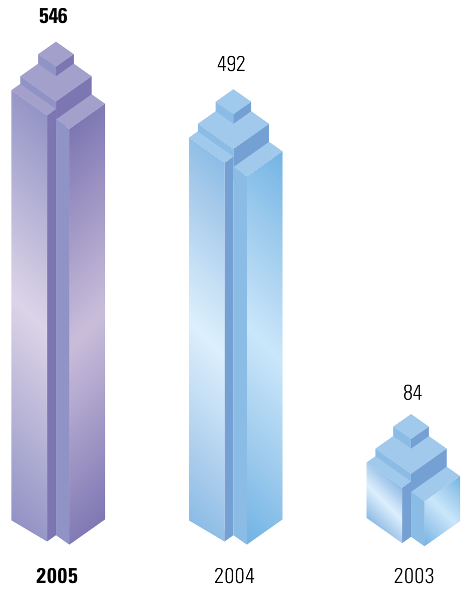
Zhejiang Baoye Construction Group Company Limited, a principal subsidiary of the Group engaging in construction business, was admitted into China Tendering & Bidding Association as one of the original members in 2005. It was also recognized as:

- One of the top 10 construction companies of Eastern China in 2005;
- the advanced corporation with excellent performance in Shanghai in 2005;
- high customer satisfaction corporation in Zhejiang;
- Information affects China • the top 100 competitive enterprises in 2005.

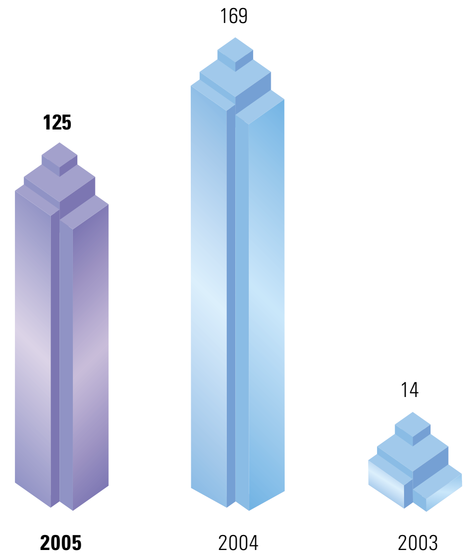
In 2005, the contracted construction projects repeatedly won renown and recognition from the industry. The major awards are shown as below:

Awards	**Year 2005 (number of projects awarded)**	Year 2004 (number of projects awarded)
Lu Ban Award (note: the most prestigious award for construction industry in PRC)	**1**	0
National Outstanding Construction Award	**1**	1
National Outstanding Building Decoration Award	**2**	1
National Civilized Worksite	**1**	0
Qianjiang Cup (note: the most prestigious award for construction projects in Zhejiang Province)	**9**	7
Customer Satisfaction Project in Zhejiang Province	**1**	0
Outstanding Decoration Award of Zhejiang Building Project	**5**	5
Zhejiang Outstanding Quality of Building	**5**	1
Zhejiang Civilized Model Worksite	**8**	7
Bai Yulan Cup (note: the most prestigious award for construction projects in Shanghai)	**4**	2
Customer Satisfaction Project in Shanghai City	**19**	0
Outstanding Construction Quality of Zhejiang Enterprises in Shanghai	**5**	2
Shanghai Civilized Worksite	**6**	3
Shanghai Model Worksite	**12**	11

Turnover of Property Development Business
(in RMB million)



Profit Contribution of Property Development Business
(in RMB million)



2) Property Development Business

Performance of property sales

In 2005, the turnover of the Group's property development business was approximately RMB545,995,000 (approximately 12% of the Group's total turnover), representing an increase of approximately 11% over the same period of last year, which contributed a profit of RMB125,412,000 (approximately 28% of the Group's total profit), representing a decrease of approximately 26% over the same period of last year. The decrease in profit margin was primarily attributable to the higher land costs of the two development projects sold during the year as compared to that of previous year. The Group adopted the completion method to recognise the revenue of its property development business.

The operating results of the Group's property development business were largely attributable to Yulan Huating project located in the urban area of Shaoxing and City Garden Phase III project located in Shaoxing's Keqiao region. In 2005, approximately 65,175 square metres of floor space of Yulan Huating were sold, achieving a turnover of approximately RMB373,518,000. The project's average selling price per square metre during the year was approximately RMB5,731, representing an increase of approximately 6% as compared to average selling price of approximately RMB5,420 per square metre when it was initially launched. In 2005, approximately 47,539 square metres of floor space of City Garden Phase III were sold, achieving a turnover of approximately RMB164,011,000; the project's average selling price per square metre during the year was approximately RMB3,450, representing an increase of approximately 6% as compared to average selling price of approximately RMB3,250 per square metre when it was initially launched.

Projects under Development

As at 31 December 2005, the Group's projects under development can be summarised as follows:

Name of Project	Location	Salable Area (In square metres)	Equity Interests held by the Group
City Green Garden Phase I	Hefei	142,559	100%
Jing'an Ziyuan	Shanghai	51,344	70%
Zhejiang Commercial City	Hefei	100,000	75%
Four Seasons Garden	Shaoxing	522,000	100%

Management Discussion and Analysis

Shaoxing "Yulan Huating"

Keqiao "City Garden Phase III"

City Green Garden project is located on the south end of Heping Road, Hefei's Yaohai District, one of Hefei's Special Development Zones with convenient transportation. The project mainly comprises the development of high-end residential properties, with certain retail shops and offices. City Green Garden has a planned total gross floor area of approximately 520,000 square metres, in which Phase I of the project has a planned gross floor area of approximately 142,559 square metres. Construction of Phase I began in October 2004. As at the end of 2005, all buildings have already completed its capping. The sales of City Green Garden has been going very well. During 2005, approximately 65,000 square meters of floor area were pre-sold at a average price of approximately RMB 3,300 per square metres. As at the end of March, 2006, pre-sold went up to approximately 74,000 square metres.

"Baoye's Property" has already become a prestige and popular property developer. "City Green Garden" was recognized by China Construction Bank as national "Quality House" (優質樓盤放心房) in 2005. It was also chosen to be the one of the best ten new building structures in Hefei in December, 2005 for its spectacular choice of name and outstanding construction quality.

Jing'an Ziyuan is located on Jiangning Road in Shanghai's Jing'an District, 500 metres from the downtown prominent area of Nanjing West Road, which is a truly prime location. This project, with a planned gross floor area of approximately 51,344 square metres, will be developed into luxurious service apartments. Construction of the project began in November 2004 and the two level basement structural works were completed. It is expected that the 20 stories upper structural work will be completed by the end of December, 2006. If construction progresses smoothly, pre-sale of Jing'an Ziyuan can be commenced by the end of 2006.

Zhejiang Commercial City is situate at a prime location east of Hefei Railway Station. The area is highly commercialized. It boasts the most prosperous commercial district in Hefei. Zhejiang Commercial City has a planned floor area of approximately 100,000 square metres and primarily comprises service apartments and retail stores. Construction has already commenced at the end of 2005 and the project was scheduled for pre-sale in the second half of 2006.

Four Seasons Garden is located in Kuaijishan resort district, a tourist region in Zhejiang Province, The area is not only

Hefei "City Green Garden Phase I"

Hefei "Zhejiang Commercial City"

renowned for its historical heritage and spectacular scenery but was also where ancient civilization flourished. Besides having a profound cultural tradition, the region was the origin of many myths and folklores and has a large number of well preserved historic relics. Since it is only 10 minutes drive away from downtown Shaoxing, it is also hailed as the "natural treasure in the heart of a city".

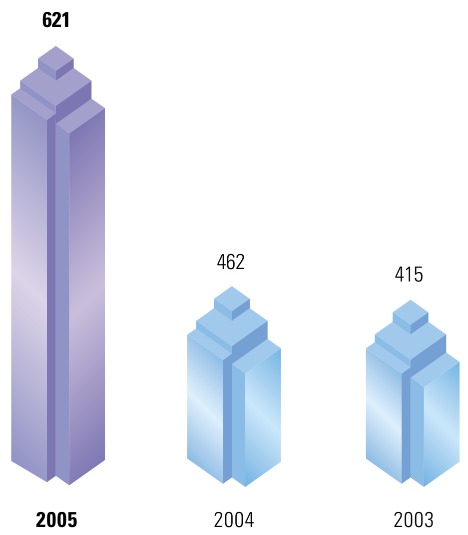
Four Seasons Garden has a site area of approximately 1,050,000 square metres and a planned gross floor area of approximately 522,000 square metres. The development comprises primarily high-end apartments and villas. In order to enhance the market positioning of Four Seasons Garden , two ancillary projects, namely a golf course and Kuaijishan Hotel (會稽山大酒店) will be built in its vicinity. To date, the earthwork of the golf course field with 18 holes, and par 72 has basically been completed and a golf driving range has also been built. .As regards to Kuaijishan Hotel project, the design work is now underway. The construction plan has basically been completed and approved with part of the foundation works already finished. According to the current progress, it is estimated that the construction of Four Seasons Garden project will commence in the second half of 2006.

Four Seasons Garden is currently the Group's only luxurious residential development project targeted at and tailored to the needs of the high income group and it is also the most luxurious district under the overall city planning of Shaoxing. While focusing on exploring the historical tradition of the region in an attempt to bring back the essence of ancient civilization, the Group will also develop it into a leisurely spot overlooking the enticing scenery of great mountains and lakes, so that it can truly be "a work we bequeath to posterity". Four Seasons Garden will make significant contribution to the Group's profit and more importantly, it will upgrade the brand image of "Baoye's Property" and enhance the overall competitiveness of the Group's property development business.

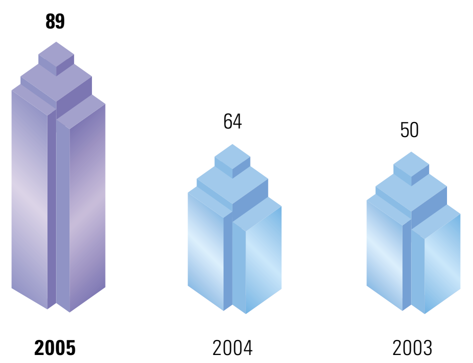
In addition, a total of approximately 10,000 square metres of retail and parking spaces under the Group's previously launched property portfolio have not been sold. Depending on market conditions, the Group will decide whether to sell those retail and parking spaces or retained them for lease.

Management Discussion and Analysis

Turnover of Building Materials Business
(in RMB million)



Profit Contribution of Building Materials Business
(in RMB million)



3) **Building Materials Business**
For the year ended 31 December 2005, the Group's building materials business achieved a turnover of approximately RMB620,741,000 (approximately 13% of the Group's total turnover), and realised profit of approximately RMB88,785,000 (approximately 20% of the Group's total profit), up 34% and 39% respectively from the corresponding period of the previous year. The Chinese government has geared up its effort in promoting societies that are environmental friendly and energy saving, thus the requirements for quality building materials in these aspects have become increasingly important. The Group is pioneering on industrialisation of construction in the PRC. The pre-fabricated building materials developed by the Group have gradually received industry recognition through increased efforts in market development. Leveraging on economics of scale arising from mass production capability of the Group's building materials business, the Group managed to reverse the adverse impact on escalating raw material and energy costs without affecting profitability, both the turnover and profit had registered considerable growth.

The achievement of the Group's building materials business in year 2005 is as follows:

Products of Building Materials	**2005 Turnover *(RMB'000)***	2004 Turnover *(RMB'000)*	Change
Glass Curtain Wall	**194,241**	166,132	+17%
Wooden Products and Interior Decoration	**94,233**	58,902	+60%
Steel Structure	**72,200**	5,625	+1,184%
Ready-mix Concrete	**175,162**	152,379	+15%
Concrete Piles	**38,151**	37,471	+2%
Concrete Ducts	**11,893**	10,820	+10%
Large Roof Sheathings	**18,921**	17,811	+6%
Fireproof Materials	**9,852**	6,661	+48%
Bridge Beam	**6,088**	5,912	+3%
Total	**620,741**	461,713	+34%

Business Prospects

In his government work report delivered on March 5, 2006, Premier Wen Jiabao targeted an economic growth rate of 8% for 2006 and an average annual growth rate of 7.5% during the years under the "11th Five-Year Plan". He also stated that fixed asset investment should be kept at an appropriate level, which gives rise to the policy of supporting some sectors while suppressing others. The government is also committed to optimizing investment structures and curbing overheated investment growth. Based on the above forecasts and planning, the China economy will continue to maintain a solid and rapid growth in the coming five years. This situation is certainly beneficial to the Group's development because we prefer continuous growth on a strong foundation. Meanwhile, the Chinese government has allowed private investment in monopolised sectors such as the railway and energy sectors in recent years. This will further encourage and support the rapid and healthy growth of the private sectors. Undoubtedly, this is a favorable market environment for the Group's strategic expansion. The Board therefore remains optimistic and confident in the prospect for the Group's future development.

1) Construction Business

While maintaining the growth in total business volume, the domestic construction industry will see an upsurge of merger, acquisition and reorganisation activities in future. Large enterprises with competitive advantages in finances, human resources and brand reputation will continue to expand at a fast pace. The domestic construction industry is set to undergo regulated growth and development through various phases of consolidation.

The Directors believe that while facing both challenges and opportunities, the Group's construction business will remain as its core business. To spearhead its prudent development strategy by exercising effective risk management control, the Group will rapidly extend its reach to markets outside Zhejiang Province, capture opportunities brought about by market consolidation and build solid foundation by implementing the following initiatives:

- Continue to consolidate the markets in Jiangsu, Zhejiang and Shanghai, while maintaining the market share in Eastern China.
- Realise the speedy expansion of the Group's construction business in Central China by

strengthening its presence in Wuhan and Hefei. The Company has already acquired the entire interest in the Hubei Construction Group, which rapidly enhanced the reputation of the Group in the local market. The Group will actively explore the markets in Hubei Province, Anhui Province and their neighbouring regions so that the market share of its construction business in Central China will be comparable to that of Eastern China in three to five years.

- Explore the Northern China market by focusing on Beijing, Tianjin and Hebei regions. Following its success in securing the basketball stadium construction project for 2008 Beijing Olympics, the Group intends to capture further opportunities from the Olympics and highlight the Olympics concept. Besides, in view of the rapid development of Tianjin in recent years, the Group will expedite its penetration into Tianjin market and enhance the Group's market recognition in the local market by securing prime construction projects.

- Continue to undergo strategic restructuring and acquire quality construction companies outside Zhejiang Province when conditions become mature and risk is low so as to facilitate the expansion of the Group's construction business into other first rank cities with robust economic development and sizable population.

- Fully utilise the Group's expertise in the prefabricated building materials to reduce energy consumption during the construction process and step up its efforts in developing high-end projects.

2) Property Development Business

Although the domestic real estate market was more apparently affected by the macroeconomic austerity measures implemented in 2005, the various measures the Chinese government imposed on the real estate market aimed primarily at regulating certain adverse factors which are detrimental to real estate development while ensuring the healthy and stable development of the market.

In recent years, property development business has made substantial profit contribution to the Group and has become one of its important business segments as it develops into a large nationwide conglomerate. The Board believes that with the domestic real estate market now being dominated by the high income group and middle class, the high and medium end apartments which the Group has always been focusing on will fully match with the actual demand of the market. Going forward, the Group's property development business will be developed in the following directions:

- Focusing on development of existing land reserves. In the next few years, the Group will concentrate in developing the following projects: Four Seasons Garden in Shaoxing, Jing'an Ziyuan in Shanghai, City Green Garden and Zhejiang Commercial City in Hefei and International Airport Building in Hangzhou, Zhejiang Province. All of these projects will be developed and built in the next three to five years.

- The Hubei Construction Group which the Company acquired in February 2006 has a total land reserve of approximately 500,000 square metres, majority of which are located in the metropolitan areas of Wuhan and may be used for residential and/or commercial development purposes as soon as approval has been obtained from the relevant Chinese government authorities. This additional land reserve will suffice the Group's land reserve for development in the next five to ten years.

- Improve quality and enhance brand building. Since domestic property developer will compete on quality and brand in future, the Group endeavours to launch premium properties with attractive outlook, exquisite architectural design and high construction quality so that the Group will become a prestigious brand in the real estate industry.

- Refrain from purchasing land indiscriminately. Based on our enriching experience and insightful information in the construction industry, the Group will increase its land reserve only when opportunities to acquire quality land at low cost arise.

3) Building Materials Business

The stable and rapid growth of the Chinese economy entails a huge investment in fixed assets and provides enormous market opportunities for the Group's building materials business. Meanwhile, 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 realisation of this revolutionary reform lies in the industrialised production of prefabricated building materials. Being a pioneer in the industrialisation of building materials, the Group can consolidate its leading position in future market competition.

In his work report delivered on 5 March 2006, Premier Wen Jiabao included the energy consumption indicator into the macroeconomic austerity system for the first time. The Group has always been dedicated to developing cost-effective, environmental friendly, energy-saving and high quality building materials.

