THE LEADING

China's Operator Towards Urbanisation

領先的中國城市化營運商

ANNUAL REPORT 2007 二零零七年年報

BAOYE GROUP COMPANY LIMITED

寶業集團股份有限公司

(A joint stock limited company incorporated in the People's Republic of China)
（在中華人民共和國註冊成立的股份有限公司）

Stock Code 股份代號：2355

Our Mission

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

Contents

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

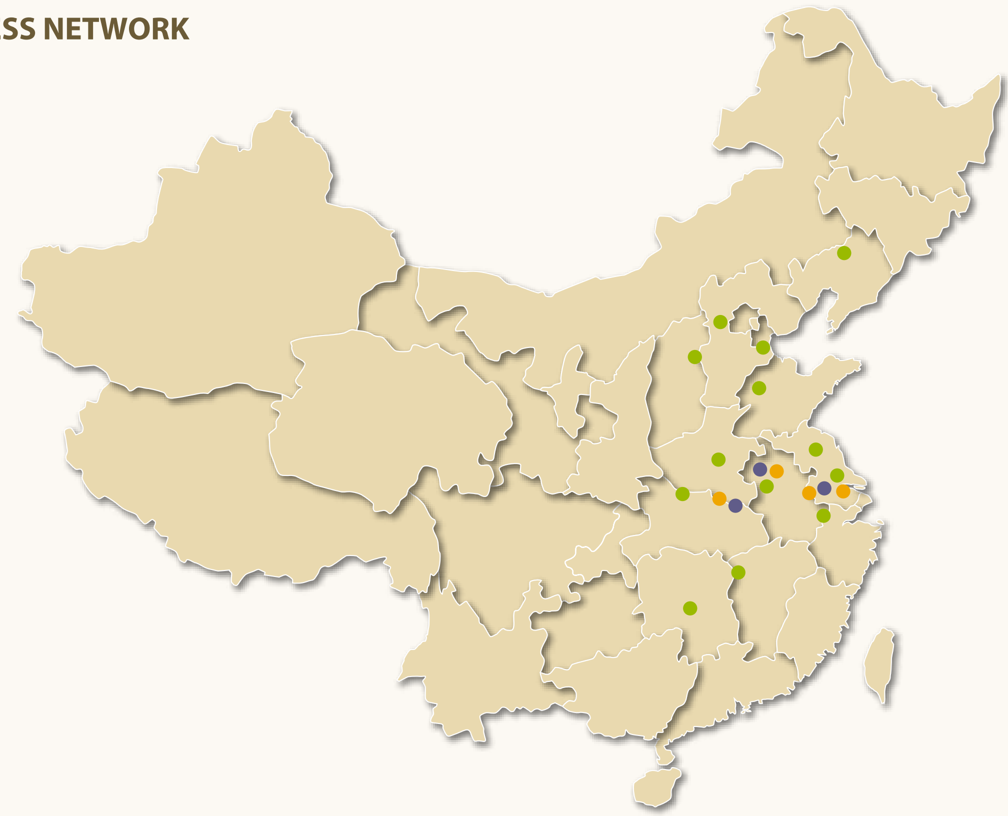
Construction Business

- 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"
- Shaoxing "Baoye Four Seasons Garden"
- Shaoxing "Daban Fengqing"
- Shaoxing "Yangming Road Project"
- Hefei "City Green Garden"
- Hefei "Zhejiang Commercial City"
- Hefei "Tongchenglu Project"
- Shanghai "Jing'an Ziyuan"
- Hubei "Baoye Yuelianghu Garden"

BUSINESS NETWORK



Building Materials Business

- Shaoxing Housing Industrial Park
- Hefei Housing Industrial Park
- Wuhan Housing Industrial Park (under construction)

Construction Business

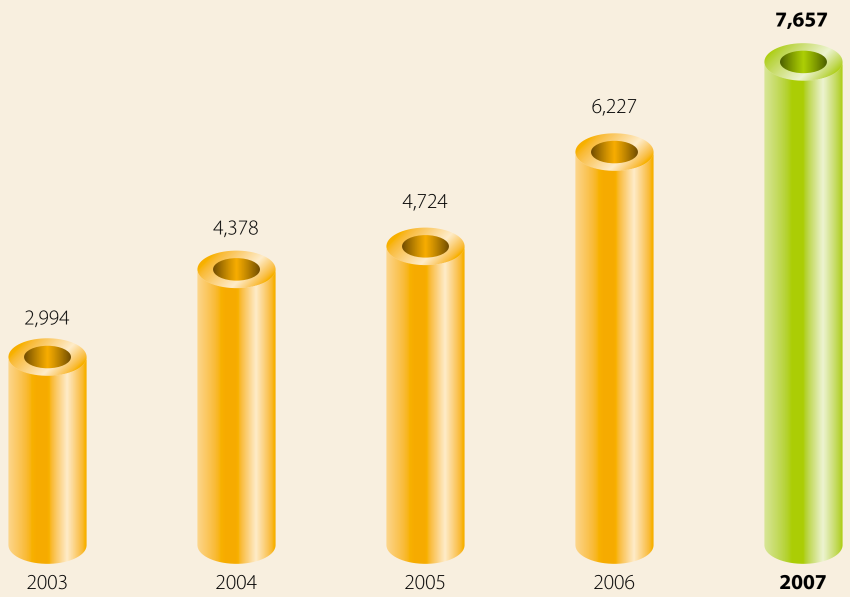
- Zhejiang
- Shanghai
- Jiangsu
- Auhui
- Hubei
- Hunan
- Jiangxi
- Beijing
- Tianjin
- Hebei
- Henan
- Shandong
- Liaoning
- Chongqing

Property Development Business

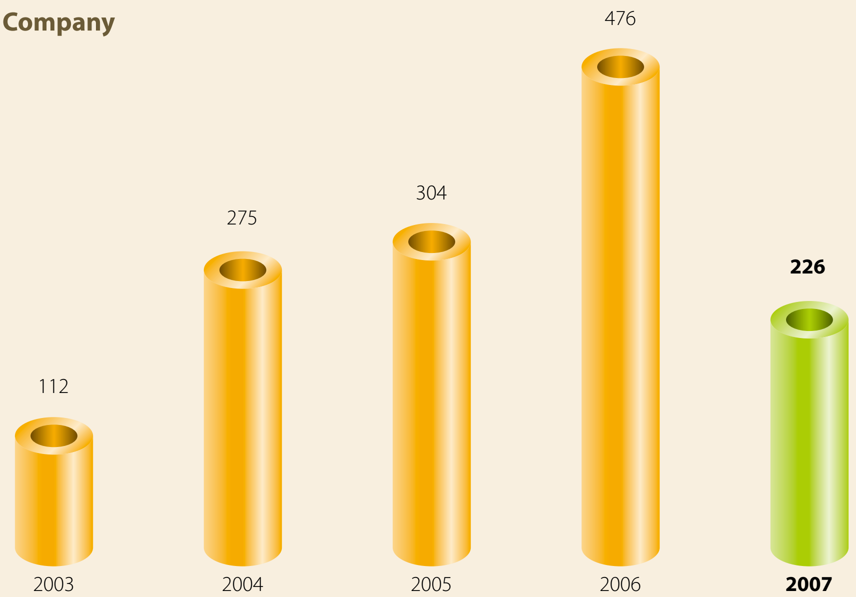
- Shaoxing
- Hefei
- Shanghai
- Hubei Jingzhou

Financial Highlights

Revenue
(in RMB million)



Profit Attributable to Equity Holders of the Company
(in RMB million)



	Year Ended 31 December				
	2007	2006	2005	2004	2003
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Results					
Revenue	**7,657,066**	6,227,853	4,723,797	4,378,434	2,994,472
Profit attributable to equity holders of the Company	**225,795**	476,032	304,226	275,082	112,409
Earnings per share (RMB)	**0.343**	0.779	0.537	0.518	0.255
Assets and Liabilities					
Total Assets	**7,692,866**	5,771,319	4,556,918	3,601,450	2,539,428
Total Liabilities	**4,796,458**	3,582,065	2,728,887	2,442,808	1,723,020
Total Equity	**2,896,408**	2,189,254	1,828,031	1,158,642	816,408

Key Financial Ratios

	As at 31 December	
	2007	2006
Return on equity	**7.9%**	22.2%
Net assets value per share (RMB)	**4.31**	3.51
Net gearing ratio	**32%**	15%
Current ratio	**1.02**	1.09

Chairman's Statement

Mr. Pang Baogen
Chairman

I am pleased to report to our shareholders the audited consolidated financial results of the Group for the year ended 31 December 2007. During the year, the Group achieved a consolidated revenue of RMB7,657,066,000, soared approximately 23% compared to last year; profit attributable to equity holders amounted to RMB225,795,000, decreased approximately 53% over last year; earnings per share was RMB0.343, slipped approximately 56% from the preceding year; the Board proposed a final dividend of RMB0.07 per share for the year. Details of operating and financial performance of the Group will be discussed in the "Management Discussion and Analysis" section of the Annual Report.

During the year, China saw a rapid upsurge in prices of assets and commodities, the PRC government had further deepen its macroeconomic austerity measures by tightening up monetary supply in the banking sector; which includes raising the bank deposit and lending rates 6 times and adjusting the bank deposit and lending ratio 10 times to 14.5% during the year (current deposit lending ratio stands at 16%), registering a record high in its history; issuing treasury bills and debentures aiming to narrow down the monetary supply in the financial market. The implementation of these measures have severely impacted the lending capability of commercial banks and hence their lending and support to high energy consumption, high pollution, and over-capacity industries. A number of small and medium size enterprises with less financial strength has gradually been eliminated as a result of these measures. Despite these impacts, the Group will capitalize on its brand name, solid financial strength, and the stringent environmental requirements set forth by the PRC government in the construction sector, it is expected that the Group is able to seize the opportunity to increase its market share and continue to grow.

Pursuant to the Extraordinary General Meeting held on 19 November 2007, the proposal for issuing short term security instruments to a maximum aggregate amount of RMB800,000,000 had been approved by the shareholders of the Company. At present, we continue to make good progress in arranging the short term security instruments and have received positive market response. If all of the security instruments have been fully subscribed, it will lower the Group's borrowing cost; enhance its liquidity; and provide the necessary funding for acquisition of other construction companies as well as land reserve at reasonable prices. One of the Group's strengths is its ability to leverage its credit worthiness to alleviate increased borrowing cost brought by the macroeconomic austerity measures.

During the year, the Group continued to expand its construction business and has successfully entered into new markets in the Mid-west region of China in Chongqing and Huaian. It has also been awarded contracts by the National Defense Bureau, the Non-core Press Release Centre for Olympic Games and Hangzhou International Airport Building, enhancing the Group's construction reputation in these areas. The Group has received the "China Luban Award", the highest ranking of its kind, in respect of the construction of Suzhou Xiandai Building. It has been the tenth time the Group has been granted this award. Notwithstanding the implementation of the macroeconomic austerity measures, the Group's property development business has maintained a solid foundation for future development. During the year, the Group had acquired three parcels of land in Hefei and Shaoxing, one of which is located near the "dual lakes" district, east of Dabanhu, which will be developed into a high-tech premium residential property project.

In addition, the Group is in collaboration with the Greentown China Holdings Limited to co-develop a premium site on Yang Ming Road, Shaoxing. The Group's Construction Research Institute has established an interior environment test laboratory, a durability laboratory, and a curtain wall pressure laboratory. All of the above laboratories have reached product development phase; some of the developed technologies have been awarded patent rights by the PRC government; and have set a solid foundation for industrialisation of building and construction materials in the long run.

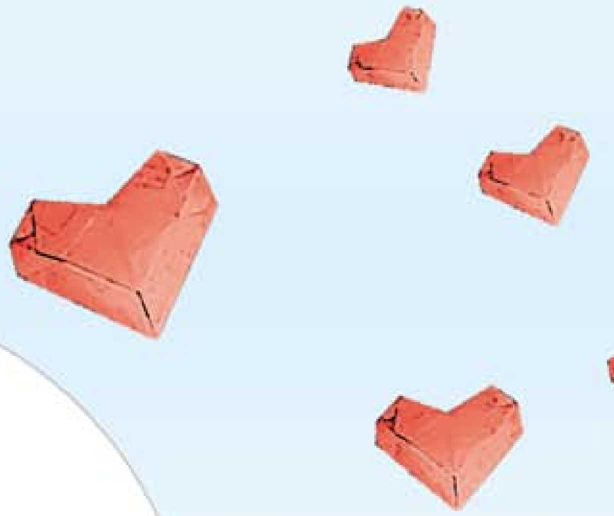
During the year, the effect of implementing regional management centre has begun to flourish. Since the acquisition of the entire interest of the Hubei Construction Group and its twelve operating units, Hubei Baoye has leveraged its extensive networks and resources in developing the Hubei and Central China markets. "Anhui Baoye" has consolidated its strength by increasing its market share in all three core segments of our business. The sales of City Green Garden and Zhejiang Commercial City have both achieved commendable results and Zhongbao Machinery has successfully outreached the Wuhan and Zhengzhou markets. Within a short period of time, the "North Baoye Management Centre" has attained a growth of more than 70% in both revenue and profitability. It has also secured a number of key construction project contracts in Beijing, Tianjin, and Hebei areas.

As revealed from the past result achievements, the Group has maintained a steady growth throughout the past few years. The Group will continue to adopt its unique "three-in-one" business model for future development by positioning construction business as the base; industrialization of construction (pre-fabricated building materials) as the centre of development; and property development as the supplementary business, by consolidating its acquisitions in the past three years, from upstream to down stream business segments. From the strategic and management perspective, it is important to further enhance our strengths in the regional management centres by upbringing our qualities as a general contractor; expanding our market into water and power utilities, road and bridge, harbour and terminal facilities; increasing our investment in research and development, which eventually leads to improvement in product introduction cycle and construction methodologies, thereby enhancing the Group's overall profit margin for pre-fabricated building materials.

Going forward, followed by the acquisition of Hubei Construction Group, the Group's three main core businesses have been expanded into other regions of China and have earned good market reputation and recognition in these regions. Baoye has also been awarded tenth "Luban Awards", the "May First labor Award", and the "Outstanding National Construction Award". At present, the Baoye's trade mark has been recoginsed by the National Industrial and Commercial Bureau as one of the national renowned trade marks, the first of its kind in the construction industry. The Group will continue to increase its effort to promote and build the Baoye brand in the years to come in order to leverage on its brand value to upbring the value of our products in the market place.

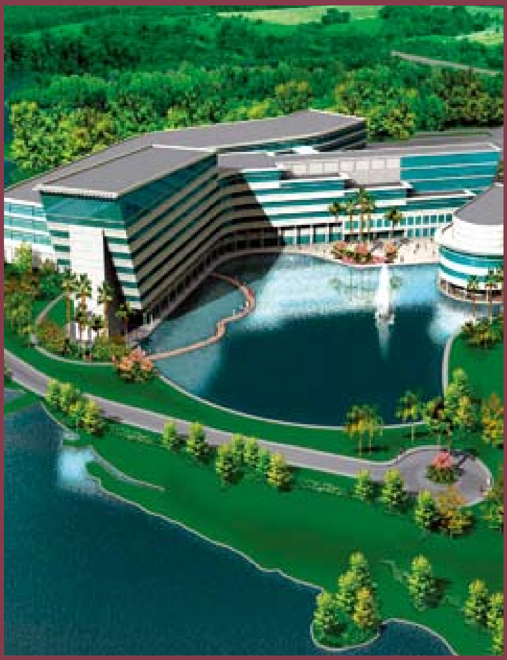
Economic cycle tends to have ups and downs, therefore making consistent profit from irrational investment cannot last long. It is difficult to determine whether the China's economy and property market have gone into a correction stage, which depends very much on the solidarity of enterprises' funding and their capability to withstand this adverse trend. The Group has all along adopted prudent financial management policy to maintain low gearing ratio. This will alleviate financial burden during adverse market conditions, and, more importantly, provide sufficient financial resources to acquire properties and acquisition targets at lower costs, leading to greater growth opportunity in the long run.

Pang Baogen
Chairman
15 April 2008



Total contract value for construction-in-progress of construction business reached **RMB23 billion**, representing a growth of **37%** over last year.

Management Discussion and Analysis



BUSINESS REVIEW

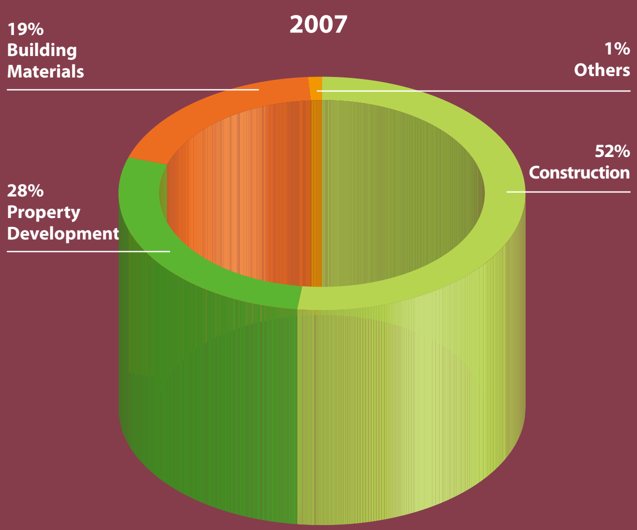
For the year ended 31 December 2007, the Group achieved a consolidated revenue of RMB7,657,066,000 (2006: RMB6,227,853,000), an increase of approximately 23% compared to the previous year; operating profit reached RMB419,429,000 (2006: RMB676,243,000), a slip of approximately 38% over last year; profit attributable to equity holders of the Company amounted to RMB225,795,000 (2006: RMB476,032,000), a slip of approximately 53% from last year; earnings per share was RMB0.343 (2006: RMB0.779), a slip of approximately 56% from last year; and net assets value per share was RMB4.31 (2006: RMB3.51), up approximately 23% over last year.

