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)
（於中華人民共和國註冊成立的股份有限公司）

Stock Code 股票代碼：2355

The Leading China's Operator Towards Urbanisation
領先的中國城市化營運商

Annual Report 2008
二零零八年年報

International Awards for our Annual Report
本公司年報獲得國際獎項

21st Annual International Mercury 2007/08 Awards
2007/08年度第21屆國際Mercury比賽

Award 獎項：	**Category 類別：**
Silver 銀獎	Design: Annual Report Cover — Places, Products,Things 設計：年報封面 — 地點，產品及物件組別

2007 International ARC Awards Competition (Total 3 Awards)
2007年度國際ARC比賽（共三項獎項）

Awards 獎項：	**Category 類別：**
Bronze 銅獎	Interior Design: Real Estate Development/Service: Various & Multi-Use 內頁設計：房地產業務：綜合及多功能組別
Honors 優異獎	Interior Design: Real Estate Development/Service: Commercial/Industrial 內頁設計：房地產業務：商業及工業組別
Honors 優異獎	Interior Design: Real Estate Development/Service: Residential Properties 內頁設計：房地產業務：住宅物業組別

21st Annual International Mercury 2007/08 Awards
2007/08年度第21屆國際Mercury比賽獎項

2007 International ARC Awards
2007年度國際ARC比賽獎項

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

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Baoye Group Company Limited

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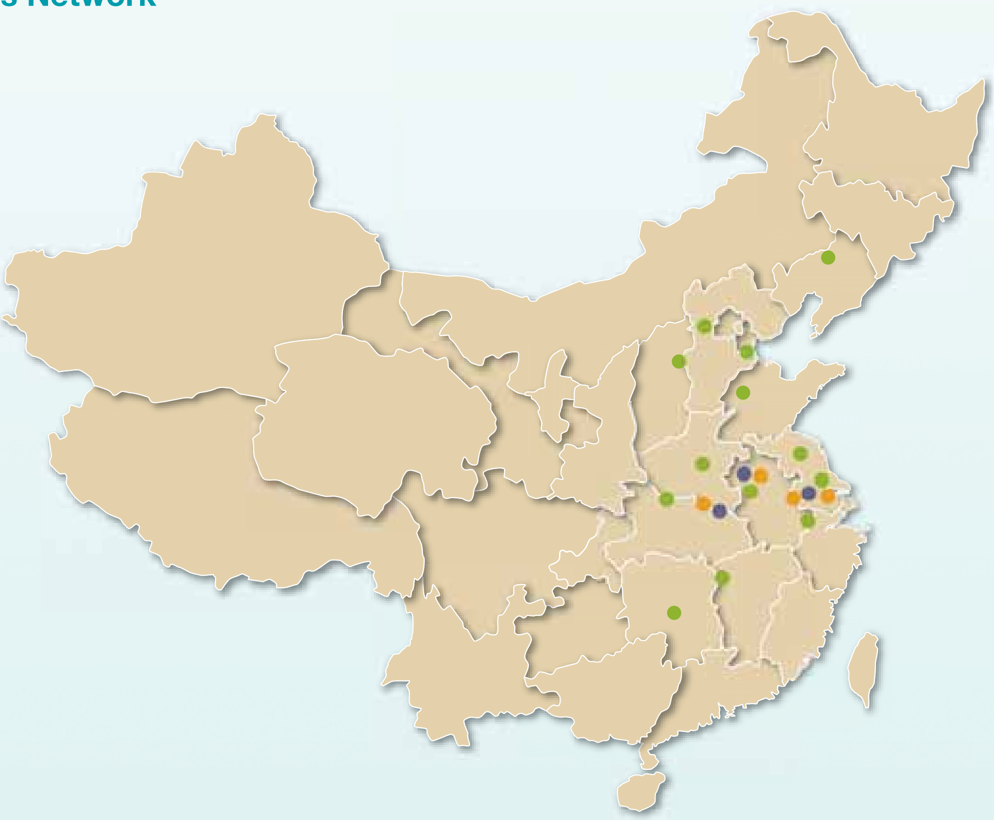
- Shanghai “Jing’an Ziyuan”
- Hubei “Baoye Moon Lake Garden”

Business Network



Building Materials Business	Construction Business		Property Development Business
Shaoxing Building Materials Industrial Park	Zhejiang	Tianjin	Shaoxing
Hefei Building Materials Industrial Park	Shanghai	Hebei	Hefei
Wuhan Building Materials Industrial Park (under construction)	Jiangsu	Henan	Shanghai
	Anhui	Shandong	Hubei
	Hubei	Liaoning	
	Hunan	Chongqing	
	Beijing		

Financial Highlights

Revenue
(in RMB million)

	Year Ended 31 December				
	2008	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
Revenue	**9,437,850**	7,657,066	6,227,853	4,723,797	4,378,434
Profit attributable to equity holders of the Company	**150,044**	225,795	476,032	304,226	275,082
Earnings per share (RMB)	**0.226**	0.343	0.779	0.537	0.518
Assets and Liabilities					
Total Assets	**9,550,324**	7,692,866	5,771,319	4,556,918	3,601,450
Total Liabilities	**6,559,796**	4,796,458	3,582,065	2,728,887	2,442,808
Total Equity Holders' Funds	**2,990,528**	2,896,408	2,189,254	1,828,031	1,158,642

Key Financial Ratios

	As at 31 December	
	2008	2007
Return on equity (%)	**5.1%**	7.9%
Net assets value per share (RMB)	**4.45**	4.31
Net gearing ratio (%)	**24%**	32%
Current ratio	**1.23**	1.02

Mr. Pang Baogen
Chairman

Chairman's Statement

During the year, the Group achieved a consolidated revenue of approximately RMB9.4 billion, soared approximately 23% compared to last year.

I like to report to our shareholders the audited consolidated financial results of the Group for the year ended 31 December 2008. During the year, the Group achieved a consolidated revenue of RMB9,437,850,000, up approximately 23% compared to last year; profit attributable to equity holders of the company amounted to RMB150,044,000, decreased approximately 34% from last year; earnings per share was RMB0.226, slipped 34% from the preceding year. The Board proposed a final dividend of RMB0.08 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 this annual report.

China now has become one of the largest economies in the world through thirty years of continuous reform and opening up. This was evidenced by the unprecedented Beijing Olympic Games and the "Shenzhou 7" aerospace achievements in 2008. However, at the same time, the economic impairments brought by the snow storms in early January, the earthquake in Sichuan Province in May and the subprime mortgage crisis in the US that has created severe damages on every cornerstone of the global economy and financial stability, have led us to believe that "deep cold winter" has stealthily arrived and economic crisis is coming near. The depressions in foreign economies had already created severe negative impacts on almost every industry in China, and as a result of which, had led many domestic companies go into bankruptcy primarily due to the lack of working capital. This has laid critical stumbling blocks for the domestic real estate developers in business during the year and in the near term. The increased awareness of deteriorating economies has driven people to be concerned about their steady long term income. Many countries have implemented unprecedented economic and financial recovery measures to withstand these crises in their homelands. China, with no exception, has also implemented a series of stimulating economic policies aiming to preserve growth and development. These included, without limitation to, the RMB4,000 billion investments pronounced by the National People's Congress and the much relaxed banks' lending policies evidenced by the significant increase in banks' commercial loans in the beginning of 2009, all of which have demonstrated the determination of the China government and its confidence level to sustain economic growth. The Group believes that this is now the best opportune time for the Group to reassess its business model, management philosophies and corporate management in entering the new era in preparation for forthcoming economic growth where opportunities and crises have emerged at the same time.

The year of 2008 was full of challenges, the Group's three core businesses have attained satisfactory achievements, and these include:

Benefited from the RMB4,000 billion investment policy, the Group's construction business has been able to contract for a number of renowned and high-end construction projects which includes the Phase 1 Development, Jing'an Temple Traffic Terminal in Shanghai, the railway stations, frontage and other related construction projects at Yueqing and Yongjia of Ningbo-Taizhou-Wenzhou Railway, the new Terminal Building of Hangzhou International Airport, Wenzhou Lucheng Plaza and the highest building in Anhui, Dongyi Financial Center, enhancing the Group's position and reputation in the high-end construction market. During the year, the Group's construction project, the Arts and Science Building of Shaoxing University, won another China Luban Award, making a total of 11 awards it has won of the same kind. The number of Luban Awards received leads other privately-owned construction companies in China. At present, the Baoye's trade mark has been recognised by the National Industrial and Commercial Bureau as one of the national renowned trade marks, the first of its kind in Zhejiang Province and the second on a national level in the construction industry.

With retrospect, when the Group apprised for the listing in Hong Kong, coincided with the outbreak of SARS in 2003, the real estate markets in the Mainland and Hong Kong were depressed, many investors and securities firms had shown little interest in our property development business, some of them had even suggested us to spin it off from our core businesses. However, the Group had stick to its firm belief to acquire a lot of quality, but inexpensive, land banks during the slack periods, which had resulted in healthy profitability contribution for its property development business in recent years. In the past two to three years, the China real estate business had registered enormous growth, many real estate companies had sought listings in Hong Kong and had then solicited large sums of funds from capital markets thereby enabling them to acquire abundant land reserves; prices of properties had doubled speedily; leveraging on its sizable land banks and placing of shares or debentures in raising funds for acquiring additional land reserves; shares prices had been rising rapidly that had enhanced the market capitalisations of those listed real estate companies tremendously, even surpassing market values of some "blue chip" stocks, which were adored by many people in the market place. At that time, in view of the speedily success experience from other companies, some had suggested us to quit our construction and building materials businesses and to focus on real estate business riding on the growing tide. It was most fortunate that the Group had remained prudent and did not adopt the same approach to acquire expensive land reserves at bubble times, during which time "flour is more expensive than bread" in land value, to avoid the risks of impairment in land values and shortage of working capital. The Group now has sufficient funding in hand in support of acquisition of quality properties projects at appropriate time.

Due to the unique platform aligning residential-official-commercial purposes, the Shanghai Jing'an Ziyuan project had received favourable response from the market despite the downturn of real estate market in 2008. Selling prices and units sold had both registered satisfactory results, approximately 70% of the total number of residential and commercial units had been sold during the year. The sales proceeds that had been received approximated to RMB827,580,000, which have not been accounted for in the operating results of 2008 primarily due to certain inspection for completion procedures had not been finished prior to 31 December 2008. Accordingly the Group has posted a profit warning announcement on 12 February 2009 enhancing the transparency and providing investors financial information in a timely manner. The relevant inspection procedures have now been completed and all pre-sold units have been delivered to purchasers before the end of March 2009, the results of which have been accounted for in the first quarter of 2009.

As regards the building materials business, the Group's Construction Research Institute had in collaboration with Daiwa Japan completed construction of various laboratories in interior testing, durability, curtain wall, all weather mock-up, structural safety, interior air-conditioning and earthquake resistance and prevention, which have been in operation by now. These achievements have laid a very solid foundation for the development of green, environmental friendly and energy saving products in the future and have positioned the Group in the forefront of the industry. We believe industrialisation of prefabricated building materials is the lead-direction and key development for the China construction industry in the future. The Group, leveraging on these initiatives in technologies advancement and leading inspection and testing equipment in China, has already built a transition path from traditional construction technologies into advance construction technologies to enhance overall construction quality of our products.

Facing the global financial instability, the Group strives to develop new source of revenue on one hand and to minimise operating costs on the other during this difficult time. Though a lot of domestic and foreign enterprises had largely down-sized their operations by laying off employees, the Group has maintained no laid off policy in the communities where we operate to affirm our social responsibilities' commitment. Administratively, we have slashed unnecessary spending in business entertainment, business travels and senior management salaries and benefits, but we have not cut the earnings of our ordinary staff which may affect their daily livings and harmonious relationships in our communities. On the other hand, the Group has had approximately 200 employees who have reached their retirement age, but were still under employment with the Group. Through active discussion and consultation by management, they have agreed to retire in 2008 voluntarily to leave rooms for employment for the younger generation.

Apart from minimisation of costs, exploring new revenue source is considered to be more important for corporate development. It is expected that high inflation will be inevitable and will be forthcoming after many countries have increased abundant monetary supplies in order to maintian financial stability. The Group is currently seeking acquisitions of under-valued assets supported by its solid financial liquidity position. Our acquisition targets do not confine in land and real estate properties, but with a focus on those business segments where the Group are familiar or will create synergies with our current businesses. As soon as these acquisitions become mature, we will make public announcements to inform our shareholders and investing public in accordance with the prescribed listing rules.

Since the listing of the Company in June 2003, the Group has maintained a consistent cash dividend policy each year. During the year, due to the delays in completion of certain real estate projects, profit attributable to equity holders saw a decline compared to that of preceding year. Despite the prevailing difficult operating environment, the Board proposed a final dividend of RMB0.08 per share, representing a dividend pay out ratio of approximately 35.4%, up 15.4% compared to 20% in 2007, in order to reward our shareholders for their relentless support in a pragmatic and most effective manner!

Pang Baogen
Chairman
9 April 2009

Tailoring a Warm and **Harmonious Home for People**

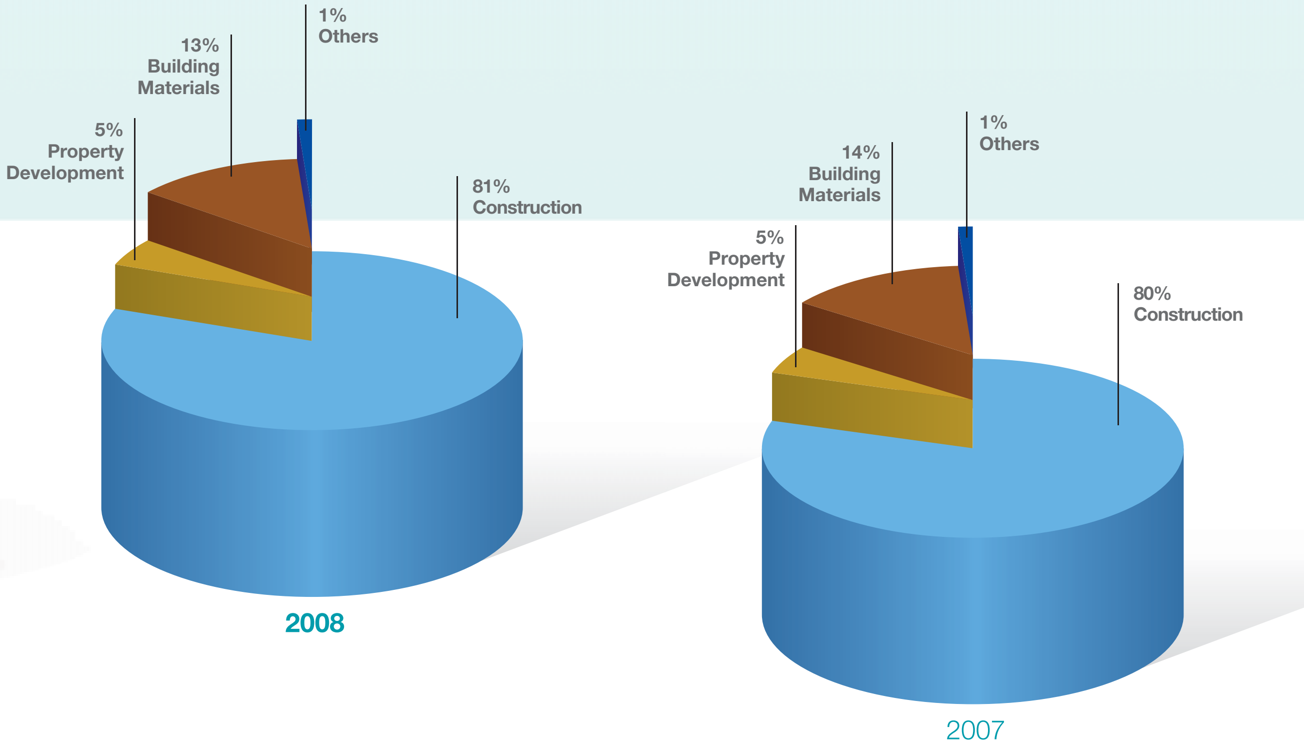
Management Discussion and Analysis

Results Review

For the year ended 31 December 2008, the Group achieved a consolidated revenue of RMB9,437,850,000 (2007: RMB7,657,066,000), an increase of approximately 23% compared to the previous year; operating profit reached RMB390,924,000 (2007: RMB419,429,000), a decrease of approximately 7% compared to last year; profit attributable to equity holders of the Company amounted to RMB150,044,000 (2007: RMB225,795,000), a slip of approximately 34% from last year; earnings per share was RMB0.226 (2007: RMB0.343), a decrease of approximately 34% compared to last year; and net assets value per share was RMB4.45 (2007: RMB4.31), up approximately 3.1% over last year.