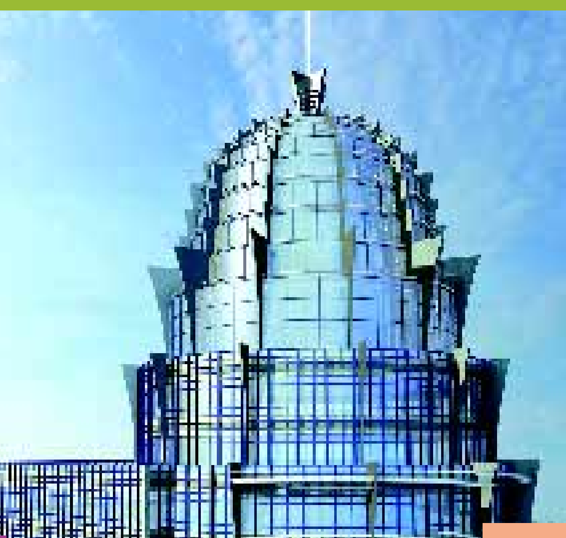
Looking ahead, the Board is fully confident in the Group's building materials business and believes that the business will make a greater contribution to the Group's future development. In the coming year, the Group will develop its building materials business in the following directions:

- Continue to strengthen the exchange and cooperation with overseas giants in the industry and enhance its independent innovative capacity. On 8 March 2006, the Company entered into a cooperation agreement with Japan's Daiwa House Industry Co., Ltd. ("Daiwa House"), pursuant to which both parties agreed to form a strategic alliance in the co-development of technological skills for the manufacture of industrialised residential units for a term of ten years. The technological co-development not only significantly strengthens the Group's technical know-how in the manufacture of industrialised units but also establishes a foundation for any possible further co-operation, joint venture or otherwise with Daiwa House in the construction of industrialised units.

- Continue to leverage on the Group's integration advantages and explore other provincial markets. The large number of construction projects that the Group has undertaken both inside and outside the Zhejiang Province can safeguard the Group in its further development of the construction business. In future, the Group will build on the success of its construction and property development business outside Zhejiang Province to realise the rapid expansion of its building materials business in other provincial markets.

- The Group will continue to strengthen the development and production of environmental friendly and energy saving building materials and enhance the technological content of its building material products so as to act in line with the Chinese government's policy of promoting an environmental friendly and energy-saving society and ensure that the Group's products will maintain a leading position in the market competition.

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 according to its continuous development and internal resources available, with a view to optimising the capital structure of the Group.



Management Discussion & 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 according to its continuous development and internal resources available, with a view to optimising the capital structure of the Group.

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

Financial Resources and Liabilities

With the support of steady growth in cash flow, sound credit record and excellent reputation in the industry, the Group was awarded an AAA credit rating in 2005 by a credit rating institution recognised by the People's Bank of China. Such excellent credit rating will benefit the Company's financing activities and allows the Group to continue to enjoy the best interest lending rate offered by 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 accounted for 82% of the total borrowings. Leveraging on its excellent credit rating, the Group continues to obtain its borrowings on an unsecured basis, which will be complemented by secured project loans when necessary.

In addition to bank borrowings, the Group actively raised capital through various financing channels. The Group's recent financing activities were as follows:

- On 13 January 2005, the Company entered into a placing agreement with UBS AG in relation to the placing on a fully underwritten basis of 36,136,800 new H Shares of the Company at HK$4.05 per share. The net proceeds were approximately HK$142,776,000 (equivalent to approximately RMB148,487,000).

- On 3 November 2005, the Company entered into the subscription agreement with Goldman Sachs in relation to the sole subscription by Goldman Sachs of the Company's 43,364,160 new H Shares at HK$4.85 per share. The net proceeds were approximately HK$209,300,000 (equivalent to approximately RMB217,672,000).

- On 15 December 2005, the Board passed the resolution on issuing short term commercial paper with a maximum repayment amount of RMB500,000,000. The resolution was also reviewed and approved at the first extraordinary general meeting in 2006 held on 10 March 2006. According to the resolution, the Company decided to issue short term commercial paper with a maximum repayment amount of RMB500,000,000. It is intended that part of the proceeds will be used to replenish the working capital while the remaining portion will be used to repay short-term bank borrowings.

As at 31 December 2005, the Group's bank borrowings, net of cash and bank deposits, amounted to RMB254,482,000 (31 December 2004: RMB411,072,000). The Group's gearing ratio (calculated on the basis of net bank borrowings over total shareholder equity) is 14.4% (31 December 2004: 39%). The Group will continue to adopt prudent policy to maintain low gearing ratio.

Use of proceeds

The total amount raised by the Company's two placings of new H shares in 2005 was approximately RMB366,159,000. The proceeds were used in strict accordance with the proposed application plan as stated in the announcements on the issue of additional H Shares, details of which were as follows:

	RMB('000)
Placing of 36,136,800 new H Shares through UBS AG	148,487
Subscription of 43,364,160 new H Shares solely by Goldman Sachs	217,672
	Total Proceeds Raised: 366,159
Proceeds were utilised as follows:	
Acquisition of 50% equity interests in Hefei Qingfangcheng Baoye Real Estate Co., Ltd.	145,000
Acquisition of 100% equity interests in Hubei Construction Group	132,855
General working capital	88,304
	Total Proceeds Utilised: 366,159

Key Financial Ratios

	As at 31 December	
	2005	2004
Return on equity (%)	**17.3%**	26.1%
Net assets value per share (RMB)	**2.89**	1.98
Net gearing ratio (%)	**14.4%**	39%
Current ratio	**1.33**	1.03

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

Notes:

The above key financial ratios reveal that the proceeds of approximately RMB366,159,000 from the two placings of new H shares in 2005 had significantly improved the net asset value per share, net gearing and current ratios of the Group and, at the same time, had simultaneously reduced the return on equity due to increased in total shareholders' equity. The reduction is temporary as the Group has re-invested these proceeds into the acquisition projects and believes that the new acquisition projects would generate fruitful and long term gains for the Group, thereby improving the return on equity and net gearing ratio at the same time.

Cash Flow Analysis

		For the year ended 31 December		
		2005	2004	Change
	Note	***RMB'000***	*RMB'000*	
Net cash inflow/(outflow) from operating activities	*1*	**11,398**	(49,238)	+123%
Net cash outflow from investing activities	*2*	**(176,156)**	(262,643)	+33%
Net cash inflow from financing activities	*3*	**363,170**	367,962	–1%
Increase in cash and cash equivalents		**198,412**	56,081	+254%

Notes:

1. During the year, net cash inflow from operating activities amounted to RMB220,160,000, which was a substantial increase of RMB162,841,000 over previous year of RMB57,319,000. This was mainly the results of sales of properties and collection of trade and other receivables.

2. During the year, the Company had paid RMB65,000,000 in cash as partial consideration of the total acquisition cost of RMB145,000,000 for the 50% interest in Hefei Qingfangcheng Baoye Real Estate Co., Ltd.; and had paid RMB23,649,000 to Mr. Pang Baogen, the Chairman of the Company, and two other minority shareholders of Zhejiang Baoye Housing Industrialisation Company Limited as the consideration of the acquisition for their totalling 35% equity interests in that company, which was fully paid in cash.

3. The net cash inflow from the two H share issues during the year was RMB366,159,000, and dividends pay out was RMB81,502,000, while the cash inflow from financing activities last year was primarily attributable to the increased bank borrowings.

External Guarantee and Fulfillment

	2005	2004
	RMB'000	*RMB'000*
Guarantee given to banks in respect of mortgage facilities granted to third parties	**67,500**	58,690

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

Details of the charges on the Group's assets

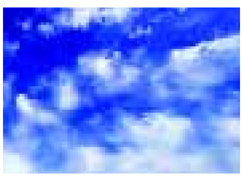
As at 31 December 2005, land use rights and buildings at a total value of approximately RMB306,230,000 (31 December 2004: RMB69,372,000) were pledged to banks as security for obtaining short-term bank loans.

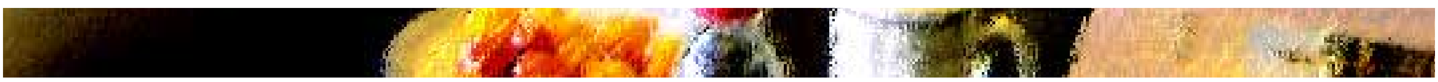
Capital commitment

As at 31 December 2005, the Group has capital commitment contracted but not provided for in respect of properties under development for RMB14,094,000 (31 December 2004: Nil).

Adjustment of RMB Exchange Rate and Foreign Exchange Risks

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





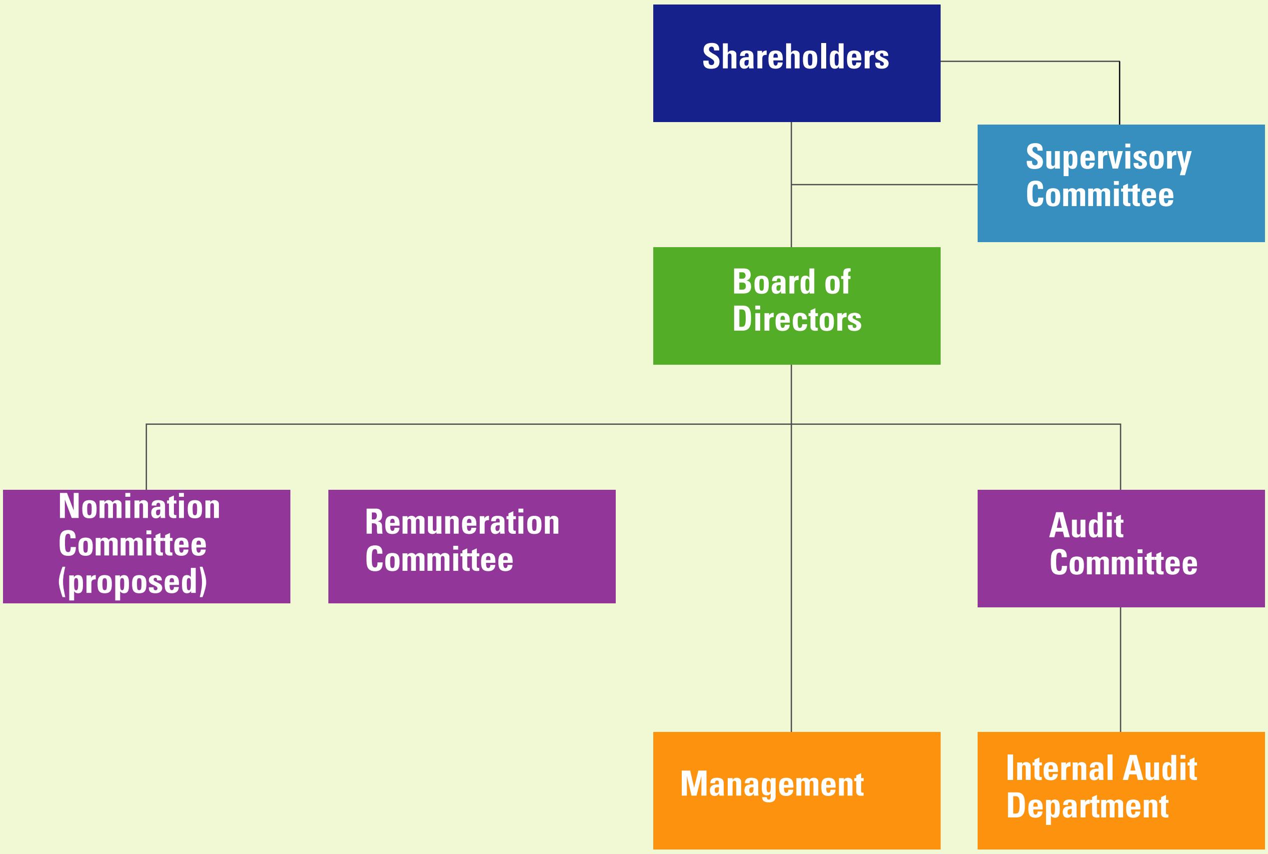
Baoye Group is committed to establishing an orderly, efficient and transparent corporate governance mechanism, which can benefit corporate development and shareholder's returns. Since its listing, the Company with the Code of Corporate Governance Practices, the Listing Rules of the Stock Exchange and other relevant laws and regulations. It has implemented effective corporate governance policy and strives to enhance corporate value so as to ensure the Company's long term sustainable development and maximising shareholders' returns.

Corporate Governance Report

Corporate Governance Report

Baoye Group is committed to establishing an orderly, efficient and transparent corporate governance mechanism, which can benefit corporate development and shareholder's returns. Since its listing, the Company strives to comply with the Code of Corporate Governance Practices, the Listing Rules of the Stock Exchange and other relevant laws and regulations. It has implemented effective corporate governance policy and strives to enhance corporate value so as to ensure the Company's long term sustainable development and maximising shareholders' returns.

Corporate Structure



Board of Directors

The Board of Directors (the "Board") manages the Group's operation and develops strategies on behalf of its shareholders. The Board complies with the rules and regulations mandated by the Memorandum and Articles of Association of the Company in discharging its duties and responsibilities. The Board of the Company comprises 9 directors, of whom 4 are executive directors, 2 are non-executive directors and the remaining 3 are independent non-executive directors. As Mr. Wu Weimin, a non-executive director, has resigned as a director of the Company with effect from 25 January 2006 due to personal reasons, the Company now has 8 directors.

The Company has 3 independent non-executive directors, who represent more than one-third of the members of the Board. Among the independent non-executive directors, Mr. Dennis Yin Ming Chan has professional accounting qualifications and possesses a breath of experience in accounting and financial management. The other 2 independent non-executive directors are both renowned experts in the China construction industry. The 3 independent non-executive directors make their own contribution to the Board, they provide the Group with very crucial and valuable professional advice not only on business and operations, but also on management control.

The Board of the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Appendix 10 of the Listing Rules as the code for securities transactions by directors of the Company. After specific enquiry by the Company, the Directors confirmed that they have complied with the model code required by the code for securities transactions for the 12 months ended 31 December 2005.

The remunerations of each of the directors of the Company are disclosed on an individual basis, details of which are set out in note 27(b) to the consolidated financial statements. Since its listing, the Company maintained liability insurance for its directors and senior management each year.

Board Meeting

The Board held a total of 12 meetings during the year. The statistics of the attendance of each director are set out in the table below. The related senior management and members of the supervisory committee of the Group had all attended the board meetings held during the year. Directors will receive notice of board meeting at least 14 days before the date on which board meeting will be held and all of the directors are offered opportunities to suggest any issue for discussion to be included in meeting agenda. All the minutes of board meetings are filed and accessible to all directors at any time.

Attendance of Board Meeting

Name	(attendance/number of board meetings)
Directors	
Pang Baogen	12/12
Gao Jiming	12/12
Gao Lin	12/12
Zhou Hanwan	12/12
Non-executive Directors	
Wu Weimin	9/12
Hu Shaozeng	12/12
Independent non-executive directors	
Wang Youwei	8/12
Yi Deqing	12/12
Dennis Yin Ming Chan	11/12

Audit Committee

The audit committee of the Company was established in a timely manner following the listing of the Company. All members of the audit committee are independent non-executive directors, comprising Mr. Wang Youwei (chairman of the audit committee), Mr. Yi Deqing and Mr. Dennis Yin Ming Chan. The terms of reference of the Company's audit committee are formulated in accordance with the recommendations in "A Guide for Effective Audit Committee" published by the Hong Kong Institute of Certified Public Accountants. The primary duties of the audit committee are to review and supervise the Group's financial reporting procedures and internal control systems. It advises on the internal audit scheme formulated by the internal audit department of the Group and review the reports submitted by the internal audit department. It is also responsible for reviewing affairs related to the appointment, resignation and replacement of independent auditors as well as assessing the auditors' performance and whether their audit fees are reasonable, and providing relevant recommendations to the Board. The audit committee held a total of 4 meetings during the year and the 3 members had all attended the 4 meetings. The major tasks accomplished during the year include:

– reviewing the annual and interim reports and accounts of the Group;

– reviewing and providing recommendations on the accounting policy is adopted by the Group and the accounting practice issues;

– monitoring the work of the internal audit department of the Group and reviewing the reports submitted by it;

– advising on the material transactions of the Group and providing recommendations on related risks to the management.

– reviewing the audit fees of auditors and recommending it for approval by the Board.

Remuneration Committee

The Board approved the establishment of remuneration committee at the board meeting convened on 1 April 2005. The remuneration committee is responsible for formulating the remuneration policy in respect of executive directors and senior management, assessing the performance of the executive directors and approving the terms of their service contracts. The remuneration committee comprises independent non-executive directors, Mr. Dennis Yin Ming Chan (chairman of the remuneration committee) and Mr. Yi Deqing, and executive director, Mr. Pang Baogen. The remuneration committee of the Company held a total of 1 meeting during 2005 and all the 3 members attended the meeting.