Revenue

Revenue

	2007		2006		Change
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Construction	**6,125,323**	**80%**	4,644,579	75%	+32%
Property Development	**373,737**	**5%**	445,215	7%	-16%
Building Materials	**1,098,073**	**14%**	1,076,440	17%	+2%
Others	**59,933**	**1%**	61,619	1%	-3%
Total	**7,657,066**	**100%**	6,227,853	100%	+23%

Operating Profit



Operating Profit

	2007		2006		Change
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Construction	**218,880**	**52%**	468,845	69%	-53%
Property Development	**117,176**	**28%**	153,561	23%	-24%
Building Materials	**80,024**	**19%**	50,610	7%	+58%
Others	**3,349**	**1%**	3,227	1%	+4%
Total	**419,429**	**100%**	676,243	100%	-38%

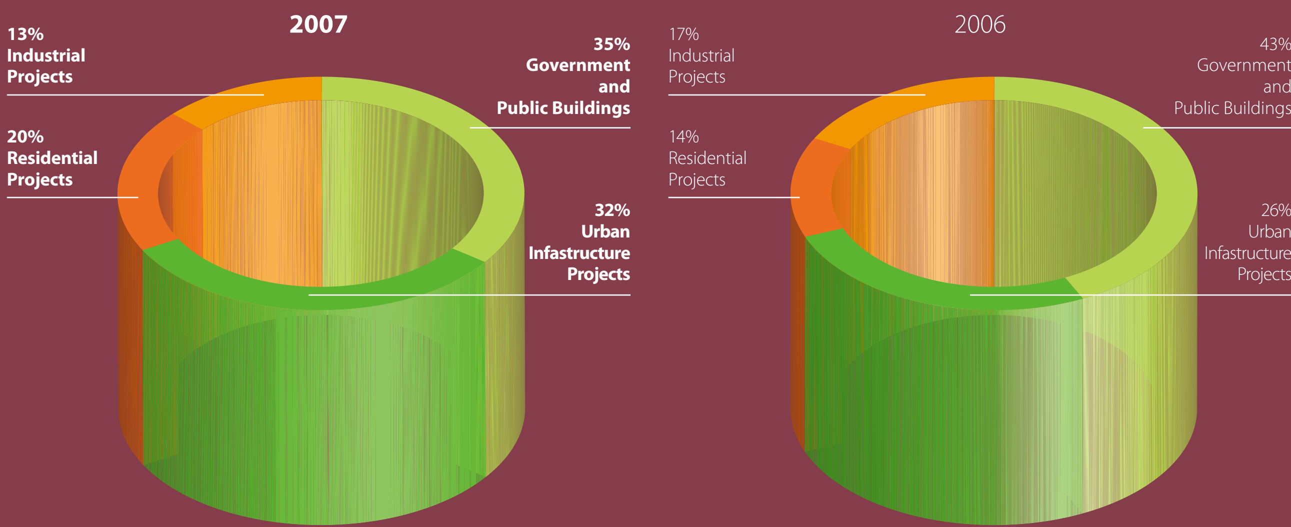
Construction Business

For the year ended 31 December 2007, the Group's construction business recorded a revenue of RMB6,125,323,000, up approximately 31.9% over last year; operating profit amounted to RMB218,880,000, representing a decline of approximately 53.3% over last year. The reduction in operating profit during the year was primary attributable to the inclusion of a one-off gain of RMB288,358,000 resulting from the acquisition of the Hubei Construction Group by the Group accounted for in 2006. Excluding such one-off gain in 2006, the operating profit during the year of 2007 would have been increased by approximately 21% over last year.

Since the acquisition of the entire interest of the Hubei Construction Group in February 2006, the post-acquisition re-organization, business restructuring, and discharging of manpower of the Hubei Construction Group had been completed during the year. As at 31 December 2007, Hubei Baoye achieved approximately a revenue of RMB1,033,859,000, and an operating profit of RMB32,195,000. These compared to a revenue of RMB580,288,000 and operating loss of RMB28,262,000 registered in 2006, showing a marked improvement. This improvement was primarily the results of effective re-organization and re-structuring as well as implementation of incentive schemes; together with the contributions from the Group's overseas business in Africa, from which it attained a revenue of RMB91,696,000 and a profit contribution of RMB16,248,000 during the year.

At present, most of the industrial use land held by the former Hubei Construction Group has been converted into commercial and residential use (details of which are shown in the "Business Prospect" under section headed "Property Development Business"), whereas the property development business in Wuhan has begun. Besides this, construction of the Wuhan Housing Industrial Park is underway. 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 replicate its "three-in-one" business model in Hubei, in developing "Hubei Baoye" as the Group's extension in Central China with its similar scale comparable to that of the current Group's base in Yangtze Delta region.

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

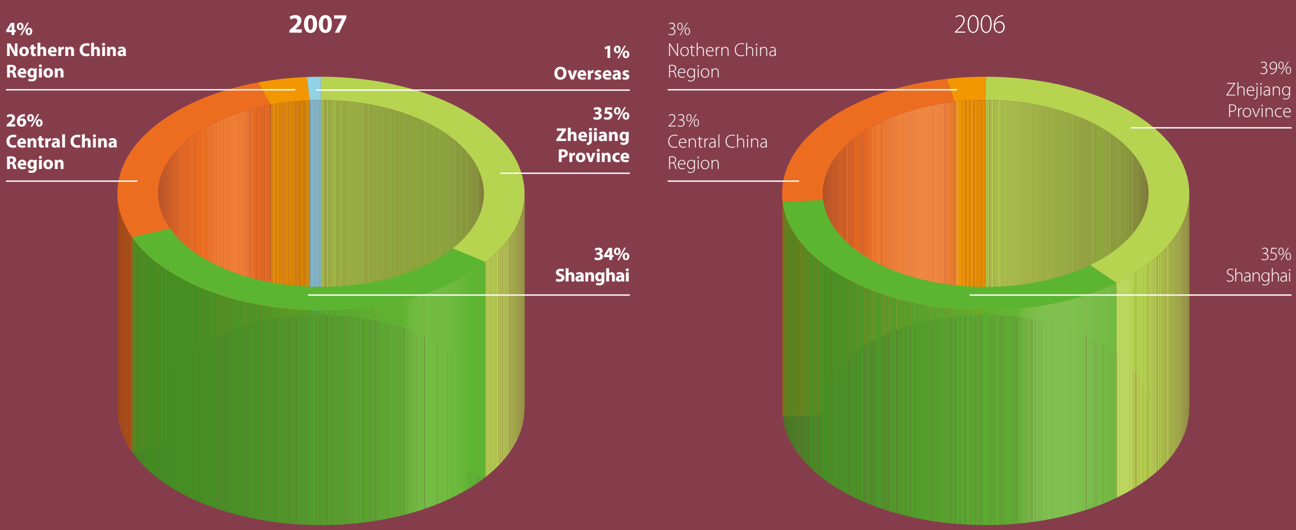


For the year ended 31 December 2007, the total contract value for construction-in-progress of the Group's construction business was RMB23,334,823, representing an increase of approximately 37% over last year. Details of which are analysed below:

By project nature

	2007		2006		**Change**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Government and Public Buildings	**8,167,188**	**35%**	7,338,700	43%	+11%
Urban Infrastructure	**7,467,143**	**32%**	4,437,354	26%	+68%
Residential Projects	**4,666,965**	**20%**	2,389,344	14%	+95%
Industrial Projects	**3,033,527**	**13%**	2,901,347	17%	+5%
Total	**23,334,823**	**100%**	17,066,745	100%	+37%

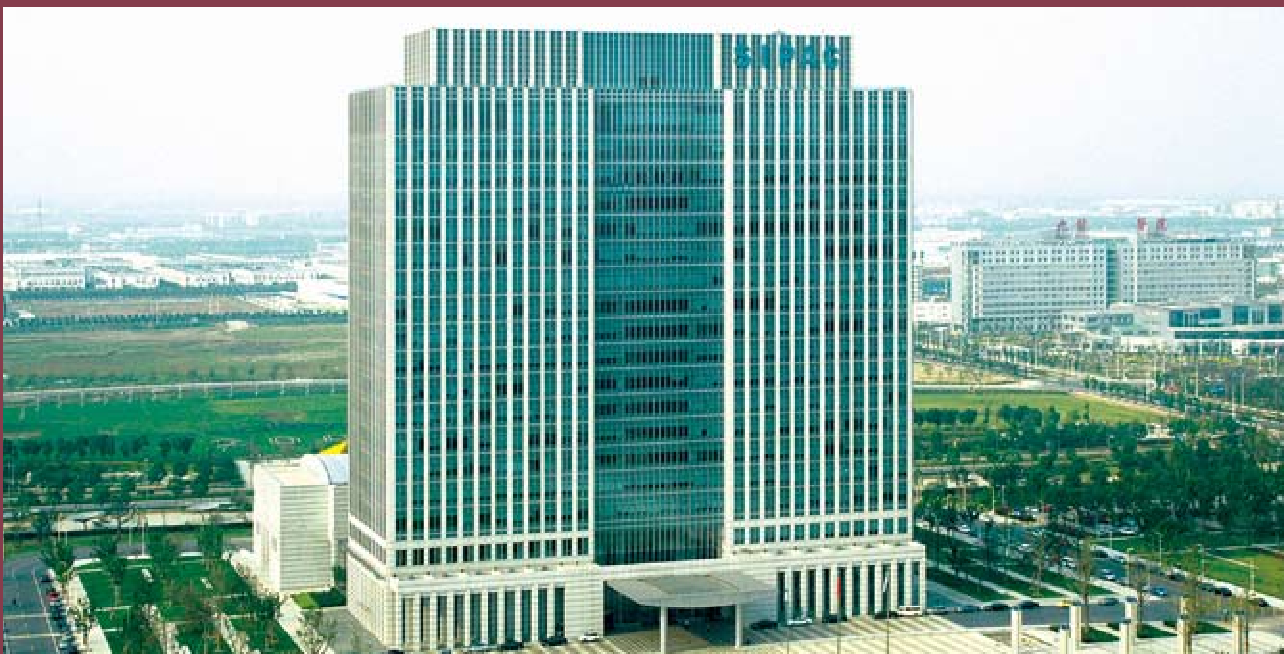
Total Contract Value for Construction-in-Progress – By Region



By region

	2007		2006		Change
	RMB'000	**% of total**	*RMB'000*	*% of total*	
Zhejiang Province	**8,167,188**	**35%**	6,656,901	39%	+23%
Shanghai	**7,933,840**	**34%**	5,972,911	35%	+33%
Central China Region	**6,143,023**	**26%**	3,924,941	23%	+57%
Northern China Region	**933,393**	**4%**	511,992	3%	+82%
Overseas	**157,379**	**1%**	–	–	
Total	**23,334,823**	**100%**	17,066,745	100%	+37%

Overseas construction business was principally carried out in three African countries including Djibouti, Botswana and Seychelles.



The 2007's China Luban Award Winning "Suzhou Xiandai Building" for the Group

In 2007, the construction projects undertaken by the Group have won numerous industry awards and recognitions, these principal awards and recognitions include:

	Projects	Awards
1	**Suzhou Xiandai Building**	**China Luban Award/Yangzi Cup/Gusu Cup**
2	Wanghu Times Square	Outstanding National Construction Award/Qianjiang Cup/ West Lake Cup
3	Lishui Administration Center	Qianjiang Cup
4	Electricity Deployment Building of Zhejiang Province	Qianjiang Cup
5	Cangnan Administration Center	Outstanding Provincial Out-fitting Award
6	Main Lecture Building, Lingang Campus, Shanghai Maritime University	Baiyulan Cup
7	Shanghai Commercial Center, Chemical Engineering District	Baiyulan Cup
8	Shanghai Xuyuan Phase I	Baiyulan Cup
9	Beiganshan International Art Center, Qingpu, Shanghai	Premier Provincial Cup/Jinshi Cup
10	Wuhan Headquarters Office Building, Dongfeng Motor Corporation	Chutian Cup/Huanghe Cup
11	Green Town Baihe Apartment	Silver Structural Award, Great Wall Cup
12	Shanghai Representative Office Building, Zhejiang Provincial Government	Jinshi Cup
13	Shanghai Times Financial Center	Jin'gang Cup

The Group has received the "China Luban Award", the highest ranking of its kind, in respect of the construction of Suzhou Xiandai Building. It was the tenth time the Group has been granted this award.

Property Development Business

Property Sales

For the year ended 31 December 2007, the revenue of the Group's property development business amounted to RMB373,737,000, a decrease of approximately 16.1% from last year; operating profit amounted to RMB117,176,000, a decrease of approximately 23.7% from last year. The Group adopts the completion method in recognising revenue of its property development business.

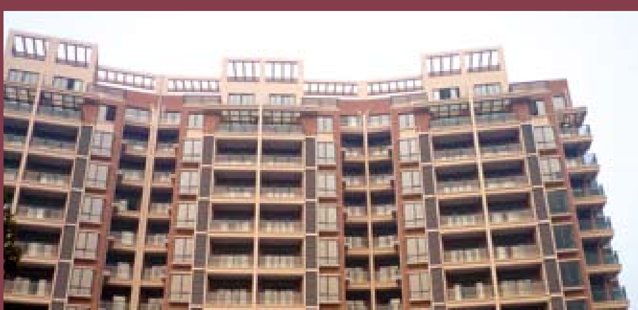
Decrease in revenue and operating profit of the property development business was primarily due to the reduction in recognized sale areas from 111,743 square meters in 2006 to 94,298 square meters in 2007. During the year, the revenue of the Group's property development business was mainly derived from the sale of City Green Garden and Zhejiang Commercial City in Hefei, Anhui; and the low cost residential property units and the remaining commercial units that were not sold before 2006 in Shaoxing County. The total gross floor area of City Green Garden sold was approximately 46,079 square meters, achieving a revenue of approximately RMB142,580,000, with an average selling price of approximately RMB3,094 per square metre. The total gross floor area of Zhejiang Commercial City sold was approximately 16,547 square meters, achieving a revenue of approximately RMB93,978,000, with an average selling price of approximately RMB5,679 per square metre. The total floor area of the low cost residential property unit sold in Shaoxing was approximately 30,000 square metres, achieving a revenue of RMB62,592,000, with an average selling price of approximately RMB2,086 per square metre; and the revenue from sale of the remaining commercial units amounted to approximately RMB74,587,000.

Projects under development

As at 31 December 2007, 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%
City Green Garden Phase II	Hefei	170,000	100%
Zhejiang Commercial City	Hefei	67,000	75%
Jing'an Ziyuan	Shanghai	51,000	70%
Baoye Four Seasons Garden	Shaoxing	525,000	100%
Tongchenglu Project	Hefei	164,000	100%
Baoye Yuelianghu Garden	Hubei Jingzhou	82,000	100%
Daban Fengqing	Shaoxing	250,000	100%
Yangminglu Project	Shaoxing	180,000	49%

Linjiang Green Garden



City Green Garden

Zhejiang Commercial City

Linjiang Green Garden is located in Yangxunqiao, Shaoxing. The total gross floor area is 56,000 square metres. It is a pure residential property development alongside of Xixiao River, comprising multi-storey buildings, low rise buildings, detached houses and a club house. Approximately 80% of the sale units had been pre-sold. It is expected that revenue from this project will be recognised in 2008 after the delivery of the sale units to purchasers.

City Green Garden II, with a total gross floor area of 170,000 square metres in a prime developing zone in Hefei City, Anhui, is located in Yaohai District with convenient transportation. It comprises mainly high-end properties with a small portion of retail shops and offices. Approximately 80% of the sale units had been pre-sold. It is expected that approximately 120,000 square metres in equivalent sale units will be recognised in 2008 after the delivery of the sale units to purchasers.

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 floor area of approximately 100,000 square metres, which is mainly developed as up-scale service apartments and shopping malls. Approximately 25,290 square metres in equivalent sale units were recognised as revenue in 2007, realizing a total revenue of RMB141,379,000. At present, approximately 60% of the sale units had been pre-sold and will be recognised as revenue in 2008 after the delivery of the sale units to purchasers.

Jiang'an Ziyuan

Baoye Four Seasons Garden

Jing'an Ziyuan is located on Jiangning Road in Jing'an District of Shanghai, close to the downtown prominent area, "Golden Delta", of Nanjing Road West, which is truly a prime location. The project has a gross floor area of approximately 51,344 square metres, which is being developed as luxurious service apartments. The construction work has been completed and fitting-out work is underway. Impacted by the macroeconomic control measures, the Group was unable to obtain the pre-sale permit until April 2008. Hence, pre-sale is expected to commence in April 2008 and revenue is expected to be recognised in 2008.

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 civilization 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 County, "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 development of luxurious condominiums, town houses and detached houses. The plot ratio is 0.5 only. The project also consists of development of a golf club with four 18 holes capacity, the golf facility is now under trial operation; and a five-star hotel, which is now under construction. Planning of Baoye Four Seasons Garden has been completed and construction will begin in the middle of 2008. It is expected that pre-sale will be commenced in the second half of 2008.

Tongchenglu Project is located in the central business district of Hefei, with a land area of 58,570 square metres and 2.8 times plot ratio for property development, having a total build-up area of 164,000 square metres. The land is located at the city center of Hefei with adequate and well-developed community facilities and will be developed for commercial and residential use. At present, the project is under planning stage. It is expected that the construction and pre-sale will start in June and in the second half of 2008 respectively.

Baoye Yuelianghu Garden Project is located at the East of Jingzhou City, Hubei, with well-developed community facilities and convenient transportation, having a 1.8 times plot ratio for commercial and residential properties development and a total gross floor area of approximately 82,000 square metres. At present, the project is under planning stage and will comprise of 22 buildings, 13 of which will be designated as high-rise buildings, 9 of which will be designated as low-rise buildings, and those buildings alongside Yuelianghu Road will have commercial-residential units. Currently planning of this project was completed. It is expected that the construction will be commenced in the first half of 2008 and pre-sale of these units will start in 2009.

Daban Fengqing is located in Keqiao, Shaoxing County, having a total site area of approximately 100,000 square metres with 2.5 times plot ratio for development of residential properties of 250,000 square metres. The land is in the development zone of the future central business district of Keqiao, alongside the "dual lake" district, east of Dabanhu, with adequate and well-developed community facilities. The project is being positioned as a premier residential property in Keqiao, Shaoxing County. The construction of Daban Fengqing has been commenced in March 2008. It is expected that pre-sale will begin before the end of 2008.

Yangminglu Project is located at No.1 Yangming Road, Shaoxing City, having a total site area of approximately 180,000 square metres with a plot ratio of 1 time for development of 180,000 square metres up-scale residential properties. The Group and the Greentown China Holdings Limited, a listed company on HKEx (stock code: 3900), jointly and successfully bid for the land in which the Group is interested in 49%. The land area is of close proximity to the resort district of Kuaijishan where the Group's golf club and Baoye Four Seasons Garden project are located, 8 kilometres from the central business district, and will be developed as low rise premium residential properties and deluxe service apartments. At present, the project planning stage has been completed and construction will begin in the middle of 2008.

BUILDING MATERIALS BUSINESS

For the year ended 31 December 2007, the revenue of the Group's building materials business was RMB1,098,073,000, up approximately 2% over last year; operating profit was RMB80,024,000, representing an increase of approximately 58% from last year.

