· THE LEADING ·

China's Operator Towards Urbanisation

Annual Report 2006

BAOYE GROUP COMPANY LIMITED

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

(Stock Code : 2355)

Our Mission

"From construction to manufacturing", leads construction industry towards industrialisation in China .

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Corporate Profile

Business Structure

Baoye Group Company Limited

Building Materials Business

- Steel Structure
- Glass Curtain Wall
- Wood Products and Interior Decorations
- Ready-mixed Concrete
- Concrete Pipes and Ducts
- Large Roof Sheathings
- Fireproof Materials

Construction Business

- Government and Public Buildings
- Urban Facilities and Infrastructure
- Commercial Buildings
- Residential Buildings
- Industrial Buildings
- Electrical and Electronic Installation
- Fireproof Facilities Installation
- Curtain Wall Installation
- Gardening and Landscape

Property Development Business

- Shaoxing "Linjiang Green Garden"
- Hefei "City Green Garden"
- Hefei "Zhejiang Commercial City"
- Shanghai "Jing'an Ziyuan"
- Shaoxing "Baoye Four Seasons Garden"

Corporate Profile *(continued)*

Business Network

Building Materials Business

- Shaoxing Housing Industrial Park
- Hefei Housing Industrial Park
- Wuhan Housing Industrial Park (proposed)

Construction Business

- Zhejiang
- Shanghai
- Jiangsu
- Auhui
- Hubei
- Jiangxi
- Beijing
- Tianjin
- Hebei
- Shandong
- Henan
- Liaoning
- Hunan

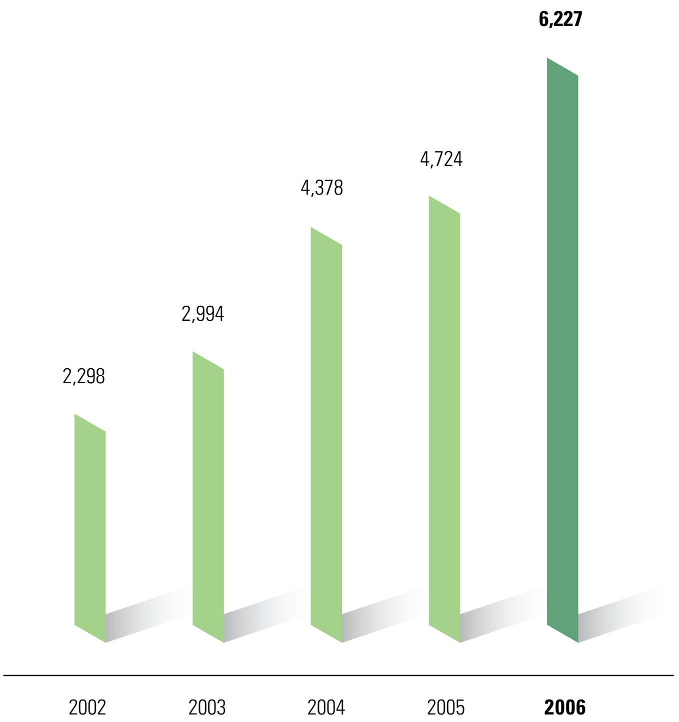
Property Development Business

- Hefei
- Wuhan
- Shanghai
- Shaoxing

Financial Highlights

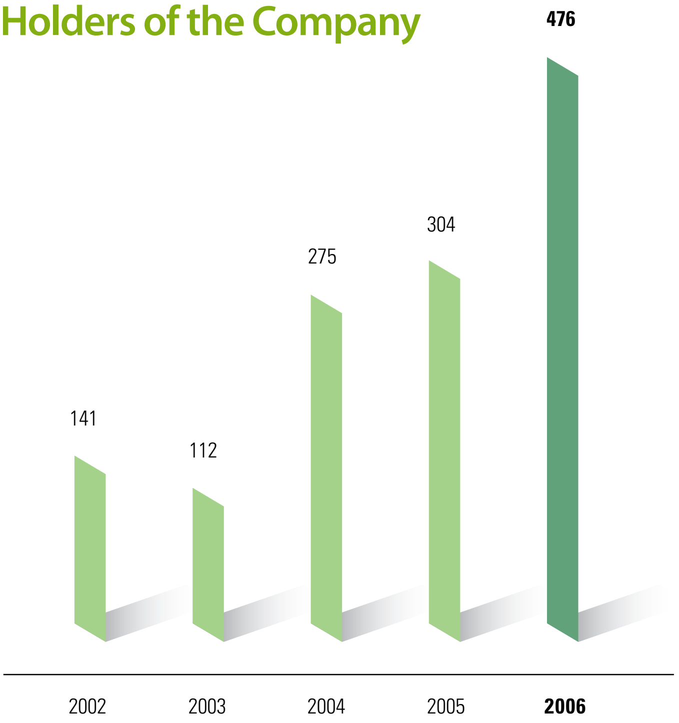
Growth in Revenue

(in RMB million)



Growth in Profit Attributable to Equity Holders of the Company

(in RMB million)



Financial Highlights *(continued)*

	Year Ended 31 December				
	2006	2005	2004	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
Revenue	**6,227,853**	4,723,797	4,378,434	2,994,472	2,297,526
Profit attributable to equity holders of the Company	**476,032**	304,226	275,082	112,409	141,075
Earnings per share (RMB)	**0.779**	0.537	0.518	0.255	0.402
ASSETS AND LIABILITIES					
Total Assets	**5,771,319**	4,556,918	3,601,450	2,539,428	1,378,971
Total Liabilities	**3,582,065**	2,728,887	2,442,808	1,723,020	921,426
Equity Holders' Funds	**2,189,254**	1,828,031	1,158,642	816,408	457,545

Key Financial Ratios

	As at 31 December	
	2006	2005
Return on equity	**22.2%**	17.3%
Net assets value per share (RMB)	**3.51**	2.89
Net gearing ratio	**15%**	14%
Current ratio	**1.09**	1.33

Chairman's Statement

Mr. Pang Baogen
Chairman

I have the pleasure to report to our shareholders the audited consolidated financial results of the Group for the year ended 31 December 2006. The Group achieved a consolidated revenue of RMB6,227,853,000, up 32% compared to the preceding year; profit attributable to equity holders amounted to RMB476,032,000, increased 56% over last year, earnings per share was RMB0.779, representing an increase of 45% compared to the previous year. The Board proposed a final dividend of RMB0.07 per share for the year ended 31 December 2006.

With a solid foundation, the Group's three main business activities achieved a healthy and steady growth with impressive operating results in the year of 2006. On top of consolidating the markets in Yangtze River Delta and Anhui, we exploited markets in Hubei and Central China through the acquisition of the Hubei Construction Group. In 2006, the new markets in Northern China contributed significantly to the growth of the Group's construction business and built a strong foundation for future expansion of the construction, property development and building materials markets in Northern China. The Group has basically laid out the foundation in adopting the strategy of "embarking Zhejiang and Yangtze River Delta and covering the whole nation".

Chairman's Statement *(continued)*

Corporate Strategy

In China, many enterprises enter the real estate industry after enjoying success in their own businesses. This is one of the reasons leading to the real estate bubble. In 2006, the PRC Government launched another series of macroeconomic control policies and measures to regulate the real estate market. The implementation of these policies and measures gradually cooled down the real estate market. As a result, those enterprises with less financial strength are at grave risks, even of closing down. Despite all these tough challenges, the Group closely observed and monitored the situation, developed a long term strategic positioning according to the changes in the business environment as well as established business and profit models and regularly adjusted them. We took advantage of our "three-in-one" business model to strictly control our costs, tap new resources and minimise expenses. We also revised our business strategy, effectively avoiding any effects brought about by the macroeconomic control policies and measures on the Group's business.

On 8 March 2006, the Group signed a co-operative agreement with Daiwa Japan, pursuant to which the two parties co-developed technology advancement skills for the manufacture of industrialised residential units. It helped the Group consolidate its leading position in the field of industrialisation of construction. Since then, Daiwa Japan has already deployed a team of engineering experts to station at the Group's Shaoxing Housing Industrial Park in Keqiao. The Group has also sent a team of engineers to Japan in exchange of ideas and experiences. We have applied for patent rights for our co-developed "exterior wall panel" and "exterior wall panel manufacture rack" technologies. During the year, we established Zhejiang Baoye Group Construction Research Institute, a "province-rank" high technology development centre for scientific research on the Group's industrialisation of construction. It is the core technology and talent training base of the Group as well as the driver for building core competitiveness.

In recent years, the Group has been devoted to replicating the Zhejiang business model. That is to set up several regional management centres in China comprising construction groups, property development groups and building materials groups. Since we entered the Anhui market in 2002, the Group has become one of the three big local enterprises and Anhui Baoye Group has emerged following the acquisition of Hefei Baoye in 2005. During the year, the Group acquired the Hubei Construction Group, making a stir in the PRC construction industry. The three main business of the Group then directly and quickly entered the Hubei market, forming the Hubei Baoye Group. The Board believes that as we expand our business in Northern China, Northern Baoye Group will foster the Group's rapid development in that region in the near future.

During the year, the Group held meetings with several big real estate groups in the PRC, in which we discussed future strategic co-operation and formation of alliances. Once we conclude an alliance or co-operative agreement, the Group will take full advantage of our superior qualification as a general contractor in the construction industry and our leading position in manufacture of pre-fabricated building materials to generate sustainable and long term contribution to the Group's profit.

New Members of the Board

To enhance corporate governance standard of the Group, broaden the representation of the Board as well as enhance the Board's decision science on the Group's overall development strategy and major investment and acquisition activities, the Board proposed to appoint two candidates nominated by the nomination committee, Mr. Wang Rongfu and Mr. Sun Chuanlin, as directors for the second term of the Board. Mr. Wang Rongfu is the chairman of Baoye Construction and was nominated to be an executive director of the Board. Mr. Sun Chuanlin, a qualified engineer, has retired from civil services. He was the secretary of the communist party committee of Yang Xunqiao Commune, the deputy general manager of Shaoxing Vegetable Production and Sales Company. He was nominated to be an independent non-executive director of the Board. Both of them will capitalise their expertise and reputation in the industry to offer insightful and valuable opinions on the Group's development and management control.

Awards

During the year, the Group's construction projects won a number of awards in the industry. The Zhejiang Mobile Communication Hinge Building project received the Luban Award, the nation's highest honour in construction industry. Up till now, the Group has won nine Luban Awards, two of which from the newly acquired Hubei Construction Group. The number of Luban Awards tops other construction enterprises in China. Besides, Zhejiang Baoye Group Construction Research Institute, which is responsible for scientific research of the Group's industrialisation of construction, has applied for patent rights for the "external wall panel" and "external wall panel manufacture rack" technologies. Moreover, the "Key technology research on and application of light steel frame system for low multi-storey residential construction" co-developed with Tongji University has been certified and accepted by the Ministry of Construction of the PRC.

Issue of New H Shares

On 13 December 2006, the Company entered into a subscription agreement with Tiger Global in relation to the subscription by Tiger Global for 52,036,992 new H shares of the Company at HK$10.88 per share. The net proceeds were approximately HK$563,000,000, which will be used strictly in accordance with the proposed application plan as stated in the announcement on the issue of additional H shares dated 13 December 2006. That is to be used for purchase of properties, acquisition of any business related to the Company, development of energy saving and environmental friendly construction materials, as well as general corporate purpose. The Group is now discussing merger and acquisition opportunity with two state-owned enterprises. We are working out a feasibility study report on establishing a modernised building materials industrial park in Tianjin. At the same time, the Group has started a study and research for the plan of purchasing a parcel of land over one million square metres in Hefei for building deluxe resorts. The above plans are still under planning and preliminary discussion. We will disclose the details of which according to the Listing Rules when the conditions become mature.

This was the third issue of H shares after the subscription agreement with UBS in January 2005 and the issue of additional H shares to Goldman Sachs in December 2005. This issue significantly increased the financial strength of the Group and improved the Group's financial positions from the relatively low gearing ratio to net cash position. Financing was only one of the reasons for the Group to issue new H shares. To nurture the valuable experience from the international capital market is the most important reason. This helped us change our management philosophy, accept the values imposed by the international capital market and build our management control mechanism to meet with international management standard.

Chairman's Statement *(continued)*

Prospect

Looking into the future, continuous growth of the PRC economy, unlimited business opportunities created by the increased demand in urbanisation, increase in per capita income, growing savings of the people, the bullish A shares market and the expected continuous appreciation of RMB, will provide a strong support for the development of the PRC construction and real estate markets. After years of deployment, the Group's three main business catch up with the high-flying economy in China and the operating results will achieve dramatic growth in the coming years.

Yet, we believe that the fluctuation of the PRC economy and fierce market competition are the best training course for enterprises. China economy is not going to maintain this high growth rate forever. When the growth rate becomes steady or slows down, those miracles of getting rich over night will become history. The Group holds on to the development strategy of "establishing and maintaining the leading position in the industry, making Baoye a long lasting and renowned enterprise with long term core competitiveness". We will focus on developing pre-fabricated building materials which may have a longer investment recovery period but with a sustainable and steady growth. We will also expand the "three-in-one" business model to other provinces, so that we can sustain long term growth and development in this ever changing market.

Commitments to Shareholders

The Group aims to create values and wealth for shareholders, staff and customers. Their trust on us is our source of success. Our goal is to make Baoye a sizable construction conglomerate with growing profit, great potential and good management. Baoye will become a long lasting and premium brand. This can be achieved through balancing the interests of stakeholders, possessing acute market sense, committing high degree of social responsibility, continuing development of energy saving and environmental friendly building materials, driving the industrialisation of construction development in China, and maintaining the forefront position in the PRC construction industry.

I would like to take this opportunity to express my sincere gratitude to our shareholders, customers, suppliers, banks, professional parties and employees for their continuous patronage and support.

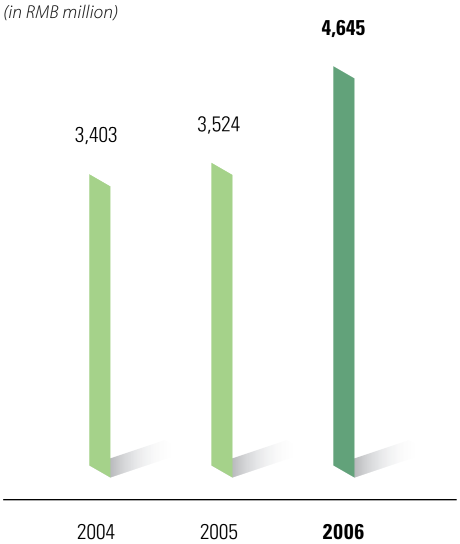
Pang Baogen
Chairman
16 April 2007

· BUILD UP ·
our nature & the prosperous
Total
contract value for
construction-in-progress of Construction Business
reached
RMB17 billion,
representing a
growth of 42%
over last year.

Management Discussion and Analysis

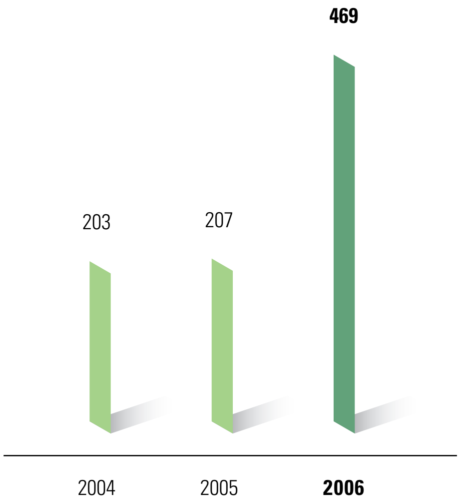
Revenue of Construction Business

(in RMB million)



Operating Profit of Construction Business

(in RMB million)



Business Review

For the year ended 31 December 2006, the Group achieved a consolidated revenue of RMB6,227,853,000 (2005: RMB4,723,797,000), representing an increase of 32% compared to the preceding year; operating profit reached RMB649,145,000 (2005: RMB450,512,000), up 44% over last year; profit attributable to equity holders of the Company amounted to RMB476,032,000 (2005: RMB304,226,000), an increase of 56% from last year; earnings per share was RMB0.779 (2005: RMB0.537), soared 45% from last year; and net assets value per share was RMB3.51 (2005: RMB2.89), up 22% over last year.

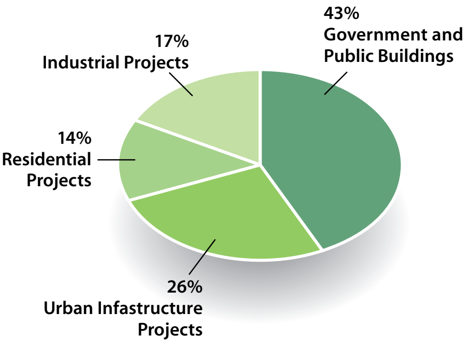
Construction Business

For the year ended 31 December 2006, the Group's construction business recorded a revenue of RMB4,644,579,000 (approximately 75% of the Group's consolidated revenue), up 32% over last year; and the operating profit amounted to RMB468,845,000 (approximately 72% of the Group's total operating profit), representing a growth of 127% over last year.