Nomination Committee

According to the newly revised Code of Corporate Governance Practices, issuers are advised to establish a nomination committee. The primary duties of the nomination committee include:

– reviewing the structure, number of members and composition of the Board and providing the Board with recommendations on any intended changes on a regular basis;

– identifying appropriate candidates for the post of directors and nominating such persons to be directors or providing relevant advices to the Board;

– assessing the independence of the independent non-executive directors; and

– providing recommendations on the plan of the appointment or re-appointment and succession of directors to the Board.

Independent non-executive directors should form majority of members of the nomination committee. The Company has approved the establishment of the nomination committee at the board meeting convened on 7 April 2006. The nomination committee comprises independent non-executive directors, Mr. Wang Youwei and Mr. Yi Deqing, and executive director, Mr. Gao Jiming. Mr. Wang Youwei was norminated as the chairman of the nomination committee during the meeting.

Chairman and Chief Executive Officer

In order to pursue his own personal career and business. Mr. Wei Falin tendered his resignation as the chief executive officer of the Company to the Board. After due consideration and respect for Mr. Wei Falin's decision, the Board approved his resignation as the chief executive officer of the Company at the board meeting convened on 17 June 2005. The Board also expressed its gratitude to Mr. Wei Falin for his invaluable achievements and contributions to the Company during his tenure of office. Mr. Pang Baogen, the chairman of the Board of the Company, has been named as the chief executive officer on a temporary basis until a suitable candidate is identified by the Board to fill the vacancy.

Chief Financial Officer

Mr. Fung Ching Simon, a Hong Kong qualified accountant, is the chief financial officer of the Group and is also the secretary of the Board of the Company. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the CPA Australia.

Internal Controls Mechanism

- **Supervisory Committee**

  The supervisory committee is the standing supervisory organization of the Company, which is responsible for supervising the functions of the Board and its members and the management such as the general manager and deputy general manager. The supervisory committee comprises 5 supervisors, who will serve for a term of 3 years and are eligible for re-election. The number of members and composition of the supervisory committee of the Company comply with the requirements of the relevant laws and regulations. The supervisory committee is accountable to the general meeting and exercises the following authority in accordance with the applicable laws:

  – examining the state of affairs of the Company;

  – supervising the directors, general manager, deputy general manager and other senior management in the performance of their duties to prevent them from breaching the laws, administrative regulations or the Company's Articles of Association;

  – requiring the directors, general manager, deputy general manager and other senior management to rectify behaviours which will prejudice the interests of the Company;

  – verifying the financial information, such as financial reports, operation reports and profit appropriation proposals, intended to be submitted to the general meeting by the Board and appointing registered accountants and certified auditors in the name of the Company to assist in re-auditing whenever they are in doubt with the information;

  – proposing to convene extraordinary general meeting; and

  – negotiating with or initiating litigations against directors on behalf of the Company.

  Supervisory Committee convened two meetings during the year and all of the 5 supervisors attended the meetings. The supervisors of the Company also attended all board meetings during the year.

- **Internal Audit**

  The Company has established an internal audit department since its listing. The internal audit department is independent of the financial department or other management departments. It reports directly to the audit committee and the Board. The primary duties of the internal audit department are to monitor and review the effectiveness of the operation of the financial, operational and compliance control and risk management systems. During the year, it has reviewed, monitored, and submitted reports on review and approval system for use of capital, financial budgeting system, system governing signing of economic contracts and bidding budget and final settlement system according to the audit plan. In addition to completing the tasks in accordance with the audit plan, the Company's internal audit department has conducted special purpose auditing on certain subsidiaries and branches of the company during the year. It has proposed numerous constructive recommendations for certain subsidiaries and branches company to improve their deficiencies.

General Shareholders Meeting

The general shareholders meeting not only makes decisions in respect of material issues relating to the Group, but also provides a direct communication channel between the directors, management and the shareholders of the Company. As such, the Company holds the general meeting with due respect and the notice of meeting, which states the process of a poll, shall be dispatched 45 days before the date of such meeting. Shareholders are entitled to demand a poll in accordance with the Listing Rules. During the year, Tengis Limited (the share registrar of the Company), a recognized professional institution, was invited to assign qualified representatives to attend each annual general meeting and extraordinary general meeting to act as the scrutineer for vote-taking. The scope of the scrutineer was described in the respective announcements.

Code of Corporate Governance Practices

The Directors believe that, except that the chief executive officer of the Company is temporarily assumed by Mr. Pang Baogen, the chairman of the Board, the Group has complied with the requirements in accordance with the Code of Corporate Governance Practices as set out in the Appendix 14 of the Listing Rules throughout the year.

Investor Relations

The Company actively launches and participates in various activities to communicate with investors. Through regular and one-on-one meetings with fund managers and analysts, site visits, corporate presentation, we keep updating investors about our operating status and strategic planning. We also answer questions from media and investors during corporate presentations for annual results and interim results. Moreover, the Company has set up an investor relations corner on our website which provides details of the Company's management principles, business environment, development strategies and corporate structure, and are updated constantly.

These activities are recapitulated as follows:

January:

- Attended UBS Greater China Conference 2005

February

- Participated in a road show in Singapore organised by BNP Paribas Peregrine
- ASHU IR Inc. (Japan) Company visited the Company
- Martin Currie visited the Company

April

- Held press conference in Hong Kong to announce the 2004 annual results
- IRIS Asia visited the Company

May

- Attended PRC Securities Conference 2005 organized by HSBC Securities
- Attended the Tenth China Investment Forum 2005 organized by CLSA
- Attended China Investment Forum 2005 organized by Goldman Sachs
- Led by HSBC Securities, the Company conducted a road show again in Singapore

June
- Participated in a road show in London organised by BNP Paribas Peregrine
- Fund managers of Value Partners visited the Company

July
- CLSA and its clients visited the Company
- UOB Kay Hian and its clients visited the Company

August
- Fund manager of Citigroup visited the Company

September
- Attended the Twelfth China Development Forum organized by BNP Paribas Peregrine in Nanjing

October
- Fund Managers and analysts from Goldbond and UBS visited the Company

November
- Analysts from Value Partners, CITIC Securities, UOB Kay Hian, HSBC Securities and Sumitomo visited the Company

December
- Investment bank analysts from Goldbond, Credit Suisse, etc visited the Company

The Company's excellent market performance and return on equity in 2005 have drawn attention of many international investors. Indeed, it demonstrates the market recognition of our corporate belief, operation model and corporate governance of the Company. The Company will continuously endeavour to strengthen corporate governance, enhance corporate transparency and maximize shareholders' value.

Major Events for the Year

January

- The Company placed an aggregate of 36,136,800 new H Shares at HK$ 4.05 per share with UBS as the sole underwriter. Proceeds of the placing were approximately to HK$140 million

February

- Guazhu Fengqing, a property project developed by the Group, was awarded as Top10 Constructions in Shaoxing County

March

- The high-powered ready-mixed concrete and pre-stressed concrete piles produced by Baoye Group were awarded as Shaoxing Famous Products

April

- Zhejiang Baoye Construction Group Company Limited was awarded as one of the Top 5 Construction Enterprises in Shaoxing County by Shaoxing County government

May

- Baoye Group was ranked 269th among "the Top 1000 enterprises which make great contributions to development of China" by CEO global.net and was awarded as one of the Top 5 among the private construction companies

June

- Leaders of Shaoxing Government inspected construction site of Shanghai Development Building. The converse-construction underground method (地下逆作法施工) is applied in the project

July

- Yu Qiuyu, a famous cultural writer, visited the Company;
- "Baoye Newsletter" won 1st class award among enterprises' internal newsletter.

August

- The Company successfully held the First Mass Purchase Information Conference. Many renowned local and overseas suppliers attended the conference

September

- Baoye was included in the Top 1000 Largest Enterprises announced by the Ministry of Statistics Bureau

October

- The assembly-villa and multi-storey house jointly developed by the Company and Shanghai Tongji University have gone through the scientific inspection of the Ministry of Construction. The inspection conclusion, is "up to international standard"

November

- The Group won the bid of the curtain wall project of Wukesong Olympic Basketball Stadium. It also won bid of high-end projects such as curtain wall project of Nanjing International Finance Center, Hangzhou No.2 Hospital project and Wenzhou New Century Commercial Building project, etc in this month.
- Shanghai Jing'an Ziyuan was awarded as "PRC Property with Excellent Investment and Financial Arrangements" with composite index score of 91 points

December

- The Company placed 43,364,160 new H Shares to Goldman Sachs and raised approximately HK$ 210 million
- The Company acquired 50% equity interests in Hefei Qingfangcheng Baoye Real Estate Co., Ltd
- Baoye Group was awarded as "Charity Star" in Shaoxing County.
- Zhejiang Baoye Real Estate Group Company Limited was renowned as one of the "Top 10 Property Enterprises in Shaoxing County" by Shaoxing Government

Company Snapshots


2005年


设 建 业 宝


宝业集团
80万元
合肥百大集团
20万元
10万元
5万元

Biographical Details of Directors, Supervisors and Senior Management

Mr. Gao Jiming, Executive Director

Mr. Zhou Hanwan, Executive Director

Mr. Gao Lin, Executive Director

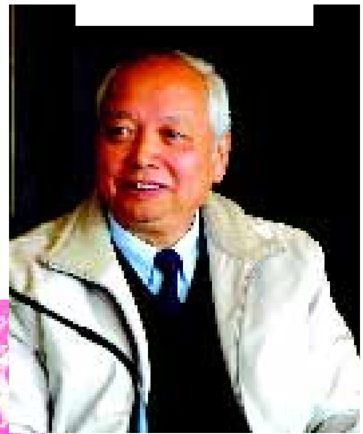
DIRECTORS

Executive Directors

Mr. Pang Baogen, born in 1957, is the founder, Chairman and Chief Executive Officer 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 a number of awards including Model Worker of National Construction System (全國建設系統勞動模範), a National Excellent Manager of Construction Enterprises (全國優秀建築企業經理), an Outstanding Manager in Zhejiang Province (浙江省突出貢獻經營者), as well as a 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代表) and a deputy director of The Construction Academic Committee of Zhejiang Civil Engineering Association (浙江省土木工程委員會副主任委員). He is currently a vice-chairman of the Construction Companies Committee in China (中國施工企業協會副會長), a member of the Experts Team for Ministry of Construction (建設部課題組專家庫成員), a member of the Steering Committee of the "Research Report on Reform and Development of Construction Industry in China" (《中國建築業改革與發展研究報告》編纂組成員), a member of Large Projects Study Group of Ministry of Construction on "Risk-prevention and Technological Advancement Index System Research" (建設部《大型工程技術風險防範機制與建築企業技術進步指標體系研究》課題組成員), a vice-chairman of Construction Entrepreneurs Association of Zhejiang (浙江省建築企業家協會副會長), a vice-chairman of the Zhejiang Construction Industry Association (浙江建築業行業協會副會長) and a representative of the Fifth Shaoxing City People's Congress (紹興市第五屆人民代表大會代表).

Mr. Gao Jiming, born in 1962, is an Executive Director and Deputy General Manager of the Company. Mr. Gao is also the Chairman of the Zhejiang Baoye Real Estate Group Company Limited. He holds a senior engineer qualification. Mr. Gao joined the Group in 1978. He is presently a committee member of Real Estate Association of Zhejiang Province (浙

Mr. Yi Deqing,
Independent
Non-executive Director



Mr. Hu Shaozeng,
Non-executive Director

Mr. Wang Youwei,
Independent Non-executive Director

Mr. Dennis Yin Ming Chan, Independent Non-executive Director

江省房地產協會常務理事), and a vice-chairman of the Real Estate Association of Shaoxing County (紹興縣房地產協會副會長).

Mr. Gao Lin, born in 1970, is an Executive Director and Deputy General Manager of the Company. Mr. Gao is also a Director and General Manager of Baoye Group Hubei Company Limited. He holds a senior engineer qualification and is also a senior professional manager in construction of China (中國工程建設高級職業經理人). He was awarded as the Top 10 Excellent entrepreneurs of Construction Industry in Zhejiang Province in 2004. He is currently the chairman of the Shaoxing Construction Association. Mr. Gao joined the Group in 1987 and was previously the Chairman of the Zhejiang Baoye Construction Group Co., Ltd.

Mr. Zhou Hanwan, born in 1954, is an Executive Director, Deputy General Manager of the Company and the Dean of Baoye Construction Industrialization Institute (寶業建設工業化研究院院長). Mr. Zhou is responsible for personnel and financial management of the Group. He holds a senior engineer qualification. Mr. Zhou joined the Group in 1984. He is currently a committee member of the Concrete Section of China Construction Industry Association, a deputy secretary of Concrete Association of Zhejiang Province and a 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 Shanghai Tongji University (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), the dean and a deputy chief engineer of Zhejiang Provincial Department of Construction and the secretary of the Zhejiang Construction Industry Association. Mr. Hu is currently a vice-chairman of the Zhejiang Construction Industry Association and a vice-chairman of the PRC Quality Construction Industry Association (Branch) (中國建築業協會質量分會)。

Biographical Details of Directors, Supervisors and Senior Management

Independent Non-executive Directors

Mr. Wang Youwei, born in 1945, is an Independent Non-executive Director and Chairman of the Audit Committee and Nomination Committee of the Company. He graduated from Shanghai Tongji University (上海同濟大學) in 1968 specializing in underground construction and holds a qualification of researcher. Mr. Wang has served as a director of the Office of New Technology Promotion and Application (新技術促進應用辦公司) of the Ministry of Construction and a committee member of the National Regulatory and Appraisal Committee in Industrial Laws (國家級工業國法規評定委員會). He is currently a deputy dean of the China Construction Science Research Institute (中國建築科學研究院), a consultant of the Expert Panel of the Beijing Municipal Government (北京市政府專家顧問團), the Committee member of the China Construction Academic Association (中國建築防火研究會), the managing director of the China Fireproof Association (中國消防協會), a director of the National Research Centre of Construction Engineering (國家建築工程研究中心), a committee member of the National Committee of Building Materials Industry Science Committee (國家建材工業科教委員會) and the chief editor of the Building Structural Engineering Journal (建築結構學報).

Mr. Yi Deqing, born in 1935, is an Independent Non-executive Director, a member of Audit, Remuneration, and Nomination Committees of the Company. He graduated from University of Zhejiang (浙江大學) in 1956, majoring in civil engineering, and holds qualifications of National First-class Structural Engineer and professor-level senior engineer. Mr. Yi has been awarded as a Master of China Construction Design (中國工程設計大師) and a Model Worker of the Ministry of Construction. He is currently the Chief Engineer of the Zhejiang Province Construction Design Research of Institute, a committee member of the China Civil Engineering Association, a deputy director of the Zhejiang Civil Engineering Construction Association (浙江省土木建築學會) and a senior consultant of the Zhejiang Drilling Design Association (浙江省勘察設計協會).

Mr. Dennis Yin Ming Chan, born in 1954, a Canadian living in Hong Kong, is an Independent Non-executive Director, and a member of Audit and Remuneration Committees of the Company. Mr. Chan is a graduate of the John Molson School of Business of Concordia University, Canada and has obtained a professional diploma in accountancy from the McGill University, Canada. He 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, Untied Kingdom (ACIS), a member of Chartered Institute of Purchasing and Supply, Untied Kingdom (MCIPS) and a member of Canadian Institute of Chartered Accountants (CA). Mr. Chan is currently the Chief Executive Office of Asiapac Investment Group Ltd and directors of various unlisted companies in Hong Kong and overseas. Prior to that, Mr. Chan had been directors 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, telecommunication and financial services.

SUPERVISORS

Mr. Sun Guofan, born in 1962, is the Chairman of Supervisory Committee of the Company and the divisional secretary of the Chinese Communist Party of the Group. Mr. Sun graduated from the Hangzhou College of Commerce (杭州商學院) majoring in finance and accounting, and is qualified as an accountant in PRC. Mr. Sun joined the Group in 1988. He served successively as deputy manager of the finance department and the deputy director of the finance supervisory office, etc.

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

INDEPENDENT SUPERVISORS

Mr. Chen Xingquan, born in 1928, is an Independent Supervisor of the Company. Mr. Chen is a certified public accountant in the PRC and has extensive experience in accounting, auditing and financial management.

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 a honorary consultant of the Shaoxing Sports Association (紹興市體育總會) and a vice president of the Union of Political Consultative Congress in Shaoxing (紹興市政協之友聯誼會).

Mr. Zhang Xindao, born in 1944, is an Independent Supervisor of the Company. Mr. Zhang graduated from the Nanjing Engineering Institute (the South Eastern University (東南大學)) and holds a senior engineer qualification. He previously a deputy director of the Shaoxing City Electric Power Bureau, general manager of Shaoxing Daming Industry Company, chairman of Shaoxing Daming Electricity Company and chairman of Zhuji Bafang Electricity Company. Currently, Mr. Zhang is currently the general manager of Shaoxing Tianyi Green Power Co., Ltd.