The Group is focusing on manufacture of high end premium products, which would require longer time and more effort in promotion and sale. Because building materials is a highly competitive industry, it is expected that the Group will not see immediate improvement in sale in the short term. However, profit margin saw a healthy improvement from 4.7% in 2006 to 7.3% in 2007, primarily due to higher technology requirements and recognition of customers for energy saving and environmental friendly products.

During the year ended 31 December 2007, the revenue of the Group's building materials is analysed below:

	2007 RMB '000	2006 RMB '000	Change
Building materials			
Ready-mixed concrete	**302,560**	258,685	+17%
Glass curtain wall	**340,269**	323,124	+5%
Wood products and interior decoration	**200,128**	265,137	-25%
Steel structure	**150,333**	149,230	+1%
Concrete pipes	**54,978**	39,944	+38%
Concrete ducts	**7,052**	3,570	+98%
Large roof sheathings	**12,768**	7,898	+62%
Fireproof materials	**20,807**	24,102	-14%
Others	**9,178**	4,750	+93%
Total	**1,098,073**	1,076,440	+2%

Through years of development in pre-fabricated building materials and the co-operation with Daiwa Japan, the Group endeavors to build "low energy consumption, high degree of comfort and back to nature" residential properties for its customers that meet the requirements for China market. During the year, the Group has built a quality and competent research and development team and has increased its investments in it. We also see the demand for advancement of technologies and qualities in the construction and building industries. Customers' preference for sizeable units have somewhat shifted to energy saving and comfort. The new policy implemented by the Central Government on construction of new agricultural communities has provided enormous market opportunities for the construction and building industries, with the capability to produce pre-fabricated building materials in a mass scale, quality assurance, shortened installation time, reduced pollution, and energy saving for the products it produces. These have set a solid foundation for the Group in capturing the growing market demand in this sector.

BUSINESS PROSPECT

Construction Business

- China's rapid economic development and increasing urbanization have provided unprecedented growth opportunity for the Group. The Group has basically laid down the foundation by adopting the strategy of "Expanding into areas beyond Zhejiang Province and Yangtze Delta and covering the whole of China". The Group will continue to adopt this growth and expansion strategy, consolidating its market share in the existing markets and, at appropriate times, to explore new emerging markets on a nationwide basis by setting up regional management centers.

Hubei Baoye's Land Reserve Areas in Wuhan

- Using the "three-in-one" business model, the Group will continue to develop its construction business in new markets on increased urbanization. On one hand, the Group will increase its efforts in developing new markets. On the other hand, it will advance its capability in construction technologies and qualities to extend its market share in high end infrastructure construction projects including railways, water supplies and facilities, transportation and bridges, and increase the profit margin of the construction business.

- Reaping from the development of new markets and the setting up of regional management centers, the total contract value for construction-in-progress during the year amounted to approximately RMB23,300,000,000, an increase of 37% over the same period last year. These new core construction projects included the contracts awarded by the National Defense Bureau, Non-core Press Release Centre for Olympic Games, and Hangzhou International Airport Building; enhancing the Group's construction reputation in these regional areas.

- 2007 was the year Hubei Baoye has begun to develop its markets in Central China after re-organization, re-structuring, and discharging of employees. With increased sales and adopting effective incentive schemes, Hubei Baoye has turned into a profit position during the year from a loss position in 2006, contributing an operating profit of RMB32,195,000. New construction contracts that have been contracted for during the year approximated to RMB2,300,000,000. The Group will benefit from the growth in profit contribution of "Hubei Baoye" and its increasing market share in Central China.

- Resulting from the Group's continuous expansion into major cities, start-up and administrative costs have increased substantially. In order to maintain competitiveness in securing new construction projects in new markets, the Group's operating profit margin saw a slight decline. The Group believes that this trend is inevitable in the short term. However, in the mid and longer term, followed by an increased market share, together with a better understanding of the new markets, our established reputation and brand building, it is expected that healthy profit returns will be generated by the Group.

Property Development

- The macroeconomic austerity measures will no doubt continue to impact the real estate market in 2008. The Group will focus on market-lead demand, interior design, and cost control of the existing property projects under development to preserve quality of our products.

- 2008 will see a rapid development of the Group's business in property development. Linjiang Green Garden in Shaoxing, City Green Garden Phase II and Zhejiang Commercial City in Hefei; and Jing'an Ziyuan in Shanghai have been completed and its results will be accounted for in 2008. The pre-sale for Daban Fengqing, Yangminglu project in Shaoxing and Tongchenglu Project in Hefei will start in 2008, it is expected that the cash inflow from the sales proceeds arising from these projects would be significant.

- Approximately 500,000 square meters of industrial use land was obtained from the acquisition of Hubei Construction Group, of which approximately 350,000 square meters have been approved by the relevant government authorities for change of use. The relevant application is underway. It is expected that these approvals and the respective land use right certificates will be obtained in the year of 2008.

- During the year, the Group had acquired a total of land reserve of approximately 600,000 square meters, in which 430,000 square meters in Shaoxing, and 170,000 square meters in Hefei. The land reserve in hand would be sufficient for development in the next five to eight years. Therefore the Group will endeavor to adopt its prudent policy to increase its land reserve only when market demand and expansion strategies call for it.

Building Materials Business

- The Group will continue to centralize its procurement function, aiming at lowing 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 stabilize the supply and pricing of raw materials to lower cost of production and improve profit margin.

- The Group will continue to identify and solicit renowned real estate developers as its strategic alliance partners to promote green, energy saving, and environmental friendly residential properties to secure steady and long term business for our products.

- The Group is committed to promote the nation's conserving energy and minimizing waste, and "Four Savings and One Environmental Friendly" policies by investing and developing industrialization of construction and building materials. Investment in construction and building materials is different from consumable products, which would require a much longer investment and return cycle. However, the Group believes that this is the development trend of industry and sees an enormous development potential. Leveraging on our strengths and support in construction and property development business, and co-operation with Daiwa Japan on technology development for industrialization of building and construction, the Group is one of the leading companies in pre-fabricated building materials and construction in China. At present, apart from the Shaoxing Housing Industrial Park, our production base has been extended to strategic locations, such as Hefei and Wuhan, all of which have provided a solid foundation for the Group to maintain our leading position in industrialization of building materials and construction in China.

In addition to the above, China has made certain major adjustments in national policies, which may have the following potential impacts on the future development of the Group:

- Recently, China has switched from its prudent and stable monetary supply policy, which was adopted in the past ten years, to tighten up monetary supply policy. This has increased borrowing costs and imposed liquidity problems for local enterprises, in particular real estate developers, which will eliminate enterprises with less financial strength and encourage consolidation in the industry. This policy will provide superb merger and acquisition opportunities for the Group in the development and expansion of our businesses.

- The New PRC Labor Contract Law has been passed by the tenth National People's Congress and has become effective since 1 January 2008. In order to provide best protection and competitive salaries and wages for employees, the Group will strictly comply with these new regulations to attract and retain capable and loyal employees. With consumer products prices rise, staff costs will rise and will undoubtedly increase our burden. However, the Group believes that human capital is our core value and resources in building strengths for the long term development of our businesses.

- With effect from 1 January 2008, "Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises" and "Interim Provision Concerning Imposition of Income Tax Law of People's Republic of China for Foreign Enterprises" will be merged into a single rules and regulation. The Group's enterprises income tax rate will then be reduced from the current level of 33% to 25%, the 8% reduction in enterprise income tax rate will enhance the Group's profitability significantly.

2008 will be a challenging year for the Group, the Group's marginal profitability will be affected by increased raw materials costs, staff costs, and bank borrowing costs. Despite these negative impacts, recognized floor areas in sale of properties in 2008, having comparatively lower land costs and better profit margins, including the Shanghai Jing'an Ziyuan, will be increased significantly over last year. It is expected that the Group will attain an unprecedented growth in profitability and set its record profit for the Group in 2008. Market sentiments may change from time to time, sometimes in our favor and sometimes against our wish, but the core foundations in supporting the construction, building materials, and property development industries remain unchanged. The Group will continue to adopt the "three-in-one" business model, leveraging on its synergy effect brought by construction, property development, and building materials businesses and prudent financial management to withstand any short term market adjustment and to sustain long term growth and profitability in the long term.

Won **10** "China Luban Awards", the nation's highest honour in construction industry. The number of **"Luban Awards"** received leads other construction companies in China.

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 centralizes 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 recognized by the People's Bank of China in 2007. 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 68% 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 2007, the Group's net bank borrowings, after deducting cash and bank deposits, amounted to RMB904,610,000 (31 December 2006: RMB314,378,000). The Group's gearing ratio (calculated on the basis of net bank borrowings over the total shareholders' equity) was 32% (31 December 2006: 15%). The Group will continue to adopt prudent policy to maintain low gearing ratio.

Pursuant to the Extraordinary General Meeting held on 19 November 2007, the proposal for issuing short-term commercial papers to a maximum aggregate amount of RMB800,000,000 has been approved by the shareholders of the Company. At present, the application for issuing such short-term commercial papers has been submitted for approval and is under processing. If the issuance of short-term commercial papers is successful, it will strengthen the financial position of the Group greatly.

Use of Proceeds

The net proceeds raised by the Company's placing of new H shares to Tiger Global in February 2007 amounted to approximately RMB556,524,000 (after deduction of the placing fees). The net proceeds have been allocated and utilised as follows:

	RMB
Deposit payment for acquisition of the land use right of Daban Fengqing Project in Keqiao of Shaoxing	269,150,000
Payment for acquisition of the land use right of Tongchenglu Project in Hefei	50,000,000
Repayment of bank borrowings	160,000,000
General working capital	77,374,000
Total:	556,524,000

Key Financial Ratios

	As at 31 December	
	2007	2006
Return on equity	**7.9%**	22.2%
Net assets value per share (RMB)	**4.31**	3.51
Net gearing ratio	**32%**	15%
Current ratio	**1.02**	1.09

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 Group accounted for a one-off gain in the acquisition of the Hubei Construction Group in 2006. This gain was not resumed in 2007. In addition, the net proceeds from the issuance of new H shares in February 2007 were immediately applied to acquire land reserves. These land reserves have not yet been developed and have not generated profit for the year under review, which has led to lower return on equity. However, net assets per share recorded a considerable increase over last year. In addition, the Group has acquired three parcels of land areas at a total consideration of approximately RMB1,500,000,000, which was partly financed by cash deposits at banks, partly financed by the issuance of new H shares, and the remaining RMB800,000,000 was financed by increased bank borrowings. The increase in bank borrowings then moved up the gearing ratio. The expected inflow of cash generated from sale proceeds of properties in 2008 will lower the gearing ratio rapidly.

Cash Flow Analysis

		For the year ended 31 December	
		2007	2006
	Note	***RMB'000***	*RMB'000*
Net cash outflow from operating activities	(i)	**(1,123,004)**	(47,877)
Net cash (outflow)/inflow from investing activities	(ii)	**(99,710)**	30,213
Net cash inflow from financing activities	(iii)	**1,258,489**	58,074
Increase in cash and cash equivalents		**35,775**	40,410

Note:

(i) During the year of 2007, net cash outflow from operating activities was high, which was primarily attributable to the acquisition of three parcels of land areas, total cash payout amounted to approximately RMB1,262,200,000.

(ii) The net cash outflow from investing activities was mainly utilised for construction spending in Baoye Four Seasons Gardens and Hefei Housing Industrial Park.

(iii) Net cash inflow from financing activities had increased significantly primarily due to the issuance of H shares to Tiger Global and the increase of 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 enterprises 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 Reporting Standards in accounting for such tax provision. Nevertheless, 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 RMB218,069,000 in 2006 to RMB259,259,000 in 2007, representing an increase of RMB41,190,000, up 18.9% over last year. The increase was primarily attributable to various re-organization and restructuring expenses amounting to approximately RMB84,587,000, an increase of approximately 28% over last year. Together with increased spending on establishment of local offices for the construction business, administrative expenses amounted to approximately RMB90,907,000, representing an increase of approximately 16% over last year. The Group believes that these start-up and re-organisation expenses will contribute healthy returns to the Group in the long run.

Details of the charges on the Group's Assets

As at 31 December 2007, land use rights, buildings and properties under development at a total value of approximately RMB392,140,000 (31 December 2006: RMB319,409,000) were pledged to banks as security in securing short-term bank borrowings.

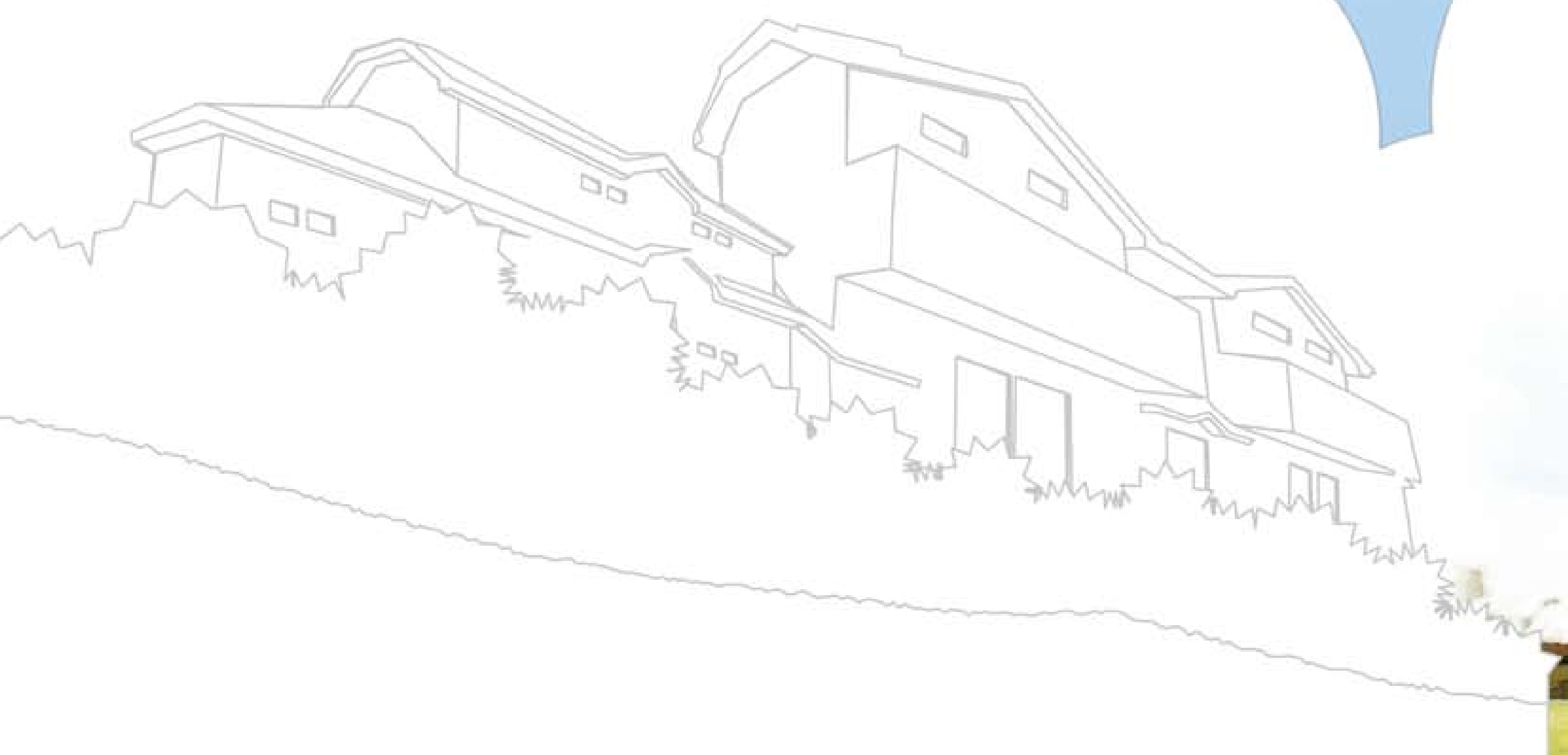
Capital Expenditure Plan

It is expected that the Group's capital expenditure will amount to RMB40,000,000, of which approximately RMB25,000,000 will be allocated to Hefei Housing Industrial Park and approximately RMB15,000,000 will be allocated to Wuhan 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.

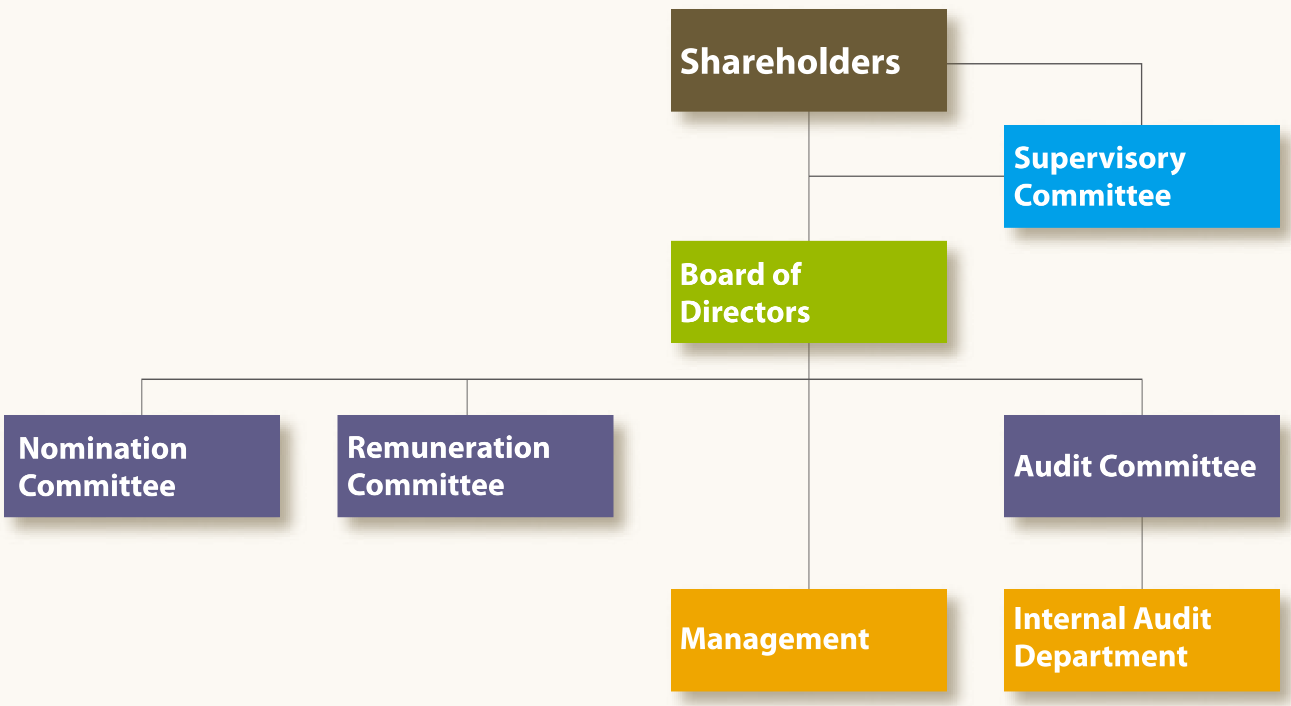
We have adequate land bank for property development for the next **5 to 8 years**.