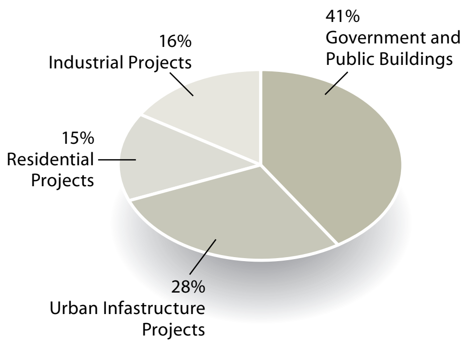
Management Discussion and Analysis *(continued)*

Total Contract Value for Construction-in-Progress – By Project Nature

2006



2005



For the year ended 31 December 2006, the total contract value for construction-in-progress of the Group's construction business was RMB17,066,745,000, representing an increase of approximately 42% over last year. Details of which are analysed below:

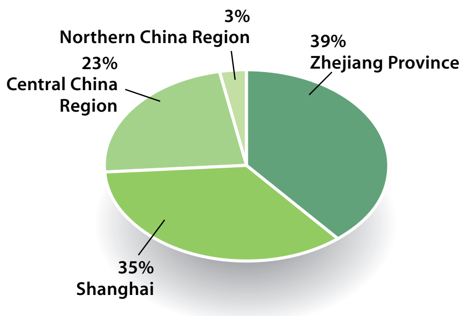
By project nature

	2006		2005		**Change**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Government and Public Buildings	**7,338,700**	**43%**	4,922,833	41%	+49%
Urban Infrastructure	**4,437,354**	**26%**	3,361,935	28%	+32%
Residential Projects	**2,389,344**	**14%**	1,801,037	15%	+33%
Industrial Projects	**2,901,347**	**17%**	1,921,105	16%	+51%
Total	**17,066,745**	**100%**	12,006,910	100%	+42%

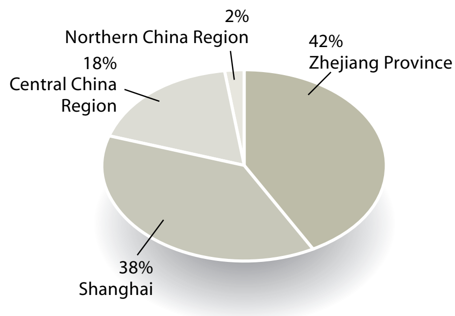
Management Discussion and Analysis *(continued)*

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

2006



2005



By region

	2006		2005		Change
	RMB'000	*% of total*	*RMB'000*	*% of total*	
Zhejiang Province	**6,656,901**	**39%**	4,990,754	42%	+33%
Shanghai	**5,972,911**	**35%**	4,536,214	38%	+32%
Central China Region	**3,924,941**	**23%**	2,159,032	18%	+82%
Northern China Region	**511,992**	**3%**	320,910	2%	+60%
Total	**17,066,745**	**100%**	12,006,910	100%	+42%

Management Discussion and Analysis *(continued)*

Approximately RMB1 billion in the above contract value of construction-in-progress was derived from the newly acquired Hubei Construction Group.

In 2006, the Group's construction business continued its expansion strategy and has successfully entered into new markets in Henan, Shandong and Jiangxi. At present, it has extended out of Zhejiang Province to Shanghai, Beijing, Tianjin, Jiangsu, Hubei, Anhui, Hebei, Henan, Shandong, and Jiangxi areas. These construction businesses outside Zhejiang Province contributed approximately 61% of the Group's total construction business (2005: 58%).

On 21 February 2006, the Group acquired the entire equity interests of the Hubei Construction Group at an aggregate consideration of RMB132,855,000. This acquisition was another major strategic step, following the acquisition of Hefei Baoye, which fits into our nation-wide expansion drive. The 12 entities under the Hubei Construction Group were engaged in construction and related business. The Group took advantage of the abundant resources both of the Hubei Construction Group and of Hubei Province and rapidly expanded the markets in Hubei and Central China.

The acquisition does not only fit into the PRC Government's policy of "Nation retreats, people proceed", but also provides feasible exit for the local government in dealing with the inherited problems brought by a local state-owned enterprise. At the same time, the Group is also going to establish a housing industrial park for production and sale of modernised building materials, as well as to start the property development business in Wuhan. These new business inroads would definitely help to enhance local economic growth and productivity improvement. Therefore, the Group has received tremendous and strong support from the local government. The excess of the fair value of the net assets acquired from the Hubei Construction Group exceeds our cost of acquisition, amounting to approximately RMB288,358,000, which was recognised in the income statement (included in the operating profit of the construction business). The resulting excess of the fair value mainly arose from the debt restructuring exercise during the acquisition process, by using RMB43,000,000 in cash to discharge the entire bank loans' principal plus the then accrued interest of RMB222,707,000, leading to an increase of its net assets value by RMB179,707,000 accordingly.

Management Discussion and Analysis *(continued)*

After the acquisition, the Hubei Construction Group contributed RMB580,288,000 to the Group's revenue and suffered a net loss of RMB28,262,000 during the period from acquisition date to 31 December 2006. During the year, following the acquisition by the Group, the Hubei Construction Group underwent and completed various post-acquisition corporate and business restructuring and reorganisation as well as rationalisation of human resources. It is expected that the Hubei Construction Group would start to contribute to the Group's profit next year.

In the coming three to five years, the Group will base on its construction business to start its building materials and property development business in Hubei. It will follow its "three-in-one" business model in Hubei, developing "Hubei Baoye" to the Group's base in Central China with its scale comparable to that of the current Group's base in Zhejiang and the Yangtze River Delta region.

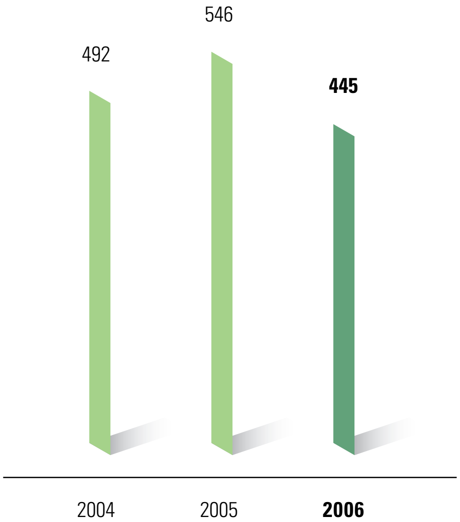
Property Development Business

Property Sales Results

For the year ended 31 December 2006, the revenue of the Group's property development business amounted to RMB445,215,000 (approximately 7% of the Group's consolidated revenue), representing a decrease of 18% from last year; and the operating profit amounted to RMB126,463,000 (approximately 19% of the Group's total operating profit), representing a growth of 1% from last year. The Group adopts the completion method in recognising revenue of its property development business.

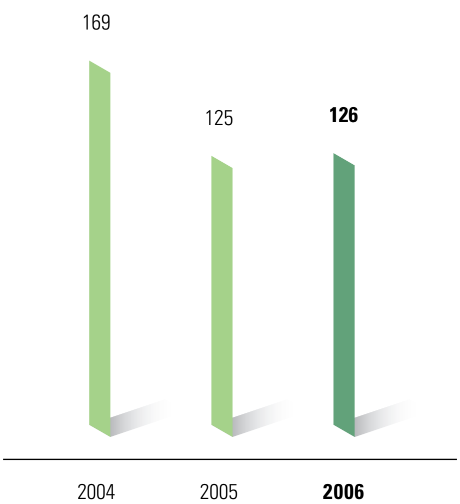
Revenue of Property Development Business

(in RMB million)



Operating Profit of Property Development Business

(in RMB million)



Management Discussion and Analysis *(continued)*

City Green Garden

Linjiang Green Garden

Jing'an Ziyuan

During the year, the revenue of the Group's property development business was mainly derived from City Green Garden in Hefei, Anhui. The total gross floor area of City Green Garden sold was approximately 103,000 square metres, achieving a revenue of approximately RMB356,000,000. The average selling price per square metre was approximately RMB3,500, up 6% over the target selling price per square metre of RMB3,300. In addition, approximately 8,743 square metres of the service apartment of Zhejiang Commercial City has been sold, registering a revenue of RMB24,490,000. The average selling price per square metre was RMB2,800.

Projects under development

As at 31 December 2006, the projects under development of the Group are tabulated below:

Project Name	Location	Gross Floor Area (square metres)	Equity Interest of the Group
Linjiang Green Garden	Shaoxing	56,000	100%
Jing'an Ziyuan	Shanghai	51,000	70%
City Green Garden Phase I	Hefei	50,000	100%
City Green Garden Phase II	Hefei	170,000	100%
Zhejiang Commercial City	Hefei	100,000	75%
Baoye Four Seasons Garden	Shaoxing	525,000	100%

Linjiang Green Garden is located in Yang Xunqiao, Shaoxing. The total gross floor area is 56,000 square metres, of which 25% are green areas. It is a pure residential property development alongside of Xixiao River, comprising multi-storey buildings, low rise buildings, detached houses and a club house. Pre-sale was started in October 2006 and a total of 50% of the units were sold. It is expected that all the remaining units will be sold in 2007 and revenue and profit can be realised accordingly.

Jing'an Ziyuan is located on Jiangning Road in Jing'an District of Shanghai, only 500 metres from the downtown prominent area, "Golden Delta", of Nanjing Road West, which is truly a prime location. The project has a gross area of approximately 51,344 square metres, which will be developed into luxurious service apartments. The top floors of the construction project were completed at the end of 2006, it is therefore expected that pre-sale of Jing'an Ziyuan can begin shortly.

Management Discussion and Analysis *(continued)*

Zhejiang Commercial City

Baoye Four Seasons Garden

Zhejiang Commercial City is situated at a prime location east of Hefei Railway Station. Buzzing with intense commercial activity, the area is one of the most prominent commercial districts in Hefei City. Zhejiang Commercial City has a gross area of approximately 100,000 square metres, which is mainly developed as upscale service apartments and shopping malls. The pre-sale of the project has begun in the second half of 2006 and 30% of the units were sold. It is expected that the vast majority of the remaining units will be sold in 2007.

Baoye Four Seasons Garden is located in Kuaijishan Tourist Resort Zone, a "province-rank" resort district in Zhejiang Province. With historical culture and spectacular scenery, the area is where ancient civilisation flourished. Other than its profound cultural tradition and being the origin of many myths and folklores, the area also has a large number of historical heritages. Being only 10 minutes drive from downtown Shaoxing City, away from the dust yet close to the city, it is known as the "natural treasure in the heart of a city". Baoye Four Seasons Garden has a site area of approximately 1,050,000 square metres and gross floor area of approximately 525,000 square metres for the development of luxurious condominiums, town houses and detached houses. The project also consists of development of a golf club with four 18 holes capacity, of which construction has been completed; and the Kualijishan Hotel of which construction has been commenced. Construction of the Baoye Four Seasons Garden project will be started in 2007.

Baoye Four Seasons Garden is the Group's only property development project tailor made for high income level individuals and is the most upscale residential area in Shaoxing. The Group will endeavour to build a "state-of-the-art" resort district combining natural environments with cultural heritages, making it a forefront property development project. The project will not only contribute significant profit to the Group, but more importantly, up bring the brand value of Baoye and its core competencies in the property development business.

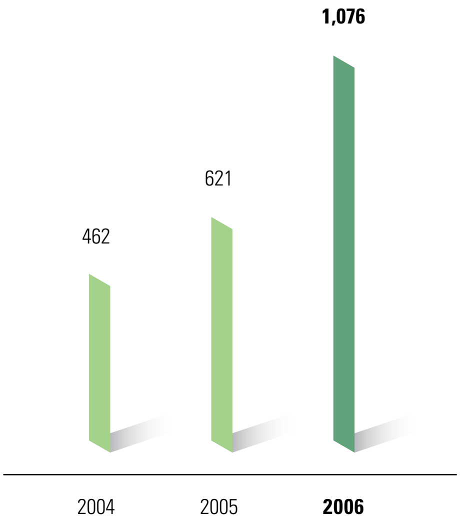
Building Materials Business

For the year ended 31 December 2006, the revenue of the Group's building materials business was RMB1,076,440,000 (approximately 17% of the Group's consolidated revenue), up 73% over last year; and the operating profit was RMB50,610,000 (approximately 8% of the Group's total operating profit), representing a decrease of 43% from last year.

Management Discussion and Analysis *(continued)*

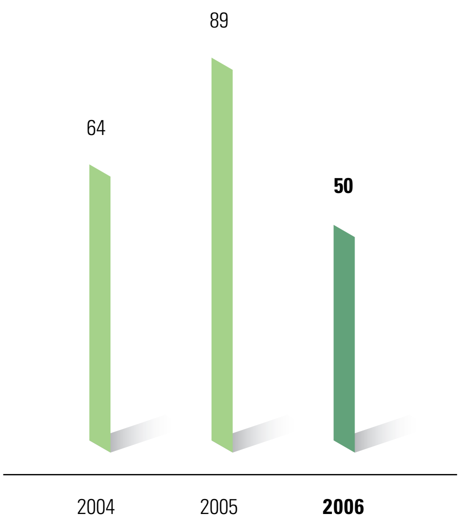
Revenue of Building Materials Business

(in RMB million)



Operating Profit of Building Materials Business

(in RMB million)



During the year, the Group's building materials business achieved a considerable growth in revenue. This marked achievement was largely attributable to increased market acceptance of our newly developed building materials. Decline in operating profit contribution in 2006 was primarily because of the absence of a local government subsidy in the amount of RMB29,952,000 for removal of production facilities to Shaoxing Housing Industrial Park that was accounted for in 2005's operating profit contribution. The up surge in raw materials costs and the keen competition from traditional building materials suppliers has also impacted our gross profit margin. Despite all these negative impacts, the Group will improve its profit margin by leveraging on its manufacturing technology advancement, mass scale of production and centralised procurement.

During the year ended 31 December 2006, the revenue breakdown of the Group's building materials is as follows:

Building Materials Products	2006 RMB '000	2005 RMB '000	Change
Ready-mixed concrete	**258,685**	175,162	+48%
Glass curtain wall	**323,124**	194,241	+66%
Wood products and interior decoration	**265,137**	94,233	+181%
Steel structure	**149,230**	72,200	+107%
Concrete pipes	**39,944**	38,151	+5%
Concrete ducts	**3,570**	11,893	–70%
Large roof sheathings	**7,898**	18,921	–58%
Fireproof materials	**24,102**	9,852	+145%
Others	**4,750**	6,088	–22%
Total	**1,076,440**	620,741	+73%

Management Discussion and Analysis *(continued)*

On 8 March 2006, the Group signed a co-operative agreement with Daiwa Japan, pursuant to which both parties formed a strategic alliance in the co-development of technological advancement skills for the manufacture of industrialised residential units. This will help the Group to capture the leading position in the manufacture of industrialised housing. Since then, Daiwa Japan has already deployed a team of engineering experts from Japan to station at the Group's Shaoxing Housing Industrial Park, and the Group has also sent a team of engineers to Japan in exchange of ideas and experiences a number of times. The results of the co-operation have been encouraging and progressing steadily. Nine laboratories and test centres for structural, earthquake, fireproof, soundproof, durability, interior environment, window and glass curtain wall, mock up, and conserve heat and energy have been established; and construction of the experimental building designed according to standardisation, industrialisation and modulisation requests has been completed. Two of the technologies have already been applied for patent rights. The technology for industrialisation of residential housing has been adopted for use in the construction of Linjiang Green Garden project and has been proven to be successful in application and use.

Management Discussion and Analysis *(continued)*

Business Prospect

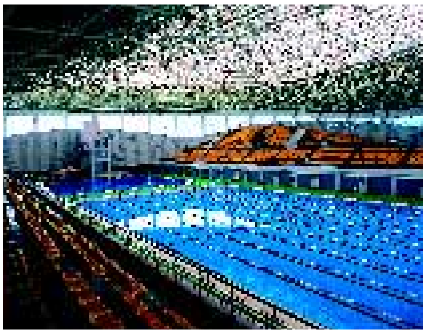
Construction Business

- In 2006, the PRC Government implemented a series of upscale macroeconomic control policies and measures to deepen the regulatory aspects against the construction, property development, and building materials industry sectors. These policies and measures would eliminate some of the smaller enterprises in the industry sectors in the near term. However, in the longer term perspective, these policies and measures would pave a healthy, continuing and stable development in the industry sectors where we operate. Though the Group's construction projects' progress has also been slowed down due to these policies and measures thus affecting our growth momentum, the quality and quantity of new construction projects that the Group has contracted for have been improved significantly. The financial strength of the owners of new construction projects becomes stronger, leading to better payment terms and less delinquent payments.

- After the acquisition of Hubei Construction Group in 2006, various post-acquisition corporate and business restructuring and reorganisation have been completed. In addition, effective management control systems and measures including incentive mechanism have been gradually built up and put into place. Simultaneously, reaping upon the solid foundation built by the Hubei Construction Group, our available resources and technologies, as well as government policies in developing the Central and Western China regions, will see the Group's construction business to attain promising growth. The Group will position Hubei as its base to capture the growing demand in the Central China region.