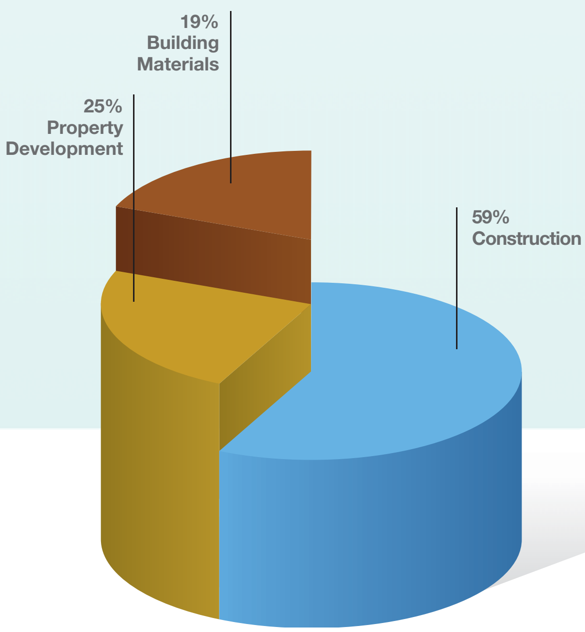
Revenue

	2008		2007		**Change**
	RMB'000	**% of total**	RMB'000	% of total	
Construction	**7,640,994**	**81%**	6,125,323	80%	+25%
Property Development	**491,092**	**5%**	373,737	5%	+31%
Building Materials	**1,225,201**	**13%**	1,098,073	14%	+12%
Others	**80,563**	**1%**	59,933	1%	+34%
Total	**9,437,850**	**100%**	7,657,066	100%	+23%

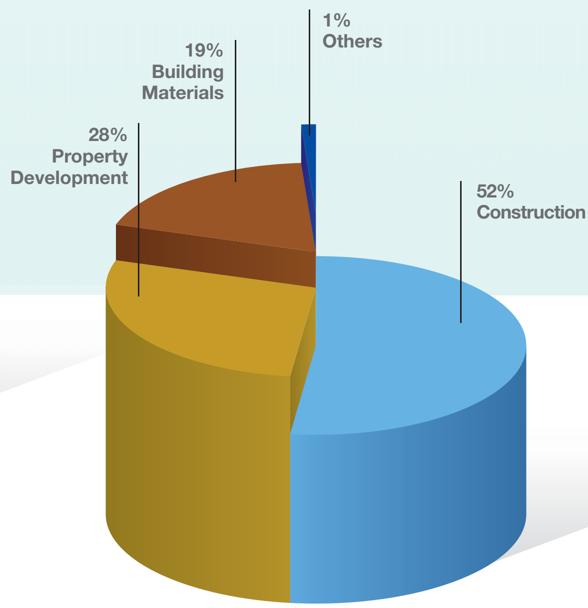


Operating Profit

	2008		2007		Change
	RMB'000	% of total	RMB'000	% of total	
Construction	**230,229**	**59%**	218,880	52%	+5%
Property Development	**98,206**	**25%**	117,176	28%	-16%
Building Materials	**73,999**	**19%**	80,024	19%	-8%
Others	**(11,510)**	**-3%**	3,349	1%	N/A
Total	**390,924**	**100%**	419,429	100%	-7%



2008



2007

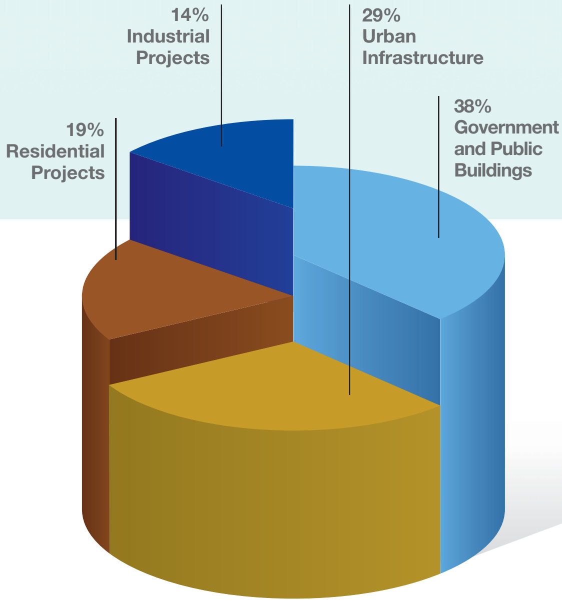
Construction Business

For the year ended 31 December 2008, the Group's construction business registered a revenue of RMB7,640,994,000, up approximately 25% over last year; operating profit amounted to RMB230,229,000, representing an increase of approximately 5% over last year.

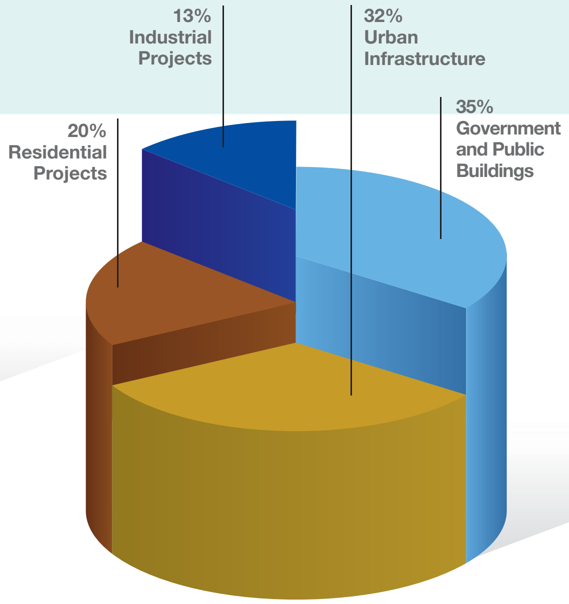
For the year ended 31 December 2008, the total contract value for construction-in-progress of the Group's construction business was RMB25,882,037,000, representing an increase of approximately 11% over last year, details of which are analysed below:

By project nature

	2008		2007		**Change**
	RMB'000	**% of total**	RMB'000	% of total	
Government and Public Buildings	**9,835,174**	**38%**	8,167,188	35%	+20%
Urban Infrastructure	**7,505,791**	**29%**	7,467,143	32%	+1%
Residential Projects	**4,917,587**	**19%**	4,666,965	20%	+5%
Industrial Projects	**3,623,485**	**14%**	3,033,527	13%	+19%
Total	**25,882,037**	**100%**	23,334,823	100%	+11%



2008



2007

Wenling City Passenger Transportation Center

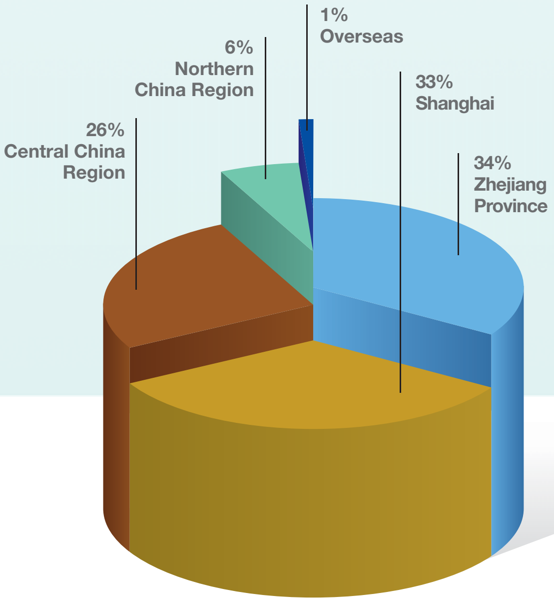
New Terminal Building of Hangzhou International Airport

Jiangsu Nanyang Square Business Center

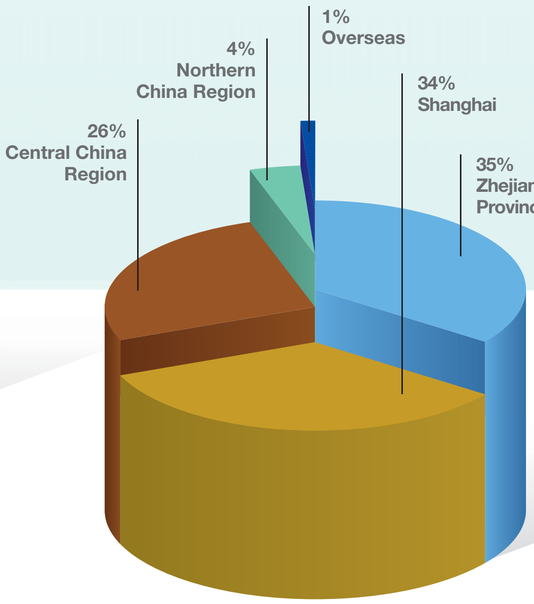
Jing'an Temple Traffic Terminal

By region

	2008 RMB'000	2008 % of total	2007 RMB'000	2007 % of total	Change
Zhejiang Province	**8,876,354**	**34%**	8,167,188	35%	+9%
Shanghai	**8,435,228**	**33%**	7,933,840	34%	+6%
Central China Region	**6,970,509**	**26%**	6,143,023	26%	+13%
Northern China Region	**1,441,126**	**6%**	933,393	4%	+54%
Overseas	**158,820**	**1%**	157,379	1%	+1%
Total	**25,882,037**	**100%**	23,334,823	100%	+11%



2008



2007

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

During the year, the economic and financial crisis has created enormous challenges to the China economy. Amid such challenges, the Group's total contract value for construction-in-progress still recorded an upsurge of approximately 11% over last year, amounting to approximately RMB25.8 billion, in which order backlog amounts to approximately RMB16.8 billion. In addition, new orders amounted to approximately RMB4.9 billion have been contracted for but not yet commenced construction works. As at 31 December 2008, the total construction order backlog value plus new construction contracts amounted to approximately RMB21.7 billion (31 December 2007: RMB18.6 billion) in total. These achievements were primarily the results of our established goodwill and reputation in the market place and increased market presence in other provinces besides Zhejiang Province over the past years.

During the year, the Group's new win construction contracts value approximated to RMB13 billion, representing an increase of approximately 22% over the preceding year, which includes the new Terminal Building of Hangzhou International Airport, Dongyi Financial Center, the highest building in Anhui; Jing'an Temple Traffic Terminal, key project of World Expo in Shanghai; WenLing City Passenger Transportation Center; and two railway stations at Yueqing and Yongjia of Ningbo-Taizhou-Wenzhou Railway; all of which require advanced and complex construction technologies and know-how and have drawn a new chapter for our construction profile in airport and railway construction as well as providing a well established platform for the Baoye brand and our competence level.

Hubei Baoye, through its continuous efforts and development by implementing effective management control techniques in the past three years, has seen improvements in all aspects of business. During the year, Hubei Baoye's new win construction contracts value amounted to approximately RMB2.7 billion (2007: RMB2 billion). At the same time, the construction contract value from overseas contracts accounted for RMB0.8 billion (2007: RMB0.5 billion), comprising the landmark projects like the President Office in Djibouti and the highest building, GH, in Botswana, in Africa.

The Group's projects received the China "Luban Award" in 2008:

Beijing Wukesong Olympic Stadium

Arts and Science Building of Shaoxing University

In 2008, the construction projects undertaken by the Group in terms of quality and management have won numerous industry awards and recognitions, these principal awards and recognition include:

Projects	Awards
Arts and Science Building of Shaoxing University	Luban Award
Curtain Wall project of Beijing Wukesong Olympic Stadium (joint construction)	Luban Award
Xiangfan Stadium of Hubei	National Outstanding Award
Administrative Center of Cangnan City	National Outstanding Award
China Yellow Wine Museum	Qianjiang Cup
Zhejiang Foreign Trade Building	Qianjiang Cup
Anhui Investment Building	Huangshan Cup
Junior Arts school, Hefei City Green Garden	Huangshan Cup
Block 18 of Hefei City Green Garden	Hupo Cup

The Group has received a "Luban Award", the highest ranking of its kind in China, in respect of the construction of the Arts and Science Building of Shaoxing University during the year. It was the eleventh time the Group has been granted this award and is the privately-owned enterprise who has received the highest number of Luban Awards in history. In addition, the Group has been jointly awarded another "Luban Award" together with the joint construction contractor for the Beijing Wukesong Olympic Stadium, which the Group was responsible for the curtain wall project.

Shaoxing "Linjiang Green Garden"

Hefei "Zhejiang Commercial City"

Property Development Business

Property Sales

During the year of 2008, the revenue of the Group's property development business amounted to RMB522,411,000, after deductions of sales tax and related levies in the amount of RMB31,319,000, net revenue after sales tax and levies was RMB491,092,000, an increase of approximately 31% over last year; operating profit amounted to RMB98,206,000, a decrease of approximately 16% from last year.

Those pre-sold units for Shanghai Jing'an Ziyuan project were initially planned to be included in the results of 2008. However, as some inspection procedures could not be completed prior to 31 December 2008, these sales revenues were therefore being excluded from the results of 2008. Accordingly the Group has posted a profit warning announcement on 12 February 2009. The inspection for completion procedures have now been finished and all pre-sold units had been delivered to purchasers before the end of March 2009, the sales of which amounting to RMB827,580,000 have been accounted in the first quarter of 2009.

During the year of 2008, the Group's property sales was primarily derived from the sale of City Green Garden Phase 2 and Zhejiang Commercial City in Hefei, and Linjiang Green Garden in Shaoxing County.

The total gross floor area of City Green Garden Phase 2 sold was approximately 60,919 square meters, achieving a revenue of approximately RMB213,542,000. The average selling price per square meter was approximately RMB3,505, which levels the average selling price per square meter of RMB3,500 in 2007. The total gross floor area of Zhejiang Commercial City sold was approximately 44,765 square meters, achieving a revenue of approximately RMB151,580,000. The average selling price per square meter was approximately RMB3,386, representing an increase of approximately 20% compared to the selling price RMB2,800 per square meter last year. The total gross floor area of Linjiang Green Garden sold was approximately 42,088 square meters, achieving a revenue of approximately RMB134,530,000, with an average selling price of approximately RMB3,196 per square meter. The revenue from the sale of relevant the remaining commercial and retails units left-over from prior years amounted to approximately RMB22,759,000.