Corporate Governance Report

The Group has consistently complied with the Code on Corporate Governance Practices set out in the Listing Rules, and other relevant laws and regulations in the PRC. It has adopted a prudent approach to fulfill its obligations to comply with these Corporate Governance practices laid down by the Hong Kong Stock Exchange. The Group has devised effective management control systems to oversee its daily operational activities and review, on a timely manner, the results of operations and related activities to ensure that orderly, efficient, transparent, and effective management control and reporting systems exist; aiming to enhance the standard of corporate governance practice within and among the Group's operating units, to sustain long term development of the Group, and to maximise shareholders' value.

CORPORATE GOVERNANCE STRUCTURE



SHAREHOLDERS MEETING

The meeting of shareholders of the Company not only makes important and key decisions, but also serves as a direct communication link among its directors, management and shareholders. In this respect, notice of shareholders meeting stating the particulars of agenda items, procedures of voting, shareholders' voting rights, will be circulated to shareholders 45 days before the date of shareholders meeting.

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 ten directors, of whom five are executive directors, one is non-executive director and the remaining four are independent non-executive directors.

The Company has four independent non-executive directors, who represent more than one-third of the members of the Board. Among the independent non-executive directors, Mr. Chan Yin Ming, Dennis has professional accounting qualifications and possesses a breath of experience in accounting and financial management. Mr. Wang Youwei and Mr. Yi Deqing are both renowned experts in the China construction industry. Mr. Sun Chuanlin has acquired rich government management experience and working knowledge of the economic development of Shaoxing County. The four independent non-executive directors make their own contributions 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 the 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 2007.

The remunerations of each of the directors of the Company are disclosed on an individual basis, details of which are set out in note 29 to the consolidated financial statements. Since its listing, the Company maintained liability insurance for its directors and senior management each year.

BOARD MEETING

The Board held a total of 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 had 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 included in meeting agenda. All the minutes of board meetings are filed and accessible to all directors at any time.

ATTENDANCE OF BOARD MEETING

Name	Attendance/number of board meetings
Executive directors	
Pang Baogen	4/4
Gao Jiming	4/4
Gao Lin	4/4
Zhou Hanwan	4/4
Wang Rongfu*	3/4
Non-executive directors	
Hu Shaozeng	4/4
Independent non-executive directors	
Wang Youwei	4/4
Yi Deqing	3/4
Chan Yin Ming, Dennis	4/4
Sun Chuanlin*	3/4

* *These directors attended all board meetings after they have been appointed.*

AUDIT COMMITTEE

The audit committee of the Company was established following the listing of the Company. All members of the audit committee are independent non-executive directors, comprising Mr. Wang Youwei (chairman of the audit committee), Mr. Yi Deqing and Mr. Chan Yin Ming, Dennis. 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 audit scheme formulated by the internal audit department of the Group and review the reports submitted by the internal audit department. It is also responsible for reviewing affairs related to the appointment, resignation and replacement of independent auditors as well as assessing the auditors' performance and whether their audit fees are reasonable, and providing relevant recommendations to the Board. The audit committee held a total of 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 it;

– 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 and benefits policy in line with market 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. Chan Yin Ming, Dennis (chairman of the remuneration committee) and Mr. Yi Deqing, and one executive director, Mr. Pang Baogen. The remuneration committee of the Company held one meeting during 2007 and all three members attended the meeting. The remuneration committee regularly reviews the compensation schemes of all directors and ensures these compensation schemes are appropriate.

NOMINATION COMMITTEE

The nomination committee comprises two independent non-executive directors, Mr. Wang Youwei (chairman of the nomination committee) and Mr. Yi Deqing, and one executive director, Mr. Gao Jiming. The nomination committee of the Company held one meeting during 2007 and all three members attended the meeting. The primary duties of the nomination committee include:

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

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

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

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

INTERNAL CONTROLS MECHANISM

Supervisory Committee

The supervisory committee is the standing supervisory organization of the Company, which is responsible for supervising the functions of the Board and its members and the management such as the general 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 of the Company comply with the requirements of the relevant laws and regulations. The supervisory committee comprises Mr. Kong Xiangquan (chairman of the supervisory committee), Mr. Qian Yongjiang, and three independent supervisors, Mr. Chen Xingquan, Mr. Li Yongsheng and Mr. Zhang Xindao. The supervisory committee is accountable to the shareholders 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, reports to shareholders 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 the committee is in doubt with these 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 all 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 from the finance 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 contracts and bidding budget and final settlement and control 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 audits 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.

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.

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 2007, except that the role of the chief executive officer of the Company has been assumed by Mr. Pang Baogen, the chairman of the Board. 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

By interactive communication with investors, and continuous improvement in corporate transparency and corporate governance, the Company aims to enhance investors' and potential investors' confidence in the Company, and builds recognition from the equity market. With our unwavering efforts to enhance shareholders value, the Company endeavors to build a win-win situation for both its investors as well as the Company.

During the year, in addition to receiving many investors and analysts to visit the Company and attending "one-on-one" meetings, the Company also attended the following investor relations activities:

Date	Activities	Organizer	Venue
29-31 January 2007	UBS Great China Conference	UBS	Shanghai
30 March 2007	Japanese investors visited the Company	Ashu IR	Shaoxing
25-27 April 2007	JP Morgan China Conference	JP Morgan	Beijing
11 May 2007	CLSA Hangzhou Conference	CLSA	Hangzhou
14-16 May 2007	CLSA 12th China Forum	CLSA	Shanghai

Date	Activities	Organizer	Venue
16-18 July 2007	HSBC China Corporate Day	HSBC	USA
17-19 October 2007	14th China Conference	BNP Paribas	Xiamen
25 October 2007	European investors visited the Company	AGI AB	Shaoxing
6 November 2007	HSBC Value and Growth Day	HSBC	Singapore
4 December 2007	BNP Mini Conference and Corporate Day	BNP Paribas	Shanghai
6-7 December 2007	JP Morgan's China Corporate Access Days	JP Morgan	Lijiang
21-23 January 2008	UBS Great China Conference	UBS	Shanghai
24 January 2008	UBS Great China Conference City Tour	UBS	Shaoxing

Biographical Details of Directors, Supervisors and Senior Management

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 and holds a professor level senior engineer qualification. He is well respected and recognised in the construction industry in China and has received numerous awards including Model Worker of National Construction System, Advanced Individual of National Sustainable Communities, Outstanding Manager in Zhejiang Province, as well as Youth and Mature Scientist with Outstanding Contributions to Zhejiang Province. 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 and executes the "three-in-one" business model and the "regional management centre" model. Besides, Mr. Pang is also a vice-chairman of the Construction Companies Committee in China, the vice-chairman of Construction Association in Zhejiang, representative of the 11th Zhejiang Provincial Party Congress and representative of the 11th People's Congress of Zhejiang Province.

Mr. Gao Lin, born in 1970, is an executive director of the Company and director and general manager of Baoye Hubei Company Limited. He holds a senior engineer qualification and graduated from Fudan University EMBA Programme. He is also a senior professional manager of the construction industry in China. He was awarded the National Outstanding Construction Entrepreneur, a celebrity in the national important infrastructure construction, apprentice of Luban, the Top 10 Outstanding Entrepreneurs of Construction Industry in Zhejiang Province, Outstanding Entrepreneur in Hubei Province, Outstanding Youth in Hubei Province, Talent for Economic Development of Shaoxing City, Model Worker of Shaoxing City. He is currently a standing committee member of the federation of Industry and Commerce in Hubei Province, a committee member of the 11th Hubei Youth Union Committee, a vice chairman of the youth union of the direct departments of Hubei Province, a vice-chairman of the Hubei Enterprises Union, a vice-chairman of Construction Industry Association in Hubei, a vice-chairman of Construction Industry Association in Wuhan, a representative of the 13th People's Representative Congress of Wuchang District, Wuhan City and a member of the construction and environment protection committee in Wuchang District, Wuhan City. Mr. Gao joined the Group in 1987.

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 wholly owned subsidiary of the Company. He graduated from China University of Geoscience, majoring in civil engineering and holds a senior engineer qualification. Mr. Gao joined the Group in 1978, and now is a committee member of Real Estate Association in Zhejiang Province and Shaoxing County, and a vice-chairman of the Real Estate Association of Shaoxing County.

Mr. Zhou Hanwan, born in 1954, is an executive director, deputy general manager of the Company and chairman of Baoye Construction Industrialization Institute. Mr. Zhou is responsible for personnel and financial management of the Group. He holds a professor level senior engineer qualification. Mr. Zhou joined the Group in 1984. He is currently a committee member of the Concrete Section of China Construction Industry Association, a deputy secretary of Concrete Association of Zhejiang Province and a vice-chairman of Concrete Association of Shaoxing County.

Mr. Wang Rongfu, born in 1954, is an executive director of the Company and chairman of Baoye Construction, a subsidiary of the Group. Mr. Wang holds a senior engineer qualification. He was previously a deputy general manager and general engineer of Baoye Construction. He was awarded the Model Worker of Shaoxing City, National Outstanding Entrepreneur, Talent with great contribution to the development of Shaoxing County, Top 10 Outstanding Entrepreneur of construction in Zhejiang and was appointed as a National Outstanding On-site Inspection Expert. Mr. Wang joined the Group in 1976.

Non-executive Directors

Mr. Hu Shaozeng, born in 1935, is a non-executive director of the Company. Mr. Hu graduated from Shanghai Tongji University majoring in industrial and residential construction and holds a senior engineer qualification. He has served as the Dean of the Construction Committee of Zhejiang Province, the dean and a deputy chief engineer of Zhejiang Provincial Department of Construction, a secretary of the Zhejiang Construction Industry Association, a vice chairman and the chief secretary of the Zhejiang Construction and Management Association and a branch vice chairman of the China Construction and Management Association. Mr. Hu is currently a consultant of the China Construction Industry Association and Zhejiang Construction and Management Association.

Independent Non-executive Directors

Mr. Wang Youwei, born in 1945, is an independent non-executive director, and the chairman of audit and nomination committee of the Company. Mr. Wang graduated from the Shanghai Tongji University majoring in foundation construction in 1968 and completed his graduate studies in construction theories in Tsinghua University in 1975. He holds a professor level qualification. He is currently the chief consulting engineer of the China Construction Science Research Institute, a consultant of the Expert Panel of the Government of Beijing City, a member of the National Construction Technology Bureau, a council member of the Research Institute of Urbanisation, the director of the National Green Construction and Energy Saving Committee, the deputy director of the Expert Panel of the China Construction Association, the director of the China Construction Engineering Association and the chief editor of the Construction Structure Journal.

Mr. Yi Deqing, born in 1935, is an independent non-executive director, a member of audit committee and remuneration committee of the Company. He graduated from Zhejiang University in 1956 majoring in civil engineering, and holds the qualifications of National Chartered First-class Structural Engineer and professor-level senior engineer Mr. Yi has been awarded the Master of China Construction Design (中國工程設計大師) and Model Worker of the Ministry of Construction. He is currently the chief consulting engineer of the Zhejiang Province Construction Design Research Institute, a committee member of China Civil Engineering Association, a deputy director and officer-in charge of the Construction Technology Committee of Zhejiang Province, a deputy director and officer-in-charge of the Earthquake Prevention Committee of Zhejiang Province, a deputy director of Zhejiang Civil Engineering Construction Association, a senior consultant of the Zhejiang Construction Design Assessment Association, and a consultant of the Zhejiang Construction Quality and Safety Association and Zhejiang Construction Industry Association.

Mr. Chan Yin Ming, Dennis, born in 1954, a Canadian living in Hong Kong, is an independent non-executive director, chairman of remuneration committee and a member of 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 30 years of experience in public accountancy, management consultancy, manufacturing, distribution, telecommunications, retailing, logistics and financial services.

Mr. Sun Chuanlin, born in 1948, is an independent non-executive director of the Company. Mr. Sun is a qualified engineer and previously served as the secretary of the communist party committee of Yangxunqiao County, the secretary of the communist party committee of Qixian District, a member of the communist party leading group and a deputy director of the Village and Township Enterprises Bureau of Shaoxing County, a deputy general manager of Shaoxing Vegetable Production and Sales Company, and a deputy general manager and secretary of the communist party committee of Shaoxing Joint Development Corporation.

SUPERVISORS

Mr. Kong Xiangquan, born in 1959, is a senior qualified engineer. Mr. Kong joined the Company in 1975 and is the general manager of Zhejiang Baoye Infrastructure Construction Co., Ltd, a wholly owned subsidiary of Baoye Construction.

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

Independent Supervisors

Chen Xingquan, born in 1928, is an independent supervisor of the Company. Mr. Chen is 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 a honorable consultant of Shaoxing Sports Association and a vice president of the Union of Political Consultative Congress in Shaoxing County.

Mr. Zhang Xindao, born in 1944, is an independent supervisor of the Company. Mr. Zhang graduated from the Nanjing Institute of Technology (now known as East-South University) and holds a senior engineer qualification. He was preciously a deputy director of Shaoxing City Electric Power Bureau, the general manager of Shaoxing Daming Industry Company, the chairman of Shaoxing Daming Electricity Company and the chairman of Zhuji Bafang Electricity Company. Mr. Zhang is currently the general manager of Shaoxing Tianyi Green Power Co., Ltd.

SENIOR MANAGEMENT

Mr. Huang Fengyong, born in 1956, is a deputy general manager of the Company. He joined the Group in June 2003. Mr. Huang holds an engineer qualification. He was a deputy officer of the Shaoxing City Construction Management Bureau and a deputy director of the Shaoxing City Chengdong Development Zone.

Mr. Fung Ching, Simon, born in 1969, is the chief financial officer and the secretary of the Board of Directors of the Group. Mr. Fung graduated from the Queensland University of Technology, Australia and obtained a bachelor degree majoring in accountancy. Mr. Fung joined the Company in 2004. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the CPA Australia. Prior to joining the Company, 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 Company Limited, a company listed in the main board of the Hong Kong Stock Exchange.

Mr. Gao Jun, born in 1972, is a deputy general manager of the Company and the general manager of Baoye Group Anhui Company Limited. Mr. Gao graduated from China University of Geoscience, majoring 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 Baoye Real Estate and an assistant general manager of the Company. Mr. Gao is currently a representative of the 14th People's Representative Congress of Hefei City, a standing committee member of the Anhui Youth Union, the executive chairman of the Zhejiang Enterprises Union in Anhui, a vice chairman of the Anhui Journalist Union and a standing committee member of the Hefei Industrial and Commercial Chamber.

Mr. Jin Jixiang, born in 1967, is a director and the general manager of Baoye Construction, a wholly owned subsidiary of the Group. Mr. Jin graduated from China University of Geoscience, majoring in civil engineering and holds a senior engineer qualification. He joined the Group in 1975, specializing in construction, decoration, and technology management. He was previously the general manager of the Zhejiang Baoye Construction and Decoration Company Limited, a deputy general manager of Baoye Construction. He was awarded the National Outstanding Decoration Entrepreneur, Top 10 Excellent Entrepreneur of Construction in Zhejiang, Model Worker of Shaoxing City and the Advance Productivity Worker of Shaoxing County.

Mr. Lou Zhonghua, born in 1968, is a director and the general manager of Baoye Real Estate. He graduated from China University of Geoscience, majoring 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 wholly owned subsidiary of the Group. Mr. Wang graduated from Wuhan Science and Technology University majoring in civil engineering, and holds a senior engineer qualification. He was previously the operation manager and a branch manager of Baoye Construction.

Directors' Report

The Board is pleased to present the annual report and the audited financial statements of the Group for the year ended 31 December 2007.

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 principal 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 2007 are set out in the balance sheets of the consolidated financial statements prepared in accordance with HKFRS on pages 60 to 62.

The results of the Group for the year ended 31 December 2007 prepared in accordance with HKFRS are set out in the consolidated income statement on page 63.

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 the annual report.

RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in the note 21 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 equity holders amounted to RMB219,845,000 as at 31 December 2007 (2006: RMB219,628,000).

DIVIDENDS

At the board meeting held on 15 April 2008, the Board declared a final dividend of RMB0.07 (2006: RMB0.07) per ordinary share for the year ended 31 December 2007. The proposed dividend is not reflected as a dividend payable in this consolidated financial statements of 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 2007 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 of 2007, 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 2007 are as follows:

Directors

Executive directors

Mr. Pang Baogen *(Chairman of the Board)*
Mr. Gao Jiming
Mr. Gao Lin
Mr. Zhou Hanwan
Mr. Wang Rongfu (appointed on 25 June 2007)

Non-executive directors

Mr. Hu Shaozeng

Independent Non-executive directors

Mr. Wang Youwei
Mr. Yi Deqing
Mr. Chan Yin Ming, Dennis
Mr. Sun Chuanlin (appointed on 25 June 2007)

DIRECTORS AND SUPERVISORS (continued)

Supervisors

Mr. Sun Guofan (resigned on 25 June 2007)

Mr. Xie Qisheng (resigned on 16 April 2007)

Mr. Kong Xiangquan *(Chairman of supervisory committee)* (appointed on 16 April 2007)

Mr. Qian Yongjiang (appointed on 16 April 2007)

Independent supervisors

Mr. Chen Xinquan

Mr. Li Yongsheng

Mr. Zhang Xindao

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Xie Qisheng resigned as a supervisor on 16 April 2007

Mr. Sun Guofan resigned as a supervisor on 25 June 2007

Mr. Kong Xiangquan was appointed as a supervisor on 16 April 2007

Mr. Qian Yongjiang was appointed as a supervisor on 16 April 2007

Mr. Wang Rongfu was appointed as an executive director on 25 June 2007

Mr. Sun Chuanlin was appointed as an independent non-executive director on 25 June 2007

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 44 to 48 of the annual report.