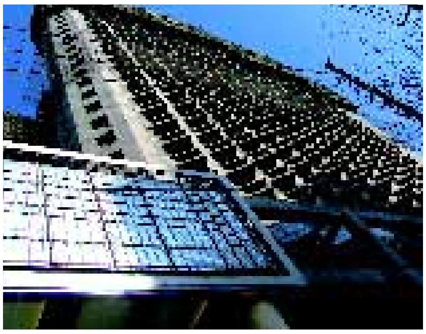
- The high economic growth rate and increasing urbanisation rate have provided unprecedented development opportunities for the Group's businesses. During the year, the Group has successfully solicited new business in Central and Western China, Northern and Southern China, and has extended into major cities of 13 provinces, realising its corporate strategy of "embarking Zhejiang and Yangtze River Delta and covering the whole nation". In future, the Group will continue to consolidate its position in developed markets and at appropriate timing continue to exploit new and emerging markets in other provinces.

- Using the "three-in-one" business model, the Group will continue to develop business in new markets in construction business as a start, reaping from the government policies on increased urbanisation and "Nation retreats, people proceed". On one hand, the Group will increase its efforts in developing new markets in major cities. On the other hand, it will enhance its market share in high value added infrastructural construction projects including railways, water supplies and facilities, highways and transports, bridges through merger and acquisition, this will enhance the Group's operating margin steadily.


Management Discussion and Analysis *(continued)*





Property Development Business

- City Green Garden Phase I, located in Hefei, had 50,000 square metres residential units pre-sold in 2006, due to the late handover of the sale units to owners before the end of 2006, all of the revenue and profit derived from the sales would be accounted for in the operating results for 2007. In addition, similar to City Green Garden Phase I, Zhejiang Commercial City in Hefei also had a total pre-sold area of 30,000 square metres in 2006, all of the revenue and profit derived from the sale would also be accounted for in the operating results for 2007. These, coupled with City Green Garden Phase II, Zhejiang Commercial City, and part of Jing'an Ziyuan that are to be sold in 2007, would contribute significant increase in both revenue and profitability for the Group's property development business.

- Approximately 500,000 square metres of industrial use land was obtained from the acquisition of Hubei Construction Group, in which a parcel of land area approximating to 37,000 square metres has already obtained the land use right certificate for residential development purposes, with the plot ratio of 1.8 times and having a build-up area of approximately 67,000 square metres. Another six applications for change of use pertaining to six parcels of land areas, having an aggregate land area of approximately 200,000 square metres, have been submitted to relevant government authorities for approval, four of which will be designated for residential use and the balance will be designated for commercial use. The applications are under processing. It is expected that these approvals and the respective land use right certificates will be obtained in the year of 2007.

- At present, the Group has started a feasibility study in acquiring a land area of approximately 2,000,000 square metres for resort residential use, which is located in a lakeshore designated by the local government as a tour site and is about 15 minutes drive from the city centre of Hefei, Anhui. The site will have great potential to be developed as a deluxe resort area. In addition, the Group will endeavour to search for and identify appropriate site areas in Tianjin Economic Development Zone and Shaoxing, to be included in its land bank reserve catering for longer term development.

- The Group will maintain its prudent development strategy and will selectively acquire high quality and inexpensive land as reserves, though it has adequate land reserves in meeting demand for the next five years.

Management Discussion and Analysis *(continued)*

Building Materials Business

- The Group has benefited from various research results it has attained through the co-operation and strategic alliance with Daiwa Japan, and has successfully applied these achieved research results into practical use. As an extension of the co-operative agreement and strategic alliance, the Group is in collaboration with Daiwa Japan to establish a joint-venture company, which will be mutually beneficial to both parties in terms of economics and technologies.

- The Group has been focusing on developing cost effective, environmental friendly and modernised building materials to ease out traditional building materials. During the year, the Group established the Zhejiang Baoye Group Construction Research Institute, a "province-rank" high technology development centre for scientific research. Our targets are to set standard for pre-fabricated building materials and to lead the construction industry into a new era of industrialisation of pre-fabricated building materials.

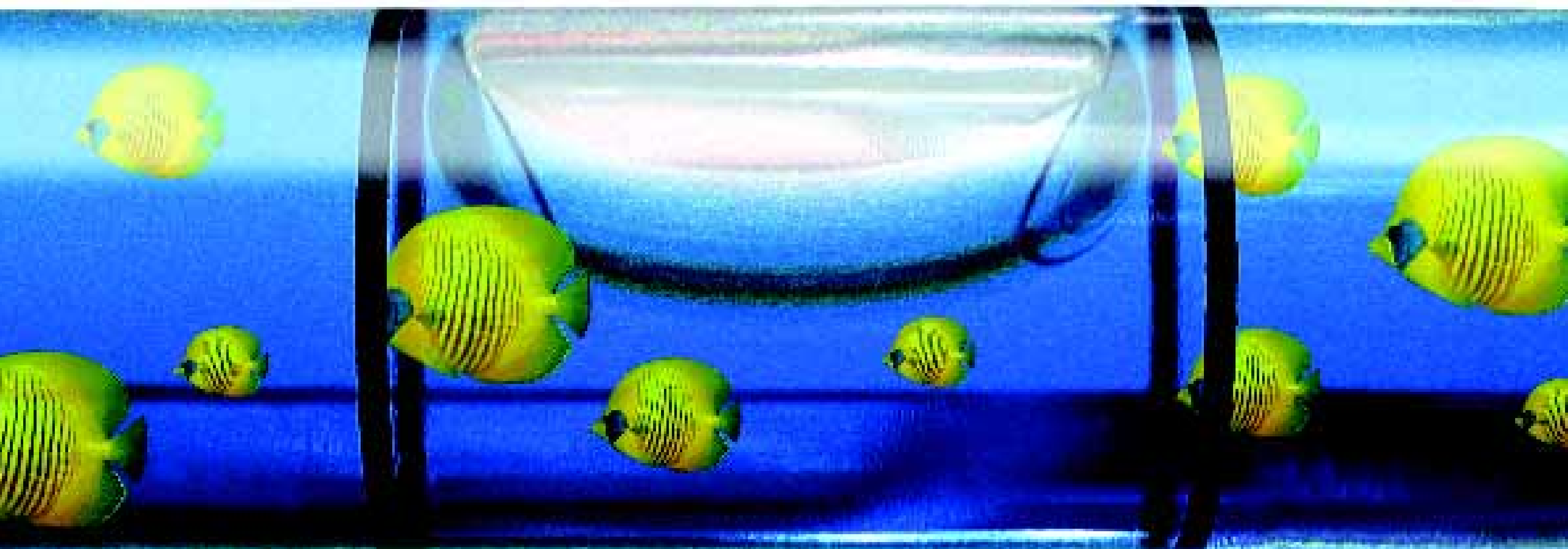
- The Group's building materials business has been diligently developing overseas markets and has received purchase orders from Algeria and Australia for our wood products and glass curtain wall. The Group is planning to establish an overseas sales office in Dubai to exploit export of building materials to the Middle East oil producing countries. Our products have reached international quality standard, still, our prices are within affordable and low ranges. For this reason, the competitive edges of our products remain strong in international market, providing impetus for the development of emerging markets, in particular the Middle East.

- The Group will continue to centralise its procurement function, aiming to lower the cost of raw materials. The demand for building materials from inter-companies is increasing in a rapid rate and has called for regular demand in sizable quantum, which will afford the Group to enter into longer term supply contracts with vendors, upon which will stabilise the supply and pricing of raw materials to lower cost of production and improve profit margin.

- In 2005, the Group commenced the construction of housing industrial park in Anhui. At present, the production facilities of glass curtain wall, heat and energy conserve materials, and building equipment have been completed and are now on trial production. It is expected that these new productions would start to contribute in the Group's results of 2007. In Wuhan, the Group has started discussions with the local government with respect to the selection of sites for the construction of housing industrial park. It is expected that the construction of factory buildings would begin in 2008.

Leveraging on the expected continued economic growth and development opportunities that are brought by the 11th Five-year-plan of the PRC Government, and as one of the leading enterprises in the industry, the Group is confident and has the belief to renew its historical growth in business by developing new markets, completion of nation-wide positioning, adopting flexible business strategies and enhancing business model. The Group will take advantage of the synergies created by the "three-in-one" business model, with construction as the base, industrialisation of construction (pre-fabricated building materials) as the centre of development and property development as the supplementary business, to maintain its leading position in the industry and foster commendable operating results.

· BALANCE ·
our living & environment



won 9 "Luban Awards",

the nation's highest
honour in construction industry.
The number of "Luban Awards"
received leads other construction
companies in China.

Management Discussion and Analysis *(continued)*

Financial Review

Treasury Policies

The Group has adopted prudent financial policies and exercise tight risk management control over its investment, financing and use of 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 the sustainable development needs 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 on the treasury operations; minimise financing risks and lower average cost of funding.

Financial Resources and Liabilities

With the support of steady increase in cash flow, sound credit record and excellent reputation in the industry, the Group preserved the AAA credit rating by a credit rating institution recognised by the People's Bank of China in 2006. Such excellent credit rating will benefit the Company's financing activities and allows the Group to continue to enjoy the prime rate offered by the People's Bank of China. During the year, the Group maintained most of its borrowings on an unsecured basis. The amount of unsecured debt accounted for 62% of the total borrowings. Leveraging on its excellent credit rating, the Group will continue to obtain its borrowings on an unsecured basis, which will be supplemented by project financing when necessary.

As at 31 December 2006, the Group's net bank borrowings, after deducting cash and bank deposits, amounted to RMB314,378,000 (31 December 2005: RMB254,482,000). The Group's gearing ratio (calculated on the basis of net bank borrowings over the total shareholders' equity) is 15% (31 December 2005: 14%). The Group will continue to adopt prudent policy to maintain low gearing ratio.

On 13 December 2006, the Company entered into the subscription agreement with Tiger Global in relation to the subscription by Tiger Global for 52,036,992 new H shares of the Company at HK$10.88 per share. The net proceeds were approximately HK$563,000,000. All the conditions precedent to the subscription agreement have been fulfilled on 2 February 2007 and all the placing proceeds were received on that day. This placement of new H shares has strengthened the financial position of the Group, thus turning the financial position of the Group from low gearing ratio to net cash position.

Management Discussion and Analysis *(continued)*

Use Plan of Proceeds

The net proceeds raised by the Company's placing of new H shares to Tiger Global was approximately HK$563,000,000, which will be allocated and utilised as follows:

	HK$'000
Acquisition of properties and annexation of any business related to the Group's business	281,500
Development of energy-saving and environmental-friendly building materials	112,600
General working capital	168,900
Total:	563,000

The Group is now discussing merger and acquisition opportunity with two state-owned enterprises. We are working out a feasibility study report on establishing a modernised building materials industrial park in Tianjin. At the same time, the Group has started a study and research for the plan of purchasing a parcel of land over one million square meters in Hefei for building deluxe resorts. The above plans are still under planning and preliminary discussion. We will disclose the details of which according to the Listing Rules when the conditions become mature.

Key Financial Ratios

	As at 31 December	
	2006	2005
Return on equity	**22.2%**	17.3%
Net assets value per share (RMB)	**3.51**	2.89
Net gearing ratio	**15%**	14%
Current ratio	**1.09**	1.33

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

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

Management Discussion and Analysis *(continued)*

Cash Flow Analysis

		For the year ended 31 December	
		2006	2005
	Note	**RMB'000**	RMB'000
Net cash (outflow)/inflow from operating activities	(i)	**(47,877)**	11,398
Net cash inflow /(outflow) from investing activities	(ii)	**30,213**	(176,156)
Net cash inflow from financing activities	(iii)	**58,074**	363,170
Increase in cash and cash equivalents		**40,410**	198,412

Notes:

(i) The Group's cash generated from operation for the year 2006 amounted to RMB156,292,000, but interest expenses of RMB66,242,000 and income tax expenses of RMB137,927,000 resulted in a net cash outflow from operating activities. It is expected that as the business grows steadily, the cash flow from operating activities will increase in future.

(ii) The cash inflow from investing activities was mainly derived from the disposal of a building previously occupied by the Group as office premises in Shaoxing, Zhejiang Province.

(iii) During the year, the cash inflow from financing activities was mainly attributable to increased bank borrowings.

Land Appreciation Tax

On 28 December 2006, the State Administration of Taxation pronounced a circular in respect of the rules and regulations pertaining to land appreciation tax applicable to real estate and property development enterprise in clearing their pending tax assessment. The land appreciation tax came into effect in 1993. The Group has consistently complied with the tax rules and regulations in the PRC and conformed to the Hong Kong Financial and Accounting Reporting Standards in accounting for such tax provision. Besides, the Group is a construction enterprise with construction as its core business, while building materials and property development as its supporting businesses. Therefore, the financial impact resulting from the tax pronouncement towards the Group's operating results would be minimal.

Administrative Expenses

The administrative expenses of the Group has increased from RMB112,370,000 in 2005 to RMB218,069,000 in 2006, representing an increase of RMB105,699,000 or 94% over last year. The increase was primarily attributable to the inclusion of the newly acquired Hubei Construction Group of RMB65,852,000 and the establishment of four regional branches by the Baoye Construction Group to exploit other provincial markets. We believe that this new acquisition and start-up expenses will contribute to the profit growth of the Group in the long run.

Management Discussion and Analysis *(continued)*

External Guarantee and Fulfilment

	2006 RMB'000	2005 RMB'000
Guarantee given to banks in respect of mortgage facilities granted to third parties	**19,800**	67,500
Guarantee given to banks in respect of bank loans of third parties	**20,000**	–
	39,800	67,500

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

Details of the Charges on the Group's Assets

As at 31 December 2006, land use rights, buildings and properties under development at a total value of approximately RMB319,409,000 (31 December 2005: RMB306,230,000) were pledged to banks as security in securing short-term bank loans.

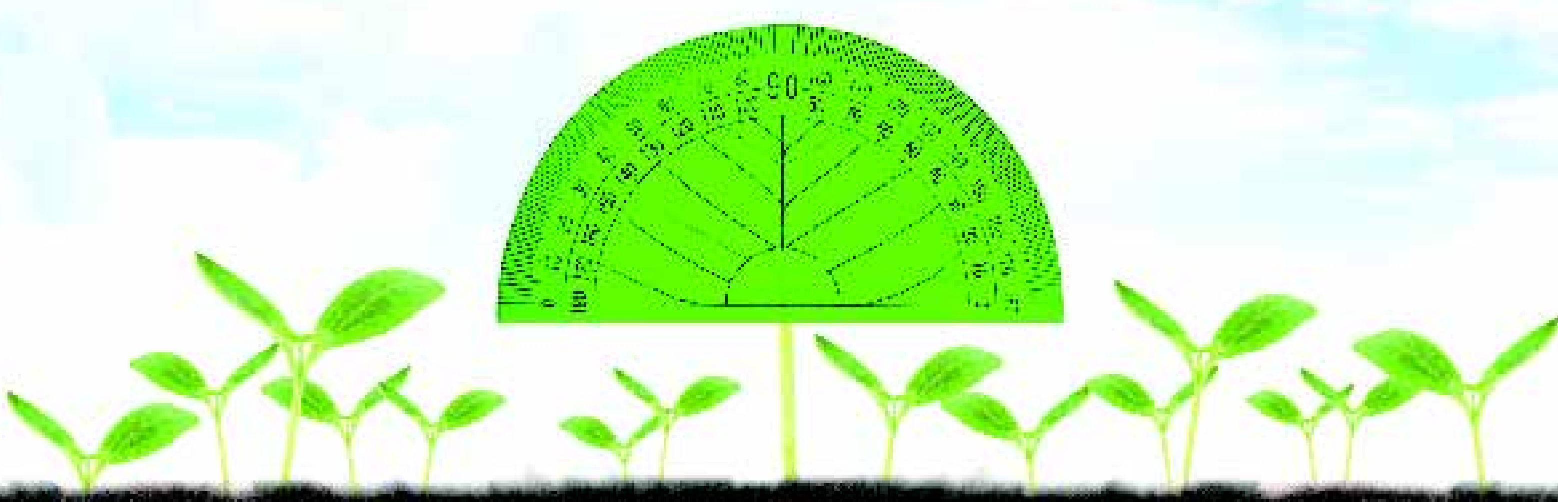
Capital Expenditure Plan

It is expected that the Group's capital expenditure in 2007 will amount to RMB100,000,000, of which approximately RMB60,000,000 is for purchasing research and testing equipment for Zhejiang Baoye Group Construction Research Institute to conduct research and development on prefabricated building materials; and approximately RMB40,000,000 is for purchasing plants and machineries, for building materials business in which RMB25,000,000 will be used for the Hefei Housing Industrial Park.