Shaoxing "Baoye Four Seasons Garden"

Shaoxing Kuaijishan Golf Club

Projects under development

As at 31 December 2008, the projects under development of the Group are tabulated below:

Project Name	Location	Estimated Gross Floor Area (square meters)	Equity Interest of the Group
Baoye Four Seasons Garden Phase 1	Shaoxing	100,000	100%
Daban Fengqing	Shaoxing	250,000	100%
Yuyuan	Shaoxing	180,000	49%
Jing'an Ziyuan	Shanghai	48,239	70%
City Green Garden Phase 2	Hefei	110,000	100%
Baoye Tongcheng Green Garden Phase 1	Hefei	20,000	100%
Baoye Moon Lake Garden	Jingzhou, Hubei	82,000	100%

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 City, "away from the dust yet close to the city", it is known as the "natural treasure in the heart of city". Baoye Four Seasons Garden has a site area of approximately 1,050,000 square meters and gross floor area of approximately 525,000 square meters for the development of townhouses, duplexes or semi-detached houses, and detached houses. The plot ratio is only 0.5. The project also consists of a golfing facility, a five-

Shaoxing "Daban Fengqing"

Shaoxing "Yuyuan"

star hotel, a country garden and a central lakeside garden. The construction of a total of 100,000 square meters of Baoye Four Seasons Garden Phase 1 has commenced in 2008.

Daban Fengqing is located in Keqiao, Shaoxing County, with a total site area of approximately 100,000 square meters with 2.5 times plot ratio for development of residential properties of 250,000 square meters. 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 will be positioned as a premier residential property in Keqiao, Shaoxing County. The construction of Daban Fengqing has commenced in 2008.

Yuyuan is located on No.1 Yangming Road, Shaoxing City, with a total site area of approximately 180,000 square meters with a plot ratio of 1 time for the development of 180,000 square meters up-scale residential properties. The Group and Greentown China Holdings Limited, a listed company on the HKEx (stock code: 3900), have jointly acquired the land and will co-develop it into a high-end property project in which the Group owns 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 projects are located, 8 kilometres from the central business district of Shaoxing City, and will be developed as low rise premium residential properties. The construction of Yuyuan has commenced, and the sales office was open in 2008.

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 of Shanghai. The project has a gross floor area of approximately 48,239 square meters, which were developed as luxurious service apartments. The revenue from sale of the 70% residential and commercial units in the aggregate sums of RMB827,580,000 has been accounted for in the first quarter of 2009 after completion of relevant inspection procedures and satisfactory delivery of the units to purchasers.

City Green Garden Phase 2, with a total gross floor area of 170,000 square meters 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. The sale of this property project has been well received by the market, approximately

Shanghai "Jing'an Ziyuan"

Hefei "City Green Garden"

60,000 square meters have been sold and recognised as revenue in 2008 and a further of approximately 60,000 square meters have been pre-sold. The pre-sale of the remaining units has already commenced in the first quarter of 2009.

Baoye Tongcheng Green Garden is located in Baohe District, Hefei City, with a land area of 58,570 square meters and 2.8 times plot ratio for development of residential area of 164,000 square meters. The project comprises of 9 high rise buildings including condominiums, studio flats and a commercial complex. The project sets a new model of "green living quality life style" and is located in a superb area supported by full community services in Hefei. Pre-sale of Phase 1 of the project has commenced by the end of 2008, approximately 60% of the 20,000 square meters of Phase 1 that were put up for pre-sale have been sold.

Baoye Moon Lake Garden located in the East District, Jingmen City, Hubei, is an area where commercial activities are busy with convenient transportation links and full communities services in particular education facilities. The project is having a total gross floor area of approximately 82,000 square meters; comprising of 22 buildings in which 13 will be developed into high rise buildings, 9 will be developed as low rise buildings and alongside the Moon Lake Road a commercial complex will be developed. The construction works have commenced in early 2008 and it is expected that pre-sale will begin in the second half of 2009.

Building Materials Business

During the year of 2008, the revenue of the Group's building materials business amounted to RMB1,225,201,000, up approximately 12% over last year; operating profit was RMB73,999,000, representing a decrease of approximately 8% from last year.

Hefei "Baoye Tongcheng Green Garden"

Hubei "Baoye Moon Lake Garden"

The revenue breakdown of the Group's building materials is set out below:

	2008 RMB'000	2007 RMB'000	Change
Ready-mixed concrete	**319,324**	302,560	+6%
Curtain wall	**383,568**	340,269	+13%
Wooden products and interior decorations	**237,560**	200,128	+19%
Steel structure	**179,260**	150,333	+19%
Concrete pipes	**55,812**	54,978	+2%
Concrete ducts	**6,426**	7,052	-9%
Large roof sheathings	**10,751**	12,768	-16%
Fireproof materials	**22,279**	20,807	+7%
Others	**10,221**	9,178	+11%
Total	**1,225,201**	1,098,073	+12%

As depicted from above, revenue of curtain wall, steel structure, wooden products and interior decorations have registered healthy growth during the year. This was primarily the results of our advancement in technologies and increased market recognition. However, decline in revenue on those traditional products like concrete ducts and large roof sheathings was primarily due to keen competitions from local manufacturers. The increase in competition and the impact arose from financial crisis have driven the decline in profit margin of the building materials business from approximately 7.3% in 2007 to approximately 6% in 2008.

Since being nominated by the Construction Ministry of the PRC as the only pilot site for industrialisation of building materials in Zhejiang Province in 1997, the Group has devoted a lot of efforts in upbringing the technologies advancement in this area. In March 2006, the Group started co-operation with Daiwa Japan to pave a long-term strategic partnership in pursuing industrialisation of building materials. At present, the Group has completed construction of and put in use various testing laboratories in interior environment, curtain wall, and durability, etc. These laboratories have rendered services to both internal and external customers. The Group also works in collaboration with the China Construction Research Institute and Tsinghua University in construction technologies research.

During the year, the Group has established a team of highly qualified professionals in research and development and had increased investments in research and development facilities. At the same time, the Group is also pleased to note that the changes in the construction industry in meeting the customers' choice of preference and requirements from sizable living units to comfortable and energy saving living units. Prefabricated building materials products that the Group has developed and manufactured are able to reduce waste and pollution, shorten production lead time and ensure consistent and stable quality standards at the same time. The adoption of "New Village Construction" policy by the PRC government will provide abundant business opportunities for the Group's prefabricated building materials products and has laid a very solid foundation for the Group in this business segment.

Business Prospect

Construction Business

The PRC government has adopted a two-prone approach to alleviate the negative impacts brought by the global economic and financial crisis, i.e. increase government fixed asset investments and enhance domestic consumption. The construction industry will benefit directly from the increase in spending in fixed asset investments and will benefit indirectly from the increase in domestic consumption in a longer time frame due to increased requirements in trading, retailing and production facilities. Although we do not have a concrete number, we believe construction sector will account for a large portion of the RMB4,000 billion investment spending announced by the PRC government.

Due to historical reasons, large infrastructural construction projects such as railways, highways and port facilities have been dominated by a few state-owned construction enterprises in the past. With the speedy development and growth of privately-owned construction enterprises, the China Construction Law and the administrative measures governing tendering procedures pronounced by the PRC government, we will see that the construction industry will be further regularised and commercialised.

The Group has attained all sorts of construction licences including infrastructural construction which enable us to undertake more than 40 different types of construction projects. Baoye, is one of the very few privately-owned enterprises having obtained premium class general contractors licence. Although we are, at this stage, still not being able to compete with state-owned conglomerate construction enterprises, we now have been able to undertake and bid for peripheral infrastructural construction projects such as railway stations, transport terminal buildings, link roads to high ways and local government's public facilities including exhibition centers, stadium and airport buildings.

The total construction order backlog value plus new construction contracts valued at RMB21.7 billion in total. Our construction business will see a great prospect ahead of us in light of the RMB4,000 billion investment spending and our recent progress in pursuing new construction contracts.

The Group, as a privately-owned enterprise and has been built through years of intense competition and elimination, becomes stronger in business nowadays. We manage and operate ourselves under strict commercial initiatives upon which salaries and incentives for key executives are aligned with operating results in each profit center. This has helped our profits margin exceed our competitors and has positioned the Group in the forefront of the construction industry in PRC. We are confident that our profits margin would be enhanced in light of new market entrances, advanced construction technologies, and effective incentive schemes, as well as the revenue mix of our high-end construction contracts as a percentage of total contract enlarges.

Property Development Business

The negative impacts eroded by the US subprime mortgage had been deepened in the second half of 2008 and had seeped into the real economies. Both properties selling prices and quantities had fallen drastically; real estate developers had been suffering from slow sales, difficulties in soliciting financing and cash flow problems; and the share prices of PRC property developers that are listed in Hong Kong and China had dropped significantly. However, looking back, the real estate properties prices had not gone that far compared to shares prices, some properties prices in prime locations had even recorded gains in that period in China. In the first quarter of 2009, the turnover of real estate properties markets has seen remarkable improvements. For this reason, we will need to understand why real estate properties prices in China have not slipped in the same momentum similar to shares prices, unlike the negative equity assets situation in Hong Kong during the Asia financial and economic crisis in 1997 and that a number of financial institutions went bust soon after the subprime mortgage crisis in the US recently; the reasons are summarised below:

- The continuous demand in housing is supported by the large population in China;
- The increase in urbanisation has created demand in housing requirements in cities;
- The requirements for modern housing have increased as a result of old town re-development;
- The requirements for per capita living area have increased because disposal income per capita has increased;
- PRC purchasers requiring bank financing and mortgage amounts is much lower than that in Hong Kong and other developing countries in the world;
- The PRC government rescue policies against the real estate markets have been implemented in a timely manner before any severe damages against the properties held by the general public and the economy have emerged;
- The high saving ratio, low interest rate, and limited investment channels have helped to preserve the value of traditional investment in real estate properties in PRC; and
- The anticipated inflationary trend resulted from increased money supplies of major economies in the world have shortened people’s waiting and observation time.

Judging from the above, we believe that the real estate markets in China have not only underpin from a major contraction but will maintain a healthy growth in the years to come. Therefore, we remain positive and expect a prospective future for the future development of real estate properties in PRC.

The Group's property development business is the core of our earnings growth, our land reserve are relatively less costly and are located in prime areas in the markets where we are familiar with. We are confident that with our established brand and quality of our products, the profit contribution from the property development business will continue to increase from time to time.

Building Materials Business

If our assessments on the future prospects for our construction and property development businesses are correct; sharing the same vision, building materials business will also be prosper in the future.

The building materials markets in the PRC are huge and being spread out in different regions. Its products are generally low technology content. Our strategy to enhance our market share in this segment is to adopt our prefabricated building materials by uplifting technology content, mass production of energy saving and environmental friendly products, and facilitate assembly at construction site. Through continuous research and application of prefabricated building materials, the Group endeavors to attain the vision in industrialization of building materials, which is also the Group's mission of achieving "From construction to manufacturing, leads construction industry towards industrialisation in China".

At present, the China construction industry is still adopting low labor cost strategy in competing for construction contract. However, labor intensive production processes have generated a lot of waste and pollution including noise pollution, and higher utilization of energy consumption. The PRC government has become increasingly aware that this will create major obstacles and hurdles for the development of cities and has implemented a series of incentive policies to encourage green, energy saving and environmental friendly construction.

The time it takes to transform "From construction to manufacturing" cannot be accomplished within a year or two, but will be accomplished over time. We believe that this accomplishment will be reflected in our financial performance in the future, leveraging on our investments in industrialisation of building materials, construction research institute, co-operation with Daiwa Japan and the support from government authorities.

We Shape **the Future**

Financial Review

Treasury Policies

The Group has adopted prudent financial policies and exercise tight risk management control over its investment, financing and use of fund. Our capital structure has always remained sound and solid. The Group will adjust its investment, financing and capital structure from time to time according to sustainable development needs and internal resources available, with a view to optimising the capital structure of the Group.

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

Financial Resources and Liabilities

With the support of steady increase in cash flow, sound credit record and excellent reputation in the industry, the Group preserved the AAA credit rating by a credit rating institution recognized by the People's Bank of China in 2008. Such excellent credit rating will benefit the Group's financing activities and allows the Group to continue enjoying 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 secured debt only accounted for 9% (2007: 9%) of the total borrowings. In addition, approximately 35% of the total borrowings (2007: approximately 23%) were jointly guaranteed by the Chairman of the Board, Mr. Pang Baogen, in his personal capacity and subsidiaries of the Group to the lending banks. 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.

The Group's objectives in managing capital are to safeguard the Group's ability to operate 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.

The gearing ratios of the Group were as follows:

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Total borrowings	**2,522,221**	1,971,151
Less: Cash and cash equivalents	**(1,362,935)**	(818,474)
Restricted bank deposits	**(462,631)**	(248,067)
Net borrowings	**696,655**	904,610
Total equity attributable to the Company's equity holders	**2,947,179**	2,858,637
Net gearing ratio	**24%**	32%

The Group will continue to adopt a prudent policy to maintain low gearing ratio. The Group has unutilised banking facilities amounting to approximately RMB3 billion as at 31 December 2008 (31 December 2007: approximately RMB1 billion). The Group has very strong financial position and sufficient financial resources for future expansion and development.

Key Financial Ratios

	As at 31 December	
	2008	2007
Return on equity	**5.1%**	7.9%
Net assets value per share (RMB)	**4.45**	4.31
Net gearing ratio	**24%**	32%
Current ratio	**1.23**	1.02

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

During the year, return on equity experienced a decline. The reduction in profit contribution was primarily due to exclusion of the revenue contribution derived from pre-sale units of Jing'an Ziyuan that had been pre-sold. However, such sales proceeds had been received and had then improved the liquidity position when compared to 2007. Furthermore, the real current ratio is even better than 1.23, as the corresponding sales receipts from Jing'an Ziyuan and other properties were classified as "receipts in advance" account under current liabilities.

Cash Flow Analysis

		For the year ended 31 December	
		2008	2007
	Note	**RMB'000**	RMB'000
Net cash inflow/(outflow) from operating activities	(1)	**172,262**	(1,123,004)
Net cash outflow from investing activities	(2)	**(132,464)**	(99,710)
Net cash inflow from financing activities	(3)	**504,663**	1,258,489
Increase in cash and cash equivalents		**544,461**	35,775

Notes:

(1) During the year of 2008, net cash inflow from operating activities was RMB172,262,000, an increase of RMB1,295,266,000 when compared to that of 2007 of RMB1,123,004,000 net cash outflow, which was primarily attributable to the sales proceeds received in advance for the Jing'an Ziyuan properties sales and other properties sales, as well as improvements in accounts receivables. The reduction in EIT from 33% to 25% had also reduced cash outflow during the year.

(2) Net cash outflow from investing activities of RMB132,464,000, increased RMB32,754,000 over 2007, was primarily used for construction of Kuaijishan Golf Club as well as purchase of plant and machineries for Baoye Group Zhejiang Construction Research Institute Company Limited and the Industrial Parks in Hefei and Wuhan.

(3) Net cash inflow from financing activities amounted to RMB504,663,000, representing a decrease of RMB753,826,000 when compared to 2007. This was primarily due to the placing of new H shares to Tiger Global in 2007, whereas the cash inflow in 2008 was all caused by 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 and Accounting Reporting Standards in accounting for such tax provision. Besides, the Group is an integrated enterprise with construction as its core business, while building materials manufacturing and sale and property development as its supporting businesses. Therefore, the financial impact resulting from the land appreciation tax pronouncement towards the Group's operating results would be minimal.