REMUNERATION OF DIRECTORS

The remuneration of directors of the Company is disclosed on an individual named basis in note 29 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 29(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.

INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As at 31 December 2007, the interest and short position of each director, supervisor and senior management of the Company in the shares, underlying shares or debentures of the Company or any associated 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 Issuers, to be notified to the Company and HKEx were as follows:

Director/ Senior management	Relevant entity	Capacity	No. of domestic shares held (Long position)	Approximate percentage of the total registered capital of the relevant entity
Directors				
Mr. Pang Baogen	The Company	Individual	198,753,054	29.98%
Mr. Gao Jiming	The Company	Individual	13,024,647	1.96%
Mr. Gao Lin	The Company	Individual	9,544,775	1.44%
Mr. Zhou Hanwan	The Company	Individual	8,233,510	1.24%
Mr. Wang Rongfu	The Company	Individual	7,147,039	1.08%
Senior Management				
Mr. Sun Guofan	The Company	Individual	11,705,283	1.77%
Mr. Gao Jun	The Company	Individual	5,794,259	0.87%
Mr. Lou Zhonghua	The Company	Individual	5,633,172	0.85%
Mr. Wang Rongbiao	The Company	Individual	2,647,911	0.40%
Mr. Jin Jixiang	The Company	Individual	2,440,527	0.37%

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACT

All the appointed directors and supervisors signed their respective service contracts or appointment letters with the Company and last until the conclusion of the 2007 annual general meeting of the Company. The renewal of appointment of these directors and supervisors of the Company who currently held offices were endorsed by the meeting of directors held on 15 April 2008. These renewals of appointment are subject to ratification by shareholders at the 2007 annual general meeting of the Company, and new service contracts or appointment letters for directors and supervisors will be executed between these directors and supervisors with the Company thereafter. 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 and jointly controlled entity was a party and in which the directors or the supervisors of the Company have material interests, whether directly or indirectly, subsisted at any time during the year (excluding directors' service contracts).

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year did the Company or any its subsidiaries and jointly controlled entity 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 the annual 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.
Offering/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	14 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 2007, there was a total share capital of 662,964,005 shares of the Company, which includes:

	Number of shares	Approximate percentage of total share capital
Domestic Shares	350,742,053	52.91%
H shares	312,221,952	47.09%
Total	662,964,005	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 the annual report.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, 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 and which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Number of H shares of the Company held (Long position)	Approximate percentage of the total issued H shares	Approximate percentage of the total registered capital
Atlantis Investment Management Limited	56,850,000	18.21%	8.58%
Coleman Charles P.III *(Note 1)*	52,036,992	16.67%	7.85%
The Goldman Sachs Group, Inc *(Note 2)*	43,372,160	13.89%	6.54%
Tiger Global Performance L.L.C. *(Note 3)*	35,379,951	11.33%	5.34%
Tiger Global, L.P.	34,621,341	11.09%	5.22%
Tiger Global Management L.L.C. *(Note 4)*	16,657,041	5.33%	2.51%
Tiger Global Ltd	16,657,041	5.33%	2.51%

Notes:

1. The interests are held by Coleman Charles P.III through its controlled corporation namely, Tiger Global Performance L.L.C., Tiger Global L.P., Tiger Global II, L.P., Tiger Global Ltd., and Tiger Global Management L.L.C.

2. The interests are held by the Goldman Sachs Group, Inc., through its controlled corporations, namely, Goldman Sachs (Asia) Finance, Goldman Sachs (Asia) Finance Holdings L.L.C., Goldman Sachs & Co, Goldman Sachs International, Goldman Sachs Holdings (U.K.), Goldman Sachs Group Holdings (U.K.) and Goldman Sachs (U.K.) L.L.C.

3. The interests are held by Tiger Global Performance L.L.C., through its controlled corporations, namely, Tiger Global L.P. and Tiger Global II, L.P.

4. The interests are held by Tiger Global Management L.L.C. through its controlled corporation, namely, Tiger Global, Ltd.

HUMAN RESOURCES

As at 31 December 2007, the Group had approximately 2,005 permanent employees (2006: approximately 1,987). There are approximately 55,600 indirectly employed construction site workers (2006: approximately 51,000). Total staff costs amounted to RMB1,012,835,000 (2006: RMB875,497,000) for the year ended 31 December 2007. 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 coverage. 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.

CONNECTED TRANSACTIONS

During the year of 2007, the Group had no connected transaction 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

As at 31 December 2007, 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 31 to the consolidated financial statements.

The National People's Congress promulgated the new Corporate Income Tax Law of the PRC (the "CIT"), which becomes effective from 1 January 2008. Under the CIT, the corporate income tax applicable to the Group starting from 1 January 2008 shall be adjusted to 25% from 33%.

EXTERNAL GUARANTEE AND FULFILMENT

	2007 ***RMB'000***	2006 *RMB'000*
Guarantee given to banks in respect of mortgage facilities granted to third parties	**56,657**	19,800
Guarantee given to banks in respect of bank loans of third parties	**–**	20,000
	56,657	39,800

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 deposits 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

As at the date of this report, 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 annual report.

AUDITORS

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

The remuneration of the auditors for the year of 2007 is set out as follows:

	2007		2006	
	Audit fees	**Other fees**	Audit fees	Other fees
PricewaterhouseCoopers *(RMB'000)*	**3,000**	**–**	2,800	100**
Shinewing *(RMB'000)*	**370**	**30***	350	50*

* *mainly disbursement for 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 Shinewing as the Company's international auditor and statutory auditor respectively.

CLOSURE OF REGISTER OF MEMBER

The register of member of the Company will be closed from 15 May 2008 to 15 June 2008, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the above mentioned final dividend, all transfer forms, accompanied by the relevant share certificates must be lodged with the Company's H Shares registar in Hong Kong, Tricor 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 14 May 2008.

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
15 April 2008

Supervisors' Report

To the Shareholders,

In the year 2007, the supervisory committee of Baoye Group Company Limited (the "Supervisory Committee"), in compliance with the provision of the Company Law of the People's Republic of China (the "PRC Company Law"), the Listing Rule 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 meetings, the Annual General Meeting and the Extraordinary General Meeting of the Company. It provided reasonable suggestions and opinions to the Board in respect of the operations and development plans of the Company. It also strictly and effectively monitored and supervised the management of the Company, to ensure that it was in compliance with the PRC Company Law 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 directors' report, audited financial statements and profit appropriation proposal 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 2007 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 patronage for the Supervisory Committee.

By Order of the Supervisory Committee
Kong Xiangquan
Chairman

Zhejiang, the PRC
15 April 2008

International Auditor's Report

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INDEPENDENT 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 60 to 123, which comprise the consolidated and company balance sheets as at 31 December 2007, 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.

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 2007, 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, 15 April 2008

Consolidated Balance Sheet

As at 31 December 2007

	Note	As at 31 December 2007 RMB'000	2006 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	**760,593**	677,386
Investment properties	8	**43,533**	40,515
Land use rights	6	**2,008,189**	792,261
Goodwill	9	**16,534**	16,534
Properties under development	10	**135,541**	442,076
Investments in associates	13	**31,175**	32,401
Deferred income tax assets	26	**16,314**	15,496
		3,011,879	2,016,669
Current assets			
Inventories	14	**116,291**	79,802
Land use rights	6	**292,236**	269,136
Properties under development	10	**620,424**	292,283
Completed properties held for sale		**130,757**	61,604
Due from customers on construction contracts	15	**866,751**	738,909
Trade receivables	16	**656,635**	682,864
Other receivables	17	**931,352**	721,651
Restricted bank deposits	18	**248,067**	125,702
Cash and cash equivalents	19	**818,474**	782,699
		4,680,987	3,754,650
Total assets		**7,692,866**	5,771,319
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital and premium	20	**1,510,259**	953,735
Other reserves	21	**146,746**	227,951
Retained earnings			
– Proposed dividend	34	**46,407**	46,407
– Others		**1,155,225**	915,970
		2,858,637	2,144,063
Minority interest		**37,771**	45,191
Total equity		**2,896,408**	2,189,254

		As at 31 December	
		2007	2006
	Note	***RMB'000***	*RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings	*25*	**120,000**	–
Deferred income tax liabilities	*26*	**88,775**	133,434
		208,775	133,434
Current liabilities			
Trade payables	*22*	**706,462**	791,212
Other payables	*23*	**618,872**	608,999
Receipts in advance		**689,268**	262,657
Current income tax liabilities		**175,790**	129,143
Due to customers on construction contracts	*15*	**541,640**	429,591
Borrowings	*25*	**1,851,151**	1,222,779
Provision for warranty	*24*	**4,500**	4,250
		4,587,683	3,448,631
Total liabilities		**4,796,458**	3,582,065
Total equity and liabilities		**7,692,866**	5,771,319
Net current assets		**93,304**	306,019
Total assets less current liabilities		**3,105,183**	2,322,688

Pang Baogen
Director

Gao Jiming
Director

The notes on pages 66 to 123 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31 December 2007

	Note	As at 31 December 2007 RMB'000	2006 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*7*	**34,367**	34,293
Land use rights	*6*	**210,660**	211,105
Properties under development	*10*	**71,214**	122,509
Investment in subsidiaries	*11*	**668,980**	558,760
Interest in a jointly controlled entity	*12*	**536,550**	–
		1,521,771	926,667
Current assets			
Amounts due from subsidiaries	*11*	**668,738**	581,584
Other receivables	*17*	**57,071**	54,886
Cash and cash equivalents	*19*	**88,451**	82,339
		814,260	718,809
Total assets		**2,336,031**	1,645,476
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital and premium	*20*	**1,510,259**	953,735
Other reserves	*21*	**66,980**	129,556
Retained earnings			
– Proposed dividend	*34*	**46,407**	46,407
– Others		**173,438**	173,221
Total equity		**1,797,084**	1,302,919
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	*26*	**515**	679
Current liabilities			
Trade payables	*22*	**10,671**	12,413
Other payables	*23*	**23,865**	17,569
Current income tax liabilities		**5,896**	5,896
Borrowings	*25*	**498,000**	306,000
		538,432	341,878
Total liabilities		**538,947**	342,557
Total equity and liabilities		**2,336,031**	1,645,476
Net current assets		**275,828**	376,931
Total assets less current liabilities		**1,797,599**	1,303,598

Pang Baogen
Director

Gao Jiming
Director

The notes on pages 66 to 123 are an integral part of this financial statement.

Consolidated Income Statement

For the year ended 31 December 2007

	Note	Year ended 31 December 2007 RMB'000	2006 RMB'000
Revenue	5	**7,657,066**	6,227,853
Cost of sales	28	**(7,120,136)**	(5,734,191)
Gross profit		**536,930**	493,662
Other gains – net	27	**164,121**	416,038
Selling and marketing costs	28	**(22,363)**	(15,388)
Administrative expenses	28	**(259,259)**	(218,069)
Operating profit		**419,429**	676,243
Finance costs	30	**(68,288)**	(50,722)
Share of losses of associates	13	**(1,226)**	(21)
Profit before income tax		**349,915**	625,500
Income tax expense	31	**(114,277)**	(143,479)
Profit for the year		**235,638**	482,021
Attributable to:			
Equity holders of the Company		**225,795**	476,032
Minority interest		**9,843**	5,989
		235,638	482,021
Earnings per share for profit attributable to the equity holders of the Company during the year			
– basic and diluted (expressed in RMB per share)	33	**RMB 0.343**	RMB 0.779
Dividends	34	**46,407**	46,407

The notes on pages 66 to 123 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Note	Attributable to equity holders of the Company				
		Share capital and premium	Other reserves	Retained earnings	Minority interest	Total
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
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		–	–	–	1,590	1,590
Disposal of a subsidiary		–	–	–	(9,232)	(9,232)
Liquidation of a subsidiary		–	(2,709)	–	(12,968)	(15,677)
Reduction of minority interest resulting from acquisition of additional equity interest in subsidiaries		–	–	–	(2,270)	(2,270)
Balance at 31 December 2006		953,735	227,951	962,377	45,191	2,189,254
Balance at 1 January 2007		**953,735**	**227,951**	**962,377**	**45,191**	**2,189,254**
Profit for the year		**–**	**–**	**225,795**	**9,843**	**235,638**
Reversal of appropriation of statutory surplus reserve arising from adoption of new China accounting standards	*21(c)*	**–**	**(59,867)**	**59,867**	**–**	**–**
Transfer of reserves to income statement arising from sale of completed properties held for sale		**–**	**(21,338)**	**–**	**–**	**(21,338)**
Issue of shares	*20*	**559,868**	**–**	**–**	**–**	**559,868**
Share issue cost	*20*	**(3,344)**	**–**	**–**	**–**	**(3,344)**
Dividend relating to 2006	*34*	**–**	**–**	**(46,407)**	**–**	**(46,407)**
Reduction of minority interest resulting from acquisition of additional equity interest in subsidiaries		**–**	**–**	**–**	**(17,263)**	**(17,263)**
Balance at 31 December 2007		**1,510,259**	**146,746**	**1,201,632**	**37,771**	**2,896,408**

The notes on pages 66 to 123 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	Year ended 31 December 2007 RMB'000	2006 RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations	35	**(922,271)**	156,292
Interest paid		**(87,626)**	(66,242)
Income tax paid		**(113,107)**	(137,927)
Net cash used in operating activities		**(1,123,004)**	(47,877)
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		**–**	(8,858)
Proceeds from sale of a subsidiary		**–**	77,622
Acquisition of additional equity interest in subsidiaries		**(9,679)**	(1,050)
Purchase of property, plant and equipment		**(212,182)**	(144,497)
Purchase of land use rights for construction of property, plant and equipment		**(20,952)**	(27,417)
Proceeds from sale of property, plant and equipment and land use rights	35	**77,003**	87,007
Interest received		**66,100**	47,406
Net cash (used in)/generated from investing activities		**(99,710)**	30,213
Cash flows from financing activities			
Proceeds from issuance of shares	20	**559,868**	–
Payment for share issuance costs	20	**(3,344)**	–
Proceeds from borrowings		**2,349,060**	1,871,540
Repayments of borrowings		**(1,600,688)**	(1,737,874)
Dividends paid to Company's shareholders	34	**(46,407)**	(73,311)
Dividends paid to minority shareholders		**–**	(2,281)
Net cash generated from financing activities		**1,258,489**	58,074
Net increase in cash and cash equivalents		**35,775**	40,410
Cash and cash equivalents at beginning of the year		**782,699**	742,289
Cash and cash equivalents at end of the year		**818,474**	782,699

The notes on pages 66 to 123 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 15 April 2008.

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 Group have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). 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 Group'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.

(a) Standards, amendment and interpretations effective in 2007

HKFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to HKAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables. The main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by these new and revised standards. Such additional disclosures have been included in Note 3.1 and Note 3.2 below.

Hong Kong (International Financial Reporting Interpretation Committee) (HK(IFRIC)) – Int 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) Standards, amendments and interpretations effective in 2007 but not relevant

The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

- HK(IFRIC) – Int 7, "Applying the restatement approach under HKAS 29, Financial reporting in hyper-inflationary economies";

- HK(IFRIC) – Int 8, "Scope of HKFRS 2"; and

- HK(IFRIC) – Int 9, "Re-assessment of embedded derivatives".

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, and the Group has not earlier adopted them:

- HKAS 1 (Revised), "Presentation of Financial Statements" (effective from 1 January 2009). HKAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from 1 January 2009.

- HKAS 23 (Amendment), "Borrowing costs" (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The accounting policy of borrowing costs currently adopted by the Group (Note 2.23) is complied with the requirement HKAS 23 (Amended).

- HKFRS 8, "Operating segments" (effective from 1 January 2009). HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker. As goodwill is allocated to groups of cash-generating units based on segment level, the change will also require management to reallocate goodwill to the newly identified operating segments. Management does not anticipate that this will result in any material impairment to the goodwill balance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(continued)*

- HKAS 27 (Revised) "Consolidated and Separate Financial Statements" (effective from annual period beginning on or after 1 July 2009). The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply HKAS 27 (Revised) from 1 January 2010.

- HKFRS 3 (Revised) "Business Combination" (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are 'capable of being conducted' rather than 'are conducted and managed'. It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other HKFRSs. They are income taxes, employee benefits, share-based payment and non current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. The Group will apply HKFRS 3 (Revised) from 1 January 2010.

(d) Interpretations to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the Group's operations:

- HK(IFRIC) – Int 11, "HKFRS 2 – Group and treasury share transactions" (effective from 1 March 2007). HK(IFRIC) – Int 11 provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. HK(IFRIC) – Int 11 is not relevant to the Group because the Group has no such transactions.

- HK(IFRIC) – Int 12, "Service concession arrangements" (effective from 1 January 2008). HK(IFRIC) – Int 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. HK(IFRIC) – Int 12 is not relevant to the Group's operations because none of the Group's companies participate in public sector services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(d) Interpretations to existing standards that are not yet effective and not relevant for the Group's operations *(continued)*

- HK(IFRIC) – Int 13, "Customer loyalty programmes" (effective from 1 July 2008). HK(IRFIC) – Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. HK(IFRIC) – Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

- HK(IFRIC) – Int 14, "HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction" (effective from 1 January 2008). HK(IFRIC) – Int 14 provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. HK(IFRIC) – Int 14 is not relevant to the Group's operations because the Group has no defined benefit assets under HKAS 19.

- HKAS 32 and HKAS 1 Amendments "Puttable Financial Instruments and Obligations Arising on Liquidation" (effective from 1 January 2009). The amendments require some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. These amendments are not relevant to the Group because the Group has no such puttable financial instruments and obligation arising on liquidation.

- HKFRS 2 Amendment "Share-based Payment Vesting Conditions and Cancellations" (effective from 1 January 2009). The amendment clarifies the definition of "vesting conditions" and specifies the accounting treatment of "cancellations" by the counterparty to a share-based payment arrangement. Vesting conditions are service conditions (which require a counterparty to complete a specified period of service) and performance conditions (which require a specified period of service and specified performance targets to be met) only. All "non-vesting conditions" and vesting conditions that are market conditions shall be taken into account when estimating the fair value of the equity instruments granted. All cancellations are accounted for as an acceleration of vesting and the amount that would otherwise have been recognised over the remainder of the vesting period is recognised immediately. This amendment is not relevant to the Group because the Group has no share-based payment transactions.

2.2 Consolidation

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

(a) Subsidiaries

Subsidiaries are all entities (including special purpose 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(a) Subsidiaries *(continued)*

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.

Inter-company 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 and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of 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.