Adjustment of RMB Exchange Rate and Foreign Exchange Risks

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

· PROTECT ·
our world & the new generation



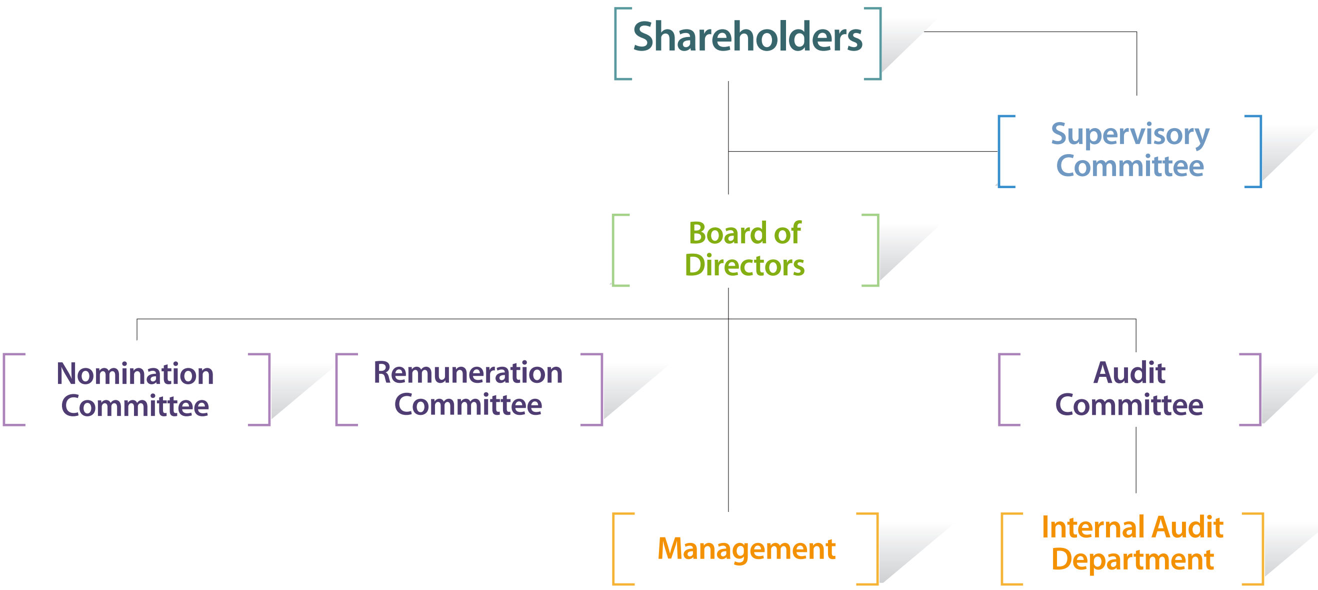
We have adequate land bank for property development for **more than**

5 years.

Corporate Governance Report

The Group is committed to establishing an orderly, efficient and transparent corporate governance mechanism, which can benefit corporate development and shareholders' returns. Since its listing, the Company strives to comply with the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules and other relevant laws and regulations. It has implemented effective corporate governance policy and has strived to enhance corporate value so as to ensure a sustainable development of the Company and to maximise shareholders' returns.

Corporate Structure



Board of Directors

The Board manages the Group's operation and development strategies on behalf of its Shareholders. The Board complies with the rules and regulations mandated by the articles of association of the Company in discharging its duties and responsibilities. The Board comprises eight directors, of whom four are executive directors, one is non-executive director and the remaining three are independent non-executive directors.

The Company has three 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 two independent non-executive directors are both renowned experts in the China construction industry. The three 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 has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules ("Model Code") as its own code of conduct regarding the securities transactions by the directors. Having made specific enquiries of all directors, all directors confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2006.

The remunerations of each of the directors of the Company are disclosed on an individual basis, details of which are set out in note 28(b) to the consolidated financial statements. Since its listing, the Company maintained liability insurance for its directors and senior management each year.

Board Meetings

The Board held a total of four 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 have all attended the board meetings held during the year. Directors 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.

Corporate Governance Report *(continued)*

Attendance of Board Meeting

Name	**Attendance/number of board meetings**
Executive Directors	
Pang Baogen	4/4
Gao Jiming	4/4
Gao Lin	4/4
Zhou Hanwan	4/4
Non-executive Director	
Hu Shaozeng	4/4
Independent Non-executive Directors	
Wang Youwei	4/4
Yi Deqing	4/4
Dennis Yin Ming Chan	4/4

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), 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 reviews 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 two meetings during the year and the three members have all attended the two meetings. The major tasks accomplished during the year include:

- reviewing the annual and interim results announcements, reports and financial statements of the Group;

- reviewing and providing recommendations on the accounting policies 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 them;

- advising on the material transactions of the Group and providing recommendations on related risks to the management; and

- reviewing the audit fees of auditors and recommending them for approval by the Board.

Remuneration Committee

The remuneration committee is responsible for formulating the remuneration policy for directors and senior management, assessing the performance of the executive directors and approving the terms of their service contracts. The remuneration committee comprises two independent non-executive directors, Mr. Dennis Yin Ming Chan (chairman) and Mr. Yi Deqing, and executive director, Mr. Pang Baogen. The remuneration committee of the Company held one meeting during 2006 and all three members attended the meeting.

Nomination Committee

The nomination committee comprises two independent non-executive directors, Mr. Wang Youwei (chairman) and Mr. Yi Deqing, and an executive director, Mr. Gao Jiming. The nomination committee of the Company held one meeting during 2006 and all three members attended the meeting.

The nomination committee also held a meeting on 16 April 2007 to transact the following businesses:

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

– identifying appropriate candidates for the post of directors and nominating such persons to be directors; and

– assessing the independence of the independent non-executive directors.

After due consideration to the candidates' background and experience, it was resolved that Mr. Wong Rongfu and Mr. Sun Chuanlin be nominated as an executive director and an independent non-executive director of the Company during the meeting.

Chief Financial Officer

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

Corporate Governance Report *(continued)*

Internal Controls Mechanism

Supervisory Committee

The supervisory committee is the standing supervisory organisation of the Company, which is responsible for supervising the functions of the Board, its members and the management such as the general managers and deputy general managers. The supervisory committee comprises five supervisors, who will serve for a term of three years and are eligible for re-election. The number of members and composition of the supervisory committee 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 managers, deputy general managers 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 managers, deputy general managers and other senior management to rectify behaviors which will prejudice the interests of the Company;
- verifying the financial information, such as financial reports, operation shareholders reports and profit appropriation proposals, intended to be submitted to the general meeting by the Board and appointing certified public accountants and auditors in the name of the Company to assist in re-auditing whenever it is in doubt with the information;
- proposing to convene extraordinary general meeting; and
- negotiating with or initiating litigations against directors on behalf of the Company.

The supervisory committee convened two meetings during the year and all of the five 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 as well as risk management systems of the Company and its subsidiaries. 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 Group during the year. It has proposed numerous constructive recommendations for certain subsidiaries and branches 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 recognised 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 identity of the structineer was described in the respective announcements.

Corporate Governance Report *(continued)*

Code on Corporate Governance Practices

In the opinion of the directors, the Company has complied with the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2006, except that the role of the chief executive officer of the Company has been assumed by Mr. Pang Baogen, the chairman of the Board, since the former chief executive officer of the Company resigned. Three general managers have been appointed to overseeing and managing the three main business activities (construction, property development and building materials) of the Group respectively, each of whom has partly shared the duty of the chief executive officer to which they manage. The Board believes that the current arrangement has installed a proper segregation of duties mechanism and adequately streamlined the responsibility well and a simple management structure can enhance the communication amongst staff at different levels as well as enabling execution of new policies efficient. Therefore, the Board endorsed the position of chief executive officer to be assumed by the chairman of the Board. Nevertheless, the Board will regularly review the management structure to ensure that it meets the business development requirements of the Group.

Investor Relations

The Company has been actively launching and participating in various activities to communicate with investors. To create a more effective communication channel with investors, an "Investor Relations" section has been added to the Company's website and an investor relations database has been set up. These help the Company to bridge a direct communication link with investors in a faster and more direct manner, so as to enhance the level of corporate transparency.

During the year, major investor relations activities were as follows:

Date	Activity	Organiser	Location
11-12 January 2006	China Property "Return To Utopia" Investment Event	ABN AMRO	Hong Kong
16-18 January 2006	UBS Greater China Conference	UBS	Shanghai
14-15 February 2006	HSBC China Corporate Day	HSBC Securities	Hong Kong and Singapore
28-31 March 2006	Credit Suisse Asian Investment Conference	Credit Suisse	Hong Kong
10 April 2006	2005 annual results announcement roadshow	CLSA	Hong Kong

Investor Relations *(continued)*

Date	Activities	Organiser	Location
11 April 2006	2005 annual results announcement road show	UOB	Hong Kong
8 May 2006	Road show in Singapore	Nomura	Singapore
15-17 May 2006	China Investment Forum 2006	CLSA	Shanghai
18-23 June 2006	Road show in the USA	Nomura	USA
19-21 July 2006	Road show in Japan	Nomura	Japan
29-30 January 2007	UBS Greater China Conference	UBS	Shanghai

Major Events for the Year

Jan :

- The construction of "Zhejiang Mobile Communication Hinge Building" by Baoye Group received the Luban Award, which is the nation's highest honour in construction industry.

Feb :

- Baoye Group acquired the Hubei Construction Group and its 12 entities.
- Baoye Group was awarded the "Mayor's Award" of Shaoxing.
- Baoye's City Green Garden won the title of "Golden Estate" in Anhui.

Mar :

- Baoye Group and Daiwa Japan entered into a co-operative agreement for co-development of technology advancement skills for the manufacture of industrialised residential units.
- Baoye Group signed a co-operative agreement with China Construction Bank Zhejiang Branch.

Apr :

- Baoye Group ranked in the "Top 100 Chinese Real Estate Enterprises 2006".

May :

- Baoye Group earned "China Construction Society AAA credit rating".

Jun :

- Baoye Construction was awarded the "Advanced Enterprise of National General Construction Contractor".

Major Events for the Year *(continued)*

Jul:

- Anhui Baoye ranked in the "Top 20 Non-state-owned Enterprises in Anhui Province".

Aug:

- Baoye Group ranked in the "Top 100 Listed Non-state-owned Enterprises 2006".
- Baoye's City Green Garden won the name of "Famous Estate".

Sep:

- "Baoye Newsletter" received the "Golden Page Award" in the "National Construction Industry Newsletter 2006".

Oct:

- Baoye Group was given the name of "Advanced Non-state-owned Enterprise in Employment and Social Security".
- Baoye Group ranked in the "Top 500 Chinese Businesses 2006".

Nov:

- Baoye Group became one of the "Top 30 Chinese Excellent Non-state-owned Enterprises".

Dec:

- Baoye Group received "Zhejiang Charity Award".
- Baoye Group ranked in the "Top 60 Chinese Contractors".
- Baoye Group announced the issue of 52,036,992 new H shares to Tiger Global. The process was completed on 2 February 2007.

Biographical Details of Directors, Supervisors and Senior Management


Mr. Gao Lin, Executive Director


Mr. Gao Jiming, Executive Director


Mr. Zhou Hanwan, Executive Director

DIRECTORS

Executive Directors

Mr. Pang Baogen, born in 1957, is the founder, chairman of the Board and chief executive officer of the Company. He is a member of the Experts Team for Ministry of Construction（中國建設部課題組織專家庫成員）and holds a professor level of senior engineer qualification. He is well respected and recognised in the construction industry in China and has received awards including Model Worker of National Construction System（全國建設系統勞動模範）, Advanced Individual of National Sustainable Communities（國家可持續發展實驗區先進個人), Outstanding Manager in Zhejiang Province（浙江省突出貢獻經營者）, as well as Youth and Mature Scientist with Outstanding Contributions to Zhejiang Province (浙江省有突出貢獻的中青年科技人員). Mr. Pang has extensive experience in the technology field and of enterprise management. He actively promotes independence and innovation, and takes on national topics such as "risk-prevention in big projects" and "transforming the construction industry with information technology". At the same time, he guides the Group in undergoing various revolutions in management controls and operation mechanism. He also explores the "three-in-one" business model and the "federative" management model. Through innovation in finance and option shares, he pushes enterprise technology advancement. Besides, Mr. Pang is also the vice-chairman of the Construction Companies Committee in China (中國施工企業協會副會長), the vice-chairman of Construction Entrepreneurs Association in Zhejiang (浙江省建築企業家協會副會長), and representative of the 11th Zhejiang Provincial Party Congress (中共浙江省第十一屆黨代會代表).

Mr. Gao Lin, born in 1970, is an executive director of the Company as well as a director and the general manager of Baoye Hubei Company Limited. He holds a senior engineer qualification, graduated from Fudan EMBA Programme, and is also a senior professional manager of the construction industry in 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 (浙江建築業十大傑出企業家), National Excellent Construction Entrepreneur (全國優秀施工企業家), Talent for Economic Development of Shaoxing City (紹興市經濟發展傑出人才), Model Worker of Shaoxing City (紹興市勞動模範). He is currently the chairman of the Shaoxing Construction Association, a committee member of the 11th Hubei Youth Union Committee (湖北省青聯第十一屆委員會常委), vice-chairman of the Hubei Enterprises Union (湖北省企業聯合會副會長), managing director of the Hubei Young Entrepreneurs Association (湖北省青年企業家協會常務理事), representative of the 13th People's Representative Congress of Wuchang District, Wuhan City (武漢市武昌區第十三屆人大代表). Mr. Gao joined the Group in 1987.

Biographical Details of Directors, Supervisors and Senior Management *(continued)*

Mr. Wang Youwei,
Independent Non-executive Director

Mr. Yi Deqing,
Independent Non-executive Director

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

Mr. Gao Jiming, born in 1962, is an executive director and deputy general manager of the Company. Mr. Gao is also the chairman of Baoye Real Estate, a subsidiary of the Company. He graduated from China University of Geosciences, major in civil engineering and holds a senior engineer qualification. Mr. Gao joined the Group in 1978, and is now a committee member of Real Estate Association in Zhejiang Province (浙江省房地產協會常務理事) and Shaoxing City(紹興市房地產協會常務理事), and the vice-chairman of the Real Estate Association in Shaoxing County (紹興縣房地產協會副會長).

Mr. Zhou Hanwan, born in 1954, is an executive director and deputy general manager of the Company. He is also the Dean of Zhejiang Baoye Group Construction Research Institute. Mr. Zhou is responsible for human resources 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, the deputy secretary of Concrete Association of Zhejiang Province and the vice-chairman of Concrete Association of Shaoxing City.

Non-executive Director

Mr. Hu Shaozeng, born in 1935, is a non-executive director of the Company. Mr. Hu graduated from Tongji University of Shanghai (上海同濟大學) major 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 deputy chief engineer of Zhejiang Provincial Department of Construction and the secretary of the Zhejiang Construction Industry Association. Mr. Hu is currently the vice-chairman of the China Construction Industry Association (中國建築業協會) and vice-chairman of the Zhejiang Construction Industry Association (浙江省建築業協會).

Biographical Details of Directors, Supervisors and Senior Management *(continued)*

Independent Non-executive Directors

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

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

Mr. Dennis Yin Ming Chan, born in 1954, a Canadian living in Hong Kong, is an independent of non-executive director, the chairman of remuneration committee and a member of the audit committee 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. Mr. Chan is an associate member of the Chartered Institute of Management Accountants, United Kingdom (ACMA), an association member of the Institute of Chartered Secretaries and Administrators, United Kingdom (ACIS), a member of Chartered Institute of Purchasing and Supply, United Kingdom (MCIPS) and a member of Canadian Institute of Chartered Accountants (CA). Mr. Chan is currently a director and senior vice president of Alliance Capital Asia Limited. Prior to that, Mr. Chan had been directors and chief financial officers of various listed and unlisted companies in Hong Kong, Singapore and the United States of America, Mr. Chan has more than 29 years of experience in public accountancy, management consultancy, manufacturing, distribution, telecommunications retailing, logistics and financial services.

SUPERVISORS

Mr. Sun Guofan, born in 1962, is the chairman of supervisory committee of the Company and the secretary of the divisional committee of the Chinese Communist Party of the Group. Mr. Sun graduated from Hangzhou College of Commerce (杭州商學院) major in finance and accounting, and is qualified as an accountant. Mr. Sun joined the Group in 1988. He was previously a deputy manager of the finance department and a deputy director of the internal audit department.

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

Mr. Qian Yongjiang, born in 1967, graduated from the China University of Geosciences, majoring in industrial and residential construction. He is also a qualified senior engineer. Mr. Qian joined the Company in 1984 and is currently acting as the vice general manager of the Company's subsidiary, Baoye Construction.

Mr. Kong Xiangquan, born in 1959, is a qualified engineer. He has joined the Company since 1975. Mr. Kong is currently the general manager of the Company's subsidiary, Zhejiang Baoye Infrastructure Construction Co., Ltd.

Biographical Details of Directors, Supervisors and Senior Management *(continued)*

INDEPENDENT SUPERVISORS

Chen Xingquan, born in 1928, is an independent supervisor of the Company. Mr. Chen is a certified public accountant in the PRC and is experienced 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 the honorable consultant of Shaoxing Sports Association (紹興市體育總會) and the vice president of the Union of Political Consultative Congress in Shaoxing (紹興市政協之友聯誼會).

Mr. Zhang Xindao, born in 1944, is an independent supervisor of the Company. Mr. Zhang graduated from East-South University (東南大學) and holds a senior engineer qualification. He was previously the deputy director of 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. Mr. Zhang is the general manager of Shaoxing Tianyi Green Power Co., Ltd.