SENIOR MANAGEMENT

Mr. Huang Fenyong, born in 1956, is a Deputy General Manager of the Company and the Chairman of the Zhejiang Baoye Building Materials Industrialization Company Limited. Mr. Huang holds an engineer qualification. Prior to joining the Group, he served as deputy director of the Shaoxing City Construction Management Bureau (紹興市建築業管理局) and deputy director of the Shaoxing City Chengdong Development Zone (紹興市城東經濟開發區). He joined the Group in June 2003.

Mr. Fung Ching Simon, born in 1969, is the Chief Financial Officer and Secretary of the board of Directors 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 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 firms. Mr. Fung has been appointed as an independent non-executive director of Hainan Meilan International Airport Company Limited since 2004.

Mr. Xu Jianbiao, born in 1968, is the Executive Chairman of the Zhejiang Baoye Construction Group Co., Ltd. Mr. Xu graduated from Zhejiang Broadcasting and Television University (浙江廣播電視大學) majoring in industrial and residential construction and is qualified as a senior engineer. Mr. Xu served as the General Manager of the Zhejiang Baoye Construction Group Co., Ltd.. He was awarded the 2004 Excellent Talent for the economic development in Shaoxing City (2004年度紹興市經濟發展傑出人才) and 2005 Top 10 Construction Talents in Eastern China (2005年度華東建設十大人物).

Biographical Details of Directors, Supervisors and Senior Management

Mr. Wang Rongfu, born in 1954, is a Director and the General Manager of the Zhejiang Baoye Construction Group Co., Ltd . Mr. Wang holds a senior engineer qualification. He served as Deputy General Manager and General Engineer of the Zhejiang Baoye Construction Group Co., Ltd.. He was awarded a Model Worker of Shaoxing City (紹興市勞動模範), an Outstanding Contributor to the development of Shaoxing City (紹興經濟發展功臣), and an expert in site inspection of National Excellent Project (國家優質工程獎現場復查專家). Mr. Wang joined the Group in 1976.

Mr. Gao Jun, born in 1972, is the General Manager of Baoye's Anhui branch. Mr. Gao graduated from Shaoxing Polytechine College (紹興文理學院) majoring in economics and management. He holds an engineer qualification. He served as a director, deputy general manager of the Zhejiang Baoye Construction Group Co., Ltd, a director and general manager of the Zhejiang Baoye Real Estate Group Company Limited and an assistant general manager of the Group. Mr. Gao is currently a vice-chairman of the Zhejiang Enterprises Union in Anhui and a member of the Anhui Youth Union.

Mr. Lou Zhonghua, born in 1968, is a Director and the General Manager of the Zhejiang Baoye Real Estate Group Company Limited. Mr. Lou graduated from the Zhejiang Yucai Workers' University (浙江育才職工大學), majoring in industrial and residential construction. He holds a senior engineer qualification. Mr. Lou served as General Manager of the Zhejiang Baoye Decoration Engineering Company Limited, Director and Deputy Manager of the Zhejiang Baoye Construction Group Co., Ltd.

Mr. Wang Rongbiao, born in 1968, is a Director and the General Manager of the Zhejiang Baoye Building Materials Industrialisation Company Limited. Mr. Wang graduated from the Zhejiang Yucai Workers' University (浙江育才職工大學), majoring in industrial and residential construction. He holds a senior engineer qualification. He was previously an operation manager of Zhejiang Baoye Construction Group Co., Ltd.

Report of the Directors

The Board is pleased to present their annual report and the audited accounts of the Group for the year ended 31 December 2005.

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 are set out in notes 11 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Financial Positions and Results

The financial positions of the Group and the Company as at 31 December 2005 are set out in the balance sheets prepared in accordance with HKAS on pages 64 to 67.

The results of the Group for the year ended 31 December 2005 prepared in accordance with HKAS are set out in the consolidated income statement on page 68.

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 5 of this annual report.

Reserves

Details of movements in reserves of the Group and the Company are set out in the note 19 to the consolidated financial statements.

Distributable Reserves

According to the relevant laws and regulations in the PRC, the reserves of the Company available for distribution to shareholders amounted to RMB105,133,000 as at 31 December 2005 (2004: RMB87,889,000).

Dividends

At the board meeting held on 7 April 2006, the Directors declared a final dividend of RMB0.12 (2004: RMB0.1436) per ordinary share for the year ended 31 December 2005. 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 31 December 2006.

Segment Information

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

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

The primary reporting of business segments for the year ended 31 December 2005 is set out in note 5 to the consolidated financial statements.

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 and the Company during the year are set out in note 7 to the consolidated financial statements.

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.

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
Mr. Gao Lin
Mr. Zhou Hanwan

Non-executive Directors

Mr. Hu Shaozeng
Mr. Wu Weimin (resigned on 25 January 2006)

Independent Non-executive Directors

Mr. Wang Youwei
Mr. Yi Deqing
Mr. Dennis Yin Ming Chan

Supervisors

Supervisors

Mr. Sun Guofan *(Chairman of Supervisory Committee)*
Mr. Xie Qisheng

Independent Supervisors

Mr. Chen Xingquan
Mr. Li Yongsheng
Mr. Yu Zengmin (resigned on 20 May 2005)
Mr. Zhang Xindao (appointed on 20 May 2005)

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. Wei Falin resigned as Chief Executive Officer on 17 June 2005.

2. Mr. Yu Zengmin resigned as Independent Supervisor on 20 May 2005.

3. Mr. Zhang Xindao was appointed as Independent Supervisor on 20 May 2005.

4. Mr. Wu Weimin resigned as Non-executive Director on 25 January 2006.

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 46 to 50 of the annual report.

Remuneration of Directors

The remuneration of directors in the Group is disclosed on an individual named basis in note 27(b) to the consolidated financial statements.

Highest Paid Individuals

During the year, the relevant information of the five individuals with the highest remuneration in the Group is disclosed in note 27(c) to the consolidated financial statements.

Directors' and Supervisors' Service Contracts

Approved in the 2004 annual general meeting of the Company, all the appointed directors and supervisors signed a service contract with the Company on 20th May 2005 and the contracts shall remain effective until the conclusion of the 2007 annual general meeting of the Company.

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

Interests of Directors, Supervisors and Senior Management

As at 31 December 2005, 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 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 provision of Securities and Futures Ordinance) or which were required, pursuant to section 352 of the Securities and Futures Ordinance, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange were as follows:

Directors/ Supervisors/ Senior management	Relevant entity	Capacity	No. of domestic share held (Long position)	Approximate percentage of the total registered capital of the relevant entity
Mr. Pang Baogen	The Company	Individual	198,753,054	32.53%
Mr. Gao Jiming	The Company	Individual	13,024,647	2.13%
Mr. Sun Guofan	The Company	Individual	11,705,283	1.92%
Mr. Gao Lin	The Company	Individual	9,544,775	1.56%
Mr. Zhou Hanwan	The Company	Individual	8,233,510	1.35%
Mr. Xu Jianbiao	The Company	Individual	7,524,884	1.23%
Mr. Wang Rongfu	The Company	Individual	7,147,039	1.17%
Mr. Gao Jun	The Company	Individual	5,794,259	0.95%
Mr. Lou Zhonghua	The Company	Individual	5,633,172	0.92%
Mr. Wang Rongbiao	The Company	Individual	2,647,911	0.43%

Directors' and Supervisors' Interests in Contracts

No contract of significance in relation to the Company's business to which the Company or its subsidiaries was a party and in which the Directors or the Supervisors of the Company has a material interests, whether directly or indirectly, subsisted 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 or its subsidiaries, a party to any arrangement to enable the Directors, the Supervisors and their respective spouses or children under 18 years of age of acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other entities.

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 Placing

	IPO	The 1st placement of H shares	The 2nd placement of H shares
Class of share listed	H share	H share	H share
Listing place	Main Board of the HKEx.	Main Board of the HKEx.	Main Board of the HKEx.
Offer price/Placing price	HK$1.43 per H share	HK$4.05 per H share	HK$4.85 per H share
Listing date	30 June 2003	21 January 2005	14 December 2005
Number of issued H shares	180,684,000	36,136,800	43,364,160

Share Capital

As at 31 December 2005, there were a total share capital of 610,927,013 shares of the Company which includes:

	Number of shares	Approximate percentage of total share capital
Domestic Shares	350,742,053	57.41%
H shares	260,184,960	42.59%
Total	610,927,013	100%

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 31 December 2005, so far as was known to the Directors, the following person, other than the Directors, Supervisors and senior management of the Company, has 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	Number of H shares of the Company held (Long position)	Approximate percentage of the total issued H shares	Approximate percentage of the total registered capital
Goldman Sachs (Asia) Finance *(Note 1)*	43,364,160	16.67%	7.10%
Jayhawk China Fund (Cayman) *(Note 2)*	23,090,000	8.87%	3.78%
Mr. Kent C. McCarthy *(Note 2)*	23,090,000	8.87%	3.78%
Atlantis Investment Management Limited *(Note 3)*	17,500,000	6.73%	2.86%
Value Partners Limited *(Note 4)*	16,734,000	6.43%	2.74%
Mr. Cheah Cheng Hye *(Note 4)*	16,734,000	6.43%	2.74%

Substantial Shareholders (continued)

Notes:

1. The 43,364,160 H shares are held directly by Goldman Sachs (Asia) Finance. Goldman Sachs (Asia) Finance is held as to 1% by Goldman Sachs Global Holdings (L.L.C.) and 99% by Goldman Sachs (Asia) Finance Holdings L.L.C.

2. The 23,090,000 H shares are held by Jayhawk China Fund (Cayman), Ltd as investment manager. Mr. Kent C. McCarthy has 100% interest of the total issued share capital of Jayhawk China Fund (Cayman), Ltd. Pursuant to the Securities and Futures Ordinance, Mr. Kent C. McCarthy is deemed to be interested in the H Shares held by Jayhawk China Fund (Cayman), Ltd.

3. The 17,500,000 H Shares are held by Atlantis Investment Management Limited as investment manager.

4. The 16,734,000 H Shares are held by Value Partners Limited as investment manager. Mr. Cheah Cheng Hye helds 32.77% interest of the total issued share capital of Value Partners Limited. Pursuant to the Securities and Futures Ordinance, Mr. Cheah Cheng Hye is deemed to be interested in the H Shares held by Value Partners Limited.

Use of Proceeds

The Company placed new H shares twice in the year 2005, with total proceeds approximately RMB366,159,000. The proceeds are utilised strictly according to the proposed usage as stated in the placement announcement. Please refer to page 29 for details of use of proceeds.

Human Resources

As at 31 December 2005, the Group had approximately 1,488 permanent employees (2004: approximately 1,171). There are approximately 45,000 construction site workers (2004: approximately 41,000) who are not permanent employees of the Group. Total staff costs amounted to RMB790,849,000 (2004: RMB672,105,000) for the year ended 31 December 2005. Remuneration is determined by reference to market terms and the performance, qualifications and experience of individual employee. Employee benefits provided by the Group include pension fund schemes and medical insurance. The Group devotes much attention to human resources management, striving to establish a high quality team to support its business development in the long run. The Board is conducting research to implement a more effective employee incentive plan.

Closure of Register of Members

The register of members of the Company will be closed from 3 May 2006 to 1 June 2006 (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 26th Floor, Tesbury Center, 28 Queen's Road East, 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., 2 May 2006.

Connected Transaction

In 2005, the following connected transactions of the Group require disclosures pursuant to the Listing Rules:

1) On 26 February 2005, the Company entered into an acquisition agreement with Mr. Pang Baogen, the Chairman of the Board, to acquire Mr. Pang's 19% of equity interest in the Zhejiang Baoye Building Materials Industrialisation Company Limited, a non wholly-owned subsidiary of the Company, at a consideration of RMB11,514,000. Particulars of this connected transaction, please refer to the circular that dispatched to shareholders of the Company on 18 March 2005. This transaction was approved by shareholders of the Company in the Extraordinary General Meeting held on 6 May 2005.

2) On 23 December 2005, the Group entered into an acquisition agreement with China Qingfangcheng Group Chaxiong Real Estate Company Limited ("China Qingfangcheng"), to acquire China Qingfangcheng's 50% of equity interest in Hefei Qingfangcheng Baoye Real Estate Co., Ltd., a non wholly-owned subsidiary of the Company, at a consideration of RMB145,000,000. Particulars of this connected transaction, please refer to the circular that dispatched to shareholders of the Company on 18 January 2006. This transaction was approved by shareholders of the Company in the Extraordinary General Meeting held on 10 March 2006.

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 are disclosed in note 29 to the consolidated financial statements.

External Guarantee and Fulfillment

	2005 ***RMB'000***	2004 *RMB'000*
Guarantee given to banks in respect of mortgage facilities granted to third parties	**67,500**	58,690

The Group has issued performance guarantees in respect of mortgage facilities granted by certain banks 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, the Group was not involved in any material litigation and arbitration.

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.

Code of Corporate Governance Practices

The Board believes that except that the chief executive officer of the Company is temporarily assumed by Mr. Pang Baogen, the chairman of the Board, the Group has complied with the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the year. For details, please refer to the Corporate Governance Report as set out in this 2005 Annual Report.

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. The accounts contained herein this annual report were prepared in accordance with HKAS and have been audited by PricewaterhouseCoopers.

The remuneration of the auditors in the year 2005 is set out as follows:

	2005		2004	
	Audit fees	**Other fees**	Audit fees	Other fees
PricewaterhouseCoopers *(HK$'000)*	**1,800**	**50**	1,500	50
Shine Wing *(RMB'000)*	**300**	**20**	330	20

Notes:

1. Other fees mainly represented disbursement such as travelling expenses.

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

Subsequent Event

On 21 February 2006, the Group acquired the entire interests in the Hubei Construction Group at a total consideration of RMB132,855,000. Hubei Construction Group comprises 12 units which are engaged in businesses similar to the Group's three core businesses, namely the construction, building materials production and property development business. Since the Hubei Construction Group has good reputation and qualifications, such acquisition and integration are conducive to the Group's establishment of its foothold and business development in Hubei Province and Central China and the consolidation of the Group's three core businesses.

On 15 December 2005, the Board passed the resolution on issuing short term commercial paper with a maximum repayment amount of RMB500,000,000. The resolution was also reviewed and approved at the first extraordinary general meeting in 2006 held on 10 March 2006. According to the resolution, the Company decided to issue short term commercial paper with a maximum repayment amount of RMB500,000,000. It is intended that part of the proceeds will be used to replenish the working capital while the remaining portion will be used to repay bank borrowings.

On 8 March 2006, the Company entered into a cooperation agreement with Japan's Daiwa House Industry Co., Ltd pursuant to which both parties agreed to form a strategic alliance in the co-development of technological skills for the manufacture of industrialised residential units in PRC for a term of ten years. The technological co-development with Daiwa House not only enables the Group to strengthen its technical know-how in the manufacture of industrialised residential units but also establishes a foundation for any possible future co-operation and joint venture with Daiwa House.

Appreciation

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

By order of the Board
Pang Baogen
Chairman

Zhejiang, the PRC
7 April 2006

Supervisors' Report

To the shareholders,

In the year 2005, 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 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 all of the Board meeting, the Annual General Meeting, and the Extraordinary General Meeting of Company. It provided reasonably 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 of 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 2005 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 Supervisory Committee.

By Order of the Supervisory Committee
Sun Guofan
Chairman

Zhejiang, the PRC
7 April 2006

Auditors' Report

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AUDITORS' REPORT TO THE SHAREHOLDERS OF
BAOYE GROUP COMPANY LIMITED
(Incorporated in the People's Republic of China with limited liability)

We have audited the accounts on pages 64 to 133 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 Hong Kong Standards on Auditing 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 31 December 2005 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, 7 April 2006

Consolidated Balance Sheet

As at 31 December 2005

	Note	As at 31 December 2005 RMB'000	2004 RMB'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	*7*	**486,997**	419,638
Investment properties	*8*	**35,981**	5,188
Land use rights	*6*	**460,110**	586,441
Goodwill	*9*	**17,043**	1,045
Properties under development	*10*	**95,879**	73,458
Deferred income tax assets	*24*	**22,844**	13,009
		1,118,854	1,098,779
Current assets			
Inventories	*12*	**54,233**	37,314
Land use rights	*6*	**286,350**	288,341
Properties under development	*10*	**606,348**	191,331
Completed properties held for sale		**72,276**	26,199
Due from customers on construction contracts	*13*	**517,919**	412,580
Trade receivable	*14*	**387,223**	320,552
Other receivables	*15*	**687,684**	660,426
Restricted bank deposits	*16*	**83,742**	22,051
Cash and cash equivalents	*17*	**742,289**	543,877
		3,438,064	2,502,671
Total assets		**4,556,918**	3,601,450

The notes on pages 73 to 133 are an integral part of these consolidated financial statements.