(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 (net of any accumulated impairment loss) identified on acquisition (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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(d) *Joint ventures*

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

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less provision for impairment losses (Note 2.8). The results of jointly controlled entities are accounted for by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

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

(c) *Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- All resulting exchange differences are recognised as a separate component of equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currency translation (continued)

(c) Group companies *(continued)*

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs or revalued amounts to their residual values over their estimated useful lives, as follows:

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.

Construction in progress represents the direct costs of construction incurred of property, plant and equipment less any impairment losses. No provision for depreciation is made on construction in progress until such time the relevant assets are completed and put into use. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Investment properties

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

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

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

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. 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/jointly controlled entity/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries and jointly controlled entities is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates and is tested 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.

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 investments in subsidiaries, associates and jointly controlled entities and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 receivable and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determine 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 maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. 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 investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Inventories

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

2.13 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, other short-term highly liquid investments with original maturities of three months or less.

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.

2.17 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date in the countries where the Company and its subsidiaries, associates and jointly controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 consolidated 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, associates, jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.19 Employee benefits

Pension obligations

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 29(a).

2.20 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, returns, rebates and discounts and after eliminating sales within the Group.

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 instalments 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.

2.22 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to property, plant and equipment or land use rights are net-off against the relevant cost of purchase.

2.23 Borrowing costs

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

(i) The Group is the lessee

(a) The Group is the lessee other than operating lease of land use rights
Payments made under operating leases (net of any incentives received from the lessor), are charged to the consolidated income statement on a straight-line basis over the period of the lease.

(b) The Group is the lessee under operating lease of land use rights
The Group made upfront payments to obtain operating leases of land use rights on which properties will be developed. The upfront payments of the land use rights are recorded as assets and amortised over the lease periods. The amortisation during the period of construction of the properties is capitalised as the cost of properties under development.

The amortisation during the period before the commencement and after the completion of the construction of the properties is expensed in the consolidated income statement. The unamortised upfront payments are recognised as cost of sales when the relevant properties are sold or transferred to the cost of investment properties upon completion of the relevant properties.

Upfront payments for land use rights are classified as current assets unless the construction period of the relevant properties development projects is expected to complete beyond normal operating cycle.

(ii) The Group is the lessor

When assets are leased out under an operating lease, the assets are 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.

2.25 Dividend distribution

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

2.26 Financial guarantee liabilities

Financial guarantee liabilities are recognised in respect of the financial guarantee provided by the Group to the property purchasers.

Financial guarantee liabilities are recognised initially at fair value plus transaction costs that are directly attributable to the issue of the financial guarantee liabilities. After initial recognition, such contracts are measured at the higher of the present value of the best estimate of the expenditure required to settle the present obligation and the amount initially recognised less cumulative amortisation.

Financial guarantee liabilities are derecognised from the balance sheet when, and only when, the obligation specified in the contract is discharged or cancelled or expired.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise the potential adverse effects on the financial performance of the Group. Risk management is carried out by the senior management of the Group, which includes the executive directors of the Group.

(i) 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 denominated balances into foreign currencies is subject to the rates and regulations of foreign exchange control promulgated by the PRC government.

Management monitors the Group's currency exposure on an ongoing basis and will enter into hedges when need arises. The Group currently does not have a foreign currency hedging policy.

The carrying amount of the Group's and the Company's foreign currency denominated monetary assets and monetary liabilities at 31 December 2007 and 2006 are as follows:

	Group		**Company**	
	As at 31 December		**As at 31 December**	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Assets				
Hong Kong dollar ("HKD")	**4,784**	4,129	**4,784**	4,129
U.S dollar ("USD")	**21,613**	5,506	**7,891**	–
Djibouti Franc ("DJF") *(Note 5 (b))*	**25,570**	–	**–**	–
Botswana Pula ("BWP") *(Note 5 (b))*	**16,757**	–	**–**	–
Seychelles Rupee ("SCR") *(Note 5 (b))*	**7,043**	–	**–**	–
Other foreign currencies	**2,282**	–	**–**	–
Liabilities				
DJF *(Note 5 (b))*	**(26,940)**	–	**–**	–
BWP *(Note 5 (b))*	**(2,627)**	–	**–**	–
SCR *(Note 5 (b))*	**(3,617)**	–	**–**	–

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(i) Foreign exchange risk *(continued)*

The following table shows the sensitivity analysis of a 5% increase/decrease in RMB against the relevant foreign currencies. The sensitivity analysis includes only foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. If there is a 5% increase in RMB against the relevant currencies, the effect in the profit for the year is as follows:

	Group		**Company**	
	As at 31 December		**As at 31 December**	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Decrease/(increase) in profit for the year				
– HKD	**239**	206	**239**	206
– USD	**1,081**	275	**395**	–
– DJF *(Note 5 (b))*	**(69)**	–	**–**	–
– BWP *(Note 5 (b))*	**707**	–	**–**	–
– SCR *(Note 5 (b))*	**171**	–	**–**	–
– Other foreign currencies	**114**	–	**–**	–

(ii) Interest rate risk

The Group

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowings. Borrowings at variable rates expose the Group to cash flow interest-rate risk. Borrowings at fixed rates expose the group to fair value interest-rate risk.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. The Group currently does not use any interest rate swaps to hedge its exposure to interest rate risk. However, the Group will consider hedging significant interest rate exposure should the need arise.

As at 31 December 2007, if interest rates on borrowings had been 1% higher/lower with all other variables held constant, profit for the current year would have been RMB11,250,000, lower/higher respectively, mainly as a result of higher/lower interest expense on borrowings.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(iii) Credit risk

The Group is exposed to credit risk in relation to its trade and other receivables, due from customers on construction contracts and cash deposits with banks.

The carrying amounts of trade and other receivables, due from customers on construction contracts, restricted bank deposits, cash and cash equivalents represent the Group's maximum exposure to credit risk in relation to financial assets.

To manage this risk, deposits are mainly placed with state-owned financial institutions and reputable banks which are all high-credit-quality financial institutions. The Group has policies in place to ensure that provision of construction services and sale of building material are made to customers with an appropriate credit history; sales of completed properties are made to purchasers with an appropriate financial strength and appropriate percentage of down payments. It also has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivables to ensure that adequate impairment losses are made for irrecoverable amounts. The Group has no significant concentrations of credit risk, with exposure spread over a number of counterparties and customers.

For properties that are still under construction, the Group typically provides guarantees to banks in connection with the customers' borrowing of mortgage loans to finance their purchase of the properties for an amount up to 70% of the total purchase price of the property. If a purchaser defaults on the payment of its mortgage during the term of the guarantee, the bank holding the mortgage may demand the Group to repay the outstanding amount under the loan and any accrued interest thereon. Under such circumstances, the Group is able to retain the customer's deposit and sell the property to recover any amounts paid by the Group to the bank. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has arranged bank financing for certain purchasers of property units and provided guarantees to secure obligations of such purchasers for repayments. Detailed disclosure of these guarantees is made in Note 36.

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(iv) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents and ensure the availability of funding though an adequate amount of available financing, including short-term and long-term bank loans to meet its business demand. Due to the dynamic nature of the underlying businesses, the Group's financial department maintains flexibility in funding by maintaining adequate amount of cash and cash equivalent and flexibility in funding through having available sources of financing.

The table below analyses the Group's and the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 years *RMB'000*	Between 1 and 2 years *RMB'000*	Between 2 and 5 years *RMB'000*	Over 5 years *RMB'000*	Total *RMB'000*
The Group					
At 31 December 2007					
Borrowings	**1,851,151**	**20,000**	**100,000**	**–**	**1,971,151**
Trade payables	**706,462**	**–**	**–**	**–**	**706,462**
Other payables (excluding other tax payables)	**512,944**	**–**	**–**	**–**	**512,944**
Total	**3,070,557**	**20,000**	**100,000**	**–**	**3,190,557**
At 31 December 2006					
Borrowings	1,222,779	–	–	–	1,222,779
Trade payables	791,212	–	–	–	791,212
Other payables (excluding other tax payables)	548,380	–	–	–	548,380
Total	2,562,371	–	–	–	2,562,371

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

***(iv) Liquidity risk** (continued)*

	Less than 1 years RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
The Company					
At 31 December 2007					
Borrowings	**498,000**	**–**	**–**	**–**	**498,000**
Trade payables	**10,671**	**–**	**–**	**–**	**10,671**
Other payables (excluding other tax payables)	**17,619**	**–**	**–**	**–**	**17,619**
Total	**526,290**	**–**	**–**	**–**	**526,290**
At 31 December 2006					
Borrowings	306,000	–	–	–	306,000
Trade payables	12,413	–	–	–	12,413
Other payables (excluding other tax payables)	17,569	–	–	–	17,569
Total	335,982	–	–	–	335,982

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity attributable to the Company's equity holders. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents and restricted bank deposits.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management (continued)

The gearing ratios at 31 December 2007 and 2006 were as follows:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Total borrowings *(Note 25)*	**1,971,151**	1,222,779
Less: Cash and cash equivalents *(Note 19)*	**(818,474)**	(782,699)
Restricted bank deposits *(Note 18)*	**(248,067)**	(125,702)
Net debt	**904,610**	314,378
Total equity attributable to the Company's equity holders	**2,858,637**	2,144,064
Net gearing ratio	**32%**	15%

The increase in the gearing ratio during 2007 is due to significant increase in borrowings to finance its working capital.

3.3 Fair value estimation

The carrying value less impairment provisions of trade and other receivables and the carrying value of trade and other payables approximate their fair values due to their short maturities. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

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.

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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.1 Critical accounting estimates and assumptions (continued)

(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 2007, the fair value of the investment properties of the Group were estimated at RMB43,533,000 (31 December 2006: RMB40,515,000) as reported by an independent professional valuer.

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.

5. SEGMENT INFORMATION

(a) Business segments

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 RMB7,597,133,000 and RMB6,166,234,000 for the years ended 31 December 2007 and 2006 respectively.

5. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

The Group's other operations mainly comprise the provision of architectural and interior design services, provision of construction equipment rental services. Not any one of these constitutes a separately reportable segment.

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The business segment results for the year ended 31 December 2007 are as follows:

	Year ended 31 December 2007				
	Construction *RMB'000*	Building materials *RMB'000*	Property development *RMB'000*	Others *RMB'000*	Group *RMB'000*
Total segment revenue	6,445,621	1,223,995	373,737	65,402	8,108,755
Inter-segment revenue	(320,298)	(125,922)	–	(5,469)	(451,689)
External revenue	6,125,323	1,098,073	373,737	59,933	7,657,066
Operating profits/segment results	218,880	80,024	117,176	3,349	419,429
Finance costs					(68,288)
Share of losses of associates					(1,226)
Profit before income tax					349,915
Income tax expense					(114,277)
Profit for the year					235,638
Other information					
Depreciation	42,875	30,827	1,362	3,454	78,518
Amortisation	8,252	2,549	252	–	11,053
Provision for doubtful debts, net	5,086	3,036	68	183	8,373

5. SEGMENT INFORMATION (continued)

(a) Business segments (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 segment 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 profits/segment results	468,845	50,610	153,561	3,227	676,243
Finance costs					(50,722)
Share of losses of associates					(21)
Profit before income tax					625,500
Income tax expense					(143,479)
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

Inter-segment transfers and transactions are entered into at terms and conditions agreed upon by respective parties.

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.

5. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

The segment assets and liabilities as at 31 December 2007 and capital expenditure for the year then ended are as follows:

	As at 31 December 2007					
	Construction	Building materials	Property development	Others	Unallocated	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets	3,398,731	1,141,889	2,794,231	266,993	59,847	7,661,691
Associates	–	–	31,175	–	–	31,175
Total assets	**3,398,731**	**1,141,889**	**2,825,406**	**266,993**	**59,847**	**7,692,866**
Liabilities	**2,558,231**	**579,886**	**943,696**	**40,855**	**673,790**	**4,796,458**
Capital expenditure	**157,089**	**69,280**	**3,795**	**2,970**	**–**	**233,134**

Segment assets and liabilities as at 31 December 2007 are reconciled to the Group's assets and liabilities as follows:

	Assets	Liabilities
	RMB'000	*RMB'000*
Segment assets/liabilities	7,633,019	4,122,668
Unallocated:		
– Deferred tax	16,314	–
– Current tax	–	175,790
– Investment properties	43,533	–
– Certain borrowings	–	498,000
Total	7,692,866	4,796,458

5. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

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 *RMB'000*	Building materials *RMB'000*	Property development *RMB'000*	Others *RMB'000*	Unallocated *RMB'000*	Group *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	613,797	45,746	435,143	3,582,065
Capital expenditure	110,930	170,321	8,704	24,520	–	314,475

Segment assets and liabilities as at 31 December 2006 are reconciled to the Group's assets and liabilities as follows:

	Assets *RMB'000*	Liabilities *RMB'000*
Segment assets/liabilities	5,715,308	3,146,922
Unallocated:		
– Deferred tax	15,496	–
– Current tax	–	129,143
– Investment properties	40,515	–
– Certain borrowings	–	306,000
Total	5,771,319	3,582,065

(b) Geographical segments

The Group's business activities were mainly carried out in the PRC where the vast majority of the Group's assets are located. During the year, the Group had also undertaken construction businesses in three countries in Africa, namely The Republic of Djibouti ("Djibouti"), The Republic of Botswana ("Botswana") and the Republic of Seychelles ("Seychelles"), and had procured certain operating assets for use in these countries. However, no geographical segment information is required to be separately disclosed as these overseas business activities were less than 10% of the Group's consolidated revenue and results as well as the Group's total assets.

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

	2007		2006	
	Non-current	**Current**	Non-current	Current
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Opening net book amount	**792,261**	**269,136**	460,110	286,350
Additions	**1,287,541**	**–**	92,826	–
Additions from business combination	**–**	**–**	358,807	–
Transfer to current portion	**(58,643)**	**58,643**	(35,305)	35,305
Disposals *(Note 35)*	**(1,917)**	**–**	(16,086)	–
Decrease upon disposal of a subsidiary	**–**	**–**	(57,899)	–
Amortisation				
– expensed in administrative expenses	**(11,053)**	**–**	(8,495)	–
– capitalised in properties under development	**–**	**(3,140)**	(1,697)	(3,784)
Transfer to cost of sales	**–**	**(32,403)**	–	(48,735)
End of the year	**2,008,189**	**292,236**	792,261	269,136

Company

	Non-current	
	2007	2006
	RMB'000	*RMB'000*
Opening net book amount	**211,105**	291,028
Transfer to subsidiaries	**–**	(78,775)
Amortisation		
– expensed in administrative expenses	**(445)**	(1,148)
End of the year	**210,660**	211,105

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	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Outside Hong Kong, held on:				
Leases of over 50 years	**1,758,373**	498,681	**200,000**	200,000
Leases of between 10 to 50 years	**542,052**	562,716	**10,660**	11,105
	2,300,425	1,061,397	**210,660**	211,105

Included in the Group's interests in land use rights as at 31 December 2007 are certain land use rights amounting to RMB1,363,179,000 (2006: RMB253,548,000), for which the Group was in the process of applying for the relevant formal land use rights certificates.

Included in the Company's interests in land use rights as at 31 December 2007 are certain land use rights amounting to RMB200,000,000 (2006: RMB200,000,000), for which the Company was in the process of applying for the relevant formal land use rights certificates.

As at 31 December 2007, total net book values of land use rights pledged as security for the Group's bank loans amounted to RMB177,266,000 (2006: RMB136,971,000) (Note 25(a)).

7. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Office equipment and others *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
At 1 January 2006						
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
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	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)
Transfer to investment properties	–	–	–	(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
Year ended 31 December 2007						
Opening net book amount	**316,637**	**217,692**	**59,348**	**10,164**	**73,545**	**677,386**
Additions	**28,720**	**27,587**	**13,019**	**11,828**	**134,150**	**215,304**
Transfer	**58,876**	**9,523**	**–**	**–**	**(68,399)**	**–**
Disposals *(Note 35)*	**(44,599)**	**(4,132)**	**(4,341)**	**(507)**	**–**	**(53,579)**
Depreciation charge	**(22,545)**	**(33,236)**	**(17,168)**	**(5,569)**	**–**	**(78,518)**
Closing net book amount	**337,089**	**217,434**	**50,858**	**15,916**	**139,296**	**760,593**
At 31 December 2007						
Cost	**488,708**	**361,995**	**105,789**	**34,802**	**139,296**	**1,130,590**
Accumulated depreciation	**(151,619)**	**(144,561)**	**(54,931)**	**(18,886)**	**–**	**(369,997)**
Net book amount	**337,089**	**217,434**	**50,858**	**15,916**	**139,296**	**760,593**

7. PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation expenses of RMB52,910,000 (2006: RMB39,018,000) have been expensed in cost of sales and RMB25,608,000 (2006: RMB17,854,000) in administrative expenses.

As at 31 December 2007, total net book values of property, plant and equipment pledged as security for the Group's bank loans amounted to RMB129,041,000 (2006: RMB32,524,000) (Note 25(a)).

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 2006					
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
Year ended 31 December 2007					
Opening net book amount	**30,688**	**2,445**	**1,160**	**–**	**34,293**
Additions	**–**	**4,391**	**69**	**3,253**	**7,713**
Transfer	**3,253**	**–**	**–**	**(3,253)**	**–**
Disposal	**–**	**(4,312)**	**(243)**	**–**	**(4,555)**
Depreciation charge	**(1,509)**	**(1,083)**	**(492)**	**–**	**(3,084)**
Closing net book amount	**32,432**	**1,441**	**494**	**–**	**34,367**
At 31 December 2007					
Cost	**34,583**	**5,964**	**978**	**–**	**41,525**
Accumulated depreciation	**(2,151)**	**(4,523)**	**(484)**	**–**	**(7,158)**
Net book amount	**32,432**	**1,441**	**494**	**–**	**34,367**

8. INVESTMENT PROPERTIES

	Group	
	2007	2006
	RMB'000	*RMB'000*
Opening net book amount	**40,515**	35,981
Fair value gains (included in other gains – net)	**3,018**	4,534
End of the year	**43,533**	40,515

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

	2007	2006
	RMB'000	*RMB'000*
Rental income	**635**	994
Direct operating expenses arising from investment properties that generate rental income	**(112)**	(51)

The investment properties were revalued as at 31 December 2007 by an independent qualified valuer, Shaoxing Zhongxing Assets Valuation Company Limited. Such valuations were based on prevailing market prices for similar properties, after appropriate adjustments for nature in use, condition and location.

The period of leases upon which the Group leases its investment properties under operating leases is one year.