SENIOR MANAGEMENT

Mr. Wang Rongfu, born in 1954, is the chairman and general manager of Baoye Construction, a subsidiary of the Group. Mr. Wang holds the senior engineer qualification. He was previously the deputy general manager and general engineer of Baoye Construction. He was awarded the Model Worker of Shaoxing City (紹興市勞動模範), Talent with great contribution to the development of Shaoxing City and was appointed as an expert in the check of Nation Excellent Project (國家優質工程獎現場復查專家). Mr. Wang joined the Group in 1976. Mr. Wang was nominated to be an executive director of the Company, which will be effective after the relevant resolution passed at the forthcoming annual general meeting of the Company proposed to be held on 25 June 2007.

Mr. Huang Fengyong, born in 1956, is a deputy general manager of the Company and the managing director of Baoye Industrialisation, a subsidiary of the Group. Mr. Huang holds an engineer qualification. He was a deputy officer of the Shaoxing City Construction Management Bureau (紹興市建築業管理局) and a deputy director of the Shaoxing City Chengdong Development Zone (紹興市城東經濟開發區) prior to joining the Group in June 2003.

Mr. Fung Ching Simon, born in 1969, is the chief financial officer and secretary to the Board. Mr. Fung graduated from the Queensland University of Technology Australia and obtained a bachelor degree in accountancy. Mr. Fung joined the Group in August 2004. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the CPA Australia. Prior to joining the Group, he has over 10 years of experience in auditing, accounting and business advisory with a "Big-4" international accounting firm. Mr. Fung is currently an independent non-executive director of Hainan Meilan International Airport Airport Company Limited, a H-share company listed on the main board of HKEx.

Mr. Gao Jun, born in 1972, is a deputy general manager of the Company and the general manager of Anhui Baoye. Mr. Gao graduated from China University of Geosciences (中國地質大學) major in civil engineering and holds a senior engineer qualification. He was previously a director, deputy general manager of Baoye Construction, a director and the general manager of the Baoye Real Estate and an assistant general manager of the Company. Mr. Gao is currently the executive chairman of the Zhejiang Enterprises Union in Anhui, a member of the Anhui Youth Union, a vice-chairman of Yaohao Industry and Commerce Union in Hefei and a representative of the 2nd Hefei City Yaohai District People's Congress.

Biographical Details of Directors, Supervisors and Senior Management *(continued)*

Mr. Lou Zhonghua, born in 1968, is a director and the general manager of Baoye Real Estate. He graduated from China University of Geosciences (中國地質大學), major in civil engineering and holds a senior engineer qualification. Mr. Lou was previously the general manager of Zhejiang Baoye Decoration Engineering Company Limited, a director and a deputy manager of Baoye Construction.

Mr. Wang Rongbiao, born in 1968, is a director and the general manager of Baoye Industrialisation, a subsidiary of the Group. Mr. Wang holds a senior engineer qualification. He was previously an operation manager and a branch manager of Baoye Construction.

Mr. Xu Jianbiao, born in 1968, is an assistant general manager of the Company. Mr. Xu graduated from Zhejiang Broadcasting and Television University (浙江廣播電視大學) major in industrial and residential construction and is qualified as a senior engineer. Mr. Xu was previously the general manager of Baoye Construction, and a manager of Baoye Construction Shanghai Branch. He was awarded the 2004 Excellent Talent for the Economic Development in Shaoxing City (曾榮獲2004年度紹興市經濟發展傑出人才) and 2005 Top 10 Construction Talent in Eastern China (2005年度華東建設十大人物).

Report of Directors

The Board is pleased to present their annual report and the audited accounts of the Group for the year ended 31 December 2006.

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 note 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 2006 are set out in the balance sheets of the consolidated financial statements prepared in accordance with HKAS on pages 58 to 60.

The results of the Group for the year ended 31 December 2006 prepared in accordance with HKAS are set out in the consolidated income statement on page 61.

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 during the year are set out in the note 20 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 RMB219,628,000 as at 31 December 2006 (2005: RMB105,133,000).

Dividends

At the board meeting held on 16 April 2007, the Board declared a final dividend of RMB0.07 (2005: RMB0.12) per ordinary share for the year ended 31 December 2006. The proposed dividend is not reflected as a dividend payable in these consolidated financial statements of 2006, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2007.

Segment Information

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

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

The primary reporting of business segments for the year ended 31 December 2006 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 revenue 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 Company's share capital) had any interest in the above major suppliers or customers.

Fixed Assets

Details of the movements in fixed assets of the Group during the year are set out in note 7 to the consolidated financial statements.

Purchase, Sale or Redemption of Shares of the Company

During the year ended 31 December 2006, 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 2006 are as follows:

Directors

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

Non-executive Director
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)*

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

Changes of Directors, Supervisors and Senior Management

Mr. Wu Weimin resigned as a 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 40-44 of the annual report.

Remuneration of Directors

The remuneration of directors of the Company is disclosed on an individual named basis in note 28(b) to the consolidated financial statements.

Highest Paid Individuals

During the year, the relevant information of the five individuals with the highest remuneration of the Group is disclosed in note 28(c) to the consolidated financial statements.

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. The Board is 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.

Report of Directors *(continued)*

Interests of Directors, Supervisors and Senior Management

As at 31 December 2006, the interests and short positions of each director, supervisor and senior management of the Company in the shares, underlying shares or debentures of the Company or any associated corporations within the meaning of Part XV of the SFO which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the HKEx were as follows:

Director/ Supervisor/ Senior management	Name of the company	Capacity	No. of domestic shares held (Long position)	Approximate percentage of the total registered capital
Directors				
Mr. Pang Baogen	The Company	Personal	198,753,054	29.98%
Mr. Gao Jiming	The Company	Personal	13,024,647	1.96%
Mr. Gao Lin	The Company	Personal	9,544,775	1.44%
Mr. Zhou Hanwan	The Company	Personal	8,233,510	1.24%
Supervisor				
Mr. Suo Guofan	The Company	Personal	11,705,283	1.77%
Senior Management				
Mr. Xu Jianbiao	The Company	Personal	7,524,884	1.14%
Mr. Wang Rongfu	The Company	Personal	7,147,039	1.08%
Mr. Gao Jun	The Company	Personal	5,794,259	0.87%
Mr. Lou Zhonghua	The Company	Personal	5,633,172	0.85%
Mr. Wang Rongbiao	The Company	Personal	2,647,911	0.40%

Directors' and Supervisors' Service Contract

Approved in the 2004 annual general meeting of the Company, all the appointed directors and supervisors signed their respective service contracts with the Company on 20 May 2005 all of which last until the conclusion of the 2007 annual general meeting of the Company. No directors or supervisors have service contracts with the Company, which are not terminable by the Company within one year without payment of compensation other than statutory compensation.

Directors' and Supervisors' Interests in Contracts

No contracts 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 have material interests, whether direct or indirect, subsisted at any time during the year (excluding directors' service contracts).

Directors' and Supervisors' Rights to Acquire Shares or Debentures

At no time during the year did the Company or any of its subsidiaries make any arrangement to enable the directors, the supervisors and their respective spouses or children under 18 years of age to benefit from acquisition of the shares, or debentures of the Company or any other corporation.

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	The 3rd placement of H shares
Class of shares listed	H share	H share	H share	H share
Listing place	Main Board of the HKEx.	Main Board of the HKEx.	Main Board of the HKEx.	Main Board of the HKEx.
Offer/placing price	HK$1.43 per H share	HK$4.05 per H share	HK$4.85 per H share	HK$10.88 per H share
Listing date	30 June 2003	21 January 2005	24 December 2005	2 February 2007
Number of issued H shares	180,684,000	36,136,800	43,364,160	52,036,992

Share Capital

As at 31 December 2006, there was 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 Board, the Company has maintained sufficient public float as at the latest practicable date prior to the date of this annual report.

Substantial Shareholders

As at 31 December 2006, 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 and underlying shares of the Company as recorded in the register required to be kept under section 336 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 share capital
Goldman Sachs (Asia) Finance *(Note 1)*	43,364,160	13.89%	6.54%
Atlantis Investment Management Limited *(Note 2)*	34,500,000	11.05%	5.20%
Tiger Global, L. P. *(Note 3)*	52,036,992	16.67%	7.85%

Note:

1. The 43,364,160 H shares are held 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. Atlantis Investment Management Limited, as the investment manager, held 34,500,000 shares.

3. The Company entered into the share subscription agreement with Tiger Global on 13 December 2006, the closing of the share subscription agreement was completed on 2 February 2007. Details of which are shown in "Subsequent Event" on P.53 of this 2006 annual report.

Human Resources

As at 31 December 2006, the Group had approximately 1,987 permanent employees, including 400 employees from the newly acquired Hubei Construction Group (2005: approximately 1,488). There are approximately 51,000 construction site workers (2005: approximately 45,000) who are not permanent employees of the Group. Total staff costs amounted to RMB875,497,000 (2005: RMB790,849,000) for the year ended 31 December 2006. Remuneration is determined by reference to market terms as well as the performance, qualifications and experience of individual employee. Employee benefits provided by the Group include pension and medical insurance. The Group highly values human resources management, and devotes to establishing a high quality team to support its long term business development. The Board intends to implement a more effective employee incentive plan.

Closure of Register of Members

The register of members of the Company will be closed from 26 May 2007 to 25 June 2007, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the abovementioned 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 26/F, Tesbury Centre,28 Queen's Road East, Wanchai, Hong Kong (for holders of the Company's H Share) no later than 4:00 pm on 25 May 2007.

Connected Transactions

During the year ended 31 December 2006, the Group had no connected transactions that would require disclosure under the Listing Rules.

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 are disclosed in note 30 to the consolidated financial statements.

External Guarantee and Fulfilment

	2006 **RMB'000**	2005 RMB'000
Guarantee given to banks in respect of mortgage facilities granted to third parties	**19,800**	67,500
Guarantee given to banks in respect of bank loans of third parties	**20,000**	–
	39,800	67,500

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

Litigation and Arbitration

As at the date of this report, the Group had no 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 with 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 on Corporate Governance Practices

The Group has complied with the Code on 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 2006 Annual Report.

Auditors

PricewaterhouseCoopers is appointed as the Company's international auditor, and Shine Wing CPAs Co., Ltd ("Shine Wing") is appointed as the Company's statutory auditor. The financial statements contained in this annual report were prepared in accordance with Hong Kong Financial Reporting Standards and have been audited by PricewaterhouseCoopers.

The remuneration of the auditors in the year 2006 is set out as follows:

	2006		2005	
	Audit fees	**Other fees**	Audit fees	Other fees
PricewaterhouseCoopers (HK$'000)	**2,800**	**100****	1,800	50*
Shine Wing (RMB'000)	**350**	**50***	300	20*

* mainly travel expenses

** mainly capital verification fee and travel expenses

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

Subsequent Event

On 13 December 2006, the Company entered into the subscription agreement with Tiger Global in relation to the subscription of 52,036,992 new H shares of the Company at HK$10.88 per share, representing approximately 20% and 16.67% of the existing H shares in issue and the entire issued share capital of the Company as enlarged by the subscription respectively. The net proceeds of the subscription were approximately HK$563,000,000. With the approval from China Securities Regulatory Commission and HKEx, and having satisfied the conditions precedent in the subscription agreement, the closing of the subscription agreement was completed on 2 February 2007.

Appreciation

The Board would like to take this opportunity to express gratitude to our 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

Baoye Group Company Limited
Zhejiang, the PRC
16 April 2007

Supervisors' Report

To the Shareholders,

In the year 2006, Supervisory Committee (the "Supervisory Committee") of Baoye Group Company Limited (the "Company"), in compliance with the provision of the Company Law of the People's Republic of China (the "PRC Company law"), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the articles of association of the Company, under their fiduciary duties, took an active role to work reasonably and cautiously to protect the interests of the Company and its shareholders.

During the year, the Supervisory Committee attended all the Board meeting, the Annual General Meeting and the Extraordinary General Meeting of the 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, chief executive officer 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, chief executive officer 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 2006 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
16 April 2007

International Auditor's Report

PRICEWATERHOUSECOOPERS

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

We have audited the consolidated financial statements of Baoye Group Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 58 to 104, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

International Auditor's Report *(continued)*

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 16 April 2007

Consolidated Balance Sheet

As at 31 December 2006

		As at 31 December	
	Note	**2006** *RMB'000*	2005 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment	7	**677,386**	486,997
Investment properties	8	**40,515**	35,981
Land use rights	6	**792,261**	460,110
Goodwill	9	**16,534**	17,043
Properties under development	10	**442,076**	95,879
Investments in associates	12	**32,401**	–
Deferred income tax assets	25	**15,496**	22,844
		2,016,669	1,118,854
Current assets			
Inventories	13	**79,802**	54,233
Land use rights	6	**269,136**	286,350
Properties under development	10	**292,283**	606,348
Completed properties held for sale		**61,604**	72,276
Due from customers on construction contracts	14	**738,909**	517,919
Trade receivables	15	**682,864**	387,223
Other receivables	16	**721,651**	687,684
Restricted bank deposits	17	**125,702**	83,742
Cash and cash equivalents	18	**782,699**	742,289
		3,754,650	3,438,064
Total assets		**5,771,319**	4,556,918

Conoildated Balance Sheet *(continued)*

As at 31 December 2006

		As at 31 December	
	Note	**2006** *RMB'000*	2005 *RMB'000*
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*19*	**953,735**	953,735
Other reserves	*20*	**227,951**	235,884
Retained earnings		**915,970**	500,738
Proposed dividend	*33*	**46,407**	73,311
		2,144,063	1,763,668
Minority interest		**45,191**	64,363
Total equity		**2,189,254**	1,828,031
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	*25*	**133,434**	134,970
Current liabilities			
Trade payables	*21*	**791,212**	374,380
Other payables	*22*	**661,666**	432,769
Receipts in advance		**262,657**	227,352
Current income tax liabilities		**76,476**	85,896
Due to customers on construction contracts	*14*	**429,591**	389,137
Borrowings	*24*	**1,222,779**	1,080,513
Provision for warranty	*23*	**4,250**	3,870
		3,448,631	2,593,917
Total liabilities		**3,582,065**	2,728,887
Total equity and liabilities		**5,771,319**	4,556,918
Net current assets		**306,019**	844,147
Total assets less current liabilities		**2,322,688**	1,963,001

Pang Baogen
Director

Gao Jiming
Director

The notes on pages 64 to 104 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31 December 2006

		As at 31 December	
	Note	**2006** *RMB'000*	2005 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment	7	**34,293**	29,641
Land use rights	6	**211,105**	291,028
Properties under development	10	**122,509**	66,816
Investments in subsidiaries	11	**558,760**	729,875
		926,667	1,117,360
Current assets			
Amounts due from subsidiaries	11	**581,584**	215,828
Other receivables	16	**54,886**	112,785
Cash and cash equivalents	18	**82,339**	175,750
		718,809	504,363
Total assets		**1,645,476**	1,621,723
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	19	**953,735**	953,735
Other reserves	20	**129,556**	111,292
Retained earnings		**173,221**	31,822
Proposed dividend	33	**46,407**	73,311
Total equity		**1,302,919**	1,170,160
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	25	**679**	679
Current liabilities			
Trade payables	21	**12,413**	594
Other payables	22	**17,569**	88,394
Current income tax liabilities		**5,896**	5,896
Borrowings	24	**306,000**	356,000
		341,878	450,884
Total liabilities		**342,557**	451,563
Total equity and liabilities		**1,645,476**	1,621,723
Net current assets		**376,931**	53,479
Total assets less current liabilities		**1,303,598**	1,170,839

Pang Baogen
Director

Gao Jiming
Director

The notes on pages 64 to 104 are an integral part of these consolidated financial statements.