External Guarantee and Fulfillment

	2008 RMB'000	2007 RMB'000
Guarantees given to banks in respect of mortgage facilities granted to third parties	**50,830**	56,657

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 securities.

Details of the charges on the Group's Assets

As at 31 December 2008, land use right, buildings and properties under development at a total value of approximately RMB428,029,000 (31 December 2007: approximately RMB392,140,000) were pledged to banks as securities in securing bank borrowings.

Capital Expenditure Plan

Due to the future uncertainty that may be generated by the current financial crisis, the Group will exercise its prudent approach for committing capital expenditure to ensure that our cash resources are wisely managed. The Group has had no major capital expenditure plan at present and will adjust these spending and investment plans as and when the markets evolve.

Adjustment of RMB Exchange Rate and Foreign Exchange Risks

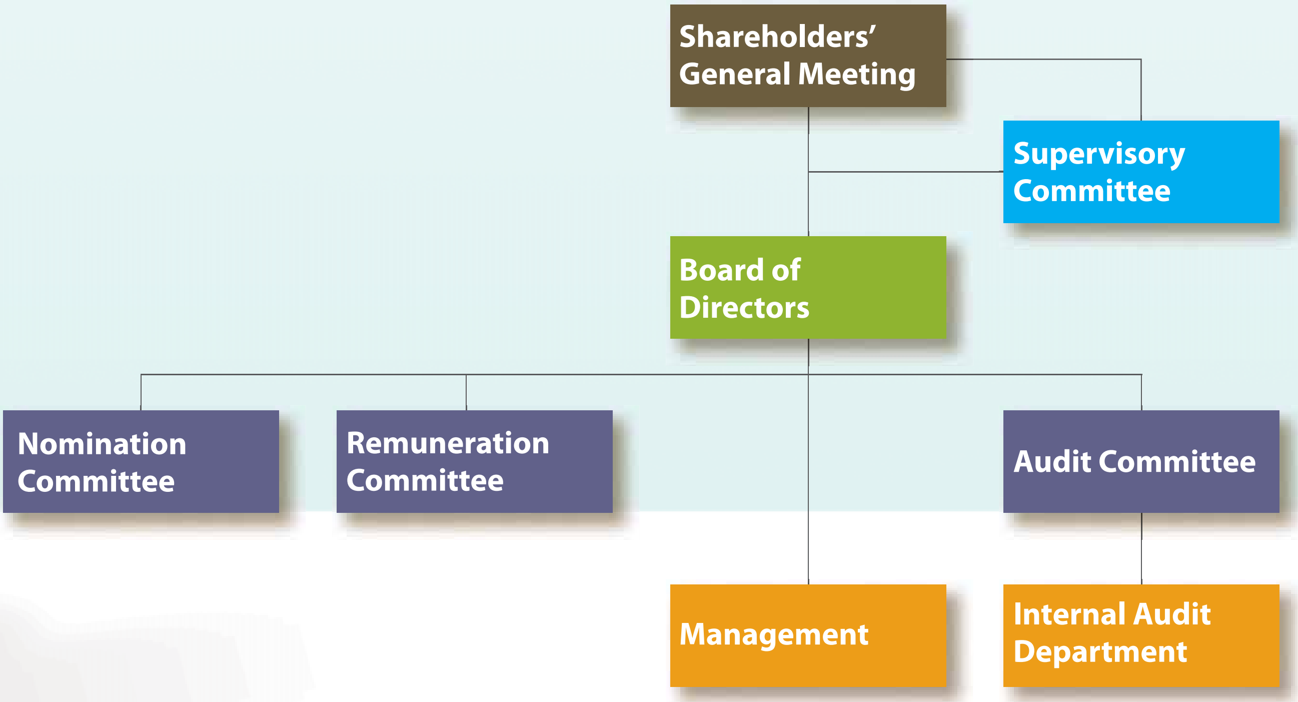
The majority of the Group's business and all bank borrowings are denominated and accounted for in RMB, and therefore do not have any direct exposure to foreign exchange fluctuation. The Board does not expect the adjustment of RMB exchange rate and other foreign exchange fluctuations will have any direct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

Admiring Future
for People

Corporate Governance Report

The Group is committed to establishing an orderly, efficient and transparent corporate governance mechanism, which can benefit corporate development and shareholders' returns. Since its listing, the Company strives to comply with the Company Law of the PRC ("Company Law"), the Securities Law of the PRC, the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules and other relevant laws and regulations and will regularly review the corporate management activities to enhance corporate value so as to ensure a sustainable development of the Company and to maximize shareholders' returns.

Corporate Governance Structure



Shareholders' General Meeting

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

Board of Directors

According to relevant rules of the Company Law, the Listing Rules and the articles of association of the Company, the second term of the board of directors of the Company has expired during the year. Nominated by the nomination committee meeting held on 15 April 2008, recommended by the board of directors meeting held on 15 April 2008 and approved by the annual general meeting of the Company held on 15 June 2008, the third term of the board of directors has assumed office. The new board of directors consists of ten directors, in which Mr. Pang Baogen, Mr. Gao Lin, Mr. Gao Jiming, Mr. Zhou Hanwan and Mr. Wang Rongfu are executive directors; Mr. Wang Youwei, Mr. Yi Deqing, Mr. Hu Shaozeng, Mr. Chan Yin Ming, Dennis and Mr. Sun Chuanlin are independent non-executive directors. Mr. Pang Baogen was unanimously re-elected as the chairman at the 1st meeting of the board held on 16 June 2008.

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 Company has five independent non-executive directors, constituting half of the members of the Board, which arrangement is above the minimum requirement under the Listing Rules. 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 and Mr. Wang Youwei, Mr. Yi Deqing and Mr. Hu Shaozeng are 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 City. The five 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 controls.

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules ("Model Code") as its own code of conduct regarding the securities transactions by the directors. Having made specific enquiries to each director, all directors confirmed that they have complied with the required standards set out in the Model Code throughout the year of 2008.

The remunerations of each of the directors of the Company are disclosed on an individual basis, details of which are set out in note 33 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 attendance of each of the directors is set out in the table below. The relevant senior management and members of the supervisory committee of the Group had all attended the board meetings held during the year. Directors received the notice of board meeting at least 14 days before the date on which board meeting was 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 Lin	4/4
Gao Jiming	4/4
Zhou Hanwan	4/4
Wang Rongfu	4/4
Independent Non-executive Directors	
Wang Youwei	4/4
Yi Deqing	4/4
Hu Shaozeng	4/4
Chan Ying Ming, Dennis	4/4
Sun Chuanlin	4/4

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 announcement, 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 management; and

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

Remuneration Committee

The remuneration committee is responsible for formulating the remuneration policy in respect of 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 2008 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 of two independent non-executive directors, Mr. Wang Youwei (chairman of the nomination committee) and Mr.Yi Deqing, and an executive director, Mr. Gao Jiming. The nomination committee held one meeting on 15 April 2008 and all three members attended the meeting, to transact the following business:

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

– identifying appropriate candidates for the position of directors and supervisors, and nominating such persons to be directors and supervisors;

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

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

After due consideration to the candidates' background and experience, it was resolved at that meeting to re-nominate Mr.Pang Baogen, Mr. Gao Lin, Mr. Gao Jiming, Mr. Zhou Hanwan and Mr. Wang Rongfu, as executive directors of the Company; and that Mr. Wang Youwei, Mr. Yi Deqing, Mr. Hu Shaozeng, Mr. Chan Yin Ming, Dennis and Mr. Sun Chuanlin, as independent non-executive directors of the Company, for the third term of office for the Board. In addition, it was also resolved that Mr. Chen Xingquan, Mr. Li Yongsheng and Mr. Zhang Xindao be nominated as independent supervisors of the Company.

Internal Controls Mechanism

Supervisory Committee

According to the relevant rules of the Company Law and the Articles of association of the Company, the second term of the supervisory committee of the Company has expired during the year.The supervisory committee is the standing supervisory organisation 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. In order to better perform the functions of the supervisory committee, according to the Company Law, recommended by the labor union, Mr. Kong Xiangquan and Mr. Qian Yongjiang were recommended for appointment as supervisors on 15 April 2008. Nominated in the nomination committee meeting, recommended by the Board and approved by the annual general meeting held on 15 June 2008 respectively, the third term of the supervisory committee has assumed office. The third term supervisory committee consists of five supervisors of whom Mr. Kong Xiangquan and Mr. Qian Yongjiang are employee representatives, Mr. Chen Xingquan, Mr. Li Yongsheng and Mr. Zhang Xindao are independent supervisors.

The supervisory committee is accountable to the shareholders' general meeting and exercises the following authority in accordance with the applicable laws:

– examining the financial statement 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 and profit appropriation proposals, which intended to be submitted to the shareholders' 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 three meetings during the year and all of the five supervisors attended the meetings. The supervisors of the Company also attended all board meetings during the year. The supervisory committee has also adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding the securities transactions by the supervisors. Having made specific enquiries of each supervisor, all supervisors confirmed that they have complied with the required standards set out in the Model Code throughout the year of 2008.

Internal Audit

The Company has established an internal audit department since 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 internal audit plans. In addition to completing the tasks in accordance with the internal audit plans, the Company's internal audit department has conducted special purpose auditing on certain subsidiaries and branches of the Group during the year. It has proposed numerous constructive recommendations for certain subsidiaries and branches to improve their deficiencies.

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 a fellow 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 Board, the Group has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules during the year ended 31 December 2008, except that the role of the chief executive officer of the Group 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 company's 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

Through active interactions with investors and continuous improvement in corporate transparency and corporate governance, the Group aims to establish investors' and potential investors' faith in the Company. With our unwavering efforts to enhance shareholders value, the Group attempts to build a win-win situation for both its investors as well as the Company.

During the year and up until the date of this annual report, in addition to receiving many investors and analysts to visit the Company and attending "one-on-one" meetings at the Company's premises, the Company also attended the following important investor relations activities:

Date	Activity	Organiser	Venue
21-23 January 2008	UBS Great China Conference	UBS	Shanghai
23-25 April 2008	JP Morgan 4th Annual China Conference	JP Morgan	Beijing
8-9 May 2008	Citi Bank HK/China Mini Conference	Citi Bank	Hong Kong
14-16 May 2008	CLSA China Forum 2008	CLSA	Shanghai
10 June 2008	HSBC China Corporate Day	HSBC	Hong Kong
15 October 2008	UBS Little Acorns Conference	UBS	Hong Kong
16-17 October 2008	BNP Paribas Securities Asia 15th Annual China Conference	BNP	Hangzhou
12-14 January 2009	UBS Great China Conference 2009	UBS	Shanghai

Corporate Social Responsibilities

Apart from creating value for its shareholders, the Group endeavours to attain a high degree of social responsibility in the areas of community activities, environment protection and education for the villagers. The Group reckons that a good and successful corporate enterprise needs the support of the local communities. When the country and communities are facing difficulties, corporate enterprises must share the social responsibilities and offer assistance when appropriate.

Subsequent to the earthquake on 12 May 2008 in Sichun Province, the Board resolved to donate approximately RMB5,000,000 for the construction of an earthquake-proof, energy saving and environment-friendly primary school in Qingchuan County, Sichun Province. The Group has also organised voluntary donation activities including cash, blood, and clothing for those who suffered from and affected by this natural disaster. Up to now, the Group has solicited, amongst its employee, approximately RMB2,500,000 donation, of which approximately RMB1,700,000 had been donated through charitable organisations in Sichuan, and the balance will be used for the purchasing of digital teaching materials and facilities for that primary school to be built in Qingchuan County, Sichuan Province.

The Group is a construction enterprise and we feel that we are obliged to offer help to those refugees who were affected by the earthquake in resolving their housing problems. In order to achieve this, we have organised and deployed a team of 98 technical persons to Sichun Province at once to build a total of 588 sets of moveable living units, which comply with the relevant earthquake-proof and environment-friendly requirements, for use in the affected areas.

On the other hand, complying with enterprise taxation is not only a legal responsibility, but also a commitment for corporate social responsibility. During the year, the Group became one of the “Top 500 Tax Payment Enterprises of 2007”, ranking first among the privately-owned construction enterprises in China.

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 Group. Mr. Pang is one of the experts who has received the special award of the State Council and is a member of the expert committee for the China Construction Reform and Development under the Ministry of Construction. He holds a professor level senior engineer qualification. He is well respected and recognised in the construction industry in China and has received awards including Model Worker of National Construction System, Advanced Individual of National Sustainable Communities, Outstanding Manager in Zhejiang Province, as well as Youth scientific and technical worker with Outstanding Contributions to Zhejiang Province. Mr. Pang has extensive experience in the construction 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 the vice-chairman of the Construction Companies Committee in China, the vice-chairman of Construction Association in Zhejiang and representative of the 11th People's Congress of Zhejiang Province.

Mr. Gao Lin, born in 1970, is an executive director and managing deputy general manager of the Company, a director and the general manager of Baoye Hubei Construction Group Company Limited. He holds a senior engineer qualification and is a graduate of the Fudan EMBA Programme. He is also a senior professional manager of the construction industry in China. He was awarded as the National Excellent Construction Entrepreneur, a celebrity in the national important infrastructure construction, apprentice of Luban, the Top 10 Outstanding Entrepreneurs of Construction Industry in Zhejiang Province, Oustanding 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, vice chairman of the Youth Union of the Direct Departments of Hubei Province, vice-chairman of the Hubei Enterprises Union, the vice-chairman of Construction Industry Association in Hubei, the vice-chairman of Construction Industry Association in Wuhan, 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 Ciyt. He 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 Zhejiang Baoye Real Estate Group Company Limited. He is a graduate of the China University of Geoscience, majoring in civil engineering and holds a senior engineer qualification. He is a committee member of the Real Estate Association in Zhejiang Province and Shaoxing City, and the vice-chairman of the Real Estate Association of Shaoxing County. He joined the Group in 1978.

Mr. Zhou Hanwan, born in 1954, is an executive director and deputy general manager of the Company. Mr. Zhou is also the executive chairman of Zhejiang Baoye Building Materials Industrialisation Company Limited. He holds a professor level senior engineer qualification. He is currently a committee member of the Concrete Section of China Construction Industry Association, the deputy secretary of Concrete Association of Zhejiang Province and the vice-chairman of Concrete Association of Shaoxing City. He joined the Group in 1984.

Mr. Wang Rongfu, born in 1954, is an executive director of the Company and chairman of Zhejiang Baoye Construction Group Company Limited. Mr. Wang holds a professor level senior engineer qualification. He was awarded the Model Worker of Shaoxing City, Talent with great contribution to the development of Shaoxing Ctiy, National Oustanding Project Manager, and Top 10 Outstanding Entrepreneurs of construction in Zhejiang. He has been appointed the lead member of the on-site inspection of the premier national construction projects. He joined the Group in 1976.

Independent Non-executive Directors

Mr. Wang Youwei, born in 1945, is an independent non-executive director and chairman of the audit and nomination committees of the Company. He graduated from Tongji University, majoring in underground 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, nomination and remuneration committees of the Company. He graduated from Zhejiang University in 1956 majoring in civil engineering. He holds the qualifications of National Chartered First-class Structure Engineer and professor-level senior engineer. Mr. Yi has been awarded the Master of China Construction Design 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 Provice, a deputy director and officer-in charge of the Earthquake Prevention Committee of Zhejiang Province, a deptuy director of Zhejiang Civil Engineering Construction Association, a Senior consultant of the Zhejiang Construction Design Assessments Association, and a consultant of the Zhejiang Construction Quality and Safety Association and Zhejiang Construction Industry Association.