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

9. GOODWILL

Group

	Goodwill
	RMB'000
At 1 January 2006	
Cost	**17,043**
Accumulated impairment	–
Net book amount	**17,043**
Year ended 31 December 2006	
Opening net book amount	**17,043**
Disposal of a subsidiary	**(509)**
Closing net book amount	**16,534**
At 31 December 2006 and 2007	
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 2007 mainly arose 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 goodwill related to 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 2007, no impairment provision is required.

10. PROPERTIES UNDER DEVELOPMENT

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Development costs	**675,671**	663,925	**43,489**	95,469
Finance costs capitalised	**80,294**	70,434	**27,725**	27,040
	755,965	734,359	**71,214**	122,509

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

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Completion within one year	**620,424**	292,283	**–**	–
Completion in more than one year	**135,541**	442,076	**71,214**	122,509
	755,965	734,359	**71,214**	122,509

As at 31 December 2007, total book values of properties under development pledged as security for the Group's bank loans amounted to RMB85,833,000 (2006: RMB149,914,000) (Note 25(a)).

11. INVESTMENT IN AND BALANCES WITH SUBSIDIARIES

	Company	
	2007	2006
	RMB'000	*RMB'000*
Investments at cost, unlisted	**668,980**	558,760
Amounts due from subsidiaries	**668,738**	581,584
	1,337,718	1,140,344

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

11. INVESTMENT IN AND BALANCES WITH SUBSIDIARIES (continued)

The following is a list of the principal subsidiaries as at 31 December 2007:

Name	Place of incorporation and kind of legal entity	Attributable equity interest held Directly	Attributable equity interest held Indirectly	Registered capital	Principal activities and place of operation
浙江寶業建設集團有限公司 Zhejiang Baoye Construction Group Co., Ltd.	PRC, limited liability company	99%	–	RMB300,000,000	Construction and interior decoration in the PRC
浙江寶業幕牆裝飾有限公司 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
浙江寶業交通建設工程有限公司 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
浙江廣藝建築裝飾工程有限公司 Zhejiang Guangyi Construction and Decoration Co., Ltd.	PRC, limited liability company	93.3%	6.6%	RMB30,000,000	Decoration and replenishment in the PRC
浙江寶業房地產集團有限公司 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
浙江寶業住宅產業股份有限公司 Zhejiang Baoye Building Materials Industrialisation Company Limited	PRC, joint stock limited company	40%	58.2%	RMB60,600,000	Production and sales of concrete and construction materials in the PRC
紹興寶業建築防火材料有限公司 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
紹興寶業新型建材有限公司 Shaoxing Baoye New Building Materials Co., Ltd.	PRC, limited liability company	–	98.9%	RMB5,000,000	Production and sales of construction materials in the PRC
上海紫寶房地產開發有限公司 Shanghai Zibao Real Estate Development Co., Ltd.	PRC, limited liability company	–	69.9%	RMB18,000,000	Real estate development in the PRC
紹興寶港木制品有限公司 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

11. INVESTMENT IN AND BALANCES WITH SUBSIDIARIES (continued)

Name	Place of incorporation and kind of legal entity	Attributable equity interest held Directly	Attributable equity interest held Indirectly	Registered capital	Principal activities and place of operation
紹興市華欣預拌混凝土有限公司 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
浙江寶業鋼結構有限公司 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
合肥寶業混凝土有限公司 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
合肥輕纺城寶業房地產有限公司 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
安徽華騰投資有限公司 Anhui Huateng Investment Company Limited	PRC, limited liability company	–	75.0%	RMB20,000,000	Development and sales of properties in the PRC
寶業集團湖北有限公司 Baoye Group Hubei Company Limited	PRC, limited liability company	90%	10%	RMB60,000,000	Investment holdings
湖北省建築工程集團有限公司 Hubei Construction Engineering Group Co., Ltd.	PRC, limited liability company	–	100%	RMB61,980,000	Construction and interior decoration in the PRC
湖北省建工第三建設有限公司 Hubei Construction Engineering No.3 Co., Ltd.	PRC, limited liability company	–	100%	RMB50,800,000	Construction and interior decoration in the PRC
湖北省建工第五建設有限公司 Hubei Construction Engineering No.5 Co., Ltd.	PRC, limited liability company	–	100%	RMB58,000,000	Construction and interior decoration in the PRC
湖北省建工工業設備安裝有限公司 Hubei Industrial Equipment Installation Co., Ltd.	PRC, limited liability company	–	100%	RMB50,190,000	Installation of industrial equipment in the PRC

11. INVESTMENT IN AND BALANCES WITH SUBSIDIARIES (continued)

Name	Place of incorporation and kind of legal entity	Attributable equity interest held Directly	Indirectly	Registered capital	Principal activities and place of operation
湖北省建工機械施工有限公司 Hubei Engineering Machinery Construction Co., Ltd.	PRC, limited liability company	–	100%	RMB20,000,000	Provision of construction services in the PRC
湖北省建工混凝土制品有限公司 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
湖北省建工房地產開發有限公司 Hubei Construction Engineering Real Estate Development Co., Ltd.	PRC, limited liability company	–	100%	RMB20,000,000	Real estate development in the PRC
湖北省建工物資貿易有限公司 Hubei Construction Engineering Material Trading Co., Ltd.	PRC, limited liability company	–	100%	RMB18,300,000	Provision of leasing services in the PRC
安徽金粮置業有限公司 Anhui Jinliang Real Estate Company Limited *(Note (a))*	PRC, limited liability company	–	100%	RMB172,000,000	Real estate development in the PRC
紹興寶業會稽山國際度假村有限公司 Shaoxing Baoye Kuaiji Mountain International Vocation Village	PRC, limited liability company	100%	–	RMB80,000,000	Development and management of vocation village in the PRC

The names of the companies referred to above in this note represent management's translation of the Chinese names of these companies as there is no such requirements for registration of English names in the PRC.

Note (a): During the year, the Group acquired 100% equity interest in Anhui Jinliang Real Estate Company Limited at a consideration of RMB172,000,000, which principally holds a land use right.

12. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

The Group

As at 31 December 2007, the Group has a 49% equity interest in a jointly controlled entity, Shaoxing Greentown and Baoye Real Estate Company Limited ("Greentown Baoye"), which is engaged in real estate development business in the PRC.

The jointly controlled entity has not commenced commercial operations during the year.

The following amounts represented the Group's 49% share of the assets and liabilities of the jointly controlled entity and are included in the consolidated balance sheet:

	2007 *RMB'000*
Assets	
Non-current assets *(Note (a))*	**536,000**
Current assets	**550**
	536,550
Liabilities	
Non-current liabilities	**–**
Current liabilities	**–**
Net assets	**536,550**

Note (a): The non-current assets of RMB536,000,000 represented 49% share of a land use right owned by the jointly controlled entity.

There are no contingent liabilities related to the Group's interest in the jointly controlled entity, and no contingent liabilities and commitments of the jointly controlled entity itself.

The Company

	Company	
	2007 ***RMB'000***	2006 *RMB'000*
Investments at cost, unlisted	**49,000**	–
Amounts due from a jointly controlled entity *(Note (a))*	**487,550**	–
	536,550	–

Note (a): The amounts represented the shareholder loan made by the Group to the jointly controlled entity. The loans are unsecured, have no fixed repayment term and bear an interest rate calculated at 10.98% per annum.

13. INVESTMENTS IN ASSOCIATES

	Group	
	2007	2006
	RMB'000	*RMB'000*
Beginning of the year	**32,401**	–
Additions from business combination	**–**	32,422
Share of losses	**(1,226)**	(21)
End of the year	**31,175**	32,401

As at 31 December 2007, 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 and results are as follows:

Name	**Country of incorporation**	**Assets**	**Liabilities**	**Revenues**	**Profit/ (Loss)**	**% interest held**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	
2007						
Hubei Construction Engineering Land Co., Ltd.	PRC	128,668	(107,669)	–	(1,228)	34%
Wuhan Modern Real Estate Development Co., Ltd.	PRC	273,124	(262,948)	–	2	30%
		401,792	**(370,617)**	**–**	**(1,226)**	

14. INVENTORIES

	Group	
	2007	2006
	RMB'000	*RMB'000*
Raw materials	**48,427**	43,063
Work in progress	**20,968**	17,508
Finished goods	**46,896**	19,231
	116,291	79,802

As at 31 December 2007, no inventory is carried at net realisable value (2006: Nil).

15. 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	
	2007	2006
	RMB'000	*RMB'000*
Contract costs incurred plus recognised profits (less recognised losses) to date	**23,334,823**	17,066,745
Less: progress billings to date	**(23,009,712)**	(16,757,427)
	325,111	309,318
Represented by:		
Due from customers on construction contracts	**866,751**	738,909
Due to customers on construction contracts	**(541,640)**	(429,591)
	325,111	309,318

As at 31 December 2007, retentions and project deposits held by customers for contract work included in other receivables of the Group amounted to RMB711,333,000 (2006: RMB511,032,000) (Note 17).

16. TRADE RECEIVABLES

	Group	
	2007	2006
	RMB'000	*RMB'000*
Trade receivables	**680,185**	698,041
Less: provision for doubtful debts	**(23,550)**	(15,177)
	656,635	682,864

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

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

16. TRADE RECEIVABLES (continued)

As at 31 December 2007, the ageing analysis of the trade receivables is as follows:

	2007 RMB'000	2006 RMB'000
Within 3 months	**347,340**	321,703
3 months to 1 year	**241,457**	231,379
1 to 2 years	**39,710**	89,397
2 to 3 years	**26,988**	29,776
Over 3 years	**24,690**	25,786
	680,185	698,041

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.

Trade receivables that are less than 12 months past due are not considered impaired. As of 31 December 2007, trade receivables of RMB43,056,000 (2006: RMB104,990,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2007 RMB'000	2006 RMB'000
1 to 2 years	**21,790**	66,847
2 to 3 years	**14,811**	22,266
Over 3 years	**6,455**	15,877
	43,056	104,990

As of 31 December 2007, trade receivables of RMB48,332,000 (2006: RMB39,969,000) were impaired. The amount of the provision was RMB23,550,000 as of 31 December 2007 (2006: RMB15,177,000). The individually impaired receivables mainly relate to customers, which are in unexpected difficult economic situations. The ageing of these receivables is as follows:

	2007 RMB'000	2006 RMB'000
1 to 2 years	**17,920**	22,550
2 to 3 years	**12,177**	7,510
Over 3 years	**18,235**	9,909
	48,332	39,969

16. TRADE RECEIVABLES (continued)

Movements on the provision for impairment of trade receivables are as follows:

	2007 RMB'000	2006 RMB'000
At 1 January	**15,177**	12,247
Provision for receivable impairment	**8,373**	2,930
Unused amounts reversed	**–**	–
At 31 December	**23,550**	15,177

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

All trade receivables are denominated in RMB, except for certain trade receivables which are denominated in DJF in equivalent of RMB2,683,000 (2006: RMB Nil), in BWP in equivalent of RMB61,000 (2006: RMB Nil) and in SCR in equivalent of RMB224,000 (2006: RMB Nil) as at 31 December 2007, respectively.

17. OTHER RECEIVABLES

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Retention money receivables and project deposits *(Note 15)*	**711,333**	511,032	**–**	–
Prepayments and other deposits	**51,264**	30,327	**1,828**	–
Deposits for a real estate development project	**50,000**	50,000	**50,000**	50,000
Others	**118,755**	130,292	**5,243**	4,886
	931,352	721,651	**57,071**	54,886

The net book value of other receivables approximates their fair value. No other receivables were past due or impaired.

All other receivables are denominated in RMB, except for certain other receivables which are denominated in DJF in equivalent of RMB2,560,000 (2006: RMB Nil), in BWP in equivalent of RMB5,919,000 (2006: RMB Nil) and in SCR in equivalent of RMB484,000 (2006: RMB Nil) as at 31 December 2007, respectively.

18. 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.

19. CASH AND CASH EQUIVALENTS

	Group 2007 RMB'000	Group 2006 RMB'000	Company 2007 RMB'000	Company 2006 RMB'000
Cash at bank and in hand	**1,026,676**	865,969	**77,451**	48,539
Short-term bank deposits	**39,865**	42,432	**11,000**	33,800
	1,066,541	908,401	**88,451**	82,339
Denominated in RMB	**1,000,423**	898,766	**75,776**	78,210
Denominated in HKD	**4,784**	4,129	**4,784**	4,129
Denominated in USD	**21,613**	5,506	**7,891**	–
Denominated in DJF	**20,326**	–	**–**	–
Denominated in BWP	**10,777**	–	**–**	–
Denominated in SCR	**6,335**	–	**–**	–
Denominated in other currencies	**2,283**	–	**–**	–
	1,066,541	908,401	**88,451**	82,339
Less: Restricted bank deposit *(Note 18)*	**(248,067)**	(125,702)	**–**	–
	818,474	782,699	**88,451**	82,339

The effective interest rates for the year of the short-term bank deposits of the Group and the Company are 4.63% (2006: 1.87%) and 1.62% (2006: 1.87%) respectively, and these deposits have initial maturity dates of three months or less.

20. SHARE CAPITAL AND PREMIUM

	Number of shares (thousands)	Ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
At 1 January 2006 and December 2006	610,927	610,927	342,808	953,735
Issuance of new H shares	52,037	52,037	507,831	559,868
Share issue cost	–	–	(3,344)	(3,344)
At 31 December 2007	**662,964**	**662,964**	**847,295**	**1,510,259**

As at 31 December 2007, the total authorised number of ordinary shares is 662,964,005 shares (2006: 610,927,013 shares) with a par value of RMB1.00 per share (2006: RMB1.00 per share). All issued shares are fully paid.

In February 2007, the Company issued 52,036,992 new H shares with a par value of RMB1.00 per share at HKD10.88 per placing share to Tiger Global L.P. according to the placing agreement. The net proceeds of the placing, net of share issue cost, amounted to approximately HKD561,578,000 (equivalent to RMB556,524,000).

21. OTHER RESERVES

The 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 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
Balance at 1 January 2007	**101,104**	**126,847**	**–**	**227,951**
Reversal of appropriation of statutory surplus reserve arising from adoption of new China accounting standards *(Note (c))*	**–**	**(59,867)**	**–**	**(59,867)**
Transfer of reserves to income statement arising from sale of completed properties held for sale	**(21,338)**	**–**	**–**	**(21,338)**
Balance at 31 December 2007	**79,766**	**66,980**	**–**	**146,746**

21. OTHER RESERVES (continued)

The Company

	Statutory surplus reserve RMB'000 (Note (a))	Statutory public welfare fund RMB'000 (Note (b))	Total RMB'000
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
Balance at 1 January 2007	**129,556**	**–**	**129,556**
Reversal of appropriation of statutory surplus reserve arising from adoption of new China accounting standards *(Note (c))*	**(62,576)**	**–**	**(62,576)**
Balance at 31 December 2007	**66,980**	**–**	**66,980**

(a) Statutory surplus reserve

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

(c) Reversal of appropriation of statutory surplus reserve

On 1 January 2007, the Company adopted the "Accounting Standards for Business Enterprises (2006)" of the PRC ("CAS"), with retrospective application in its statutory financial statements, and the Group and Company reversed the statutory surplus reserve of RMB59,867,000 and RMB62,576,000, respectively, as a result.

22. TRADE PAYABLES

As at 31 December 2007, the ageing analysis of the trade payables is as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 3 months	**298,742**	427,430	**–**	790
3 months to 1 year	**256,086**	196,935	**19**	11,623
1 to 2 years	**99,053**	58,220	**10,652**	–
2 to 3 years	**17,747**	22,829	**–**	–
Over 3 years	**34,834**	85,798	**–**	–
	706,462	791,212	**10,671**	12,413

23. OTHER PAYABLES

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deposits from project managers	**208,676**	145,334	**–**	–
Other taxes payables	**104,729**	60,619	**5,047**	–
Accruals	**11,385**	7,585	**4,400**	3,200
Amounts due to shareholders *(Note (a))*	**4,107**	8,513	**–**	–
Amounts due to minority shareholders *(Note (a))*	**–**	6,300	**–**	–
Others	**289,975**	380,648	**14,418**	14,369
	618,872	608,999	**23,865**	17,569

(a) 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.

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

24. PROVISION FOR WARRANTY

	Group	
	2007	2006
	RMB'000	*RMB'000*
At 1 January 2007	**4,250**	3,870
Charged to the income statement		
– Additional provisions	**1,990**	2,000
Used during the year	**(1,740)**	(1,620)
At 31 December 2007	**4,500**	4,250
Analysis of total provisions:		
Non-current	**2,980**	1,420
Current	**1,520**	2,830
	4,500	4,250

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 provisions to the extent of RMB1,520,000 and RMB 2,980,000 are expected to be used during the year of 2008 and during the year of 2009 respectively.

25. BORROWINGS

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Borrowings included in non-current liabilities				
Long-term bank loans				
– Secured *(Note (a))*	**50,000**	–	**–**	–
– Unsecured	**70,000**	–	**–**	–
	120,000	–	**–**	–
Borrowings included in current liabilities				
Short-term bank loans				
– Secured *(Note (a))*	**128,000**	206,000	**46,000**	46,000
– Guaranteed *(Note (b))*	**452,000**	260,000	**160,000**	260,000
– Unsecured	**1,271,151**	756,779	**292,000**	–
	1,851,151	1,222,779	**498,000**	306,000
	1,971,151	1,222,779	**498,000**	306,000

25. BORROWINGS (continued)

Notes:

(a) As at 31 December 2007, the secured bank loans were secured by the land use rights, property, plant and equipment and properties under development of the Group with net book value amounting to RMB177,266,000 (2006: RMB136,971,000), RMB129,041,000 (2006: RMB32,524,000) and RMB85,833,000 (2006: RMB149,914,000), respectively.

(b) As at 31 December 2007 and 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.

The exposure of the Group's borrowings to interest-rate changes and the contractual renewal or maturity dates, whichever is earlier, are 6 months or less.

The borrowings are repayable as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**1,851,151**	1,222,779	**498,000**	306,000
Between 1 and 2 years	**20,000**	–	**–**	–
Between 2 and 5 years	**100,000**	–	**–**	–
Over 5 years	**–**	–	**–**	–
Bank loans	**1,971,151**	1,222,779	**498,000**	306,000

The weighted average effective interest rates as at 31 December 2007 and 2006 were as follows:

	Group		Company	
	2007	2006	**2007**	2006
Bank loans	**6.07%**	5.80%	**6.11%**	5.73%

All the carrying amounts of the borrowings are denominated in RMB.