Consolidated Income Statement

For the year ended 31 December 2006

		Year ended 31 December	
	Note	2006 RMB'000	2005 RMB'000
Revenue	5	**6,227,853**	4,723,797
Cost of sales	27	**(5,761,289)**	(4,289,943)
Gross profit		**466,564**	433,854
Other gains – net	26	**416,038**	136,391
Selling and marketing costs	27	**(15,388)**	(7,363)
Administrative expenses	27	**(218,069)**	(112,370)
Operating profit		**649,145**	450,512
Finance costs	29	**(50,722)**	(29,885)
Share of losses of associates	12	**(21)**	–
Profit before income tax		**598,402**	420,627
Income tax expense	30	**(116,381)**	(112,729)
Profit for the year		**482,021**	307,898
Attributable to:			
Equity holders of the Company		**476,032**	304,226
Minority interest		**5,989**	3,672
		482,021	307,898
Earnings per share for profit attributable to the equity holders of the Company during the year – basic and diluted (expressed in RMB per share)	32	**RMB0.779**	RMB0.537
Dividends	33	**46,407**	73,311

The notes on pages 64 to 104 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes In Equity

For the year ended 31 December 2006

		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		587,576	77,437	389,051	104,578	1,158,642
Fair value gains of buildings, net of tax		–	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		366,159	–	–	–	366,159
Business combinations		–	120,110	–	6,197	126,307
Transfer to statutory surplus reserve and public welfare fund		–	37,726	(37,726)	–	–
Dividend relating to 2004		–	–	(81,502)	–	(81,502)
Reduction of minority interest resulting from acquisition of additional interest in a subsidiary		–	–	–	(50,084)	(50,084)
Balance at 31 December 2005		953,735	235,884	574,049	64,363	1,828,031
Balance at 1 January 2006		**953,735**	**235,884**	**574,049**	**64,363**	**1,828,031**
Profit for the year		**–**	**–**	**476,032**	**5,989**	**482,021**
Transfer of reserves to income statement arising from sale of completed properties held for sale		**–**	**(19,617)**	**–**	**–**	**(19,617)**
Transfer of reserves to retained earnings upon disposal of property, plant and equipment		**–**	**(3,871)**	**3,871**	**–**	**–**
Transfer to statutory surplus reserve		**–**	**18,264**	**(18,264)**	**–**	**–**
Dividend relating to 2005		**–**	**–**	**(73,311)**	**(2,281)**	**(75,592)**
Business combination	*37*	**–**	**–**	**–**	**1,590**	**1,590**
Disposal of a subsidiary	*38*	**–**	**–**	**–**	**(9,232)**	**(9,232)**
Liquidation of a subsidiary	*11(a)*	**–**	**(2,709)**	**–**	**(12,968)**	**(15,677)**
Reduction of minority interest resulting from acquisition of additional interest in subsidiaries		**–**	**–**	**–**	**(2,270)**	**(2,270)**
Balance at 31 December 2006		**953,735**	**227,951**	**962,377**	**45,191**	**2,189,254**

The notes on pages 64 to 104 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2006

		Year ended 31 December	
	Note	2006 RMB'000	2005 RMB'000
Cash flows from operating activities			
Cash generated from operations	34	**156,292**	220,160
Interest paid		**(66,242)**	(48,030)
Income tax paid		**(137,927)**	(160,732)
Net cash (used in)/generated from operating activities		**(47,877)**	11,398
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	37	**(8,858)**	(14,321)
Proceeds from sale of a subsidiary	38	**77,622**	–
Acquisition of equity interest in a jointly controlled entity from another joint venturer		**–**	(52,377)
Acquisition of additional equity interest in subsidiaries		**(1,050)**	(23,649)
Purchase of property, plant and equipment	7	**(144,497)**	(141,487)
Purchase of land use rights for construction of property and plant		**(27,417)**	–
Proceeds from sale of property, plant and equipment and land use rights	34	**87,007**	12,575
Proceeds from disposal of investment property		**–**	8,178
Interest received		**47,406**	34,925
Net cash generated from/(used in) investing activities		**30,213**	(176,156)
Cash flows from financing activities			
Proceeds from issuance of shares		**–**	374,260
Payment for share issuance costs		**–**	(8,101)
Proceeds from borrowings		**1,871,540**	1,384,651
Repayments of borrowings		**(1,737,874)**	(1,306,138)
Dividends paid to Company's shareholders	33	**(73,311)**	(81,502)
Dividends paid to minority shareholders		**(2,281)**	–
Net cash generated from financing activities		**58,074**	363,170
Net increase in cash and cash equivalents		**40,410**	198,412
Cash and cash equivalents at beginning of the year		**742,289**	543,877
Cash and cash equivalents at end of the year		**782,699**	742,289

The notes on pages 64 to 104 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 16 April 2007.

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.

i) Assessment and adoption of revised/new HKFRS, amendments and interpretations to published standards effective in 2006

The Group has adopted the following new standards, amendments to standards and interpretations which are mandatory for financial year ended 31 December 2006.

- Amendment to HKAS 19, 'Actuarial gains and losses, group plans and disclosures', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;

- Amendment to HKAS 39, 'The fair value option', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;

- Amendment to HKAS 21, 'Net investment in a foreign operation', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;

- Amendment to HKAS 39, 'Cash flow hedge accounting of forecast intragroup transactions', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

i) Assessment and adoption of revised/new HKFRS, amendments and interpretations to published standards effective in 2006 (continued)

- Amendments to HKAS 39 and HKFRS 4, Amendment 'Financial guarantee contracts', effective for annual periods beginning on or after 1 January 2006. These amendments require issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value and subsequently measured at the higher of: (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management considered that these amendments had no material effect on the Group;

- HKFRS 6, 'Exploration for and evaluation of mineral resources', effective for annual periods beginning on or after 1 January 2006. This standard is not relevant for the Group;

- Amendments to HKFRS 1 and 6, 'First-time adoption of Hong Kong Financial Reporting Standards and Exploration for and evaluation of mineral resources', effective for annual periods beginning on or after 1 January 2006, these amendments are not relevant for the Group;

- HKFRS-Int 4, 'Determining whether an arrangement contains a lease', effective for annual periods beginning on or after 1 January 2006. The Group has reviewed its contracts. None of them are required to be accounted for as leases in accordance with HKAS 17, 'Leases';

- HKFRS-Int 5, 'Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds', effective for annual periods beginning on or after 1 January 2006. This interpretation is not relevant for the Group; and

- HK(IFRIC)-Int 6, 'Liabilities arising from participating in a specific market – waste electrical and electronic equipment', effective for annual periods beginning on or after 1 December 2005. This interpretation is not relevant for the Group.

ii) Standards, amendments and interpretations to existing standards 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 March 2006 or later periods and have not been early adopted by the Group:

- HK(IFRIC)-Int 7, 'Applying the restatement approach under HKAS 29', effective for annual periods beginning on or after 1 March 2006. Management do not expect the interpretation to be relevant for the Group;

- HK(IFRIC)-Int 8, 'Scope of HKFRS 2', effective for annual periods beginning on or after 1 May 2006. Management do not expect the interpretation to be relevant for the Group;

- HK(IFRIC)-Int 9, 'Reassessment of embedded derivatives', effective for annual periods beginning on or after 1 June 2006. Management do not expect the interpretation to be relevant for the Group;

- HK(IFRIC)-Int 10, 'Interim Financial Reporting and Impairment', effective for annual periods beginning on or after 1 November 2006. HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. This interpretation is applicable to the Group and the Group will apply it for the annual periods beginning 1 January 2007;

- HK(IFRIC)-Int 11, 'HKFRS 2–Group and Treasury Share Transactions', effective for annual periods beginning on or after 1 March 2007. Management do not expect the interpretation to be relevant for the Group;

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

ii) Standards, amendments and interpretations to existing standards which are not yet effective (continued)

- HK(IFRIC)-Int 12, 'Service Concession Arrangements', effective for annual periods beginning on or after 1 January 2008. Management do not expect the interpretation to be relevant for the Group;

- HKFRS 7, 'Financial Instruments: Disclosures', effective for annual periods beginning on or after 1 January 2007. HKAS 1, 'Amendments to capital disclosures', effective for annual periods beginning on or after 1 January 2007. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 January 2007; and

- HKFRS 8, 'Operating Segment', effective for annual periods beginning on or after 1 January 2009. HKFRS 8 will replace HKAS 14, 'Segment Reporting'. HKFRS 8 requires identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resource to the segment and assess its performance. HKAS 14 requires identification of two sets of segments - one based on related products and services, and the other on geographical areas. This standard is applicable to the Group and the Group will apply it from the annual periods beginning 1 January 2009.

2.2 Consolidation

(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 (Note 2.7). 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 unless the transaction provides evidence 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 (Note 2.8). 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) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss (Note 2.7).

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associates are recognised in the consolidated income statement.

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.

2.5 Property, plant and equipment

Property, plant and equipment 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.

2. Summary of significant accounting policies (continued)

2.5 Property, plant and equipment (continued)

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
Buildings	20 years
Plant and machinery	10 years
Motor vehicles	5 years
Office equipment and others	5 years

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 and are recognised within other (losses)/gains – net, in the income statement.

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. 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.

2.7 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 subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates and is tested annually for impairment as part of the overall balance. 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.

2. Summary of significant accounting policies (continued)

2.7 Goodwill (continued)

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 assets

Assets that have an indefinite useful life are not subject to amortisation and are at least tested annually for impairment. 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.

2.11 Financial assets

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.

During the year, the Group only holds financial assets in the category of loans and receivables.

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. These are classified as non-current assets.

Regular purchase and sales of financial assets are recognised on the 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.

2. Summary of significant accounting policies (continued)

2.11 Financial assets (continued)

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 original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses 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 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.

2.13 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 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2. Summary of significant accounting policies (continued)

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. 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.

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.

2.18 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 associates, 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.

2.19 Employee benefits

Pension obligation

The Group contributes to defined contributions retirement schemes organised and administered by the governmental authorities which are available to all employees in the PRC. Contributions to the schemes 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 28(a).

2.20 Provision

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more probable 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.

2.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, business tax, returns, rebates and discounts and after eliminating sales within the Group.

2. Summary of significant accounting policies (continued)

2.21 Revenue recognition (continued)

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(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) ***Sales 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.

(c) ***Sales 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***

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the assets.

Lease income is recognised over the term of the lease on a straight-line basis.

(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.

2.22 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.

2.23 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.

2.24 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.

3. Financial risk management

3.1 Financial risk factors

The Group's 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.

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 24 to these consolidated financial statements.

3.2 Fair value estimation

The carrying amount less impairment provision of trade receivables and payables 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.

4. Critical accounting estimates and judgements (continued)

4.1 Critical accounting estimates and assumptions (continued)

(a) Construction contract revenue recognition *(continued)*

In applying the percentage of completion method, the Group needs 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 any construction contract differs from the management's estimates, the construction contract revenue will need to be adjusted accordingly.

(b) 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 2006, the fair value of the investment properties of the Group were estimated at RMB40,515,000 (31 December 2005: RMB35,981,000) as reported by an independent professional valuer.

(c) Estimate of the fair value of acquired assets and liabilities from business combination

During the year, the Group acquired the 100% equity interest of 12 companies located in Hubei province from Hubei Construction Engineering Holding Company ("Hubei Construction Holding") at an aggregate cash consideration of RMB132,855,000. Details of the acquisitions are set out in Note 37. In accordance with HKFRS 3, the identifiable assets acquired and liabilities and contingent liabilities assumed should be measured at fair value at the acquisition date in order to determine the difference between the cost of acquisition and the fair value of the Group's share of net assets acquired, which should then be recognised as goodwill on the balance sheet or recognised in the income statement.

For the purpose of the interim financial reporting for the six months ended 30 June 2006, the directors of the Company had principally made reference to the valuation results made by a valuer appointed by the original owner to determine the fair value of the net assets acquired at the acquisition date.

As at 31 December 2006, in the absence of an active market for the above acquisition transaction undertaken by the Group, the directors of the Company has made estimates from a variety of sources, in order to determine the fair value of identifiable assets and liabilities in the above acquisition transaction, as summarised below:

- Fair value of all working capital items of the acquired companies are stated at their net book value as at the acquisition date, after making applicable adjustments according to the latest assessment made by management.

- For the fair value of the land use rights, property, plant and equipment and investments in associates, the directors of the Company had made their estimates according to valuation results assessed by an external valuer, who was appointed by the Company.

- The directors of the Company had not identified significant intangible assets, which are subject to be recognised in the financial statements arising from the acquisition.

4. Critical accounting estimates and judgements (continued)

4.1 Critical accounting estimates and assumptions (continued)

(c) Estimate of the fair value of acquired assets and liabilities from business combination *(continued)*

As a result of the above assessments, the Group recognised the excess of the fair value of the net assets acquired over the acquisition costs amounting to approximately RMB288,358,000 in relation to the above acquisition transaction as other gains for the year ended 31 December 2006 (see Note 37 for details of this acquisition transaction).

4.2 Critical judgements in applying the Group's accounting policies

(a) Income taxes and deferred taxation

Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(b) Land appreciation taxes

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 the relevant 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 RMB6,166,234,000 and RMB4,690,914,000 for the years ended 31 December 2006 and 2005 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 2006 are as follows:

	Year ended 31 December 2006				
	Construction	Building materials	Property development	Others	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total revenue	**4,824,604**	**1,226,416**	**445,215**	**80,744**	**6,576,979**
Inter-segment revenue	**(180,025)**	**(149,976)**	**–**	**(19,125)**	**(349,126)**
External revenue	**4,644,579**	**1,076,440**	**445,215**	**61,619**	**6,227,853**
Operating profit	**468,845**	**50,610**	**126,463**	**3,227**	**649,145**
Finance costs					**(50,722)**
Share of losses of associates					**(21)**
Profit before income tax					**598,402**
Income tax expense					**(116,381)**
Profit for the year					**482,021**
Other information					
Depreciation	**24,661**	**27,498**	**2,047**	**2,666**	**56,872**
Amortisation	**7,381**	**1,114**	**–**	**–**	**8,495**
Provision for doubtful debts, net	**1,137**	**3,847**	**62**	**54**	**5,100**

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

	Year ended 31 December 2005				
	Construction	Building materials	Property development	Others	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total revenue	3,650,687	781,746	545,995	86,040	5,064,468
Inter-segment revenue	(126,509)	(161,005)	–	(53,157)	(340,671)
External revenue	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)*

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 segment assets and liabilities as at 31 December 2006 and capital expenditure for the year then ended are as follows:

	As at 31 December 2006					
	Construction	**Building materials**	**Property development**	**Others**	**Unallocated**	**Group**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Assets	**3,245,158**	**1,102,301**	**1,162,918**	**172,530**	**56,011**	**5,738,918**
Associates	**–**	**–**	**32,401**	**–**	**–**	**32,401**
Total assets	**3,245,158**	**1,102,301**	**1,195,319**	**172,530**	**56,011**	**5,771,319**
Liabilities	**1,806,254**	**681,125**	**667,538**	**45,746**	**381,402**	**3,582,065**
Capital expenditure	**110,930**	**170,321**	**8,704**	**24,520**	**–**	**314,475**

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	Building materials	Property development	Others	Unallocated	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets	2,508,681	715,629	1,233,359	40,425	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

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

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

Capital expenditure comprises additions to property, plant and equipment and land use rights for construction of property and plant, 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

	2006		2005	
	Non-current	**Current**	Non-current	Current
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Opening net book amount	**460,110**	**286,350**	578,771	280,658
Additions from business combination *(Note 37)*	**358,807**	**–**	136,320	–
Other additions	**92,826**	**–**	10,010	–
Transfer to current portion	**(35,305)**	**35,305**	(255,020)	255,020
Disposals *(Note 26(a))*	**(16,086)**	**–**	(4,226)	–
Decrease upon disposal of a subsidiary *(Note 38)*	**(57,899)**	**–**	–	–
Amortisation				
– expensed in administrative expenses	**(8,495)**	**–**	(3,108)	–
– capitalised in properties under development	**(1,697)**	**(3,784)**	(2,637)	(6,080)
Transfer to cost of sales	**–**	**(48,735)**	–	(243,248)
End of the year	**792,261**	**269,136**	460,110	286,350

Company

	Non-current	
	2006	2005
	RMB'000	*RMB'000*
Opening net book amount	**291,028**	292,689
Transfer to subsidiaries	**(78,775)**	–
Amortisation		
– expensed in administrative expenses	**(1,148)**	(1,661)
End of the year	**211,105**	291,028

Notes to the Consolidated Financial Statements *(continued)*

6. Land use rights (continued)

The Group and the Company's interests in land use rights at their net book values are analysed as follows:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Outside Hong Kong, held on:				
Leases of over 50 years	**498,681**	513,789	**200,000**	200,000
Leases of between 10 to 50 years	**562,716**	232,671	**11,105**	91,028
	1,061,397	746,460	**211,105**	291,028

Included in the Group's interests in land use rights at 31 December 2006 are certain land use rights amounting to RMB253,548,000 (2005: 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 2006, total net book values of land use rights pledged as security for the Group's short-term bank loans amounted to RMB136,971,000 (2005: RMB306,230,000) (Note 24).

7. Property, plant and equipment

Group

	Buildings	Plant and machinery	Motor vehicles	Office equipment and others	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2005						
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
Year ended 31 December 2005						
Opening net book amount	144,270	160,747	37,704	8,163	68,754	419,638
Additions from business combination	–	–	307	364	–	671
Other 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	(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)

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 2006						
Opening net book amount	170,992	186,437	47,609	6,595	75,364	486,997
Additions from business combination *(Note 37)*	89,872	35,854	11,411	1,513	1,512	140,162
Other additions	26,931	25,554	14,799	5,111	74,501	146,896
Transfer	77,202	630	–	–	(77,832)	–
Disposals	(32,123)	(4,031)	(3,463)	(126)	–	(39,743)
Decrease upon disposal of a subsidiary *(Note 38)*	–	–	–	(54)	–	(54)
Depreciation charge	(16,237)	(26,752)	(11,008)	(2,875)	–	(56,872)
Closing net book amount	316,637	217,692	59,348	10,164	73,545	677,386
At 31 December 2006						
Cost	449,797	341,569	105,069	24,381	73,545	994,361
Accumulated depreciation	(133,160)	(123,877)	(45,721)	(14,217)	–	(316,975)
Net book amount	316,637	217,692	59,348	10,164	73,545	677,386

Depreciation expenses of RMB39,018,000 (2005: RMB27,281,000) has been expensed in cost of sales and RMB17,854,000 (2005: RMB11,380,000) in administrative expenses.