	Note	As at 31 December 2005 RMB'000	2004 RMB'000 (Restated)
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*18*	**953,735**	587,576
Other reserves	*19*	**235,884**	78,677
Retained earnings		**500,738**	306,309
Proposed dividend		**73,311**	81,502
		1,763,668	1,054,064
Minority interest		**64,363**	104,578
Total equity		**1,828,031**	1,158,642
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	*24*	**134,970**	5,499
Current liabilities			
Trade payable	*20*	**374,380**	283,499
Other payables	*21*	**432,769**	320,621
Receipts in advance		**227,352**	388,297
Current income tax liabilities		**85,896**	134,754
Due to customers on construction contracts	*13*	**389,137**	330,518
Borrowings	*23*	**1,080,513**	977,000
Provision for warranty	*22*	**3,870**	2,620
		2,593,917	2,437,309
Total liabilities		**2,728,887**	2,442,808
Total equity and liabilities		**4,556,918**	3,601,450
Net current assets		**844,147**	65,362
Total assets less current liabilities		**1,963,001**	1,164,141

The notes on pages 73 to 133 are an integral part of these consolidated financial statements.

Pang Baogen
Director

Gao Jiming
Director

Balance Sheet
As at 31 December 2005

	Note	As at 31 December 2005 RMB'000	2004 RMB'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	*7*	**29,641**	22,088
Land use rights	*6*	**291,028**	292,689
Properties under development	*10*	**66,816**	27,820
Investments in subsidiaries	*11*	**729,875**	526,479
Investment in a jointly controlled entity		**–**	9,082
		1,117,360	878,158
Current assets			
Amounts due from subsidiaries	*11*	**215,828**	135,288
Other receivables	*15*	**112,785**	166,064
Cash and cash equivalents	*17*	**175,750**	40,734
		504,363	342,086
Total assets		**1,621,723**	1,220,244
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*18*	**953,735**	587,576
Other reserves	*19*	**111,292**	73,566
Retained earnings		**31,822**	6,387
Proposed dividend		**73,311**	81,502
Total equity		**1,170,160**	749,031

The notes on pages 73 to 133 are an integral part of these consolidated financial statements.

	Note	As at 31 December 2005 RMB'000	 2004 RMB'000 (Restated)
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	24	**679**	679
Current liabilities			
Trade payable	20	**594**	150
Other payables	21	**88,394**	28,853
Amounts due to subsidiaries	11	**–**	39,635
Current income tax liabilities		**5,896**	5,896
Borrowings	23	**356,000**	396,000
		450,884	470,534
Total liabilities		**451,563**	471,213
Total equity and liabilities		**1,621,723**	1,220,244

The notes on pages 73 to 133 are an integral part of these consolidated financial statements.

Pang Baogen
Director

Gao Jiming
Director

Consolidated Income Statement

For the year ended 31 December 2005

	Note	2005 **RMB'000**	2004 *RMB'000* *(Restated)*
		Year ended 31 December	
Turnover	*5*	**4,723,797**	4,378,434
Cost of sales	*26*	**(4,289,943)**	(3,916,308)
Gross profit		**433,854**	462,126
Other gains – net	*25*	**136,391**	67,440
Selling and marketing costs	*26*	**(7,363)**	(2,957)
Administrative expenses	*26*	**(112,370)**	(89,897)
Operating profit		**450,512**	436,712
Finance costs	*28*	**(29,885)**	(23,981)
Profit before income tax		**420,627**	412,731
Income tax expense	*29*	**(112,729)**	(120,009)
Profit for the year		**307,898**	292,722
Attributable to:			
Equity holders of the Company		**304,226**	275,082
Minority interest		**3,672**	17,640
		307,898	292,722
Earnings per share for profit attributable to the equity holders of the Company during the year			
– basic (expressed in RMB per share)	*31*	**RMB0.537**	RMB0.518
Dividends	*32*	**73,311**	81,502

The notes on pages 73 to 133 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes In Equity
For the year ended 31 December 2005

	Attributable to equity holders of the Company			Minority interest	Total
	Share capital	Other reserves	Retained earnings		
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2004, as previously reported as equity	587,576	41,275	187,557	–	816,408
Balance at 1 January 2004, as previously separately reported as minority interest	–	–	–	72,606	72,606
Balance at 1 January 2004, as restated	587,576	41,275	187,557	72,606	889,014
Profit for the year	–	–	275,082	17,640	292,722
Transfer to income statement upon sale of completed properties	–	(3,680)	–	–	(3,680)
Transfer to statutory surplus reserve and public welfare fund	–	41,082	(41,082)	–	–
Dividend relating to 2003	–	–	(33,746)	(3,256)	(37,002)
Capital injections from minority shareholders	–	–	–	9,744	9,744
Acquisition of subsidiaries	–	–	–	10,180	10,180
Reduction of minority interest resulting from acquisition of additional interest in a subsidiary	–	–	–	(2,336)	(2,336)
Balance at 31 December 2004	587,576	78,677	387,811	104,578	1,158,642

The notes on pages 73 to 133 are an integral part of these consolidated financial statements.

	Note	Attributable to equity holders of the Company			Minority interest	Total
		Share capital	**Other reserves**	**Retained earnings**		
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2005, as per above		587,576	78,677	387,811	104,578	1,158,642
Opening adjustment of the adoption of HKAS 40	*2.1*	–	(1,240)	1,240	–	–
Balance at 1 January 2005, as restated		587,576	77,437	389,051	104,578	1,158,642
Fair value gains of a building, net of tax	*19*	–	611	–	–	611
Profit for the year		–	–	304,226	3,672	307,898
Total recognised income for 2005		–	611	304,226	3,672	308,509
Issue of shares	*18*	366,159	–	–	–	366,159
Acquisition of equity interest in a jointly controlled entity from another joint venturer	*36(A)*	–	120,110	–	–	120,110
Transfer to statutory surplus reserve and public welfare fund		–	37,726	(37,726)	–	–
Dividend relating to 2004		–	–	(81,502)	–	(81,502)
Acquisition of a subsidiary	*36(B)*	–	–	–	6,197	6,197
Reduction of minority interest resulting from acquisition of additional interest in a subsidiary	*25(a)*	–	–	–	(50,084)	(50,084)
Balance at 31 December 2005		**953,735**	**235,884**	**574,049**	**64,363**	**1,828,031**

The notes on pages 73 to 133 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Note	Year ended 31 December 2005 RMB'000	2004 RMB'000 (Restated)
Cash flows from operating activities			
Cash generated from operations	*33*	**220,160**	57,319
Interest paid		**(48,030)**	(42,137)
Income tax paid		**(160,732)**	(64,420)
Net cash generated from/(used in) operating activities		**11,398**	(49,238)
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	*36(B)*	**(14,321)**	(59,967)
Acquisition of equity interest in a jointly controlled entity from another joint venturer	*36(A)*	**(52,377)**	–
Acquisition of additional equity interest in a subsidiary	*25(a)*	**(23,649)**	(2,900)
Purchase of property, plant and equipment		**(141,487)**	(205,565)
Purchase of land use rights for construction of property and plant		**–**	(30,881)
Proceeds from sale of property, plant and equipment and land use rights	*33*	**12,575**	11,748
Proceeds from disposal of investment property		**8,178**	–
Advances to a former subsidiary		**–**	(171,655)
Repayment of advances to a former subsidiary		**–**	170,155
Interest received	*25*	**34,925**	26,422
Net cash used in investing activities		**(176,156)**	(262,643)

The notes on pages 73 to 133 are an integral part of these consolidated financial statements.

	Note	Year ended 31 December 2005 RMB'000	2004 RMB'000 (Restated)
Cash flows from financing activities			
Proceeds from issue of shares	*18*	**374,260**	–
Payment for share issuance costs	*18*	**(8,101)**	–
Capital injections by minority shareholders		**–**	9,744
Proceeds from borrowings		**1,384,651**	1,838,000
Repayment of borrowings		**(1,306,138)**	(1,443,950)
Dividends paid to the Company's shareholders	*32*	**(81,502)**	(33,746)
Dividends paid to minority shareholders		**–**	(2,086)
Net cash generated from financing activities		**363,170**	367,962
Net increase in cash and cash equivalents		**198,412**	56,081
Cash and cash equivalents at beginning of the year		**543,877**	487,796
Cash and cash equivalents at end of the year		**742,289**	543,877

The notes on pages 73 to 133 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. General information

Baoye Group Company Limited (the "Company") was established as a limited liability company in the People's Republic of China (the "PRC") and the H shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 30 June 2003.

The address of the Company's registered office is Yangxunqiao Township, Shaoxing County, Zhejiang Province, the PRC.

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.

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 7 April 2006.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). This basis of accounting differs in certain 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 HKFRS. Differences arising from the restatements are not incorporated in the Group's accounting records.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

i) *The adoption of new/revised HKFRS*

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

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

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

- HKAS 1 has affected the presentation of minority interest and other disclosures.
- HKASs 2, 7, 8, 10, 16, 23, 27 and 33 and HKAS-Int 15 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.
- HKAS 24 has affected the identification of related parties and some other related party disclosures.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

i) *The adoption of new/revised HKFRS* (continued)

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment, properties under development and completed properties held for sale to operating leases. The up-front prepayments made for the land use rights are amortised on a straight-line basis over the period of the lease, and amortisation are expensed in the income statement or are capitalised in the properties under development during the construction period that is required to complete and prepare the properties for sale. Where there is impairment, the impairment is expensed in the income statement. In prior years, the land use rights were accounted for at cost less accumulated depreciation and accumulated impairment as properties, plant and equipment or at cost as part of properties under development and completed properties held for sale.

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

The adoption of HKASs 32 and 39 has formed an accounting policy relating to the financial assets as disclosed in Note 2.11.

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

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

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

i) *The adoption of new/revised HKFRS* (continued)

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

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

In accordance with the provisions of HKFRS 3 (Note 2.7):

- The Group ceased amortisation of goodwill from 1 January 2005;
- Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;
- From the year ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is an indication of impairment.

The excess of fair value of the Group's share of the net identifiable assets acquired over the acquisition cost is recognised in the income statement immediately.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. Other than HKFRS 3 and HKAS 40 which require prospective application; all other standards adopted by the Group require retrospective application.

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

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

i) *The adoption of new/revised HKFRS* (continued)

The effect of adopting these new accounting standards on the balance sheets as at 31 December 2004 and 2005 and the income statements for the years then ended are summarised as follows:

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

	2005 ***RMB'000***	2004 *RMB'000*
Increase in non-current assets – land use rights	**460,110**	578,771
Increase in current assets – land use rights	**286,350**	280,658
Decrease in properties under development	**596,494**	741,894
Decrease in completed properties held for sale	**45,093**	5,328
Decrease in property, plant and equipment	**104,873**	112,207

There was no impact on basic earnings per share for the years ended 31 December 2004 and 2005 and opening retained earnings as at 1 January 2004 from the adoption of revised HKAS 17.

(b) The adoption of HKAS 31 resulted in:

	2005 ***RMB'000***	2004 *RMB'000*
Decrease in interest in a jointly controlled entity	**–**	9,082
Decrease in other receivables	**–**	38,231
Decrease in other payables	**–**	11,087
Increase in properties under development	**–**	88,033
Increase in property, plant and equipment	**–**	411
Increase in cash and cash equivalents	**–**	12,782
Increase in borrowings	**–**	65,000
Decrease in share of loss of a jointly controlled entity	**–**	2,100
Increase in expenses	**–**	2,100

There was no impact on basic earnings per share for the years ended 31 December 2004 and 2005 and opening retained earnings as at 1 January 2004 from the adoption of HKAS 31.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

i) The adoption of new/revised HKFRS (continued)

(c) The adoption of HKAS 40 resulted in:

	2005 *RMB'000*
Increase in other gains	**25,069**
Increase in income tax expense	**8,273**
Decrease in other reserves	**18,036**
Increase in retained earnings, brought forward	**1,240**
Increase in basic earnings per share (RMB)	**0.030**

ii) Standards and interpretations which are not yet effective

The following new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1 January 2006 or later periods. The Group has not early adopted these standards, amendments and interpretations. The Group is in the process of making an assessment of the impact of these standards and interpretations and is not yet in a position to state what impact these new standards and interpretations would have on its results of operations and financial position.

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 19 (Amendment)	Employee Benefits
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 1	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HKFRS – Int 4	Determining whether an Arrangement contains a Lease
HKFRS – Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitating Funds
HK(IFRIS) – Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

2. Summary of significant accounting policies (continued)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries and a jointly controlled entity made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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 dividend received and receivable.

(b) Transactions with minority interest

The Group applies a policy of treating transactions with minority interest as transactions with parties external to the Group. Disposals to minority interest result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interest result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary. If the consideration paid is less than the carrying value of the interest in the subsidiary's net assets acquired and contingent liabilities assumed, the difference is recognised directly in the income statement.

2. Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(c) Joint ventures

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the jointly controlled entities' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the jointly controlled entities that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the jointly controlled entities that result from the Group's purchase of assets from the jointly controlled entities until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value, or an impairment loss, of the asset concerned.

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.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2. Summary of significant accounting policies (continued)

2.5 Property, plant and equipment

Property, plant and equipment, comprising buildings, plant and machinery, motor vehicles and office equipment and others, are stated at cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

	Useful lives	Residual values
Buildings	20 years	10%
Plant and machinery	10 years	10%
Motor vehicles	5 years	10%
Office equipment and others	5 years	10%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2. Summary of significant accounting policies (continued)

2.6 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the income statement as part of "other gains".

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference between the carrying amount and the fair value of this item at the date of transfer is recognised in equity under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

2. Summary of significant accounting policies (continued)

2.7 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose.

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Properties under development

Properties under development are stated at the lower of cost and net realisable value. Cost comprises 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. On completion, the properties are transferred to completed properties held for sale.

2.10 Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost comprises 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.

2. Summary of significant accounting policies (continued)

2.11 Financial assets

From 1 January 2005 onwards, the Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

During the year, other than loans and receivables, the Group did not hold any financial assets in other categories.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for balances with maturities greater than 12 months after the balance sheet date.

Regular purchase and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the assets. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2. Summary of significant accounting policies (continued)

2.13 Construction contracts

Contract costs are recognised when incurred.

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

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Group uses the 'percentage of completion method' to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. Progress billings not yet paid by customers and retention are included within trade and other receivables.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

2.14 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, net of restricted bank deposits.

2.15 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

2. Summary of significant accounting policies (continued)

2.16 Borrowings (continued)

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.17 Deferred income tax

Deferred income tax 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 financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income 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 income tax is provided on temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.18 Employee benefits

(a) *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.

(b) *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.

2. Summary of significant accounting policies (continued)

2.18 Employee benefits (continued)

(c) Pension obligation

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

The Group's contributions to the defined contributions retirement scheme are expensed as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund. Details of the Group's retirement benefits are set out in Note 27(a).

2.19 Provision

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.20 Revenue recognition

Revenue is recognised as follows:

(a) Provision of construction services

Provision of construction services is recognised in the accounting period in which the services are provided, by reference to the proportion of the contract costs incurred to date to the estimated total contract costs for the contract (See details in Note 2.13 above for accounting policy for construction contracts).

(b) Sale of building materials

Revenue from the sales 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.

2. Summary of significant accounting policies (continued)

2.20 Revenue recognition (continued)

(c) *Sale of properties*

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.

(d) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method.

(e) *Lease income*

Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

(f) *Subsidy income*

Subsidy income is recognised on a receipt basis or where there is a reasonable assurance that the subsidy will be received and the Group will comply with all attached conditions.

2.21 Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2.22 Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the income statement on a straight-line basis over the period of the lease.

2.23 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.24 Comparatives

As mentioned in Note 2.1, the comparative figures of 2004 have been restated as a result of the adoption of HKAS 17 and HKAS 31. In addition, interest income previously included under "finance costs" is now presented as part of "other gains" in the income statement of the Group. Moreover, certain comparative figures in relation to segment information have also been reclassified to conform to changes in presentation in current year as mentioned in Note 5 as management believes that it is a fairer presentation of the Group's activities.

3. Financial risk management

3.1 Financial risk factors

The Group activities exposed it to a variety of financial risks: currency risk, fair value interest rate risk, credit risk, liquidity risk and cash flow interest rate risk.

(a) *Foreign exchange risk*

The Group mainly operates in the PRC with most of the transactions settled in RMB. RMB is not freely convertible into other foreign currencies. The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

The proceeds derived from the initial public offering and new H shares placing are all denominated in Hong Kong Dollars ("HKD"). The Group is also required to pay dividends in HKD to its H shareholders in the future when dividends are declared.

The exchange rates between RMB and HKD have remained stable historically. Management monitors the Group's currency exposure on an ongoing basis and will enter into hedges when the need arises.

(b) *Credit risk*

The Group has no significant concentrations of credit risk. It has policies in place to ensure that provision of construction services and sale of building materials are made to customers with an appropriate credit history. Sales of completed properties to individuals are made in cash; any amount receivable would be pledged by properties.

(c) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

(d) *Cash flow and fair value interest rate risk*

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from borrowings, details of which have been disclosed in Note 23 to these consolidated financial statements.