Mr. Hu Shaozeng, born in 1935, is an independent non-executive director of the Company. Mr. Hu graduated from Tongji University, majoring in industrial and residential construction. He holds a senior engineer qualification. He has served as the dean of the Construction Committee of Zhejiang Province, the dean and 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.

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 31 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, the secretary of the communist party of Qixian District, a deputy director of the Village and Township Enterprises Bureau of Shaoxing City, a deputy general manager of Shaoxing Vegetable Production and Sales Company, and a deputy general manager and secretary of the communist party of Shaoxing Joint Development Corporation.

Supervisors

Mr. Kong Xiangquan, born in 1959, a senior qualified engineer, is the general manager of the Zhejiang Baoye Communications Construction Company Limited. He joined the Group in 1975.

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

Independent Supervisors

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

Mr. Li Yongsheng, born in 1940, is an independent supervisor of the Company. Mr. Li was the district attorney of Shaoxing District Attorney Office during the period between 1994 and 1998. Currently he is the honorary consultant of Shaoxing Sports Association and the vice president of the Union of Political Consultative Congress in Shaoxing City.

Mr. Zhang Xindao, born in 1944, is an independent supervisor of the Company. Mr. Zhang graduated from the East-South University and holds a senior engineer qualification. He was preciously the deputy director of Shaoxing City Electric Power Bureau, general manager of Shaoxing Daming Industry Company, chairman of Shaoxing Daming Electricity Company and chairman of Zhuji Bafang Electricity Company. Mr. Zhang is the general manager of Shaoxing Tianyi Green Power Company Limited.

Senior Management

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

Mr. Fung Ching Simon, born in 1969, is the chief financial officer and secretary to the Board of Directors. Mr. Fung graduated from the Queensland University of Technology Australia, majoring in accounting. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the CPA Australia. He joined the Group in 2004. Prior to joining the Group, he has over 10 years of experience in auditing, accounting and business advisory with a "Big-4" international accounting firm. Mr. Fung is currently an independent non-executive director of Hainan Meilan International Airport Company Limited, a company listed on the main board of the HKEx (stock code: 0357).

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 the China University of Geosciences, major in civil engineering, and holds a senior engineer qualification. 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, executive chairman of the Zhejiang Enterprises Union in Anhui, vice chairman of the Anhui Journalist Union and a standing committee member of the Hefei Industrial and Commercial Chamber. He joined the Group in 1989.

Mr. Sun Guofan, born in 1962, is a deputy general manager of the Company. Mr. Sun graduated from the Hangzhou College of Commerce majoring in finance and accounting, and is qualified as an accountant in PRC. He joined the Group in 1988.

Mr. Jin Jixiang, born in 1967, is a director and the general manager of Zhejiang Baoye Construction Group Company Limited. Mr. Jin graduated from the China University of Geosciences, majoring in civil engineering and holds a senior engineer qualification. He was awarded the national excellent decoration entrepreneur, Top 10 Outstanding Entrepreneurs of Construction in Zhejiang, Model Worker of Shaoxing City and the Advanced Productivity Worker of Shaoxing City. He joined the Group in 1985.

Mr. Lou Zhonghua, born in 1968, is a director and the general manager of Zhejiang Baoye Real Estate Group Company Limited. He graduated from the China University of Geosciences, majoring in civil engineering and holds a senior engineer qualification. He joined the Group in 1986.

Mr. Wang Rongbiao, born in 1968, is a director and the general manager of Zhejiang Baoye Building Materials Industrialisation Company Limited. Mr. Wang graduated from the Wuhan Science and Technology University majoring in civil engineering, and holds a senior engineer qualification. He joined the Group in 1986.

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 2008.

Principal Activities

The principal activities of the Group are the provision of construction service, manufacture and distribution of building materials and development and sale of properties. 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 2008 are set out in the balance sheets of the consolidated financial statements prepared in accordance with HKFRS on pages 56 to 58.

The results of the Group for the year ended 31 December 2008 prepared in accordance with HKFRS are set out in the consolidated income statement on page 59.

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 23 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 RMB201,018,000 as at 31 December 2008 (2007: RMB219,845,000).

Dividends

At the board meeting held on 9 April 2009, the Board declared a final dividend of RMB0.08 (2007: RMB0.07) per ordinary share for the year ended 31 December 2008. The proposed dividend is not reflected as a dividend payable in these consolidated financial statements for the year ended 31 December 2008.

Segment Information

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

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

The primary reporting of business segments for the year ended 31 December 2008 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 2008, neither the Company nor any of its subsidiaries or jointly controlled entity has purchased, sold or redeemed any of the Company's listed securities.

Directors and Supervisors

The directors and supervisors of the Company for 2008 are as follows:

Directors

Executive Directors

Mr. Pang Baogen *(Chairman of the Board)*	(re-appointed on 15 June 2008)
Mr. Gao Lin	(re-appointed on 15 June 2008)
Mr. Gao Jiming	(re-appointed on 15 June 2008)
Mr. Zhou Hanwan	(re-appointed on 15 June 2008)
Mr. Wang Rongfu	(re-appointed on 15 June 2008)

Independent Non-executive Directors

Mr. Wang Youwei	(re-appointed on 15 June 2008)
Mr. Yi Deqing	(re-appointed on 15 June 2008)
Mr. Hu Shaozeng	(re-appointed on 15 June 2008)
Mr. Chan Yin Ming, Dennis	(re-appointed on 15 June 2008)
Mr. Sun Chuanlin	(re-appointed on 15 June 2008)

Supervisors

Supervisors

Mr. Kong Xiangquan *(Chairman of supervisory committee)*	(re-elected on 15 April 2008)
Mr. Qian Yongjiang	(re-elected on 15 April 2008)

Independent Supervisors

Mr. Chen Xinquan	(re-appointed on 15 June 2008)
Mr. Li Yongsheng	(re-appointed on 15 June 2008)
Mr. Zhang Xindao	(re-appointed on 15 June 2008)

Changes of Directors, Supervisors and Senior Management

During the year of 2008, there is no change of directors, supervisors and senior management except that Mr. Hu Shaozeng was re-appointed and re-designated as independent non-executive director from non-executive director on 15 June 2008. Please refer to the announcement of the Company dated 15 June 2008 for details.

Biographical Details of Directors, Supervisors and Senior Management

Brief biographical details of the directors, supervisors and senior management of the Group are set out on page 40 to 44 of the annual report.

Remuneration of Directors

The remuneration of the directors of the Company is disclosed on an individual named basis in note 33 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 33(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 2008, the interest and short position of each director, supervisor and senior management of the Company in the shares, underlying shares or debentures of the Company or any associated corporation within the meaning of Part XV of the 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

At the 2007 annual general meeting held on 15 June 2008, all appointed directors and supervisors signed their respective new service contracts or appointment letters with the Company, the term of which will expire at the conclusion of the 2010 annual general meeting of the Company. No directors or supervisors have service contracts with the Company, which are not determinable 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' and supervisors' service contracts mentioned above).

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 this report, none of the Directors has any interest in business, which competes or may compete with the business of the Group under the Listing Rules.

Details of Share Offering and Placing

	IPO	The 1st placement of H shares	The 2nd placement of H shares	The 3rd placement of H shares
Class of shares listed	H share	H share	H share	H share
Listing place	Main Board of the HKEx.	Main Board of the HKEx.	Main Board of the HKEx.	Main Board of the HKEx.
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 2008, there was a total share capital of 662,964,005 shares of the Company in issue, 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 information that is publicly available to the Company and to the knowledge of its Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued share as required under the Listing Rules.

Substantial Shareholders

At 31 December 2008, so far as was known to the Directors, the following persons, other than the directors, supervisors and senior management of the Company, have 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	66,000,000	21.14%	9.96%
Goldman Sachs Group, Inc. (Note 1)	43,372,160	13.89%	6.54%
JPMorgan Chase & Co.	25,000,000	8.01%	3.77%
HSBC Global Asset Management (Hong Kong) Limited	22,136,000	7.08%	3.34%

Note:

1. 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.

Human Resources

As at 31 December 2008, the Group had approximately 3,710 employees (2007: approximately 2,005). There are approximately 62,700 indirectly employed construction site workers (2007: approximately 55,600). These workers are not directly employed by the Group. Total staff costs amounted to RMB1,395,565,000 (2007: RMB1,012,835,000) for the year ended 31 December 2008. 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 2008, 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

For the year ended 31 December 2008, the Company, its subsidiaries and jointly controlled entity basically paid PRC corporate income tax at a rate of 25% 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 35 to the consolidated financial statements.

External Guarantee and Fulfillment

	2008 RMB'000	2007 RMB'000
Guarantees given to banks in respect of mortgage facilities granted to third parties	**50,830**	56,657

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 securities.

Litigation and Arbitration

As at the date of this report, the Group had no material litigation and arbitration.

Entrusted Deposits and Overdue Time Deposits

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

Code on Corporate Governance Practices

As at the date of this report, the Group has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules throughout the year, except that the role of the chief executive officer of the Group has been assumed by Mr. Pang Baogen. For details, please refer to the Corporate Governance Report as set out in this annual report.

Auditors

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

The remuneration of the auditors in the year 2008 is set out as follows:

	2008		2007	
	Audit fees RMB'000	Other fees* RMB'000	Audit fees RMB'000	Other fees* RMB'000
PricewaterhouseCoopers	**2,800**	**–**	3,000	–
Shinewing	**360**	**30**	370	30

* Other fees were primarily disbursement for travel expenses.

A resolution will be proposed 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 26 May 2009 to 26 June 2009, both dates 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 registrar in Hong Kong, Tricor Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong (for holders of the Company's H Share) no later than 4:00 p.m. on 25 May 2009.

Appreciation

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

By order of the Board
Pang Baogen
Chairman
Baoye Group Company Limited

Zhejiang, the PRC
9 April 2009

Supervisors' Report

To the Shareholders,

In the year 2008, 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 Rules 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 and the annual 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 Laws 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 to be proposed by the Board for presentation at the forthcoming annual general meeting. We are of the opinion that the directors, chief executive officer and other senior management of the Company had during the year strictly observed their fiduciary duties, acted diligently and exercised their authorities faithfully in the best interests of the Company and the shareholders as a whole. None of the directors, chief executive officer and members of the senior management had been found to have abused their authorities, damaged the interests of the Company and infringed upon the interests of shareholders and employees of the Company.

The Supervisory Committee is satisfied with the achieved operating results and cost-effectiveness of the Company in 2008 and has great confidence in the future of the Company.

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

By Order of the Supervisory Committee
Kong Xiangquan
Chairman
Baoye Group Company Limited

Zhejiang, the PRC
9 April 2009

Independent Auditor's Report

羅兵咸永道會計師事務所

PricewaterhouseCoopers
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Central, Hong Kong
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Facsimile (852) 2810 9888
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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 56 to 118, which comprise the consolidated and company balance sheets as at 31 December 2008, 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 the directors, 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.

TO THE SHAREHOLDERS OF BAOYE GROUP COMPANY LIMITED (continued)

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008, 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, 9 April 2009

Consolidated Balance Sheet

As at 31 December 2008

	Note	As at 31 December 2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*7*	**859,348**	760,593
Investment properties	*8*	**45,235**	43,533
Land use rights	*6*	**748,232**	2,008,189
Goodwill	*9*	**16,534**	16,534
Properties under development	*10*	**54,496**	135,541
Investment in associates	*13*	**28,828**	31,175
Available-for-sale financial assets	*15*	**5,340**	–
Deferred income tax assets	*29*	**28,298**	16,314
		1,786,311	3,011,879
Current assets			
Inventories	*16*	**117,558**	116,291
Land use rights	*6*	**1,694,854**	292,236
Properties under development	*10*	**583,612**	620,424
Completed properties held for sale		**600,129**	130,757
Due from customers on construction contracts	*17*	**1,317,626**	866,751
Trade receivables	*18*	**646,345**	656,635
Other receivables	*19*	**978,323**	931,352
Restricted bank deposits	*20*	**462,631**	248,067
Cash and cash equivalents	*21*	**1,362,935**	818,474
		7,764,013	4,680,987
Total assets		**9,550,324**	7,692,866
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*22*	**662,964**	662,964
Share premium	*22*	**847,295**	847,295
Reserves	*23*	**132,846**	146,746
Retained earnings			
– Proposed final dividend	*38*	**53,037**	46,407
– Others		**1,251,037**	1,155,225
		2,947,179	2,858,637
Minority interests		**43,349**	37,771
Total equity		**2,990,528**	2,896,408

Consolidated Balance Sheet (continued)

As at 31 December 2008

	Note	As at 31 December 2008 RMB'000	2007 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	28	**187,000**	120,000
Deferred income tax liabilities	29	**77,904**	88,775
		264,904	208,775
Current liabilities			
Trade payables	24	**739,283**	706,462
Other payables	25	**870,052**	618,872
Receipts in advance	26	**1,244,750**	689,268
Current income tax liabilities		**250,075**	175,790
Due to customers on construction contracts	17	**850,011**	541,640
Borrowings	28	**2,335,221**	1,851,151
Provision for warranty	27	**5,500**	4,500
		6,294,892	4,587,683
Total liabilities		**6,559,796**	4,796,458
Total equity and liabilities		**9,550,324**	7,692,866
Net current assets		**1,469,121**	93,304
Total assets less current liabilities		**3,255,432**	3,105,183

Pang Baogen
Director

Gao Jiming
Director

The notes on pages 62 to 118 are an integral part of these consolidated financial statements.

Balance Sheet
As at 31 December 2008

	Note	As at 31 December 2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	**34,456**	34,367
Land use rights	6	**210,338**	210,660
Properties under development	10	**53,538**	71,214
Investment in subsidiaries	11	**714,711**	668,980
Interest in a jointly controlled entity	12	**572,575**	536,550
		1,585,618	1,521,771
Current assets			
Amounts due from subsidiaries	11	**290,216**	668,738
Other receivables	19	**50,485**	57,071
Cash and cash equivalents	21	**399,489**	88,451
		740,190	814,260
Total assets		**2,325,808**	2,336,031
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	22	**662,964**	662,964
Share premium	22	**847,295**	847,295
Reserves	23	**68,175**	66,980
Retained earnings			
– Proposed final dividend	38	**53,037**	46,407
– Others		**147,981**	173,438
Total equity		**1,779,452**	1,797,084
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	29	**515**	515
Current liabilities			
Trade payables	24	**–**	10,671
Other payables	25	**12,945**	23,865
Current income tax liabilities		**5,896**	5,896
Borrowings	28	**527,000**	498,000
		545,841	538,432
Total liabilities		**546,356**	538,947
Total equity and liabilities		**2,325,808**	2,336,031
Net current assets		**194,349**	275,828
Total assets less current liabilities		**1,779,967**	1,797,599

Pang Baogen
Director

Gao Jiming
Director

The notes on pages 62 to 118 are an integral part of these consolidated financial statements.