The fair values of current borrowings approximate their carrying amounts as the impact of discounting is not significant.

The carrying amounts and fair values of the non-current borrowings are as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Carrying amounts	**120,000**	–	**–**	–
Fair value	**116,606**	–	**–**	–

26. 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	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred tax assets:				
– Deferred tax assets to be recovered after more than 12 months	**8,418**	8,674	**–**	–
– Deferred tax assets to be recovered within 12 months	**7,896**	6,822	**–**	–
	16,314	15,496	**–**	–
Deferred tax liabilities:				
– Deferred tax liabilities to be settled after more than 12 months	**(56,095)**	(113,110)	**(515)**	(679)
– Deferred tax liabilities to be settled within 12 months	**(32,680)**	(20,324)	**–**	–
	(88,775)	(133,434)	**(515)**	(679)
	(72,461)	(117,938)	**(515)**	(679)

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

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Opening net book amount	**(117,938)**	(112,126)	**(679)**	(679)
Business combination	**–**	(17,938)	**–**	–
Recognised in the income statement *(Note 31)*	**45,477**	12,126	**164**	–
End of the year	**(72,461)**	(117,938)	**(515)**	(679)

26. DEFERRED INCOME TAX (continued)

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

Deferred tax assets

Group

	Provision for doubtful receivables *RMB'000*	Tax losses *RMB'000*	Unrealised profit resulting from intragroup transactions *RMB'000*	Total *RMB'000*
At 1 January 2006	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**
Recognised in the income statement	**1,353**	**–**	**(535)**	**818**
At 31 December 2007	**10,263**	**–**	**6,051**	**16,314**

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 2006	(431)	(131,882)	(2,657)	(134,970)	(679)
Recognised in the income statement	246	20,016	(788)	19,474	–
Business combinations	–	(17,938)	–	(17,938)	–
At 31 December 2006	**(185)**	**(129,804)**	**(3,445)**	**(133,434)**	**(679)**
Recognised in the income statement	**45**	**44,243**	**371**	**44,659**	**164**
At 31 December 2007	**(140)**	**(85,561)**	**(3,074)**	**(88,775)**	**(515)**

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. The Group did not recognise deferred income tax assets of RMB4,515,000 (2006: RMB4,343,000) in respect of losses amounting to RMB18,058,000 (2006: RMB13,161,000) that can be carried forward against future taxable income. These tax losses will expire before 2009, 2010, 2011 and 2012 respectively.

27. OTHER GAINS – NET

	2007 **RMB'000**	2006 *RMB'000*
Interest income	**66,100**	47,406
Rental income	**11,530**	6,657
(Losses)/gains on disposals of property, plant and equipment and land use rights *(Note (a))*	**(40,752)**	31,178
Government compensation *(Note (b))*	**80,801**	9,254
Write-back of other payables *(Note (c))*	**24,001**	–
Gains on debts restructuring	**9,141**	7,950
Excess of interest in the acquired net assets from minority shareholders over cost	**7,584**	575
Excess of the fair value of the net assets of subsidiaries acquired over cost	**–**	288,358
Fair value gains on investment properties *(Note 8)*	**3,018**	4,534
Gain on disposal of a subsidiary	**–**	15,259
Others	**2,698**	4,867
	164,121	416,038

(a) The gross losses on disposals of property, plant and equipment and land use rights during the year (before the government compensation as detailed in Note (b) below) were mainly attributable to relocation of certain plant facilities at the request of the local government authorities according to the relevant town redevelopment plans.

(b) Government compensation during the year mainly represented the compensations received from the local government authorities, in aggregate of approximately RMB62,259,000 for the resulting losses on disposals of the property, plant and equipment and land use rights arising from relocation of the plant facilities as mentioned in Note (a) above.

(c) The amount represented the write-back of over-provision of other payables brought forward in respect of redundancy pays and government levies resulting from a business combination in the year of 2006, upon receipt of confirmation or waiver documents from the relevant government authorities or the relevant parties.

28. EXPENSES BY NATURE

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

	2007 **RMB'000**	2006 RMB'000
Depreciation of property, plant and equipment *(Note 7)*	**78,518**	56,872
Amortisation of land use rights charged into income statement *(Note 6)*	**11,053**	8,495
Employee benefit expenses *(Note 29)*	**1,012,835**	875,497
Cost of inventories and completed properties held for sale	**6,130,404**	4,881,172
Operating leases of buildings	**6,176**	4,713
Auditors' remuneration	**3,000**	2,900
Others	**159,772**	137,999
	7,401,758	5,967,648

29. EMPLOYEE BENEFIT EXPENSES

	2007 **RMB'000**	2006 RMB'000
Wages and salaries	**989,820**	854,994
Welfare, medical and other expenses	**15,337**	13,803
Retirement benefit costs – defined contribution plans *(Note (a))*	**7,678**	6,700
	1,012,835	875,497

(a) Retirement benefit costs

As stipulated by the Government regulations in the PRC, the Company and its subsidiaries and a jointly controlled entity are required to contribute to the state-sponsored retirement scheme for all of its employees in the PRC at 18% to 19% (2006: 18% to 19%) 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.

29. EMPLOYEE BENEFIT EXPENSES (continued)

(b) Directors', supervisors', and senior management's emoluments

The remuneration of each director and supervisor for the year ended 31 December 2007 is set out below.

Name of directors/supervisors	Fees	Salaries, bonuses and allowances	Retirement benefits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Mr. Pang Baogen	–	600	6	606
Mr. Gao Jiming	–	450	6	456
Mr. Zhou Hanwan	–	450	6	456
Mr. Gao Lin	–	450	6	456
Mr. Wang Rongfu *(Note(i))*	–	469	6	475
Mr. Hu Shaozeng	38	–	–	38
Mr. Wang Youwei	38	–	–	38
Mr. Yi Deqing	38	–	–	38
Mr. Chan Yin Ming, Dennis	165	–	–	165
Mr. Sun Chuanlin *(Note(i))*	19	–	–	19
Mr. Sun Guofan *(Note(ii))*	–	120	2	122
Mr. Xie Qisheng *(Note(ii))*	–	13	1	14
Mr. Kong Xiangquan *(Note(ii))*	–	439	6	445
Mr. Qian Yongjiang *(Note(ii))*	–	350	6	356
Mr. Chen Xingquan	20	–	–	20
Mr. Zhang Xindao	20	–	–	20
Mr. Li Yongsheng	20	–	–	20
	358	3,341	45	3,744

29. EMPLOYEE BENEFIT EXPENSES (continued)

(b) Directors', supervisors', and senior management's emoluments (continued)

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

Name of directors/supervisors	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. Chan Yin Ming, Dennis	180	–	–	180
Mr. Sun Guofan *(Note (ii))*	–	160	3	163
Mr. Xie Qisheng *(Note (ii))*	–	26	3	29
Mr. Chen Xingquan	20	–	–	20
Mr. Zhang Xindao	20	–	–	20
Mr. Li Yongsheng	20	–	–	20
	354	2,136	18	2,508

Note:

(i) Nominated by the nomination committee meeting held on 14 April 2007, recommended by the Board of Directors meeting held on 16 April 2007 and approved by the annual general meeting held on 25 June 2007, Mr. Wang Rongfu and Mr. Sun Chuanlin were appointed as executive director and independent non-executive director respectively of the second term of the Board of Directors.

(ii) Mr. Sun Guofan and Mr. Xie Qisheng resigned from their position as supervisors on their own accord on 16 April 2007. Mr. Sun Guofan's resignation has been approved in the annual general meeting held on 25 June 2007. Recommended by the labour union and nominated by the nomination committee, Mr. Kong Xiangquan and Mr. Qian Yongjiang were appointed as supervisors on 16 April 2007.

During the years ended 31 December 2007 and 2006, no director or supervisor waived any emoluments. Neither incentive payment for joining the Group nor compensation for loss of office was paid or payable to any directors or supervisors during the years ended 31 December 2007 and 2006.

29. EMPLOYEE BENEFIT EXPENSES (continued)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year 2007 include four (2006: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2006: one) individual during the year are as follows:

	2007 ***RMB'000***	2006 *RMB'000*
Basic salaries and allowances	**420**	420

The emoluments for the above individual fell within the band of HKD Nil (equivalent to RMB Nil) to HKD1,000,000 (equivalent to RMB995,322) during the year ended 31 December 2007 and 2006.

30. FINANCE COSTS

	2007 ***RMB'000***	2006 *RMB'000*
Interest on bank loans	**87,626**	66,242
Less: interest capitalised in construction in progress	**(3,122)**	(2,389)
Less: interest capitalised in properties under development	**(16,216)**	(13,131)
	68,288	50,722

The capitalisation rates applied to funds borrowed generally and used for the development of properties and construction in progress were approximately 6% (2006: 6%) per annum.

31. INCOME TAX EXPENSE

(i) Hong Kong Profits Tax

No provision for Hong Kong profits tax has been made as the Group does not have any assessable profit in Hong Kong for the year (2006: Nil).

(ii) PRC Enterprise Income Tax

The Company and its subsidiaries are subject to PRC Enterprise Income Tax ("EIT") at a rate of 33% (2006: 33%).

Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25%, which will be effective from 1 January 2008. As a result, the enterprise income tax rate of the Company and its subsidiaries incorporated in the PRC will change from 33% to 25% with effective from 1 January 2008. The change in the carrying amount of the deferred tax assets and liabilities, as a result of the change in tax rate, has been reflected in the consolidated financial statements of the Group for year ended 31 December 2007.

31. INCOME TAX EXPENSE (continued)

(iii) PRC land appreciation tax

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

The amount of income tax expenses charged to the consolidated income statement represents:

	2007	2006
	RMB'000	*RMB'000*
Current income tax		
– PRC enterprise income tax	**132,835**	128,507
– PRC land appreciation tax	**26,919**	27,098
Deferred income taxes relating to the origination and reversal of temporary differences *(Note 26)*	**(16,886)**	(12,126)
Deferred income taxes resulting from change in the tax rates *(Note 26 and Note (ii) above)*	**(28,591)**	–
	114,277	143,479

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

	2007	2006
	RMB'000	*RMB'000*
Profit before income tax	**349,915**	625,500
Add: share of loss of associates	**1,226**	21
	351,141	625,521
Calculated at a tax rate of 33% (2006: 33%)	**115,877**	206,422
Effect of change in tax rate	**(28,591)**	–
Income not subject to tax	**(3,038)**	(101,760)
Expenses not deductible for tax purposes	**1,297**	1,090
Unrecognised tax losses	**17,452**	22,225
Utilisation of previously unrecognised tax losses	**(6,756)**	(2,654)
PRC land appreciation tax deductible for PRC enterprise income tax purpose	**(8,883)**	(8,942)
	87,358	116,381
PRC land appreciation tax	**26,919**	27,098
Income tax expense	**114,277**	143,479

32. 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 a loss of RMB15,951,000 (2006: profit of RMB206,070,000). As at 31 December 2007, the retained earnings of the Company attributable to the equity holders of the Company is RMB219,845,000 (31 December 2006: RMB219,628,000).

33. 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.

	2007	2006
Profit attributable to equity holders of the Company *(RMB'000)*	**225,795**	476,032
Weighted average number of ordinary shares in issue *(thousands shares)*	**658,628**	610,927
Basic earnings per share *(RMB)*	**RMB0.343**	RMB0.779

Diluted

The Company had no potential dilutive effect in shares in both 2007 and 2006, thus the diluted earnings per share is the same as basic earnings per share.

34. DIVIDENDS

	2007 ***RMB'000***	2006 *RMB'000*
Proposed final dividend of RMB0.07 (2006: RMB0.07) per ordinary share	**46,407**	46,407

The directors recommend the payment of a final dividend of RMB0.07 per ordinary share, totalling RMB46,407,000. Such dividend is to be approved by the shareholders of the Company at the Annual General Meeting scheduled to be held on 15 June 2008. This financial statements do not reflect this dividend payable. The final dividend of RMB0.07 per ordinary share in the amount of RMB46,407,000 in 2006 was declared and paid in 2007.

35. CASH (USED IN)/GENERATED FROM OPERATIONS

	2007	2006
	RMB'000	*RMB'000*
Profit for the year	**235,638**	482,021
Adjustments for:		
Income tax expenses *(Note 31)*	**114,277**	143,479
Depreciation *(Note 7)*	**78,518**	56,872
Amortisation of land use rights *(Note 6)*	**11,053**	8,495
Losses/(gains) on disposal of property, plant and equipment and land use rights (see below)	**40,752**	(31,178)
Government compensation related to disposal of property, plant and equipment and land use rights (see below)	**(62,259)**	–
Excess of interest in the acquired net assets from minority shareholders over cost	**(7,584)**	(575)
Excess of the fair value of the net assets of subsidiaries acquired over cost	**–**	(288,358)
Gain on disposal of a subsidiary	**–**	(15,259)
Reserves transfer to income statement arising from sales of completed properties held for sale	**(21,338)**	(19,617)
Fair value gains on investment properties	**(3,018)**	(4,534)
Interest income *(Note 27)*	**(66,100)**	(47,406)
Interest expenses *(Note 30)*	**68,288**	50,722
Share of losses of associates *(Note 13)*	**1,226**	21
Changes in working capital (excluding the effects of acquisition):		
Increase in properties under development, completed properties held for sale and land use rights for properties development	**(1,305,589)**	(34,200)
Increase in restricted bank deposits	**(122,365)**	(41,960)
Increase in inventories	**(36,489)**	(13,624)
Increase in balances with customers on construction contracts	**(15,793)**	(169,656)
Decrease in trade and other receivables	**243,138**	4,789
(Decrease)/increase in trade and other payables, receipts in advances and provision for warranty	**(74,626)**	76,260
Cash (used in)/generated from operations	**(922,271)**	156,292

35. CASH (USED IN)/GENERATED FROM OPERATIONS (continued)

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

	2007 **RMB'000**	2006 *RMB'000*
Net book amount of land use rights *(Note 6)*	**1,917**	16,086
Net book amount of property, plant and equipment *(Note 7)*	**53,579**	39,743
(Losses)/gains on disposal of property, plant and equipment and land use rights	**(40,752)**	31,178
	14,744	87,007
Government compensation related to disposal of property, plant and equipment and land use rights *(Note 27(b))*	**62,259**	–
Proceeds from disposal of property, plant and equipment and land use rights	**77,003**	87,007

36. CONTINGENCIES

	Group		**Company**	
	2007 **RMB'000**	2006 *RMB'000*	**2007** **RMB'000**	2006 *RMB'000*
Guarantees given to banks in respect of mortgage facilities granted to third parties *(Note(a))*	**56,657**	19,800	**–**	–
Guarantees given to banks in respect of bank loans granted to subsidiaries *(Note(b))*	**–**	–	**836,000**	560,000
Guarantees given to banks in respect of bank loans of third parties	**–**	20,000	**–**	–

Note:

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

(b) The Company has executed guarantees amounting to approximately RMB1,720,000,000 (2006: RMB1,095,000,000) with respect to banking facilities made available to subsidiaries. As at 31 December 2007, the outstanding borrowings against the facilities amounted to RMB836,000,000 (2006: RMB560,000,000).

37. COMMITMENTS

(a) Capital commitments for properties under development

	2007 RMB'000	2006 RMB'000
Contracted but not provided for	**37,831**	34,153

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

As at 31 December 2007, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2007 RMB'000	2006 RMB'000
Not later than one year	**2,646**	626
Later than one year and not later than five years	**2,127**	1,453
	4,773	2,079

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

As at 31 December 2007, the Group had future aggregate minimum lease receivable under non-cancellable operating leases in respect of land and buildings as follows:

	2007 RMB'000	2006 RMB'000
Not later than one year	**2,860**	695
Later than one year and not later than five years	**4,969**	–
Later than five years	**2,608**	–
	10,437	695

38. RELATED-PARTY TRANSACTIONS

Apart from the related party balances disclosed in Note 23(a) and related party transactions disclosed in Note 25(b), the Group had the following significant related party transactions during the year ended 31 December 2007.

Key management compensation

	2007 ***RMB'000***	2006 *RMB'000*
Salaries and other short-term employee benefits	**3,599**	2,059

39. PRESENTATION OF LAND APPRECIATION TAX AND RECLASSIFICATION OF COMPARATIVE FIGURES

Within the comparative figures stated in the consolidated financial statements, land appreciation tax expenses of RMB27,098,000 previously included in cost of sales for the year ended 31 December 2006 was reclassified as income tax expenses in the consolidated income statement, and provision for land appreciation tax of RMB52,667,000 previously included in other payable as at 31 December 2006 was reclassified as income tax payable in the consolidated balance sheet. For the year ended 31 December 2007, land appreciation tax expenses of RMB26,919,000 and provision for land appreciation tax of RMB74,378,000 were classified as income tax expenses and income tax payable respectively.

The above reclassifications were made so as to conform to the current year presentation, as the Company's directors are of the view that it would be more appropriate to reflect land appreciation tax as income tax expense and the outstanding provision as income tax payable, after a reassessment of the nature of the land appreciation tax and a study of the market practices.

Definition

In the 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 Industrialization	Zhejiang Baoye Building Materials Industrialization Company, 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	Oversea 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
Model Code	The Model Code for Securities Transaction by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules
Board	The Board of Directors of Baoye Group Company Limited
Supervisory Committee	The Supervisory Committee of Baoye Group Company Limited
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
Zhongbao Machinery	Hefei Zhongbao Machinery Manufacture Company Limited

Information for Shareholders

Directors

Executive Directors

Mr. Pang Baogen, *Chairman of the Board*
Mr. Gao Jiming
Mr. Gao Lin
Mr. Zhou Hanwan
Mr. Wang Rongfu

Non-executive Director

Mr. Hu Shaozeng

Independent Non-executive Directors

Mr. Wang Youwei
Mr. Yi Deqing
Mr. Chan Yin Ming, Dennis
Mr. Sun Chuanlin

Supervisors

Supervisors

Mr. Kong Xiangquan,
Chairman of the supervisory committee
Mr. Qian Yongjiang

Independent Supervisors

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

Audit Committee

Mr. Wang Youwei,
Chairman of the audit committee
Mr. Yi Deqing
Mr. Chan Yin Ming, Dennis

Remuneration Committee

Mr. Chan Yin Ming, Dennis,
Chairman of the remuneration committee
Mr. Pang Baogen
Mr. Yi Deqing

Nomination Committee

Mr. Wang Youwei,
Chairman of the nomination committee
Mr. Yi Deqing
Mr. Gao Jiming

Company Secretary

Ms. Ngan Lin Chun, Esther FCIS, FCS

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Statutory Auditor

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