3.2 Fair value estimation

The nominal value less impairment provision of trade receivable and payable are assumed to approximate their fair values.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Construction contract revenue recognition

According to the accounting policies of construction contracts as stated in Note 2.13, the Group uses the 'percentage of completion method' to determine the appropriate revenues to be recognised in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract.

Upon applying the percentage of completion method, the Company need to estimate the gross profit margin of each construction contract, which was determined based on the estimated total construction contract costs and total construction contract sum. If the actual gross profit margin of each construction contract differ from the management's estimates, the construction contract revenue to be recognised within the next year will need to be adjusted accordingly.

In addition, the directors of the Company are of the opinion that there are no expected losses, where the estimated total construction contract costs exceed the total construction contract revenue, which need to be recognised in the income statement for the year ended 31 December 2005.

(b) Provision for warranty

The Group recognises a provision for repairs of construction work still under warranty at the balance sheet date. Significant judgment of the ratio of the repairs expenses compared to the warranty deposits for the construction work is required in determining the warranty provision. The Group estimates the ratio according to past history of the level of repairs. As at 31 December 2005, the provision for warranty was estimated at RMB3,870,000.

4. Critical accounting estimates and judgements (continued)

4.1 Critical accounting estimates and assumptions (continued)

(c) Estimate of fair value of investment properties

The best evidence on fair value of investment properties is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences.

ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

As at 31 December 2005, the fair value of the investment properties of the Group were estimated at RMB35,981,000 as reported by an independent professional valuer, including a fair value gain of approximately of RMB25,069,000 which is recorded in other gains for the year ended 31 December 2005.

4.2 Critical judgements in applying the Group's accounting policies

Land appreciation tax

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

The Group is subject to land appreciation tax in the PRC which has been included in cost of sales of the Group. However, the implementation of these taxes varies amongst various PRC cities and the Group has not finalised its land appreciation tax returns with various tax authorities. Accordingly, significant judgement is required in determining the amount of land appreciation and related tax. Where the final tax outcome of these matters is different from the amounts that were initially determined and recorded, such differences will impact the cost of sales and deferred income tax provisions in the period in which such determination is made.

5. 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 revenue attributable from these three segments is approximately RMB4,690,914,000 and RMB4,356,878,000 for the years ended 31 December 2005 and 2004 respectively.

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

5. Segment information (continued)

The business segment results for the year ended 31 December 2005 are as follows:

	Year ended 31 December 2005				
	Construction *RMB'000*	Building materials *RMB'000*	Property development *RMB'000*	Others *RMB'000*	Group *RMB'000*
Total turnover	3,650,687	781,746	545,995	86,040	5,064,468
Inter-segment turnover	(126,509)	(161,005)	–	(53,157)	(340,671)
External turnover	3,524,178	620,741	545,995	32,883	4,723,797
Operating profit	206,955	88,785	125,412	29,360	450,512
Finance costs					(29,885)
Profit before income tax					420,627
Income tax expense					(112,729)
Profit for the year					307,898
Other information					
Depreciation	13,015	22,883	1,778	985	38,661
Amortisation	3,036	72	–	–	3,108
Provision for doubtful debts, net	3,130	2,526	(593)	(12)	5,051

5. Segment information (continued)

The business segment results for the year ended 31 December 2004 are as follows:

	Year ended 31 December 2004 (Restated)				
	Construction	Building materials	Property development	Others	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total turnover	3,645,165	555,629	492,194	42,566	4,735,554
Inter-segment turnover	(242,194)	(93,916)	–	(21,010)	(357,120)
External turnover	3,402,971	461,713	492,194	21,556	4,378,434
Operating profit	202,637	63,911	169,403	761	436,712
Finance costs					(23,981)
Profit before income tax					412,731
Income tax expense					(120,009)
Profit for the year					292,722
Other information					
Depreciation	12,303	13,735	2,385	1,071	29,494
Amortisation	1,193	85	–	–	1,278
Provision for doubtful debts, net	(4,632)	126	1,692	112	(2,702)

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

The Group previously reported and classified manufacture and sale of glass curtain wall and assembly furniture supplied by two subsidiaries of the Company, namely Zhejiang Baoye Curtail Wall Decoration Co., Ltd. and Zhejiang Guangyi Construction and Decoration Co., Ltd., within the construction business segment. The directors of the Company believe that it is a more appropriate presentation of the Group's activities to classify those activities which are of similar nature within the building materials business segment. Reclassification has been made to the comparative information for the year ended 31 December 2004.

5. Segment information (continued)

The segment assets and liabilities as at 31 December 2005 and capital expenditure for the year then ended are as follows:

	As at 31 December 2005					
	Construction *RMB'000*	**Building materials** *RMB'000*	**Property development** *RMB'000*	**Others** *RMB'000*	**Unallocated** *RMB'000*	**Group** *RMB'000*
Assets	**2,508,681**	**715,629**	**1,233,359**	**40,425**	**58,824**	**4,556,918**
Liabilities	**1,623,717**	**380,078**	**616,198**	**22,998**	**85,896**	**2,728,887**
Capital expenditure	**45,271**	**93,059**	**1,472**	**3,430**	**–**	**143,232**

The segment assets and liabilities as at 31 December 2004 and capital expenditure for the year then ended are as follows:

	As at 31 December 2004 (Restated)					
	Construction *RMB'000*	Building materials *RMB'000*	Property development *RMB'000*	Others *RMB'000*	Unallocated *RMB'000*	Group *RMB'000*
Assets	1,893,768	870,554	775,936	32,416	28,776	3,601,450
Liabilities	888,280	421,823	582,193	15,704	534,808	2,442,808
Capital expenditure	25,825	210,068	426	12,308	–	248,627

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

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

Capital expenditure comprises additions to land use rights, property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combination.

No geographical segments information is presented as substantially all the Group's business activities were carried out and all the Group's assets are located in the PRC.

6. Land use rights

The Group's interests in land use rights represented the prepaid operating lease payments. The net book value of the land use rights are analysed as follows:

Group

	2005		2004	
	Non-current	**Current**	Non-current	Current
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Beginning of the year	**586,441**	**288,341**	515,612	89,203
Opening adjustments for the adoption of HKAS 17	**(7,670)**	**(7,683)**	–	–
Opening net book amount, as restated	**578,771**	**280,658**	515,612	89,203
Additions	**10,010**	**–**	246,208	27,796
Additions from business combination *(Note 36)*	**136,320**	**–**	57,899	–
Transfer to current portion	**(255,020)**	**255,020**	(232,000)	232,000
Disposal	**(4,226)**	**–**	–	–
Transfer to cost of sales	**–**	**(243,248)**	–	(60,658)
Amortisation	**(5,745)**	**(6,080)**	(1,278)	–
End of the year	**460,110**	**286,350**	586,441	288,341

Company

	Non-Current	
	2005	2004
	RMB'000	*RMB'000*
Beginning of the year	**292,689**	63,000
Additions	**–**	230,881
Amortisation	**(1,661)**	(1,192)
End of the year	**291,028**	292,689

6. Land use rights (continued)

All the land use rights of the Group and the Company are located in the PRC with the remaining lease periods of between 10 to 70 years.

As included in the Group's interests in land use rights at 31 December 2005, there are certain land use rights amounting to RMB200,000,000 (2004: RMB200,000,000), for which the Group was in the process of applying for the relevant formal land use rights certificates.

As at 31 December 2005, the total net book values of land use rights, together with buildings, secured as security for the Group's short-term secured bank loans of RMB197,513,000 (2004: RMB111,000,000) amounted to RMB306,230,000 (2004: RMB69,372,000) (Note 23).

7. Property, plant and equipment

Group

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Office equipment and others *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
At 1 January 2004						
Cost	82,659	101,172	65,906	12,538	64,661	326,936
Accumulated depreciation	(14,878)	(43,328)	(26,443)	(5,932)	–	(90,581)
Net book amount	67,781	57,844	39,463	6,606	64,661	236,355
Year ended 31 December 2004						
Opening net book amount	67,781	57,844	39,463	6,606	64,661	236,355
Acquisition of subsidiaries	–	7,350	–	–	–	7,350
Additions	18,072	98,456	5,997	3,422	84,449	210,396
Transfer	65,018	15,338	–	–	(80,356)	–
Disposals	(549)	(4,322)	(14)	(84)	–	(4,969)
Depreciation charge	(6,052)	(13,919)	(7,742)	(1,781)	–	(29,494)
Closing net book amount	144,270	160,747	37,704	8,163	68,754	419,638
At 31 December 2004						
Cost	165,160	218,170	71,584	15,872	68,754	539,540
Accumulated depreciation	(20,890)	(57,423)	(33,880)	(7,709)	–	(119,902)
Net book amount	144,270	160,747	37,704	8,163	68,754	419,638

7. Property, plant and equipment (continued)

Group (continued)

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended 31 December 2005						
Opening net book amount	144,270	160,747	37,704	8,163	68,754	419,638
Additions from acquisition of equity interest *(Note 36)*	–	–	307	364	–	671
Additions	3,674	54,613	17,134	3,968	63,172	142,561
Transfer	55,961	601	–	–	(56,562)	–
Disposals	(15,539)	(8,079)	–	(3,594)	–	(27,212)
Transfer to investment properties *(Note 8(b))*	(10,000)	–	–	–	–	(10,000)
Depreciation charge	(7,374)	(21,445)	(7,536)	(2,306)	–	(38,661)
Closing net book amount	170,992	186,437	47,609	6,595	75,364	486,997
At 31 December 2005						
Cost	193,471	252,808	89,025	16,545	75,364	627,213
Accumulated depreciation	(22,479)	(66,371)	(41,416)	(9,950)	–	(140,216)
Net book amount	170,992	186,437	47,609	6,595	75,364	486,997

7. Property, plant and equipment (continued)

Company

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2004						
Cost	388	–	4,632	726	–	5,746
Accumulated depreciation	–	–	(610)	(48)	–	(658)
Net book amount	388	–	4,022	678	–	5,088
Year ended 31 December 2004						
Opening net book amount	388	–	4,022	678	–	5,088
Additions	–	–	371	227	17,486	18,084
Disposals	–	–	–	(56)	–	(56)
Depreciation charge	(18)	–	(839)	(171)	–	(1,028)
Closing net book amount	370	–	3,554	678	17,486	22,088
At 31 December 2004						
Cost	388	–	5,003	889	17,486	23,766
Accumulated depreciation	(18)	–	(1,449)	(211)	–	(1,678)
Net book amount	370	–	3,554	678	17,486	22,088
Year ended 31 December 2005						
Opening net book amount	**370**	**–**	**3,554**	**678**	**17,486**	**22,088**
Additions	**–**	**–**	**952**	**20**	**7,771**	**8,743**
Disposals	**–**	**–**	**–**	**–**	**–**	**–**
Depreciation charge	**(18)**	**–**	**(989)**	**(183)**	**–**	**(1,190)**
Closing net book amount	**352**	**–**	**3,517**	**515**	**25,257**	**29,641**
At 31 December 2005						
Cost	**388**	**–**	**5,955**	**909**	**25,257**	**32,509**
Accumulated depreciation	**(36)**	**–**	**(2,438)**	**(394)**	**–**	**(2,868)**
Net book amount	**352**	**–**	**3,517**	**515**	**25,257**	**29,641**

7. Property, plant and equipment (continued)

Depreciation expenses of RMB27,281,000 (2004: RMB23,807,000) has been expensed in cost of sales and RMB11,380,000 (2004: RMB5,687,000) in administrative expenses.

8. Investment properties

	Group	
	2005	2004
	RMB'000	*RMB'000*
Beginning of the year	**5,188**	5,188
Transfer from property, plant and equipment *(Note 7)*	**10,000**	–
Fair value appreciation on the transfer date *(Note (b) and Note 19)*	**912**	–
Fair value appreciation credited into other gains	**25,069**	–
Disposals	**(5,188)**	–
End of the year	**35,981**	5,188

The investment properties were revalued by an independent qualified valuer in the PRC.

(a) All the investment properties are held on leases of between 10 to 50 years.

(b) During the year, one building has been transferred to investment properties, RMB912,000 being the difference between the carrying amount and fair value at the transfer date, together with a related deferred tax liability of RMB301,000, is recognised in equity as a revaluation reserve *(Note 19)*.

9. Goodwill

Group

	Goodwill
At 1 January 2004	
Cost	–
Accumulated amortisation	–
Net book amount	–
Year ended 31 December 2004	
Opening net book amount	–
Additions	1,124
Amortisation expenses	(79)
Closing net book amount	1,045
At 31 December 2004	
Cost	1,124
Accumulated amortisation	(79)
Net book amount	1,045
Year ended 31 December 2005	
Opening net book amount	**1,045**
Acquisition of equity interest in a jointly controlled entity *(Note 36(A))*	**15,998**
Closing net book amount	**17,043**
At 31 December 2005	
Net book amount	**17,043**

The balance of goodwill as at 31 December 2004 represented the unamortised amount of the goodwill arising from the acquisitions of two subsidiaries and additional equity interest of a subsidiary. As a result of the change in accounting policy for the adoption of HKFRS 3, the Group ceased amortisation of goodwill from 1 January 2005 onwards.

10. Properties under development

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Development costs	**640,151**	219,764	**44,932**	17,425
Finance costs capitalised	**62,076**	45,025	**21,884**	10,395
	702,227	264,789	**66,816**	27,820

The net book value of the properties under development are analysed as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Completion within one year	**606,348**	191,331	**–**	–
Completion more than one year	**95,879**	73,458	**66,816**	27,820
	702,227	264,789	**66,816**	27,820

11. Interests in and balances with subsidiaries

	Company	
	2005	2004
	RMB'000	*RMB'000*
Investments at cost, unlisted	**729,875**	526,479
Amounts due from subsidiaries	**215,828**	135,288
Amounts due to subsidiaries	**–**	(39,635)
	945,703	622,132

The amounts due from/(to) subsidiaries are unsecured, interest free and are repayable on demand.

11. Interests in subsidiaries (continued)

The following is a list of the principal subsidiaries as at 31 December 2005:

Name	Place of incorporation and kind of legal entity	Attributable equity interest held		Registered capital	Principal activities and place of operation
		Directly	*Indirectly*		
Zhejiang Baoye Construction Group Co., Ltd. ("Baoye Construction")	PRC, limited liability company	99%	–	RMB300,000,000	Construction and interior decoration in the PRC
Zhejiang Baoye Curtain Wall Decoration Co., Ltd. ("Baoye Curtain Wall")	PRC, limited liability company	83.1%	–	RMB10,800,000	Installation of curtain wall and steel framework in the PRC
Zhejiang Baoye Infrastructure Construction Co., Ltd.	PRC, limited liability company	87.5%	12.4%	RMB30,000,000	Construction of highway, bridge and other municipal infrastructure in the PRC
Zhejiang Guangyi Construction and Decoration Co., Ltd. ("Guangyi Decoration")	PRC, limited liability company	93.3%	6.6%	RMB15,000,000	Decoration and replenishment in the PRC
Zhejiang Baoye Real Estate Group Co., Ltd. ("Baoye Real Estate")	PRC, limited liability company	90%	9.9%	RMB50,000,000	Development and sales of properties in the PRC
Zhejiang Baoye Building Materials Industrialisation Company Limited ("Baoye Building Materials")	PRC, joint stock limited company	19%	79.9%	RMB60,600,000	Production and sales of concrete and construction materials in the PRC
Shaoxing Commodity Concrete Co., Ltd.	PRC, limited liability company	51.5%	–	RMB21,500,000	Production and sales of concrete and construction materials in the PRC

11. Interests in subsidiaries (continued)

Name	Place of incorporation and kind of legal entity	Attributable equity interest held		Registered capital	Principal activities and place of operation
		Directly	*Indirectly*		
Shaoxing Baoye Fireproof Materials Co., Ltd. ("Baoye Fireproof Materials")	PRC, limited liability company	88.3%	11.6%	RMB3,000,000	Production and sales of steel, wood fireproof doors in the PRC
Zhejiang Baoye Construction Design Research Institute Co., Ltd. (formerly known as Zhejiang Building Materials Industrialisation and Design Research Institute Co., Ltd.)	PRC, limited liability company	90%	–	RMB6,000,000	Construction and decoration design in the PRC
Shaoxing Baoye New Building Materials Co., Ltd. ("Baoye New Building Materials")	PRC, limited liability company	–	98.9%	RMB2,000,000	Production and sales of construction materials in the PRC
Shanghai Zibao Real Estate Development Co., Ltd.	PRC, limited liability company	–	69.9%	RMB18,000,000	Real estate development in the PRC
Shaoxing Baogang Woodwork Co., Ltd.	PRC, foreign invested enterprise	70%	–	USD2,720,000	Production and sales of wooden door and other wooden products in the PRC
Shaoxing Baoye Construction Intelligent Technology Co., Ltd.	PRC, limited liability company	60%	39.6%	RMB5,000,000	Installation of computer management system for building or community in the PRC

11. Interests in subsidiaries (continued)

Name	Place of incorporation and kind of legal entity	Attributable equity interest held *Directly*	*Indirectly*	Registered capital	Principal activities and place of operation
Hangzhou International Airport Mansion Development Co., Ltd.	PRC, limited liability company	90%	–	RMB80,000,000	Development of Hangzhou International Airport Mansion in the PRC
Shaoxing Huaxin Pre-mix Commodity Concrete Co., Ltd.	PRC, limited liability company	51.5%	–	RMB20,000,000	Production and sales of concrete and construction materials in the PRC
Hefei Baoye Concrete Co., Ltd.	PRC, limited liability company	90%	9.9%	RMB10,000,000	Production and sales of concrete and construction materials in the PRC
Zhejiang Baoye Steel Structure Co., Ltd. ("Baoye Steel Structure")	PRC, limited liability company	95%	4.95%	RMB20,000,000	Production, design and sales of steel structure products in the PRC
Shaoxing Guangmao Logistics Co., Ltd.	PRC, limited liability company	90%	9.9%	RMB5,000,000	Provision of freight services and sales of construction materials in the PRC
Hefei Zhongbao Machinery Manufacture Co., Ltd.	PRC, limited liability company	–	89.9%	RMB10,000,000	Production and sales of machinery and fittings in the PRC
Hefei Qingfangcheng Baoye Real Estate Co., Ltd. *(Note 36(A))*	PRC, limited liability company	90%	9.9%	RMB30,000,000	Development and sales of properties in the PRC

11. Interests in subsidiaries (continued)

Name	Place of incorporation and kind of legal entity	Attributable equity interest held		Registered capital	Principal activities and place of operation
		Directly	*Indirectly*		
Anhui Huateng Investment Company Limited *(Note 36 (B))*	PRC, limited liability company	–	75.0%	RMB20,000,000	Development and sales of properties in the PRC
Zhejiang Baoye Gardening Co., Ltd.	PRC, limited liability company	60%	39.6%	RMB5,000,000	Provision of garden engineering service
Baoye Group Hubei Company Limited	PRC, limited liability company	90%	10%	RMB60,000,000	Investment holdings

12. Inventories

	Group	
	2005	2004
	RMB'000	*RMB'000*
Raw materials	**21,620**	17,616
Work in progress	**9,172**	5,683
Finished goods	**23,441**	14,015
	54,233	37,314

As at 31 December 2005, no inventory is carried at net realisable value (2004: Nil).