Consolidated Income Statement

For the year ended 31 December 2008

	Note	Year ended 31 December 2008 RMB'000	2007 RMB'000
Revenue	5	**9,437,850**	7,657,066
Cost of sales	32	**(8,834,696)**	(7,120,136)
Gross profit		**603,154**	536,930
Other income	30	**58,992**	77,630
Other gains – net	31	**26,044**	86,491
Selling and marketing costs	32	**(26,422)**	(22,363)
Administrative expenses	32	**(270,844)**	(259,259)
Operating profit		**390,924**	419,429
Finance costs	34	**(97,209)**	(68,288)
Share of losses of associates	13	**(2,347)**	(1,226)
Profit before income tax		**291,368**	349,915
Income tax expense	35	**(135,746)**	(114,277)
Profit for the year		**155,622**	235,638
Attributable to:			
Equity holders of the Company		**150,044**	225,795
Minority interests		**5,578**	9,843
		155,622	235,638
Earnings per share for profit attributable to the equity holders of the Company during the year			
– basic and diluted (expressed in RMB per share)	37	**RMB0.226**	RMB0.343
Dividends	38	**53,037**	46,407

The notes on pages 62 to 118 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

		Attributable to equity holders of the Company						
	Note	Share capital RMB'000	Share premium RMB'000	Reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
Balance at 1 January 2007		610,927	342,808	227,951	962,377	2,144,063	45,191	2,189,254
Transfer of reserves to income statement arising from sale of completed properties held for sale, recognised directly in equity		–	–	(21,338)	–	(21,338)	–	(21,338)
Profit for the year		–	–	–	225,795	225,795	9,843	235,638
Total recognised income and expense for the year		–	–	(21,338)	225,795	204,457	9,843	214,300
Issue of shares		52,037	507,831	–	–	559,868	–	559,868
Share issue cost		–	(3,344)	–	–	(3,344)	–	(3,344)
Reversal of appropriation of statutory surplus reserve arising from adoption of new China accounting standards		–	–	(59,867)	59,867	–	–	–
Dividend relating to 2006		–	–	–	(46,407)	(46,407)	–	(46,407)
Reduction of minority interests resulting from acquisition of additional equity interest in subsidiaries		–	–	–	–	–	(17,263)	(17,263)
Balance at 31 December 2007		662,964	847,295	146,746	1,201,632	2,858,637	37,771	2,896,408
Balance at 1 January 2008		**662,964**	**847,295**	**146,746**	**1,201,632**	**2,858,637**	**37,771**	**2,896,408**
Transfer of reserves to income statement arising from sale of completed properties held for sale, recognised directly in equity		**–**	**–**	**(15,095)**	**–**	**(15,095)**	**–**	**(15,095)**
Profit for the year		**–**	**–**	**–**	**150,044**	**150,044**	**5,578**	**155,622**
Total recognised income and expense for the year		**–**	**–**	**(15,095)**	**150,044**	**134,949**	**5,578**	**140,527**
Transfer to statutory surplus reserve	23(b)	**–**	**–**	**1,195**	**(1,195)**	**–**	**–**	**–**
Dividend relating to 2007	38	**–**	**–**	**–**	**(46,407)**	**(46,407)**	**–**	**(46,407)**
Balance at 31 December 2008		**662,964**	**847,295**	**132,846**	**1,304,074**	**2,947,179**	**43,349**	**2,990,528**

The notes on pages 62 to 118 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Note	Year ended 31 December 2008 RMB'000	2007 RMB'000
Cash flows from operating activities			
Cash generated from /(used in) operations	39	**375,642**	(922,271)
Interest paid		**(119,064)**	(87,626)
Income tax paid		**(84,316)**	(113,107)
Net cash generated from/(used in) operating activities		**172,262**	(1,123,004)
Cash flows from investing activities			
Acquisition of additional equity interest in subsidiaries		**–**	(9,679)
Purchase of property, plant and equipment		**(213,075)**	(212,182)
Purchase of land use rights for construction of property, plant and equipment		**(10,330)**	(20,952)
Purchase of available-for-sale financial assets		**(5,340)**	–
Proceeds from sale of property, plant and equipment and land use rights	39	**50,937**	77,003
Interest received		**45,344**	66,100
Net cash used in investing activities		**(132,464)**	(99,710)
Cash flows from financing activities			
Proceeds from issuance of shares		**–**	559,868
Payment for share issuance costs		**–**	(3,344)
Proceeds from borrowings		**1,753,621**	2,349,060
Repayments of borrowings		**(1,202,551)**	(1,600,688)
Dividends paid to Company's shareholders	38	**(46,407)**	(46,407)
Net cash generated from financing activities		**504,663**	1,258,489
Net increase in cash and cash equivalents		**544,461**	35,775
Cash and cash equivalents at beginning of the year		**818,474**	782,699
Cash and cash equivalents at end of the year		**1,362,935**	818,474

The notes on pages 62 to 118 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 9 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 the 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 and available-for-sale financial assets, 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) Assessment and adoption of new interpretations and amendments effective in 2008

The following new interpretations and amendments to existing standards have been published and are mandatory for the financial year ended 31 December 2008.

- HK(IFRIC) – Int 11: "HKFRS 2 – Group and Treasury Share Transactions"
- HK(IFRIC) – Int 12: "Service Concession Arrangements"
- HK(IFRIC) – Int 14: "HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"
- Amendment to HKAS 39 and HKFRS 7: "Reclassification of Financial Assets"

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) Assessment and adoption of new interpretations and amendments effective in 2008 *(continued)*

Management has assessed the relevance of these new interpretations and amendment with respect to the Group's operations and their impact on the Group's accounting policies is summarised as follows:

(1) 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. This interpretation is not relevant to the Group because the Group has no share-based transaction;

(2) 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 provide public sector services;

(3) 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. This interpretation is not relevant to the Group because the Group has no defined benefit pension scheme;

(4) The HKAS 39, 'Financial instruments: Recognition and measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, 'Financial instruments: Disclosures', introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group's financial statements, as the Group has not reclassified any financial assets.

(b) Standards, interpretations and amendments to published standards which are not yet effective and have not been earlier adopted by the Group

The following new standards, interpretations and amendments to the existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, and have not been early adopted:

- HKAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009)
  The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply HKAS 1 (Revised) from 1 January 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) Standards, interpretations and amendments to published standards which are not yet effective and have not been early adopted by the Group *(continued)*

- HKAS 23 (Revised), '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) complies with the requirement of HKAS 23 (Revised).

- HKAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009)
  The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

- HKFRS 1 (Amendment), 'First time adoption of HKFRS' and HKAS 27 'Consolidated and separate financial statements' (effective from 1 July 2009)
  The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from HKAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The Company will apply HKAS 27 (Amendment) prospectively from 1 January 2010 in its separate financial statements.

- HKFRS 3 (Revised), 'Business combinations' (effective from 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. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) from 1 January 2010.

- Amendment to HKFRS 7, Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments – (effective for annual periods beginning on or after 1 January 2009)
  The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group is currently assessing the impact of the amendment on disclosures in its financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) *Standards, interpretations and amendments to published standards which are not yet effective and have not been early adopted by the Group* *(continued)*

- HKFRS 8, Operating Segment (effective from 1 January 2009)
  HKFRS 8 replaces HKAS 14. The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purpose. Management is in the process of making assessment on the impact on the segment reporting manner.

- HK(IFRIC) – Int 15, 'Agreements for construction of real estates' (effective from 1 January 2009)
  HK(IFRIC) – Int 15 clarifies whether HKAS 18, 'Revenue' or HKAS 11, 'Construction contracts' should be applied to particular transactions. It is likely to result in HKAS 18 being applied to a wider range of transactions. Management does not expect this amendment has significant impact on the Group.

- HK(IFRIC) – Int 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008)
  HK(IFRIC) – Int 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of HKAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. The Group will apply HK(IFRIC) – Int 16 from 1 January 2009. It is not expected to have a material impact on the Group's financial statements.

(c) *Standards, interpretations and amendments to published standards which are not yet effective and not relevant for the Group's operations*

The following new standards, interpretations and amendments to the existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the Group's operations:

- HKAS 32 (Amendment), 'Financial instruments: Presentation', and HKAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009)
  The amended standards require entities to classify puttable financial instruments and instruments, or components of 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 as equity, provided the financial instruments have particular features and meet specific conditions. These amendments are not relevant to the Group because the Group has no such puttable financial instruments and obligation arising on liquidation.

- HKAS 39 (Amendment) 'Financial Instruments: Recognition and Measurement' – 'Eligible hedged items' (effective from 1 July 2009)
  This amendment is to clarify how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation shall be applied in particular situations. This amendment is not relevant to the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(c) Standards, interpretations and amendments to published standards which are not yet effective and not relevant for the Group's operations *(continued)*

- HKFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009)
  The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The 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 as the Group currently does not have any share-based payment transactions.

- HK(IFRIC) – Int 13, 'Customer Loyalty Programmes' (effective from 1 July 2008)
  HK(IFRIC) – 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 customers is allocated between the components of the arrangement using fair values. This interpretation is not relevant to the Group as the Group has no customer loyalty programmes.

- HK(IFRIC) – Int 17, 'Distributions of non-cash assets to owners' (effective from 1 July 2009)
  HK(IFRIC) – Int 17 applies to non-reciprocal distributions of non-cash assets (or with a cash alternative) except for common control transactions and clarifies that: a dividend payable shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; the dividend payable shall be measured at the fair value of the assets to be distributed, and the difference between the dividend paid and the carrying amount of the assets distributed shall be recognised in profit or loss. HK(IFRIC) – Int 17 is not relevant to the Group's operations as the distributions to owners' transactions are settled in cash.

- HK(IFRIC) – Int 18, 'Transfers of assets from customers' (effective from 1 July 2009)
  HK(IFRIC) – Int 18 is particularly relevant for the utility sector. It clarifies the requirements of HKFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). This interpretation is not relevant to the Group.

- Amendment to HK(IFRIC) – Int 9, 'Reassessment of Embedded derivatives' and HKAS 39 'Financial Instrument: Recognition and Measurement' – 'Embedded Derivatives' (effective from 30 June 2009)
  The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives in the reclassified instrument have to be assessed and, if necessary, separately accounted for in financial statements. This amendment is not relevant to the Group.

(d) HKICPA's improvement to HKFRS published in October 2008

In October 2008, HKICPA published its annual improvement project, which made some amendments to HKFRSs to clarify some accounting treatments/disclosure requirements under new/revised HKFRSs and eliminate inconsistency. Management does not expect these amendments have a material impact on the Group's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 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.

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

***(c) Associates** (continued)*

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.

(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.

Foreign exchange gains and losses that related to borrowings and cash and cash equivalents are presented in the consolidated income statements within "finance costs". All other foreign exchange gains and losses are presented in the consolidated income statement within "other gains – net".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currency translation (continued)

(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.

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 available for use. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

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.

2.6 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2.9 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. 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.

Properties under development included in the current assets are expected to be realised in, or are intended for sale in the Group's normal operating cycle.

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

(a) Classification

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 holds financial assets in the category of loans and receivables and available-for-sale financial assets.

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.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

(b) Recognition and measurement

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 assts 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial Assets (continued)

(b) Recognition and measurement *(continued)*

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.

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.

Available-for-sale financial assets are subsequently carried at fair value. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

2.12 Inventories

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Construction contracts

Contract costs are recognised when incurred. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

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

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

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

2.14 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, 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 recognised, 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 government authorities undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the schemes described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post retirement benefits of its employees. The assets of these schemes are held separately from those of the Group in an independently administered fund.

The Group's contributions to the above defined contributions retirement scheme are expensed as incurred. Details of the Group's retirement benefits are set out in Note 33(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 and the properties have been delivered to the purchasers. 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 their cost.

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.

2.24 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Leases (continued)

(i) The Group is the lessee *(continued)*

(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. The upfront payments of the land use rights are recorded as assets and are charged to the consolidated income statement on a straight-line basis over the lease periods. In the course of property development, the amortisation of land use rights is capitalised as the cost of properties under development.

The unamortised upfront payments are recognised as cost of sales when the relevant properties are sold.

Upfront payments of land use rights included in the current assets are expected to be realised in, or are intended for sale in the Group's 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, price 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. The global financial turmoil in 2008 has brought adverse impact on the economic conditions. The property industry, one of the business segments of the Group, is highly sensitive to the economic environment in the PRC, which will affect the volumes of property transactions and selling prices.

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.

In addition, the Group provides construction services in Africa. As a result, the Group holds some monetary assets denominated in the local currencies of the countries in Africa. This exposes the Group to foreign exchange risk.

There is no written policy to manage this foreign exchange risk. Management monitors the Group's currency exposure on an ongoing basis and will enter into hedges when need arises. During the year, the Group did not purchase forward contracts to hedge the foreign exchange risk.

The carrying amount of the Group's and the Company's foreign currency denominated monetary assets and monetary liabilities at 31 December 2008 and 2007 are as follows:

	Group As at 31 December		Company As at 31 December	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Assets				
Hong Kong dollar ("HKD")	**1,900**	4,784	**1,900**	4,784
U.S dollar ("USD")	**19,627**	21,613	**52**	7,891
Djibouti Franc ("DJF")	**19,253**	25,569	**–**	–
Botswana pula ("BWP")	**8,642**	16,757	**–**	–
Seychellesx Rupee ("SCR")	**3,697**	7,043	**–**	–
Other foreign currencies	**227**	2,283	**36**	–
Liabilities				
DJF	**(22,761)**	(26,940)	**–**	–
BWP	**(6,617)**	(2,627)	**–**	–
SCR	**(6,562)**	(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	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Decrease/(increase) in profit for the year				
– HKD	**95**	239	**(95)**	239
– USD	**981**	1,081	**(3)**	395
– DJF	**(175)**	(69)	**–**	–
– BWP	**101**	707	**–**	–
– SCR	**(143)**	171	**–**	–
– Other foreign currencies	**11**	114	**(2)**	–

(ii) Price risk

The Group

The Group is exposed to equity securities price risk because the Group has an available-for-sale financial asset. The available-for-sale financial asset is held for long-term strategic rather than trading purposes. The Group does not actively trade this investment.

To manage the price risk, each investment is managed by senior management, including the executive directors, case by case.

As at 31 December 2008, management considered that the price risk of the equity securities is not material to the Group.

(iii) 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 interest-bearing assets including short-term bank deposits and cash at bank. 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.

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 2008, if interest rates on borrowings had been 1% higher/lower with all other variables held constant, profit for the current year would have been RMB13,353,000 (2007: RMB11,250,000) lower/higher respectively, mainly as a result of higher/lower interest expense on borrowings.

In addition, the Company also has interest bearing assets (short-term bank deposits and cash at bank) and borrowings at variable rates.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(iv) Credit risk

The Group is exposed to credit risk in relation to its trade and other receivables, due from customers on construction contracts, cash deposits with banks and granting of guarantees in respect of mortgage facility to properties' purchasers, which represent the Group's maximum exposure to credit risk.

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 40.

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

In addition, the Company is also exposed to credit risk in relation to its other receivables, amounts due from subsidiaries, cash and cash equivalent and granting of guarantees in respect of bank loans to its subsidiaries, which represent the Company's maximum exposure to credit risk.

(v) 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 bank borrowings, long-term bank borrowings and other 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.