As at 31 December 2006, total net book values of property, plant and equipment pledged as security for the Group's short-term bank loans amounted to RMB32,524,000 (2005: nil) (Note 24).

7. Property, plant and equipment (continued)

Company

	Buildings RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2005					
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
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
Year ended 31 December 2006					
Opening net book amount	**352**	**3,517**	**515**	**25,257**	**29,641**
Additions	**433**	**–**	**867**	**5,252**	**6,552**
Transfer	**30,509**	**–**	**–**	**(30,509)**	**–**
Depreciation charge	**(606)**	**(1,072)**	**(222)**	**–**	**(1,900)**
Closing net book amount	**30,688**	**2,445**	**1,160**	**–**	**34,293**
At 31 December 2006					
Cost	**31,330**	**5,955**	**1,776**	**–**	**39,061**
Accumulated depreciation	**(642)**	**(3,510)**	**(616)**	**–**	**(4,768)**
Net book amount	**30,688**	**2,445**	**1,160**	**–**	**34,293**

Notes to the Consolidated Financial Statements *(continued)*

8. Investment properties

	Group	
	2006	2005
	RMB'000	*RMB'000*
Opening net book amount	**35,981**	5,188
Transfer from property, plant and equipment	**–**	10,000
Fair value gains on the transfer date	**–**	912
Fair value gains (included in other gains – net)	**4,534**	25,069
Disposals	**–**	(5,188)
End of the year	**40,515**	35,981

The following amounts have been recognised in the consolidated income statement:

	2006	2005
	RMB'000	*RMB'000*
Rental income	**994**	918
Direct operating expenses arising from investment properties that generate rental income	**51**	47

The investment properties were revalued at 31 December 2006 by an independent, qualified valuer, Shaoxing Zhongxing Assets Valuation Company Limited.

The period of leases whereby the Group leases out its investment properties under operating leases is one year.

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

9. Goodwill

Group

	Goodwill
	RMB'000
At 1 January 2005	
Cost	1,045
Accumulated impairment	–
Net book amount	1,045
Year ended 31 December 2005	
Opening net book amount	1,045
Addition from business combination	15,998
Closing net book amount	17,043
At 31 December 2005	
Cost	17,043
Accumulated impairment	-
Net book amount	17,043

Notes to the Consolidated Financial Statements *(continued)*

9. Goodwill (continued)

Group (continued)

	Goodwill RMB'000
Year ended 31 December 2006	
Opening net book amount	**17,043**
Disposal of a subsidiary *(Note 38)*	**(509)**
Closing net book amount	**16,534**
At 31 December 2006	
Cost	**16,534**
Accumulated impairment	**–**
Net book amount	**16,534**

Impairment test for goodwill

Goodwill is allocated to the Group's cash generating units ("CGU") identified according to the operations of the company acquired.

The goodwill as at 31 December 2006 are mainly arsing from the acquisition of the equity interest in a previously jointly controlled entity, Hefei Qingfangcheng Baoye Real Estate Co., Ltd. ("Hefei Baoye Real Estate"), in 2005. Hefei Baoye Real Estate was treated as a CGU as it has its own real estate projects. The recoverable amount of Hefei Baoye Real Estate is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are projected based on estimates made by management. Management determined the budgeted operating results based on past performance and its expectations for the market development. The discount rate used is pre-tax and reflects specific risks relating to the real estate projects developed by Hefei Baoye Real Estate. Based on the impairment test on the goodwill associated with Hefei Baoye Real Estate performed on 31 December 2006, no impairment provision is required.

10. Properties under development

	Group		**Company**	
	2006 ***RMB'000***	2005 *RMB'000*	**2006** ***RMB'000***	2005 *RMB'000*
Development costs	**663,925**	640,151	**95,469**	44,932
Finance costs capitalised	**70,434**	62,076	**27,040**	21,884
	734,359	702,227	**122,509**	66,816

10. Properties under development *(continued)*

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

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Completion within one year	**292,283**	606,348	**–**	–
Completion in more than one year	**442,076**	95,879	**122,509**	66,816
	734,359	702,227	**122,509**	66,816

As at 31 December 2006, total book values of properties under development pledged as security for the Group's short-term bank loans amounted to RMB149,914,000 (2005: nil) (Note 24).

11. Interests in and balances with subsidiaries

	Company	
	2006	2005
	RMB'000	*RMB'000*
Investments at cost, unlisted	**558,760**	729,875
Amounts due from subsidiaries	**581,584**	215,828
	1,140,344	945,703

The amounts due from subsidiaries are unsecured, interest free and are repayable on demand.

The following is a list of the principal subsidiaries as at 31 December 2006:

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.	PRC, limited liability company	99%	–	RMB300,000,000	Construction and interior decoration in the PRC
Zhejiang Baoye Curtain Wall Decoration Co., Ltd.	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.	PRC, limited liability company	93.3%	6.6%	RMB15,000,000	Decoration and replenishment in the PRC

Notes to the Consolidated Financial Statements *(continued)*

11. Interests in and balances with 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*		
Zhejiang Baoye Real Estate Group Co., Ltd.	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	PRC, joint stock limited company	19%	79.9%	RMB60,600,000	Production and sales of concrete and construction materials in the PRC
Shaoxing Baoye Fireproof Materials Co., Ltd.	PRC, limited liability company	88.3%	11.6%	RMB3,000,000	Production and sales of steel, wood fireproof doors in the PRC
Shaoxing Baoye New Building Materials Co., Ltd.	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 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
Zhejiang Baoye Steel Structure Co., Ltd.	PRC, limited liability company	95%	5.0%	RMB20,000,000	Production, design and sales of steel structure products 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
Hefei Qingfangcheng Baoye Real Estate Co., Ltd.	PRC, limited liability company	90%	9.9%	RMB30,000,000	Development and sales of properties in the PRC
Anhui Huateng Investment Company Limited	PRC, limited liability company	–	75.0%	RMB20,000,000	Development and sales of properties in the PRC
Baoye Group Hubei Company Limited	PRC, limited liability company	90%	10%	RMB60,000,000	Investment holdings in the PRC

11. Interests in and balances with 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*		
Hubei Construction Engineering Group Co., Ltd.	PRC, limited liability company	–	100%	RMB61,980,000	Construction and interior decoration in the PRC
Hubei Construction Engineering No.3 Co., Ltd.	PRC, limited liability company	–	100%	RMB50,800,000	Construction and interior decoration in the PRC
Hubei Construction Engineering No.5 Co., Ltd.	PRC, limited liability company	–	100%	RMB58,000,000	Construction and interior decoration in the PRC
Hubei Industrial Equipment Installation Co., Ltd.	PRC, limited liability company	–	100%	RMB50,190,000	Installation of industrial equipment in the PRC
Hubei Engineering Machinery Construction Co., Ltd.	PRC, limited liability company	–	100%	RMB20,000,000	Provision of construction services in the PRC
Hubei Construction Engineering Concrete Products Co., Ltd.	PRC, limited liability company	–	100%	RMB20,080,000	Production and sales of concrete and construction materials in the PRC
Hubei Construction Engineering Real Estate Development Co., Ltd.	PRC, limited liability company	–	100%	RMB20,000,000	Real estate development in the PRC
Hubei Construction Engineering Material Trading Co., Ltd.	PRC, limited liability company	–	100%	RMB18,300,000	Provision of leasing services in the PRC

Note:

a) During the year, the Company liquidated a subsidiary, Shaoxing Commodity Concrete Co., Ltd.

12. Investments in associates

	Group 2006 RMB'000	2005 RMB'000
Beginning of the year	**–**	–
Additions from business combination *(Note 37)*	**32,422**	–
Share of losses	**(21)**	–
End of the year	**32,401**	–

As at 31 December 2006, no goodwill is included in investments in associates.

The Group's interests in its principal associates, all of which are unlisted, and its share of the net assets are as follows:

Name	Country of incorporation	Assets RMB'000	Liabilities RMB'000	Revenue RMB'000	Losses RMB'000	% interest held
2006						
Hubei Construction Real Estate Co., Ltd.	PRC	102,547	(80,315)	896	(6)	34%
Wuhan Modern Real Estate Development Co., Ltd.	PRC	273,075	(262,906)	–	(15)	30%
		375,622	**(343,221)**	**896**	**(21)**	

13. Inventories

	Group 2006 RMB'000	2005 RMB'000
Raw materials	**43,063**	21,620
Work in progress	**17,508**	9,172
Finished goods	**19,231**	23,441
	79,802	54,233

As at 31 December 2006, no inventories is carried at net realisable value (2005: Nil).

Notes to the Consolidated Financial Statements *(continued)*

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

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

	Group	
	2006	2005
	RMB'000	*RMB'000*
Contract costs incurred plus recognised profits (less recognised losses) to date	**17,066,745**	12,006,910
Less: progress billings to date	**(16,757,427)**	(11,878,128)
	309,318	128,782
Represented by:		
Due from customers on construction contracts	**738,909**	517,919
Due to customers on construction contracts	**(429,591)**	(389,137)
	309,318	128,782

As at 31 December 2006, retentions and project deposits held by customers for contract work included in other receivables of the Group amounted to RMB511,032,000 (2005: RMB471,577,000) (Note 16).

15. Trade receivables

	Group	
	2006	2005
	RMB'000	*RMB'000*
Trade receivables	**698,041**	399,470
Less: provision for doubtful debts	**(15,177)**	(12,247)
	682,864	387,223

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

As at 31 December 2006, the ageing analysis of the trade receivables is as follows:

	2006	2005
	RMB'000	*RMB'000*
Within 3 months	**321,703**	214,652
3 months to 1 year	**231,379**	138,534
1 to 2 years	**89,397**	36,352
2 to 3 years	**29,776**	9,552
Over 3 years	**25,786**	380
	698,041	399,470

Notes to the Consolidated Financial Statements *(continued)*

15. Trade receivables (continued)

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

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

16. Other receivables

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Retention money receivables and project deposits *(Note 14)*	**511,032**	471,577	**–**	–
Prepayments and other deposits	**30,327**	28,765	**–**	–
Deposits for a real estate development project	**50,000**	50,000	**50,000**	50,000
Deposits for acquisition	**–**	43,000	**–**	43,000
Others	**130,292**	94,342	**4,886**	19,785
	721,651	687,684	**54,886**	112,785

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

17. 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.

18. Cash and cash equivalents

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at bank and in hand	**740,267**	614,207	**48,539**	50,200
Short-term bank deposits	**42,432**	128,082	**33,800**	125,550
	782,699	742,289	**82,339**	175,750

The effective interest rates for the year of the short–term bank deposits of the Group and the Company are 1.87% (2005: 1.96%) and 1.87% (2005: 1.95%) respectively, and these deposits have original maturities of three months or less.

As at 31 December 2006, approximately RMB773,064,000 (2005: RMB737,421,000), RMB4,129,000 (2005: RMB4,868,000) and RMB5,506,000 (2005: Nil) of the cash and cash equivalents of the Group were denominated in RMB, HKD and USD respectively.

19. Share capital

	Number of shares (thousands)	Ordinary shares *RMB'000*	Share premium *RMB'000*	Total *RMB'000*
At 1 January 2005	531,426	531,426	56,150	587,576
Issuance of new H shares	79,501	79,501	286,658	366,159
31 December 2005 and 31 December 2006	**610,927**	**610,927**	**342,808**	**953,735**

The total authorised number of ordinary shares is 610,927,013 shares (2005: 610,927,013 shares) with a par value of RMB1.00 per share (2005: RMB1.00 per share). All issued shares are fully paid.

On 13 December 2006, the Company entered into a placing agreement with Tiger Global, L. P. in relation to the placing of an aggregate of 52,036,992 new H shares of the Company at HKD10.88 per placing share. The placing was completed in February 2007.

20. Other reserves

Group

	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	3,871	49,044	24,522	77,437
Revaluation of buildings – gross	912	–	–	912
Revaluation of buildings – tax	(301)	–	–	(301)
Additions from business combination	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
Balance at 1 January 2006	**124,592**	**74,195**	**37,097**	**235,884**
Transfer of reserves to income statement arising from sale of completed properties held for sale	**(19,617)**	**–**	**–**	**(19,617)**
Transfer of reserves to retained earnings upon disposal of property, plant and equipment	**(3,871)**	**–**	**–**	**(3,871)**
Reclassification of reserve fund *(Note (b))*	**–**	**37,097**	**(37,097)**	**–**
Appropriation from retained earnings	**–**	**18,264**	**–**	**18,264**
Liquidation of a subsidiary	**–**	**(2,709)**	**–**	**(2,709)**
Balance at 31 December 2006	**101,104**	**126,847**	**–**	**227,951**

20. 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 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
Balance at 1 January 2006	**74,195**	**37,097**	**111,292**
Reclassification of reserve fund *(Note (b))*	**37,097**	**(37,097)**	**–**
Appropriation from retained earnings	**18,264**	**–**	**18,264**
Balance at 31 December 2006	**129,556**	**–**	**129,556**

(a) Statutory surplus reserve
All PRC incorporated companies within the Group are 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
According to the relevant PRC regulations, the Company is not required to provide statutory public welfare fund for profit appropriation effective 1 January 2006, and any balance of statutory public welfare fund as at 31 December 2005 was transferred to the statutory surplus reserve.

21. Trade payables

As at 31 December 2006, the ageing analysis of the trade payables is as follows:

	Group		Company	
	2006 RMB'000	2005 *RMB'000*	**2006 RMB'000**	2005 *RMB'000*
Within 3 months	**427,430**	231,944	**790**	594
3 months to 1 year	**196,935**	104,404	**11,623**	–
1 to 2 years	**58,220**	29,436	**–**	–
2 to 3 years	**22,829**	2,938	**–**	–
Over 3 years	**85,798**	5,658	**–**	–
	791,212	374,380	**12,413**	594

22. Other payables

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deposits from project managers	**145,334**	113,601	**–**	–
Land appreciation tax payables	**52,667**	14,110	**–**	–
Other taxes payables	**60,619**	62,620	**–**	–
Accruals	**7,585**	3,235	**3,200**	1,500
Amounts due to shareholders *(Note (a))*	**8,513**	6,660	**–**	–
Amounts due to minority shareholders *(Note (a))*	**6,300**	1,916	**–**	–
Others	**380,648**	230,627	**14,369**	86,894
	661,666	432,769	**17,569**	88,394

(a) The balances with shareholders and minority shareholders were unsecured, interest free and repayable on demand.

The amounts due to shareholders and due to minority shareholders mainly represented the deposits received from shareholders and minority shareholders in relation to their management and execution of construction contracts of the Group as sub-contractors.

23. Provision for warranty

	Group	
	2006	2005
	RMB'000	*RMB'000*
At 1 January	**3,870**	2,620
Charged to the income statement		
– Additional provisions	**2,000**	3,200
Used during the year	**(1,620)**	(1,950)
At 31 December	**4,250**	3,870
Analysis of total provisions:		
Non-current	**1,420**	670
Current	**2,830**	3,200
	4,250	3,870

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 RMB2,830,000 and RMB1,420,000 is expected to be used during the year of 2007 and during the year of 2008 respectively.

24. Borrowings

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Short-term bank loans				
– Secured	**206,000**	146,513	**46,000**	46,000
– Guaranteed	**260,000**	160,000	**260,000**	310,000
– Others	**756,779**	774,000	**–**	–
	1,222,779	1,080,513	**306,000**	356,000

(a) As at 31 December 2006, the secured short-term bank loans were secured by the land use rights, buildings and properties under development of the Group with a total net book value amounting to RMB319,409,000 (2005: RMB306,230,000).

(b) As at 31 December 2006, the guaranteed short-term bank loans of the Group were guaranteed by Mr. Pang Baogen, chairman of the Board of Directors of the Company.

(c) Interest rates of these loans were 5% to 8% (2005: 5% to 7%) per annum for the year ended 31 December 2006.

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

25. 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	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred tax assets:				
– Deferred tax assets to be recovered after more than 12 months	**8,674**	12,178	**–**	–
– Deferred tax assets to be recovered within 12 months	**6,822**	10,666	**–**	–
	15,496	22,844	**–**	–
Deferred tax liabilities:				
– Deferred tax liabilities to be settled after more than 12 months	**(113,110)**	(95,532)	**(679)**	(679)
– Deferred tax liabilities to be settled within 12 months	**(20,324)**	(39,438)	**–**	–
	(133,434)	(134,970)	**(679)**	(679)
	(117,938)	(112,126)	**(679)**	(679)

25. Deferred income tax *(continued)*

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

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Opening net book amount	**(112,126)**	7,510	**(679)**	(679)
Business combination *(Note 37)*	**(17,938)**	(118,480)	**–**	–
Recognised in the income statement *(Note 30)*	**12,126**	(855)	**–**	–
Tax charged to equity	**–**	(301)	**–**	–
End of the year	**(117,938)**	(112,126)	**(679)**	(679)

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	**Tax losses**	**Unrealised profit resulting from intragroup transactions**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
At 1 January 2005	5,381	2,223	5,405	13,009
Recognised in the income statement	1,668	4,090	1,068	6,826
Business combination	–	3,009	–	3,009
At 31 December 2005	7,049	9,322	6,473	22,844
Recognised in the income statement	**1,861**	**(9,322)**	**113**	**(7,348)**
At 31 December 2006	**8,910**	**–**	**6,586**	**15,496**

Notes to the Consolidated Financial Statements *(continued)*

25. Deferred income tax (continued)

Deferred tax liabilities

	Group				Company
	Accelerated tax depreciation *RMB'000*	**Revaluation of assets** *RMB'000*	**Interest expense capitalised** *RMB'000*	**Total** *RMB'000*	**Interest expense capitalised** *RMB'000*
At 1 January 2005	(677)	(2,525)	(2,297)	(5,499)	(679)
Charged to equity	–	(301)	–	(301)	–
Recognised in the income statement	246	(7,567)	(360)	(7,681)	–
Business combinations	–	(121,489)	–	(121,489)	–
At 31 December 2005	**(431)**	**(131,882)**	**(2,657)**	**(134,970)**	**(679)**
Recognised in the income statement	**246**	**20,016**	**(788)**	**19,474**	**–**
Business combination *(Note 37)*	**–**	**(17,938)**	**–**	**(17,938)**	**–**
At 31 December 2006	**(185)**	**(129,804)**	**(3,445)**	**(133,434)**	**(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.