13. Due from/(to) customers on construction contracts

The aggregate amount of costs incurred plus recognised profits (less recognised losses) and progress billing for all contracts in progress at the balance sheet date are as follows:

	Group	
	2005	2004
	RMB'000	*RMB'000*
Contract costs incurred plus recognised profits (less recognised losses) to date	**12,006,910**	8,242,626
Less: progress billings to date	**(11,878,128)**	(8,160,564)
	128,782	82,062
Represented by:		
Due from customers on construction contracts	**517,919**	412,580
Due to customers on construction contracts	**(389,137)**	(330,518)
	128,782	82,062

As at 31 December 2005, retentions and project deposits held by customers for contract work included in other receivables of the Group under Note 15 amounted to RMB471,577,000 (2004: RMB451,302,000).

14. Trade receivable

	Group	
	2005	2004
	RMB'000	*RMB'000*
Trade receivable	**399,470**	329,693
Less: provision for doubtful debts	**(12,247)**	(9,141)
	387,223	320,552

The provision for doubtful debts has been included in administrative expenses in the income statement.

14. Trade receivable (continued)

As at 31 December 2005, the ageing analysis of trade receivable is as follows:

	2005	2004
	RMB'000	*RMB'000*
Within 3 months	**214,652**	244,138
3 months to 1 year	**138,534**	52,182
1 to 2 years	**36,352**	26,635
2 to 3 years	**9,552**	6,037
Over 3 years	**380**	701
	399,470	329,693

Customers are generally granted credit terms of 1 to 3 months for construction business, 1 to 12 months for building materials business and no credit terms for property development business.

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

15. Other receivables

	Group		**Company**	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deposits for acquisitions	**43,000**	–	**43,000**	–
Deposits for a real estate development project	**50,000**	50,000	**50,000**	50,000
Prepayments and other deposits	**28,765**	25,160	**–**	8
Amounts due from minority shareholders	**–**	24,127	**–**	–
Amount due from a shareholder	**–**	421	**–**	–
Advances to a jointly controlled entity	**–**	45,500	**–**	91,000
Amounts due from a jointly controlled entity	**–**	–	**–**	3,184
Other receivables	**94,342**	63,916	**19,785**	21,872
Retention money receivables and project deposits *(Note 13)*	**471,577**	451,302	**–**	–
	687,684	660,426	**112,785**	166,064

The net book value of other receivables approximates their fair value.

16. Restricted bank deposits

The restricted bank deposits represented the deposits confined to be used for tender bidding or to guarantee the performance of certain construction contracts work and notes payable.

17. Cash and cash equivalents

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at bank and in hand	**614,207**	433,877	**50,200**	40,734
Short-term deposits	**128,082**	110,000	**125,550**	–
	742,289	543,877	**175,750**	40,734

The effective interest rates for the year of the short-term bank deposits of the Group and the Company are 1.96% (2004: 1.62%) and 1.95% (2004: Nil) respectively, and these deposits have original maturities of three months or less.

As at 31 December 2005, approximately RMB737,421,000 (2004: RMB522,257,000) and RMB4,868,000 (2004: RMB21,620,000) of the cash and cash equivalents of the Group were denominated in RMB and HKD respectively.

18. Share capital

The movements of share capital are as follows:

	Number of shares *(thousands)*	**Ordinary shares** *RMB'000*	**Share premium** *RMB'000*	**Total** *RMB'000*
At 1 January 2004 and 31 December 2004	531,426	531,426	56,150	587,576
Issue of new H shares *(Note (a))*	79,501	79,501	286,658	366,159
At 31 December 2005	**610,927**	**610,927**	**342,808**	**953,735**

(a) In January and November 2005, the Company issued 36,136,800 and 43,364,160 new H shares with a par value of RMB1.00 each at HKD4.05 (equivalent to approximately RMB4.30) and HKD4.85 (equivalent to approximately RMB5.04) each respectively. All the shares were fully paid up in form of cash, resulting in an increase in share premium of RMB286,658,000 after deducting the costs directly attributable to the issue of RMB8,101,000.

19. Other reserves

Group

	Investment properties revaluation reserve RMB'000	Other public revaluation reserve RMB'000	Statutory surplus reserve RMB'000 (Note (a))	Statutory assets welfare fund RMB'000 (Note (b))	Total RMB'000
Balance at 1 January 2004	1,240	7,551	21,656	10,828	41,275
Transfer to income statement upon the sale of completed properties	–	(3,680)	–	–	(3,680)
Appropriation from retained earnings	–	–	27,388	13,694	41,082
Balance at 31 December 2004	1,240	3,871	49,044	24,522	78,677

19. Other reserves (continued)

	Investment properties revaluation reserve *RMB'000*	Other assets revaluation reserve *RMB'000*	Statutory surplus reserve *RMB'000* *(Note (a))*	Statutory public welfare fund *RMB'000* *(Note (b))*	Total *RMB'000*
Balance at 1 January 2005	1,240	3,871	49,044	24,522	78,677
Opening adjustment for the adoption of HKAS 40 *(Note 2.1)*	(1,240)	–	–	–	(1,240)
Balance at 1 January 2005, as restated	–	3,871	49,044	24,522	77,437
Revaluation of buildings – gross *(Note 8(b))*	–	912	–	–	912
Revaluation of buildings – tax *(Note 24)*	–	(301)	–	–	(301)
Acquisition of equity interest in a jointly controlled entity from another joint venturer *(Note 36(A))*	–	120,110	–	–	120,110
Appropriation from retained earnings	–	–	25,151	12,575	37,726
Balance at 31 December 2005	**–**	**124,592**	**74,195**	**37,097**	**235,884**

19. Other reserves (continued)

Company

	Statutory surplus reserve RMB'000 (Note (a))	Statutory public welfare fund RMB'000 (Note (b))	Total RMB'000
Balance at 1 January 2004	21,656	10,828	32,484
Appropriation from retained earnings	27,388	13,694	41,082
Balance at 31 December 2004	49,044	24,522	73,566
Balance at 1 January 2005	49,044	24,522	73,566
Appropriation from retained earnings	25,151	12,575	37,726
Balance at 31 December 2005	**74,195**	**37,097**	**111,292**

(a) Statutory surplus reserve

The Group is required each year to transfer 10% of the profit after tax as reported in the PRC statutory accounts 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.

(b) Statutory public welfare fund

The Group is required each year to transfer 5% to 10% of the profit after tax as reported in the PRC statutory accounts 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.

20. Trade payable

As at 31 December 2005, the ageing analysis of trade payable is as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 3 months	**231,944**	117,956	**594**	–
3 months to 1 year	**104,404**	140,881	**–**	150
1 to 2 years	**29,436**	17,999	**–**	–
2 to 3 years	**2,938**	4,356	**–**	–
Over 3 years	**5,658**	2,307	**–**	–
	374,380	283,499	**594**	150

21. Other payables

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Amounts due to minority shareholders *(Note (a))*	**1,916**	1,488	**–**	–
Amounts due to shareholders *(Note (a))*	**6,660**	7,217	**–**	–
Amount due to a jointly controlled entity	**–**	12,807	**–**	–
Other payables	**230,627**	126,712	**86,894**	20,302
Other taxes payables	**76,730**	90,429	**–**	7,051
Deposits from project managers	**113,601**	79,763	**–**	–
Accruals	**3,235**	2,205	**1,500**	1,500
	432,769	320,621	**88,394**	28,853

(a) The balances with shareholders and minority shareholders were unsecured, interest free and had no fixed repayment terms.

The amounts due to minority shareholders mainly represented the dividend payable to minority shareholders, which have not been paid out as at 31 December 2005.

The amounts due to shareholders mainly represented the deposits received from shareholder in relation to their management of execution of construction contract of the Group.

22. Provision for warranty

	Group	
	2005	2004
	RMB'000	*RMB'000*
At 1 January 2005	**2,620**	5,000
Additional provisions made in the consolidated income statement	**3,200**	2,400
Used during the year	**(1,950)**	(4,780)
At 31 December 2005	**3,870**	2,620

The Group gives warranty on construction work and undertakes to repair construction work that is not satisfactory for periods which range from 6 months to 5 years. Provision has been recognised for expected warranty claims based on the past experience of the level of repairs. The provision to the extent of RMB3,200,000 and RMB670,000 is expected to be used during the year of 2006 and during the year of 2007 respectively.

23. Borrowings

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Short-term bank loans				
– Unsecured	**883,000**	866,000	**310,000**	350,000
– Secured	**197,513**	111,000	**46,000**	46,000
	1,080,513	977,000	**356,000**	396,000

(a) As at 31 December 2005, the secured short-term bank loans of RMB197,513,000 (2004: RMB111,000,000) were secured by the land use rights of the Group with a total net book value amounting to RMB306,230,000 (2004: RMB69,372,000).

(b) Interests rates of these loans were 5% to 7% (2004: 5% to 6%) per annum for the year ended 31 December 2005.

(c) All the carrying amounts of the borrowings are denominated in RMB and approximate their fair value.

24. Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The amounts shown in balance sheet include the following:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred tax assets:				
– Deferred tax assets to be recovered after more than 12 months	**12,178**	7,515	**–**	–
– Deferred tax assets to be recovered within 12 months	**10,666**	5,494	**–**	–
	22,844	13,009	**–**	–
Deferred tax liabilities:				
– Deferred tax liabilities to be settled after more than 12 months	**(95,532)**	(5,400)	**(679)**	(679)
– Deferred tax liabilities to be settled within 12 months	**(39,438)**	(99)	**–**	–
	(134,970)	(5,499)	**(679)**	(679)

24. Deferred income tax (continued)

The gross movement on deferred income tax account is as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Beginning of the year	**7,510**	231	**(679)**	–
Acquisition of equity interest in a jointly controlled entity from another joint venturer *(Note 36(A))*	**(115,309)**	–	**–**	–
Acquisition of a subsidiary *(Note 36(B))*	**(3,171)**	–	**–**	–
Recognised in the income statement *(Note 29)*	**(855)**	7,279	**–**	(679)
Tax charged to equity *(Note 19)*	**(301)**	–	**–**	–
End of the year	**(112,126)**	7,510	**(679)**	(679)

24. Deferred income tax (continued)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets
Group

	Provision for doubtful receivables *RMB'000*	Tax losses *RMB'000*	Unrealised profit resulting from intragroup transactions *RMB'000*	Total *RMB'000*
At 1 January 2004	6,273	–	–	6,273
Recognised in the income statement	(892)	2,223	5,405	6,736
At 31 December 2004	5,381	2,223	5,405	13,009
Recognised in the income statement	1,668	4,090	1,068	6,826
Acquisition of equity interest in a jointly controlled entity from another joint venturer *(Note 36(A))*	–	3,009	–	3,009
At 31 December 2005	**7,049**	**9,322**	**6,473**	**22,844**

24. Deferred income tax (continued)

Deferred tax liabilities

	Group				Company
	Accelerated tax depreciation	Revaluation of assets	Interest expense capitalised	Total	Interest expense capitalised
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2004	(538)	(4,458)	(1,046)	(6,042)	–
Recognised in the income statement	(139)	1,933	(1,251)	543	(679)
At 31 December 2004	(677)	(2,525)	(2,297)	(5,499)	(679)
Charged to equity *(Note 19)*	–	(301)	–	(301)	–
Recognised in the income statement	246	(7,567)	(360)	(7,681)	–
Acquisition of equity interest in a jointly controlled entity from another joint venturer *(Note 36(A))*	–	(118,318)	–	(118,318)	–
Acquisition of a subsidiary *(Note 36(B))*	–	(3,171)	–	(3,171)	–
At 31 December 2005	**(431)**	**(131,882)**	**(2,657)**	**(134,970)**	**(679)**

Deferred income tax assets are recognised for tax loss carried forward to the extent that the realisation of the related tax benefits through future taxable profits is probable.

25. Other gains – net

	2005 **RMB'000**	2004 *RMB'000*
Excess of interest in the acquired net assets from minority shareholders over cost *(Note (a))*	**26,435**	–
Excess of the fair value of the net assets of a subsidiary acquired over the cost *(Note 36(B))*	**3,549**	–
Interest income	**34,925**	26,422
Fair value gains on investment properties *(Note 8)*	**25,069**	–
Gain on disposals of investment property	**2,990**	–
Losses on disposals of property, plant and equipment and land use rights due to relocation of certain production plants *(Note (b))*	**(28,698)**	–
Government compensation *(Note (b))*	**58,650**	30,861
Gains on disposals of other property, plant and equipment and land use rights	**9,835**	6,779
Others	**3,636**	3,378
	136,391	67,440

(a) In February 2005, the Company entered into an acquisition agreement with Mr. Pang Baogen ("Mr. Pang"), the chairman of the Board of Directors of the Company and the substantial shareholder of the Company, to acquire his 19% equity interest in Baoye Building Materials, a subsidiary of the Company, at a cash consideration of RMB11,514,000. In addition, in April 2005, two subsidiaries of the Company, namely Baoye Real Estate and Baoye Steel Structure, also entered into another two acquisition agreements with another two minority shareholders of Baoye Building Materials, to acquire additional 15% and 1% equity interest in Baoye Building Materials at cash considerations of RMB11,327,000 and RMB808,000 respectively.

The carrying amount of 19%, 15% and 1% equity interest in Baoye Building Materials at the transaction date is approximately RMB27,189,000, RMB21,465,000 and RMB1,430,000, respectively. The difference between the above considerations and the net book value of equity interest acquired totalling RMB26,435,000 was recognised directly in the income statement.

(b) These losses on disposals of property, plant and equipment and land use rights were mainly caused by relocation of certain production plants at the request of the local government authorities according to the town plan.

Government compensation represents the amount received/receivable from the local government authorities for the losses on disposals of the property, plant and equipment and land use rights and the loss of business arising from relocation of production plants as mentioned above.

26. Expenses by nature

Expenses included in cost of sales, selling and marketing costs and administrative expenses are analysed as follows:

	2005 **RMB'000**	2004 RMB'000
Depreciation of property, plant and equipment *(Note 7)*	**38,661**	29,494
Amortisation of land use rights charged into income statement	**3,108**	1,278
Employee benefit expenses *(Note 27)*	**790,849**	672,105
Cost of inventories and completed properties held for sale	**3,506,969**	3,238,864
Operating leases of buildings	**4,507**	2,939
Auditors' remuneration	**1,800**	1,500
Others	**63,782**	62,982
	4,409,676	4,009,162

27. Employee benefit expenses

	2005 **RMB'000**	2004 RMB'000
Wages and salaries	**781,219**	663,611
Welfare, medical and other expenses	**6,706**	5,673
Retirement benefit costs – defined contribution plans *(Note (a))*	**2,924**	2,821
	790,849	672,105

(a) Retirement benefit costs

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 in the PRC at 19% to 20% (2004: 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.