Management have prepared cash flow projections for the year ending 31 December 2009. The key assumptions included (i) the construction business is expected to maintain similar level of net cash inflow in 2008; (ii) certain bank borrowings are expected to be renewed in 2009; (iii) the properties sales in 2009 are expected to be derived from the projects located in Shanghai and Anhui City. The Group has a number of alternative plans to mitigate the potential impact on anticipate cash flows should there be significant adverse changes in economic environment. These include implementing cost control measures, adjusting and slowing down the construction progress as appropriate to ensure available resources for the development of the properties for sales. The directors consider that the Group will be able to maintain sufficient financial resources to meet its operation needs.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

***(v) Liquidity risk** (continued)*

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 2008					
Borrowings	**2,335,221**	**120,000**	**67,000**	**–**	**2,522,221**
Interest of borrowings	**72,469**	**6,578**	**232**	**–**	**79,279**
Trade payables	**739,283**	**–**	**–**	**–**	**739,283**
Other payables (excluding other tax payables)	**730,746**	**–**	**–**	**–**	**730,746**
Total	**3,877,719**	**126,578**	**67,232**	**–**	**4,071,529**
At 31 December 2007					
Borrowings	1,851,151	20,000	100,000	–	1,971,151
Interest of borrowings	55,392	7,724	473	–	63,589
Trade payables	706,462	–	–	–	706,462
Other payables (excluding other tax payables)	514,143	–	–	–	514,143
Total	3,127,148	27,724	100,473	–	3,255,345

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

***(v) 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 2008					
Borrowings	**527,000**	**–**	**–**	**–**	**527,000**
Interest of borrowings	**14,909**	**–**	**–**	**–**	**14,909**
Other payables (excluding other tax payables)	**10,350**	**–**	**–**	**–**	**10,350**
Total	**552,259**	**–**	**–**	**–**	**552,259**
At 31 December 2007					
Borrowings	498,000	–	–	–	498,000
Interest of borrowings	15,899	–	–	–	15,899
Trade payables	10,671	–	–	–	10,671
Other payables (excluding other tax payables)	18,818	–	–	–	18,818
Total	527,489	–	–	–	527,489

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 capital. 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. Total capital is calculated as 'equity attributable to the Company's equity holders', as shown in the consolidated balance sheet.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management (continued)

The gearing ratios at 31 December 2008 and 2007 were as follows:

	As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
Total borrowings *(Note 28)*	**2,522,221**	1,971,151
Less: Cash and cash equivalents *(Note 21)*	**(1,362,935)**	(818,474)
Restricted bank deposits *(Note 20)*	**(462,631)**	(248,067)
Net debt	**696,655**	904,610
Equity attributable to the Company's equity holders	**2,947,179**	2,858,637
Net gearing ratio	**24%**	32%

The decrease in the gearing ratio during 2008 is due to the increase in cash generated from the operating activities.

3.3 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques such as estimated discounted cash flow.

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 2008, the fair value of the investment properties of the Group were estimated at RMB45,235,000 (31 December 2007: RMB43,533,000) as reported by an independent professional valuer, Shaoxing Zhong Xing Assets Valuation Company, by making reference to the current market price of the similar properties in the nearby location.

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

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

Revenues comprise turnover which include revenue from construction services, sales of building materials, proceeds from property sales and other operations.

The revenue attributable from the above three segments is approximately RMB9,357,287,000 and RMB7,597,133,000 for the years ended 31 December 2008 and 2007 respectively.

The Group's other operations mainly comprise the provision of architectural and interior design services, manufacture and sales of construction equipment. Neither of these constitutes a separate reportable segment.

The business segment results for the year ended 31 December 2008 are as follows:

	Year ended 31 December 2008				
	Construction	Building materials	Property development	Others	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total segment revenue	7,888,095	1,430,928	491,092	86,008	9,896,123
Inter-segment revenue	(247,101)	(205,727)	–	(5,445)	(458,273)
External revenue	7,640,994	1,225,201	491,092	80,563	9,437,850
Operating profit/(loss)/segment result	230,229	73,999	98,206	(11,510)	390,924
Finance costs					(97,209)
Share of losses of associates	–	–	(2,347)	–	(2,347)
Profit before income tax					291,368
Income tax expense					(135,746)
Profit for the year					155,622
Other information					
Depreciation	43,882	41,160	1,162	7,562	93,766
Amortisation	6,854	3,808	298	596	11,556
Provision for doubtful debts, net	1,388	506	330	192	2,416

5. SEGMENT INFORMATION (continued)

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

	Year ended 31 December 2007				
	Construction	Building materials	Property development	Others	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*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 profit/segment result	218,880	80,024	117,176	3,349	419,429
Finance costs					(68,288)
Share of losses of associates	–	–	(1,226)	–	(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

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, investment in associates, 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, investment properties and available-for-sale investments.

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

The segment assets and liabilities as at 31 December 2008 and capital expenditure for the year then ended are as follows:

	As at 31 December 2008					
	Business segment					
	Construction RMB'000	Building materials RMB'000	Property development RMB'000	Others RMB'000	Unallocated RMB'000	Group RMB'000
Assets	4,345,225	1,350,473	3,359,358	387,567	78,873	9,521,496
Investments in associates	–	–	28,828	–	–	28,828
Total assets	4,345,225	1,350,473	3,388,186	387,567	78,873	9,550,324
Liabilities	2,054,369	301,473	1,332,646	99,012	2,772,296	6,559,796
Capital expenditure	84,840	57,547	2,167	70,886	10,330	225,770

Segment assets and liabilities as at 31 December 2008 are reconciled to the Group's assets and liabilities as follows:

	Assets RMB'000	Liabilities RMB'000
Segment assets/liabilities	9,471,451	3,787,500
Unallocated:		
– Deferred tax	28,298	–
– Current tax	–	250,075
– Available-for-sale financial assets	5,340	–
– Investment properties	45,235	–
– Borrowings	–	2,522,221
Total	9,550,324	6,559,796

5. SEGMENT INFORMATION (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					
	Business segment					
	Construction *RMB'000*	Building materials *RMB'000*	Property development *RMB'000*	Others *RMB'000*	Unallocated *RMB'000*	Group *RMB'000*
Assets	3,398,731	1,141,889	2,794,231	266,993	59,847	7,661,691
Investments in associates	–	–	31,175	–	–	31,175
Total assets	3,398,731	1,141,889	2,825,406	266,993	59,847	7,692,866
Liabilities	1,779,631	218,335	625,696	25,855	2,146,941	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 *RMB'000*	Liabilities *RMB'000*
Segment assets/liabilities	7,633,019	2,649,517
Unallocated:		
– Deferred tax	16,314	–
– Current tax	–	175,790
– Investment properties	43,533	–
– Borrowings	–	1,971,151
Total	7,692,866	4,796,458

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 also undertook 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

	2008		2007	
	Non-current	**Current**	Non-current	Current
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Opening net book amount	**2,008,189**	**292,236**	792,261	269,136
Additions	**299,353**	**–**	1,287,541	–
Transfer to current portion	**(1,529,204)**	**1,529,204**	(58,643)	58,643
Disposal *(Note 39)*	**(18,550)**	**–**	(1,917)	–
Amortisation				
– expensed in administrative expenses	**(11,556)**	**–**	(11,053)	–
– capitalised in properties under development	**–**	**(17,295)**	–	(3,140)
Transfer to cost of sales	**–**	**(109,291)**	–	(32,403)
End of the year	**748,232**	**1,694,854**	2,008,189	292,236

Company

	Non-current	
	2008	2007
	RMB'000	*RMB'000*
Opening net book amount	**210,660**	211,105
Amortisation		
– expensed in administrative expenses	**(322)**	(445)
End of the year	**210,338**	210,660

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	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Outside Hong Kong, held on:				
Leases of over 50 years	**1,789,330**	1,758,373	**200,000**	200,000
Leases of between 10 to 50 years	**653,756**	542,052	**10,338**	10,660
	2,443,086	2,300,425	**210,338**	210,660

Included in the Group's interests in land use rights as at 31 December 2008 are certain land use rights amounting to RMB210,330,000 (2007: RMB1,363,179,000), 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 2008 are certain land use rights amounting to RMB200,000,000 (2007: 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 2008, total net book values of land use rights pledged as security for the Group's bank borrowings amounted to RMB181,932,000 (2007: RMB177,266,000) (Note 28(a)).

7. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Plant and machinery	Motor vehicles	Office equipment and others	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007						
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	(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
Year ended 31 December 2008						
Opening net book amount	**337,089**	**217,434**	**50,858**	**15,916**	**139,296**	**760,593**
Additions	**28,992**	**26,814**	**10,052**	**17,676**	**131,906**	**215,440**
Transfer	**184,864**	**1,296**	**–**	**–**	**(186,160)**	**–**
Disposals *(Note 39)*	**(9,781)**	**(4,622)**	**(8,417)**	**(99)**	**–**	**(22,919)**
Depreciation charge	**(30,749)**	**(34,409)**	**(11,815)**	**(16,793)**	**–**	**(93,766)**
Closing net book amount	**510,415**	**206,513**	**40,678**	**16,700**	**85,042**	**859,348**
At 31 December 2008						
Cost	**698,478**	**289,302**	**100,333**	**121,086**	**85,042**	**1,294,241**
Accumulated depreciation	**(188,063)**	**(82,789)**	**(59,655)**	**(104,386)**	**–**	**(434,893)**
Net book amount	**510,415**	**206,513**	**40,678**	**16,700**	**85,042**	**859,348**

7. PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation expenses of RMB43,333,000 (2007: RMB52,910,000) has been expensed in cost of sales and RMB50,433,000 (2007: RMB25,608,000) in administrative expenses.

As at 31 December 2008, total net book values of property, plant and equipment pledged as security for the Group's bank borrowings amounted to RMB6,361,000(2007: RMB129,041,000) (Note 28(a)).

Company

	Buildings	Motor vehicles	Office equipment and others	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007					
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
Year ended 31 December 2008					
Opening net book amount	**32,432**	**1,441**	**494**	**–**	**34,367**
Additions	**616**	**–**	**685**	**1,645**	**2,946**
Transfer	**1,645**	**–**	**–**	**(1,645)**	**–**
Depreciation charge	**(1,958)**	**(596)**	**(303)**	**–**	**(2,857)**
Closing net book amount	**32,735**	**845**	**876**	**–**	**34,456**
At 31 December 2008					
Cost	**36,844**	**5,964**	**1,663**	**–**	**44,471**
Accumulated depreciation	**(4,109)**	**(5,119)**	**(787)**	**–**	**(10,015)**
Net book amount	**32,735**	**845**	**876**	**–**	**34,456**

8. INVESTMENT PROPERTIES

	Group	
	2008	2007
	RMB'000	*RMB'000*
Opening net book amount	**43,533**	40,515
Fair value gains (included in other gains – net)	**1,702**	3,018
End of the year	**45,235**	43,533

The investment properties represented a shopping plaza for sales of construction and decoration materials located in Shaoxing County in Zhejiang Province. The following amounts have been recognised in the consolidated income statement:

	2008	2007
	RMB'000	*RMB'000*
Rental income	**320**	635
Direct operating expenses arising from investment properties that generate rental income	**(133)**	(112)

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

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

9. GOODWILL

Group

	Goodwill
	RMB'000
At 1 January 2007, 31 December 2007 and 2008	
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 2008 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 of 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 2008, no impairment provision is required.

10. PROPERTIES UNDER DEVELOPMENT

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Development costs	**550,067**	675,671	**32,717**	43,489
Finance costs capitalised	**88,041**	80,294	**20,821**	27,725
	638,108	755,965	**53,538**	71,214

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Current	**583,612**	620,424	**–**	–
Non-current	**54,496**	135,541	**53,538**	71,214
	638,108	755,965	**53,538**	71,214

As at 31 December 2008, total carrying value of properties under development pledged as security for the Group's bank borrowings amounted to RMB239,736,000 (2007: RMB85,833,000) (Note 28(a)).

11. INVESTMENT IN AND BALANCES WITH SUBSIDIARIES

	Company	
	2008	2007
	RMB'000	*RMB'000*
Investments at cost, unlisted	**714,711**	668,980
Amounts due from subsidiaries *(Note (a))*	**290,216**	668,738
	1,004,927	1,337,718

Note:

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

As at 31 December 2008, the amounts due from subsidiaries are neither past due nor impaired.

11. INVESTMENT IN AND BALANCES WITH SUBSIDIARIES (continued)

The following is a list of the principal subsidiaries as at 31 December 2008:

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 construction related business 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%	–	RMB50,800,000	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
紹興寶業四季園房地產有限公司 Shaoxing Baoye Four Seasons Garden Real Estate Co., Ltd.	PRC, limited liability company	62.5%	37.5%	RMB8,000,000	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%	RMB12,000,000	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, limited liability company	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	100%	–	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
安徽寶業住宅產業化有限公司 Anhui Baoye Building Materials Industrialisation Company Limited	PRC, limited liability company	–	100%	RMB20,000,000	Production and sales of concrete and construction materials in the PRC
合肥寶業混凝土有限公司 Hefei Baoye Concrete Co., Ltd.	PRC, limited liability company	–	100%	RMB12,500,000	Production and sales of concrete and construction materials in the PRC
合肥輕紡城寶業房地產有限公司 Hefei Qingfangcheng Baoye Real Estate Co., Ltd.	PRC, limited liability company	–	100%	RMB30,000,000	Development and sales of properties in the PRC
安徽華勝投資有限公司 Anhui Huateng Investment Company Limited	PRC, limited liability company	–	75.0%	RMB20,000,000	Development and sales of properties in the PRC
寶業湖北建工集團有限公司 Baoye Hubei Construction Engineering Group Co., Ltd.	PRC, limited liability company	90%	10%	RMB61,980,000	Construction and construction related business 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 construction related business 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 construction related business 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
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

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
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
湖北省建工物資產易有限公司 Hubei Construction Engineering Material Trading Co., Ltd.	PRC, limited liability company	–	100%	RMB18,300,000	Provision of leasing services in the PRC
安徽金糧置業有限公司 Anhui Jinliang Real Estate Company Limited	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 Company Limited	PRC, limited liability company	100%	–	RMB80,000,000	Development and management of vacation village in the PRC
合肥中寶機械製造有限公司 Hefei Zhongbao Machinery Manufacture Co., Ltd.	PRC, limited liability company	–	100%	RMB15,000,000	Production and sales of machinery and fittings in the PRC
浙江寶業建築設計研究院有限公司 Zhejiang Baoye Construction Design Research Institute Co., Ltd.	PRC, limited liability company	90%	–	RMB6,000,000	Provision of architectural and interior design services in the PRC
寶業集團浙江建設產業研究院有限公司 Baoye Group Zhejiang Construction Industry Research Institute Co., Ltd.	PRC, limited liability company	20%	79.2%	RMB10,000,000	Construction technology research and development 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 no English names have been registered or available for these companies

12. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

The Group

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 following amounts represented the Group's 49% share of the assets and liabilities, and revenue and results of the jointly controlled entity. They are included in the consolidated balance sheet and income statement:

	2008 *RMB'000*	2007 *RMB'000*
Assets *(Note (a))*		
Non-current assets	**639,004**	536,000
Current assets	**5,266**	550
	644,270	536,550
Liabilities		
Non-current liabilities	**–**	–
Current liabilities	**71,695**	–
Net assets	**572,575**	536,550
Revenue	**–**	–
Expense	**(2,592)**	–
Loss after income tax	**(2,592)**	–
Proportionate interest in the joint controlled entity's commitments	**–**	–

Note (a): The assets mainly represented 49% share of a land use right and properties under development 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 joint venture itself.

The Company

	2008 *RMB'000*	2007 *RMB'000*
Investments at cost, unlisted	**49,000**	49,000
Amounts due from a jointly controlled entity *(Note (a))*	**523,575**	487,550
	572,575	536,550

Note (a): The amounts mainly represented the shareholder loan, together with the relevant interest accrued, made by the Group to the jointly controlled entity. The loans are unsecured, have no fixed repayable term and are bearing interest at 10.98% per annum.