26. Other gains – net

	2006 *RMB'000*	2005 *RMB'000*
Interest income	**47,406**	34,925
Rental income	**6,657**	918
Excess of interest in the acquired net assets from minority shareholders over cost	**575**	26,435
Excess of the fair value of the net assets of subsidiaries acquired over cost *(Note 37)*	**288,358**	3,549
Fair value gains on investment properties *(Note 8)*	**4,534**	25,069
Gain on disposal of investment property	**–**	2,990
Gain on disposal of a subsidiary *(Note 38)*	**15,259**	–
Losses on disposals of property, plant and equipment and land use rights due to relocation of certain production plants	**–**	(28,698)
Gains on disposals of other property, plant and equipment and land use rights *(Note (a))*	**31,178**	9,835
Government grants	**9,254**	58,650
Gains on debts restructuring	**7,950**	–
Others	**4,867**	2,718
	416,038	136,391

(a) The gains on disposals of property, plant and equipment and land use rights for the year ended 31 December 2006 were mainly arising from the disposal of a building previously occupied by the Group as office premise located in Shaoxing city of Zhejiang province in the PRC, and disposals of certain land use rights located in Wuhan city of Hubei province and Hefei city of Anhui province.

27. Expenses by nature

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

	2006 *RMB'000*	2005 *RMB'000*
Depreciation of property, plant and equipment *(Note 7)*	**56,872**	38,661
Amortisation of land use rights charged into income statement *(Note 6)*	**8,495**	3,108
Employee benefit expenses *(Note 28)*	**875,497**	790,849
Cost of inventories and completed properties held for sale	**4,908,270**	3,506,969
Operating leases of buildings	**4,713**	4,507
Auditor's remuneration	**2,900**	1,800
Others	**137,999**	63,782
	5,994,746	4,409,676

28. Employee benefit expenses

	2006 *RMB'000*	2005 *RMB'000*
Wages and salaries	**854,994**	781,219
Welfare, medical and other expenses	**13,803**	6,706
Retirement benefit costs – defined contribution plans *(Note (a))*	**6,700**	2,924
	875,497	790,849

(a) Retirement benefit costs

As stipulated by the Government regulations in the 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 18% to 19% (2005: 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.

(b) Directors' emoluments

The remuneration of each director for the year ended 31 December 2006 is set out below.

Name of directors	**Fees** *RMB'000*	**Salaries, bonuses and allowances** *RMB'000*	**Retirement benefits** *RMB'000*	**Total** *RMB'000*
Mr. Pang Baogen	**–**	**600**	**3**	**603**
Mr. Gao Jiming	**–**	**450**	**3**	**453**
Mr. Zhou Hanwan	**–**	**450**	**3**	**453**
Mr. Gao Lin	**–**	**450**	**3**	**453**
Mr. Hu Shaozeng	**38**	**–**	**–**	**38**
Mr. Wang Youwei	**38**	**–**	**–**	**38**
Mr. Yi Deqing	**38**	**–**	**–**	**38**
Mr. Dennis Yin Ming Chan	**180**	**–**	**–**	**180**
Mr. Wu Weimin *(Note (i))*	**–**	**–**	**–**	**–**
	294	**1,950**	**12**	**2,256**

28. Employee benefit expenses (continued)

(b) Directors' emoluments (continued)

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*
Mr. Pang Baogen	–	600	3	603
Mr. Gao Jiming	–	450	3	453
Mr. Zhou Hanwan	–	450	3	453
Mr. Gao Lin	–	450	3	453
Mr. Wu Weimin *(Note (i))*	38	–	–	38
Mr. Hu Shaozeng	38	–	–	38
Mr. Wang Youwei	38	–	–	38
Mr. Yi Deqing	38	–	–	38
Mr. Dennis Yin Ming Chan	187	–	–	187
	339	1,950	12	2,301

During the years ended 31 December 2006 and 2005, 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 2006 and 2005.

(i) Mr. Wu Weimin resigned as a director on 25 January 2006.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2005: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2005: one) individual during the year are as follows:

	2006	2005
	RMB'000	RMB'000
Basic salaries and allowances	**420**	960
Bonuses	**–**	–
Retirement benefits	**–**	–
	420	960

The emoluments for the above senior management fell within the band of HKD nil (equivalent to RMB nil) to HKD1,000,000 (equivalent to RMB1,004,700) during the years ended 31 December 2006 and 2005.

29. Finance costs

	2006 RMB'000	2005 RMB'000
Interest on bank loans	**66,242**	48,030
Less: interest capitalised in construction in progress	**(2,389)**	(1,094)
Less: interest capitalised in properties under development	**(13,131)**	(17,051)
	50,722	29,885

The capitalisation rates applied to funds borrowed generally and used for the development of properties and construction in progress were approximately 6% (2005: 4.9%) per annum.

30. 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 (2005: Nil).

(ii) PRC Enterprise Income Tax

The Company and its subsidiaries are subject to PRC Enterprise Income Tax at a rate of 33% (2005: 33%). The amount of income tax expenses charged to the consolidated income statement represents:

	2006 RMB'000	2005 RMB'000
Current income tax		
– PRC enterprise income tax	**128,507**	111,874
Deferred income tax *(Note 25)*	**(12,126)**	855
	116,381	112,729

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:

	2006 RMB'000	2005 RMB'000
Profit before income tax	**598,402**	420,627
Calculated at a tax rate of 33% (2005: 33%)	**197,473**	138,806
Effect of partial income tax exemption	**–**	(16,444)
Income not subject to tax	**(101,760)**	(9,890)
Expenses not deductible for tax purposes	**1,097**	257
Unrecognised tax losses	**22,225**	–
Utilisation of previously unrecognised tax losses	**(2,654)**	–
Income tax expense	**116,381**	112,729

31. 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 RMB206,070,000 (2005: RMB136,472,000).

32. 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.

	2006	2005
Profit attributable to equity holders of the Company (RMB'000)	**476,032**	304,226
Weighted average number of ordinary shares in issue (thousands shares)	**610,927**	566,965
Basic earnings per share (RMB)	**RMB0.779**	RMB0.537

Diluted

The Company had no potential dilutive shares in both 2005 and 2006. Therefore the diluted earnings per share is the same as basic earnings per share.

33. Dividends

	2006 ***RMB'000***	2005 *RMB'000*
Proposed final dividend of RMB0.07 (2005: RMB0.12) per ordinary share	**46,407**	73,311

The dividends paid during the years ended 31 December 2006 and 2005 were RMB73,311,000 (RMB0.12 per share) and RMB81,502,000 (RMB0.1436 per share) respectively. A dividend in respect of the year 2006 of RMB0.07 per share, amounting to a total dividend of RMB46,407,000 is to be proposed at the annual general meeting of the Company to be held on 25 June 2007 and will be payable thereafter upon shareholders' approval at the meeting. These financial statements do not reflect this dividend payable in the relevant accounts.

34. Cash generated from operations

	2006 ***RMB'000***	2005 *RMB'000*
Profit for the year	**482,021**	307,898
Adjustments for:		
Income tax expenses *(Note 30)*	**116,381**	112,729
Depreciation *(Note 7)*	**56,872**	38,661
Amortisation of land use rights *(Note 6)*	**8,495**	3,108
(Gains)/losses on sale of property, plant and equipment and land use rights (see below)	**(31,178)**	18,863
Gain on sale of investment property	**–**	(2,990)
Excess of interest in the acquired net assets from minority shareholders over cost	**(575)**	(26,435)
Excess of the fair value of the net assets of subsidiaries acquired over cost *(Note 37)*	**(288,358)**	(3,549)
Gain on disposal of a subsidiary *(Note 38)*	**(15,259)**	–
Reserves transfer to income statement arising from sales of completed properties held for sale	**(19,617)**	–
Fair value gains on investment properties	**(4,534)**	(25,069)
Interest income *(Note 26)*	**(47,406)**	(34,925)
Interest expenses *(Note 29)*	**50,722**	29,885
Share of losses from associates *(Note 12)*	**21**	–

34. Cash generated from operations (continued)

	2006 RMB'000	2005 RMB'000
Changes in working capital (excluding the effects of acquisition and disposal):		
(Increase)/decrease in properties under development, completed properties held for sale and land use rights for properties development	**(34,200)**	255,577
Increase in restricted bank deposits	**(41,960)**	(61,691)
Increase in inventories	**(13,624)**	(16,919)
Increase in balances with customers on construction contracts	**(169,656)**	(46,720)
Decrease/(increase) in trade and other receivables	**4,789**	(92,949)
Increase/(decrease) in trade and other payables, receipts in advances and provision for warranty	**103,358**	(235,314)
Cash generated from operations	**156,292**	220,160

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

	2006 RMB'000	2005 RMB'000
Net book amount (Note 6 and Note 7)	**55,829**	31,438
Gains/(losses) on sale of property, plant and equipment and land use rights	**31,178**	(18,863)
Proceeds from sale of property, plant and equipment and land use rights	**87,007**	12,575

35. Contingencies

	Group		Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Guarantees given to banks in respect of mortgage facilities granted to third parties	**19,800**	67,500	**–**	–
Guarantees given to banks in respect of bank loans granted to subsidiaries	**–**	–	**560,000**	500,000
Guarantees given to banks in respect of bank loans of third parties	**20,000**	–	**–**	–

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 RMB1,095,000,000 (2005: RMB690,000,000) with respect to banking facilities made available to subsidiaries. As at 31 December 2006, the borrowings outstanding against the facilities amounted to RMB560,000,000 (2005: RMB500,000,000).

Notes to the Consolidated Financial Statements *(continued)*

36. Commitments

(a) Capital commitments for properties under development

	2006 **RMB'000**	2005 *RMB'000*
Contracted but not provided for	**34,153**	14,094

(b) Operating lease commitments – where the Group is the lessee

As at 31 December 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2006 **RMB'000**	2005 *RMB'000*
Not later than one year	**626**	844
Later than one year and not later than five years	**1,453**	165
	2,079	1,009

(c) Operating lease commitments – where the Group is the lessor

As at 31 December 2006, the Group had future aggregate minimum rentals receivables under non-cancellable operating leases in respect of land and buildings as follows:

	2006 **RMB'000**	2005 *RMB'000*
Not later than one year	**695**	811

37. Business combination

On 21 February 2006, the Group entered into an agreement to acquire the 100% equity interest of 12 companies located in Hubei province from Hubei Construction Holding at an aggregate cash consideration of approximately RMB132,855,000.

The acquired business contributed revenue of RMB580,288,000 and net losses of RMB28,262,000 to the Group for the period from acquisition date to 31 December 2006. If the acquisition had occurred on 1 January 2006, the Group's consolidated revenue and consolidated profit for the year ended 31 December 2006 would have been RMB6,372,355,000 and RMB464,168,000 respectively. These amounts have been calculated based on the Group's accounting policies and by adjusting the results of the acquired subsidiaries to reflect the additional amortisation that would have been charged assuming the fair value adjustments made to the identifiable assets applied from 1 January 2006, together with the consequential tax effects.

Details of net assets acquired and excess of the fair value of net assets acquired over the acquisition costs are as follows:

	RMB'000
Purchase consideration:	
– Cash paid	132,855
Fair value of net assets acquired – show as below	(421,213)
Excess of the fair value of the net assets acquired over the acquisition costs	(288,358)

37. Business combination *(continued)*

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 2006 (Note 26).

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

	Fair value *RMB'000*	**Acquiree's carrying amount** *RMB'000*
Cash and cash equivalents	123,997	123,997
Property, plant and equipment	140,162	140,162
Land use rights	358,807	304,449
Investments in associates	32,422	32,422
Inventories	11,945	11,945
Completed properties held for sale	9,319	9,319
Due from customers on construction contracts	10,880	10,880
Receivables	314,793	317,058
Payables	(552,984)	(552,984)
Borrowings	(8,600)	(8,600)
Deferred income tax liabilities	(17,938)	–
Net assets	422,803	388,648
Minority interest	(1,590)	
Net identifiable assets acquired	421,213	
Outflow of cash to acquired business, net of cash acquired:		
– Cash consideration		132,855
– Cash and cash equivalents in subsidiaries acquired		(123,997)
Cash outflow on acquisition		8,858

During the year of 2005, the Group acquired an additional 50% equity interest in a jointly controlled entity from another joint venturer and acquired 75% equity interest in Anhui Huateng Investment Company Limited.

38. Disposal of a subsidiary

During the year, the Company entered into an agreement with Hangzhou International Airport Co., Ltd. ("Hangzhou Airport"), a minority shareholder of a subsidiary, Hangzhou International Airport Mansion Development Co., Ltd. ("Airport Mansion"), to sell 90% equity interest of Airport Mansion to Hangzhou Airport at a consideration of RMB98,253,000.

Details of the net assets of the disposed subsidiary and the relevant gain on disposal were as follows:

	RMB'000
Cash received	87,176
Settled by amount due to Hangzhou Airport	11,077
Total consideration	98,253
Net assets disposed of	(82,994)
Gain on disposal *(Note 26)*	15,259

The assets and liabilities in respect of the disposal were as follows:

	RMB'000
Cash and cash equivalents	9,554
Property, plant and equipment	54
Land use rights	57,899
Goodwill	509
Properties under development	23,997
Receivables	230
Payables	(17)
Net assets	92,226
Minority interest	(9,232)
Net assets disposed of	82,994
Inflow of cash from disposal of a subsidiary, net of cash disposed of:	
– Cash consideration received	87,176
– Cash and cash equivalents in disposed subsidiary	(9,554)
Cash inflow on disposal	77,622

39. Related-party transactions

Apart from the related party balances already disclosed in Note 22(a), the Group had the following significant related party transactions during the year ended 31 December 2006.

Key management compensation

	2006	2005
	RMB'000	*RMB'000*
Salaries and other short-term employee benefits	**2,059**	2,550

40. Events after the balance sheet date

(a) Issuance of ordinary shares

According to the placing agreement reached with Tiger Global L.P. on 13 December 2006 (Note 19), the Company issued 52,036,992 new H shares with a par value of RMB1.00 per share at HKD10.88 per placing share in February 2007. The net proceeds of the placing amounted to approximately HKD563,000,000.

(b) New enterprise income tax law

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "CIT Law"). The new CIT Law reduces (increases) the corporate income tax rate for domestic enterprises (foreign invested enterprises) from 33% (15% or 24%) to 25% with effect from 1 January 2008. The new CIT Law also provides for preferential tax rates, tax incentives for prescribed industries and activities, grandfathering provisions as well as determination of taxable profit. As at the date that these financial statements are approved for issue, detailed measures concerning these items has yet to be issued by the State Council. Consequently, the Group is not in a position to assess the impact, if any, to the carrying value of deferred tax assets and liabilities as at 31 December 2006. The Group will continue to evaluate the impact as more detailed regulations are announced.

Definition

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

The Company/Baoye	Baoye Group Company Limited, a joint stock limited company incorporated in the PRC and listed on the main board of HKEx.
The Group/Baoye Group	Baoye Group Company 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 Industrialisation	Zhejiang Baoye Building Materials Industrialisation Company Limited, a subsidiary of the Group
Anhui Baoye	Baoye Group Anhui Company Limited, a subsidiary of the Group
Hubei Baoye	Baoye Group Hubei Company Limited, a subsidiary of the Group
Tiger Global	Tiger Global, L.P.
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 Stock Exchange of Hong Kong Limited
SFO	Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong
H share	Overseas listed foreign share of nominal value RMB1.00 each in the registered capital of the Company, which are listed on the HKEx, 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 17 June 2003
Daiwa Japan	Japan's Daiwa House Industry Company Limited
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 Fifth 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 Director
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
Mr. Xie Qisheng
(Resigned on 16 April 2007)
Mr. Kong Xiangquan
(Appointed on 16 April 2007)
Mr. Qian Yongjiang
(Appointed on 16 April 2007)

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. Pang Baogen
Mr. Yi Deqing

Nomination Committee
Mr. Wang Youwei, Chairman
Mr. Yi Deqing
Mr. Gao Jiming

Company Secretary
Ms. Ngan Lin Chun, Esther FCIS,FCS

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Mr. Gao Jiming

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