27. Employee benefit expenses (continued)

(b) Directors' emoluments

The remuneration of each director for the year ended 31 December 2005 is set out below.

Name of directors	Fees	Salaries, bonuses and allowances	Retirement benefits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Pang Baogen	–	600	3	603
Gao Jiming	–	450	3	453
Zhou Hanwan	–	450	3	453
Gao Lin	–	450	3	453
Wu Weimin	38	–	–	38
Hu Shaozeng	38	–	–	38
Wang Youwei	38	–	–	38
Yi Deqing	38	–	–	38
Dennis Yin Ming Chan	187	–	–	187
	339	1,950	12	2,301

27. Employee benefit expenses (continued)

(b) Directors' emoluments (continued)

The remuneration of each director for the year ended 31 December 2004 is set out below:

Name of directors	**Fees** *RMB'000*	**Salaries, bonuses and allowances** *RMB'000*	**Retirement benefits** *RMB'000*	**Total** *RMB'000*
Pang Baogen	–	552	3	555
Gao Jiming	–	420	3	423
Zhou Hanwan	–	420	2	422
Gao Lin	–	420	2	422
Wu Weimin	25	–	–	25
Hu Shaozeng	25	–	–	25
Wang Youwei	25	–	–	25
Yi Deqing	25	–	–	25
Xu Yangsheng *(Note (i))*	127	–	–	127
Guo Linguang *(Note (i))*	57	–	–	57
Dennis Yin Ming Chan	56	–	–	56
	340	1,812	10	2,162

During the years ended 31 December 2005 and 2004, no director waived any emoluments. Neither incentive payment for joining the Group nor compensation for loss of office was paid or payable to any directors during the years ended 31 December 2005 and 2004.

(i) These two directors have resigned during the year ended 31 December 2004.

27. Employee benefit expenses (continued)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2004: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2004: one) individual during the year are as follows:

	2005 *RMB'000*	2004 *RMB'000*
Basic salaries and allowances	**960**	84
Bonuses	**–**	468
Retirement benefits	**–**	3
	960	555

The emoluments for the above senior management fell within the band of HKD nil to HKD1,000,000 during the years ended 31 December 2005 and 2004.

28. Finance costs

	2005 *RMB'000*	2004 *RMB'000*
Interest on bank loans	**48,030**	42,137
Less: interest capitalised in construction in progress	**(1,094)**	(4,657)
Less: interest capitalised in properties under development	**(17,051)**	(13,499)
	29,885	23,981

The capitalisation rates applied to funds borrowed generally and used for the development of properties and construction in progress were approximately 4.9% (2004: 5.3%) per annum.

29. Income tax expense

(i) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the year (2004: Nil).

(ii) PRC Enterprise Income Tax

The Company and its subsidiaries are subject to PRC Enterprise Income Tax ("EIT") at a rate of 33% (2004: 33%). The amount of income tax expenses charged to the consolidated income statement represents:

	2005 **RMB'000**	2004 RMB'000
Current income tax		
– PRC enterprise income tax	**111,874**	127,288
Deferred income tax *(Note 24)*	**855**	(7,279)
	112,729	120,009

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

	2005 **RMB'000**	2004 RMB'000
Profit before income tax	**420,627**	412,731
Calculated at a tax rate of 33% (2004: 33%)	**138,806**	136,201
Effect of partial income tax exemption *(Note (a) and (b))*	**(16,444)**	(19,728)
Income not subject to tax	**(9,890)**	–
Expenses not deductible for tax purposes	**257**	838
Unrecognised tax losses	**–**	2,702
Utilisation of previously unrecognised tax losses	**–**	(4)
Income tax expense	**112,729**	120,009

(a) According to the tax circulars, Shaoxingdishui Qianqingzi 2005 No. 001 to No. 005, five subsidiaries of the Company, namely, Baoye Real Estate, Baoye Construction, Baoye Fireproof Materials, Guangyi Decoration and Baoye Curtain Wall, are entitled to a 10% (2004: 10%) reduction of their enterprise income taxes as they are qualified as country enterprise in the PRC.

(b) According to the tax circulars, Zhidishuizi 2004 No. 93 and 94 issued by the local tax bureau of Shaoxing County, two subsidiaries of the Company, Baoye Building Materials and Baoye New Building Materials are entitled to an income tax credit of 40% on the purchase cost of certain qualified equipment manufactured in the PRC.

30. Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB136,472,000 (2004: RMB109,630,000).

31. Earnings per share

Basic

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2005	2004
Profit attributable to equity holders of the Company *(RMB'000)*	**304,226**	275,082
Weighted average number of ordinary shares in issue *(thousands shares)*	**566,965**	531,426
Basic earnings per share (RMB)	**RMB0.537**	RMB0.518

Diluted

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

32. Dividends

	2005 ***RMB'000***	2004 *RMB'000*
Proposed final dividend of RMB0.12 (2004: RMB0.1436) per ordinary share	**73,311**	81,502

The dividends paid during the years ended 31 December 2005 and 2004 were RMB81,502,000 (RMB0.1436 per share) and RMB33,746,000 (RMB0.0635 per share) respectively. A dividend in respect of the year 2005 of RMB0.12 per share, amounting to a total dividend of RMB73,311,000 is to be proposed at the annual general meeting of the Company to be held on 1 June 2006 and will be payable thereafter upon shareholders' approval at the meeting. These financial statements do not reflect this dividend payable in the relevant accounts.

33. Cash generated from operations

	2005 *RMB'000*	2004 *RMB'000*
Profit for the year	**307,898**	292,722
Adjustments for:		
Income tax expense	**112,729**	120,009
Depreciation	**38,661**	29,494
Amortisation of goodwill	**–**	79
Amortisation of land use rights	**3,108**	1,278
Losses/(gains) on sale of property, plant and equipment	**18,863**	(6,779)
Gains on sale of investment property	**(2,990)**	–
Excess of interest in the acquired net assets from minority shareholders over cost *(Note 25(a))*	**(26,435)**	–
Excess of the fair value of the net assets of a subsidiary acquired over the cost *(Note 36(B))*	**(3,549)**	–
Fair value gains on investment properties	**(25,069)**	–
Interest income	**(34,925)**	(26,422)
Interest expenses	**29,885**	23,981
Changes in working capital (excluding the effects of acquisition):		
Decrease/(increase) in properties under development, completed properties held for sale and land use rights for properties development	**255,577**	(232,958)
Increase in restricted bank deposits	**(61,691)**	(5,766)
Increase in inventories	**(16,919)**	(15,347)
Increase in balances with customers on construction contracts	**(46,720)**	(58,994)
Increase in trade and other receivables	**(92,949)**	(263,556)
(Decrease)/increase in trade and other payables, receipts in advances and provision for warranty	**(235,314)**	199,578
Cash generated from operations	**220,160**	57,319

33. Cash generated from operations (continued)

In the cash flow statement, proceeds from sale of property, plant and equipment and land use rights comprise:

	2005 RMB'000	2004 RMB'000
Net book amount *(Note 6 and Note 7)*	**31,438**	4,969
Gains/(losses) on sale of property, plant and equipment and land use rights	**(18,863)**	6,779
Proceeds from sale of property, plant and equipment and land use rights	**12,575**	11,748

34. Contingencies

	Group		Company	
	2005 RMB'000	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
Guarantees given to banks in respect of mortgage facilities granted to third parties	**67,500**	58,690	**–**	–
Guarantees given to banks in respect of bank loans granted to subsidiaries	**–**	–	**500,000**	456,000

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 Group. The banks will release such guarantees upon the building ownership certificates of such properties are delivered to the banks as security.

The Company has executed guarantees amounting to approximately RMB690,000,000 (2004: RMB686,000,000) with respect to banking facilities made available to subsidiaries. As at 31 December 2005, the borrowings outstanding against the facilities amounted to RMB500,000,000 (2004: RMB456,000,000).

35. Capital commitments

(a) Commitments for properties under development

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted but not provided for	**14,094**	–	**–**	–

(b) Operating lease commitments – where a Group is the leassee

The lease expenditure expensed in the income statement during the year is disclosed in Note 26.

As at 31 December 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2005	2004
	RMB'000	*RMB'000*
Not later than one year	**844**	979
Later than one year and not later than five years	**165**	86
	1,009	1,065

36. Business combinations

(A) Acquisition of 50% equity interest in a jointly controlled entity from another joint venturer

As at 31 December 2004, the Group holds a 50% equity interest in a jointly controlled entity, Hefei Qingfangcheng Baoye Real Estate Co., Ltd. ("Hefei Qingfangcheng"), a limited liability company incorporated in the PRC and mainly engaged in development and sale of properties.

On 23 December 2005, the Company and its subsidiary, Baoye Real Estate, entered into an agreement with China Qingfangcheng Group Chuxiong Real Estate Company Limited (the "Seller"), another joint venture partner of Hefei Qingfangcheng, to acquire an additional 50% equity interest of Hefei Qingfangcheng at a consideration of RMB145,000,000 (the "Acquisition Transaction").

Hefei Qingfangcheng did not contribute any revenue and suffer a net loss of RMB32,000 for the period from the acquisition date to 31 December 2005.

(i) *Details of the net assets acquired and goodwill are as follows:*

	RMB'000
Purchase consideration:	
– Cash paid during the year 2005	65,000
– Cash to be paid after 31 December 2005 (recorded as other payables in the consolidated balance sheet)	80,000
Total purchase consideration	145,000
Fair value of net assets acquired – refer to (ii) below	(129,002)
Goodwill	15,998

36. Business combinations (continued)

(A) Acquisition of 50% equity interest in a jointly controlled entity from another joint venturer (continued)

(ii) Fair value of net assets acquired – 50% equity interest held by the Seller

The assets and liabilities arising from the Acquisition Transaction are as follows:

	Fair value *RMB'000*	Carrying amount *RMB'000*
Cash and cash equivalents	12,623	12,623
Property, plant and equipment	430	430
Deferred income tax assets	3,009	3,009
Properties under development and land use rights	326,899	147,630
Receivables	9,903	9,903
Payables	(139,703)	(139,703)
Borrowings	(25,000)	(25,000)
Net deferred tax liabilities	(59,159)	–
Net assets acquired	129,002	8,892

The properties under development and land use rights were revalued by an independent qualified valuer. Fair values of other working capital items and properties, plant and equipment are stated at their carrying amount at the acquisition date.

(iii) Cash flow on acquisition

	RMB'000
Purchase consideration settled in cash	65,000
Cash and cash equivalents in the jointly controlled entity acquired	(12,623)
Cash outflow on acquisition	52,377

(iv) Impact of fair value adjustments on the original 50% equity interest held by the Company

	RMB'000
Fair value	129,002
Carrying amount	(8,892)
Assets revaluation reserve *(Note 19)*	120,110

36. Business combinations (continued)

(B) Acquisition of 75% equity interest in Anhui Huateng Investment Company Limited ("Anhui Huateng")

During the year, the Group acquired 75% equity interest of Anhui Huateng, a limited liability company incorporated in the PRC and its assets mainly included the land use rights and properties under development. Anhui Huateng did not contribute any revenue and suffered a net loss of RMB681,000 for the period from the acquisition date to 31 December 2005.

(i) Details of the net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration:	
– Cash paid	15,000
Fair value of net assets acquired – refer to (ii) below	(18,549)
Excess of the fair value of the net assets acquired over the acquisition costs	(3,549)

The excess of the fair value of the net assets acquired over the acquisition costs was recorded as other gains in the consolidated income statement for the year ended 31 December 2005 (see Note 25).

(ii) The assets and liabilities arising from the acquisition are as follows:

	Fair value *RMB'000*	Carrying amount *RMB'000*
Cash and cash equivalents	679	679
Property, plant and equipment	241	241
Properties under development and land use rights	86,293	76,666
Receivables	86	86
Payables	(59,382)	(59,382)
Net deferred tax liabilities	(3,171)	–
Net assets	24,746	18,290
Minority interest (25%)	(6,197)	
Net assets acquired	18,549	

The properties under development and land use rights of Anhui Huateng were revalued by an independent qualified valuer. Fair values of other working capital items are stated at their carrying amount at the acquisition date.

36. Business combinations (continued)

(B) Acquisition of 75% equity interest in Anhui Huateng Investment Company Limited ("Anhui Huateng") (continued)

(iii) Cash flow on acquisition

	RMB'000
Purchase consideration settled in cash	15,000
Cash and cash equivalents in a subsidiary acquired	(679)
Cash outflow on acquisition	14,321

37. Related party transactions

The Group is controlled by Mr. Pang Baogen, who owns 32.53% share interest of the Company as at 31 December 2005.

Apart from the related party transactions and balances already disclosed in Note 25(a) and 21(a), the Group had the following significant related party transactions during the year ended 31 December 2005.

Key management compensation

	2005 **RMB'000**	2004 *RMB'000*
Salaries and other short-term employee benefits	**2,550**	2,404

38. Events after the balance sheet date

(a) Business combination

On 21 February 2006, the Group acquired the 100% equity interest of 11 companies and the ownership of a guest house located in Hubei province from Hebei Construction Engineering Holding Company at an aggregate consideration of approximately of RMB132,855,000. The management of the Company are in the progress of assessing the identifiable assets and liabilities of the acquired business and is not yet in a position to state the results of assessment.

(b) Short-term commercial paper

The shareholders of the Company approved to issue short-term commercial paper in the Extraordinary General Meeting held on 10 March 2006, with a maximum outstanding repayment amount of RMB500,000,000. The maturity period of the short-term commercial paper shall be no more than 365 days from the date of its issue. The price, interest rate, underwriting arrangement and other details of the short-term commercial paper shall be determined by the Board, taking into account the market conditions and terms and conditions to be proposed by the underwriter.

The Company intend to use the proceeds from the issue of short-term commercial paper as working capital and repayment of short-term bank loans.

Definition

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

The Company/Baoye	Baoye Group Company Limited, a joint stock limited company incorporated in the PRC and listed in the Main Board of HKEx
The Group/Baoye Group	Baoye Group Limited and its subsidiaries
Baoye Construction	Zhejiang Baoye Construction Group Company Limited, a subsidiary of the Group
Baoye Real Estate	Zhejiang Baoye Real Estate Group Company Limited, a subsidiary of the Group
Baoye Industrialization	Zhejiang Baoye Building Materials Industrialization Company, a subsidiary of the Group
Hefei Bayoe	Hefei Qingfangcheng Baoye Real Estate Co., Ltd.
construction business	The activities of undertaking and implementation of construction projects conducted by the Group
property development business	The activities of development of real estate conducted by the Group
building materials business	The activities of research and development, production and sale of building materials conducted by the group
Listing Rules	The Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
Securities and Futures Ordinance	Securities and Futures Ordinance, Chapter 571 of Laws of Hong Kong
H share	Oversea listed Foreign Share of nominal value RMB1.00 each in the registered capital of the Company, which are listed on the Stock Exchange of Hong Kong Limited, and subscribed for in HK dollars
HKEx	The Stock Exchange of Hong Kong Limited
Board	The Board of Directors of Baoye Group Company Limited

Supervisory Committee	The Supervisory Committee of Baoye Group Company Limited
Prospectus	The Prospectus of the Company dated 17th Jun 2003
Daiwa House	Japan's Daiwa House Industry Co., Ltd.
Hubei Construction Group	12 state-owned corporate units, namely, (1) Hubei Construction and Engineering Group Company Limited; (2) Hubei Construction and Engineering Holding Company First Construction Company; (3) Hubei Construction and Engineering Holding Company Second Construction Company; (4) Hubei Construction and Engineering Holding Company Third Construction Company; (5) Hubei Construction and Engineering Holding Company Firth Construction Company; (6) Hubei Construction and Concrete Production Company Limited; (7) Hubei Property Development Holding Company; (8) Hubei Construction and Engineering Holding Company Mechanical Construction Company; (9) Hubei Construction Material Trading Company limited; (10) Hubei Construction and Engineering Holding Company Industrial Equipment Assembling Company; (11) Hubei Construction and Engineering Holding Company Technical College; and (12) Hubei Construction and Engineering Holding Company Guest House

Information for Shareholders

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

Non-executive Directors
Mr. Hu Shaozeng

Independent Non-executive Directors
Mr. Wang youwei
Mr. Yi Deqing
Mr. Dennis Yin Ming Chan

Supervisory Committee
Supervisors
Mr. Sun Guofan, *Chairman of Supervisory Committee*
Mr. Xie Qisheng

Independent Supervisors
Mr. Chen Xingquan
Mr. Li Yongsheng
Mr. Zhang Xindao

Audit Committee
Mr. Wang Youwei, *Chairman*
Mr. Yi Deqing
Mr. Dennis Yin Ming Chan

Remuneration Committee
Mr. Dennis Yin Ming Chan, *Chairman*
Mr. Yi Deqing
Mr. Pang Baogen

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Important Dates in 2006

Events	Date
Closure of register of members of the Company	3 May 2006 to 1 June 2006 (both days inclusive)
Annual General Meeting of 2005	1 June 2006
Payment date of final dividend of 2005	12 July 2006