13. INVESTMENT IN ASSOCIATES

	Group 2008 RMB'000	Group 2007 RMB'000
Beginning of the year	**31,175**	32,401
Share of losses	**(2,347)**	(1,226)
End of the year	**28,828**	31,175

As at 31 December 2008, no goodwill is included in investment 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 RMB'000	Liabilities RMB'000	Revenues RMB'000	Profit/ (loss) RMB'000	% interest Held
2008						
Hubei Construction Engineering Land Co., Ltd.	PRC	**97,519**	**(71,348)**	**–**	**(1,951)**	**34%**
Wuhan Modern Real Estate Development Co., Ltd.	PRC	**86,540**	**(83,883)**	**–**	**(396)**	**30%**
		184,059	**(155,231)**	**–**	**(2,347)**	
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. FINANCIAL INSTRUMENTS BY CATEGORY

	Group		Company
	Loans and receivables	Available-for-sale financial assets	Loans and receivables
	RMB'000	*RMB'000*	*RMB'000*
Assets			
At 31 December 2008			
Available-for-sale financial assets *(Note 15)*	**–**	**5,340**	**–**
Trade receivables *(Note 18)*	**646,345**	**–**	**–**
Other receivables (excluding prepayments) *(Note 19)*	**889,391**	**–**	**50,112**
Amounts due from subsidiaries *(Note 11)*	**–**	**–**	**290,216**
Restricted bank deposits *(Note 20)*	**462,631**	**–**	**–**
Cash and cash equivalents *(Note 21)*	**1,362,935**	**–**	**399,489**
Total	**3,361,302**	**5,340**	**739,817**
At 31 December 2007			
Trade receivables *(Note 18)*	656,635	–	–
Other receivables (excluding prepayments) *(Note 19)*	880,088	–	55,243
Amounts due from subsidiaries *(Note 11)*	–	–	668,980
Restricted bank deposits *(Note 20)*	248,067	–	–
Cash and cash equivalents *(Note 21)*	818,474	–	88,451
Total	2,603,264	–	812,674

	Group	Company
	Financial liabilities stated at amortised cost	Financial liabilities stated at amortised cost
	RMB'000	*RMB'000*
Liabilities		
At 31 December 2008		
Accounts payables *(Note 24)*	**739,283**	**–**
Other payables and accruals (excluding other tax payables) *(Note 25)*	**730,746**	**10,350**
Borrowings *(Note 28)*	**2,522,221**	**527,000**
Total	**3,992,250**	**537,350**
At 31 December 2007		
Accounts payables *(Note 24)*	706,462	10,671
Other payables and accruals (excluding other tax payables) *(Note 25)*	514,143	18,818
Borrowings *(Note 28)*	1,971,151	498,000
Total	3,191,756	527,489

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The available-for-sale financial assets represented 11% equity interest in Zhejiang Yuezhou Guarantee Co., Ltd ("Zhejiang Yuezhou"), which is an unlisted company.

On 22 November 2008, Zhejiang Yuezhou was established by certain construction companies in Shaoxing County and the Group is one of the founders. Zhejiang Yuezhou mainly provides the guarantee services to construction companies (mainly the founders) in bidding process and it did not commence operation as at 31 December 2008. Management considered that there was no material change in the fair value of this investment since the Group made capital injection.

16. INVENTORIES

	Group	
	2008	2007
	RMB'000	*RMB'000*
Raw materials	**68,517**	48,427
Work in progress	**32,235**	20,968
Finished goods	**16,806**	46,896
	117,558	116,291

17. 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	
	2008	2007
	RMB'000	*RMB'000*
Contract costs incurred plus recognised profits (less recognised losses) to date	**25,882,037**	23,334,823
Less: progress billings to date	**25,414,422**	(23,009,712)
	467,615	325,111
Represented by:		
Due from customers on construction contracts	**1,317,626**	866,751
Due to customers on construction contracts	**(850,011)**	(541,640)
	467,615	325,111

As at 31 December 2008, retentions and project deposits held by customers for contract work included in other receivables of the Group amounted to RMB683,465,000 (2007: RMB711,333,000) (Note 19).

18. TRADE RECEIVABLES

	Group	
	2008	2007
	RMB'000	*RMB'000*
Trade receivables	**672,311**	680,185
Less: provision for doubtful debts	**(25,966)**	(23,550)
	646,345	656,635

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.

As at 31 December 2008, the ageing analysis of the trade receivables is as follows:

	2008	2007
	RMB'000	*RMB'000*
Within 3 months	**283,477**	347,340
3 months to 1 year	**227,898**	241,457
1 to 2 years	**84,789**	39,710
2 to 3 years	**25,682**	26,988
Over 3 years	**50,465**	24,690
	672,311	680,185

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 2008, trade receivables of RMB124,364,000 (2007: RMB43,056,000) 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:

	2008	2007
	RMB'000	*RMB'000*
1 to 2 years	**72,327**	21,790
2 to 3 years	**20,673**	14,811
Over 3 years	**31,364**	6,455
	124,364	43,056

18. TRADE RECEIVABLES (continued)

As of 31 December 2008, trade receivables of RMB36,572,000 (2007: RMB48,332,000)) were impaired. The amount of the provision was RMB25,966,000 as of 31 December 2008 (2007: RMB23,550,000). The individually impaired receivables mainly relate to customers which are in unexpected difficult financial situations. It was assessed that a portion of these receivables is expected to be recovered. The ageing of these receivables is as follows:

	2008 *RMB'000*	2007 *RMB'000*
1 to 2 years	**12,462**	17,920
2 to 3 years	**5,009**	12,177
Over 3 years	**19,101**	18,235
	36,572	48,332

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

	2008 *RMB'000*	2007 *RMB'000*
At 1 January	**23,550**	15,177
Provision for receivable impairment	**2,416**	8,373
At 31 December	**25,966**	23,550

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 RMB2,353,000 (2007: RMB2,683,000), in BWP in equivalent of RMB2,167,000 (2007: RMB61,000) and in SCR in equivalent of RMB827,000 (2007: RMB224,000) as at 31 December 2008.

19. OTHER RECEIVABLES

	Group		Company	
	2008 *RMB'000*	2007 *RMB'000*	2008 *RMB'000*	2007 *RMB'000*
Retention money receivables and project deposits *(Note 17)*	**683,465**	711,333	**–**	–
Prepayments	**88,932**	51,264	**373**	1,828
Deposits for a real estate development project	**50,000**	50,000	**50,000**	50,000
Others	**155,926**	118,755	**112**	5,243
	978,323	931,352	**50,485**	57,071

The net book value of other receivables approximates their fair value. No other receivables were past due or impaired. The recoverability is assessed by reference to debtors' credit status and their historical default rates.

All other receivables are denominated in RMB, except for certain other receivables which are denominated in DJF in equivalent of RMB329,000 (2007: RMB2,560,000), in BWP in equivalent of RMB554,000 (2007: RMB5,919,000) and in SCR in equivalent of RMB182,000 (2007: RMB484,000) as at 31 December 2008.

20. RESTRICTED BANK DEPOSITS

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

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at bank and in hand	**1,690,760**	1,026,676	**368,166**	77,451
Short-term bank deposits	**134,806**	39,865	**31,323**	11,000
	1,825,566	1,066,541	**399,489**	88,451
Denominated in RMB	**1,778,632**	1,000,423	**397,501**	75,776
Denominated in HKD	**1,900**	4,784	**1,900**	4,784
Denominated in USD	**19,627**	21,613	**52**	7,891
Denominated in DJF	**16,571**	20,326	**–**	–
Denominated in BWP	**5,921**	10,777	**–**	–
Denominated in SCR	**2,688**	6,335	**–**	–
Denominated in other currencies	**227**	2,283	**36**	–
	1,825,566	1,066,541	**399,489**	88,451
Less: Restricted bank deposit *(Note 20)*	**(462,631)**	(248,067)	**–**	–
	1,362,935	818,474	**399,489**	88,451

The effective interest rates for the year of the short-term bank deposits of the Group and the Company are 1.55% (2007:4.63%) and 1.06% (2007: 1.62%) respectively, and these deposits have original maturities of three months or less.

As at 31 December 2008, approximately 74% (2007: 80%) of cash and cash equivalent are placed in the state-owned banks in the PRC.

22. SHARE CAPITAL AND PREMIUM

	Number of shares (thousands)	Ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
At 1 January 2007	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 and 2008	**662,964**	**662,964**	**847,295**	**1,510,259**

As at 31 December 2008, the total authorised number of ordinary shares is 662,964,005 shares (2007: 662,964,005 shares) with a par value of RMB1.00 per share (2007: RMB1.00 per share). All issued shares are fully paid.

23. RESERVES

The Group

	Assets revaluation reserve RMB'000 (Note (a))	Statutory surplus reserve RMB'000 (Note (b))	Total RMB'000
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
Balance at 1 January 2008	**79,766**	**66,980**	**146,746**
Appropriation from retained earnings	**–**	**1,195**	**1,195**
Transfer of reserves to income statement arising from sale of completed properties held for sale	**(15,095)**	**–**	**(15,095)**
Balance at 31 December 2008	**64,671**	**68,175**	**132,846**

23. RESERVES

The Company

	Statutory surplus reserve RMB'000 (Note (b))
Balance at 1 January 2007	129,556
Reversal of appropriation of statutory surplus reserve arising from adoption of new China accounting standards *(Note (c))*	(62,576)
Balance at 31 December 2007	66,980
Balance at 1 January 2008	**66,980**
Appropriation from retain earnings	**1,195**
Balance at 31 December 2008	**68,175**

Note:

(a) Assets revaluation reserve
Assets revaluation reserve relates to the fair value adjustments arising from business combination.

(b) Statutory surplus reserve
All PRC incorporated companies within the Group are required each year to transfer 10% of the profit after tax as reported in the PRC statutory accounts to the statutory surplus reserve until the balance reaches 50% of the registered share capital. This reserve can be used to reduce any losses incurred or to increase ordinary shares. Except for the reduction due to losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.

(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 accordingly, the Group and Company reversed the statutory surplus reserve of RMB59,867,000 and RMB62,576,000, respectively.

24. TRADE PAYABLES

As at 31 December 2008, the ageing analysis of the trade payables is as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 3 months	**197,876**	298,742	**–**	–
3 months to 1 year	**264,120**	256,086	**–**	19
1 to 2 years	**163,068**	99,053	**–**	10,652
2 to 3 years	**52,776**	17,747	**–**	–
Over 3 years	**61,443**	34,834	**–**	–
	739,283	706,462	**–**	10,671

25. OTHER PAYABLES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deposits from project managers	**319,731**	208,676	**–**	–
Other taxes payables	**139,306**	104,729	**2,595**	5,047
Accruals	**24,702**	11,385	**5,950**	4,400
Amounts due to shareholders *(Note (a))*	**2,750**	4,107	**–**	–
Others	**383,563**	289,975	**4,400**	14,418
	870,052	618,872	**12,945**	23,865

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

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

26. RECEIPTS IN ADVANCE

The receipts in advance mainly represented the proceeds from the pre-sale of the properties.

27. PROVISION FOR WARRANTY

	Group	
	2008	2007
	RMB'000	*RMB'000*
At 1 January	**4,500**	4,250
Charged to the income statement		
– Additional provisions	**2,550**	1,990
Incurred during the year	**(1,550)**	(1,740)
At 31 December	**5,500**	4,500

The Group gives warranty on construction work and undertakes to make up defect that are 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.

28. BORROWINGS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Borrowings included in non-current liabilities				
Long-term bank borrowings				
– Secured *(Note (a))*	**117,000**	50,000	**–**	–
– unsecured	**70,000**	70,000	**–**	–
	187,000	120,000	**–**	–
Borrowings included in current liabilities				
Short-term bank borrowings				
– Secured *(Note (a))*	**116,000**	128,000	**46,000**	46,000
– Unsecured with guarantee *(Note (b))*	**873,000**	452,000	**433,000**	160,000
– Other unsecured	**1,146,600**	1,271,151	**48,000**	292,000
	2,135,600	1,851,151	**527,000**	498,000
Short-term other loans				
– Unsecured with guarantee *(Note (c))*	**199,621**	–	**–**	–
	2,335,221	1,851,151	**527,000**	498,000
	2,522,221	1,971,151	**527,000**	498,000

Notes:

(a) As at 31 December 2008, the secured bank borrowings were secured by the respective land use rights, property, plant and equipment and properties under development of the Group with net book value amounting to RMB181,932,000 (2007: RMB177,266,000), RMB6,361,000 (2007: RMB129,041,000) and RMB239,736,000 (2007: RMB85,833,000), respectively.

(b)

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Guaranteed by:				
Mr. Pang Baogen, chairman of the Board of Directors of the Company	**200,000**	452,000	**150,000**	160,000
Mr. Pang Baogen and the Company (jointly)	**390,000**	–	**–**	–
Mr. Pang Baogen and Zhejiang Baoye Construction Group Co., Ltd. a subsidiary of the Company (jointly)	**283,000**	–	**283,000**	–
	873,000	452,000	**433,000**	160,000

(c) As at 31 December 2008, the short-term other loan was provided by China Foreign Economy and Trade Trust Co., Ltd and guaranteed by China Construction Bank Shaoxing Branch.

28. BORROWINGS (continued)

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

The borrowings are repayable as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**2,335,221**	1,851,151	**527,000**	498,000
Between 1 and 2 years	**120,000**	20,000	**–**	–
Between 2 and 5 years	**67,000**	100,000	**–**	–
Over 5 years	**–**	–	**–**	–
Borrowings	**2,522,221**	1,971,151	**527,000**	498,000

The weighted average effective interest rates as at 31 December 2008 and 2007 were as follows:

	Group		Company	
	2008	2007	**2008**	2007
Bank borrowings	**5.82%**	6.07%	**6.56%**	6.11%
Other loans	**7.04%**	–	**–**	–

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

The fair values of borrowings approximate their carrying amounts.

29. 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	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred tax assets:				
– Deferred tax assets to be recovered after more than 12 months	**13,887**	8,418	**–**	–
– Deferred tax assets to be recovered within 12 months	**14,411**	7,896	**–**	–
	28,298	16,314	**–**	–
Deferred tax liabilities:				
– Deferred tax liabilities to be settled after more than 12 months	**(46,498)**	(56,095)	**(515)**	(515)
– Deferred tax liabilities to be settled within 12 months	**(31,406)**	(32,680)	**–**	–
	(77,904)	(88,775)	**(515)**	(515)
	(49,606)	(72,461)	**(515)**	(515)

The movement on deferred income tax account is as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Opening net book amount	**(72,461)**	(117,938)	**(515)**	(679)
Recognised in the income statement *(Note 35)*	**22,855**	45,477	**–**	164
End of the year	**(49,606)**	(72,461)	**(515)**	(515)

29. 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 receivables impairment	Tax losses	Unrealised profit resulting from intragroup transactions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	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**
Recognised in the income statement	**456**	**864**	**10,664**	**11,984**
At 31 December 2008	**10,719**	**864**	**16,715**	**28,298**

Deferred tax liabilities

	Group				Company
	Accelerated tax depreciation	Fair value adjustment on assets upon acquisition	Interest capitalised	Total	Interest capitalised
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	(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)**
Recognised in the income statement	**140**	**10,907**	**(176)**	**10,871**	**–**
At 31 December 2008	**–**	**(74,654)**	**(3,250)**	**(77,904)**	**(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 RMB11,901,000 (2007: RMB4,515,999) in respect of losses amounting to RMB47,604,000 (2007: RMB18,058,000) that can be carried forward against future taxable income. These tax losses will expire at various dates up to and including 2012 (2007: 2011).

30. OTHER INCOME

	2008 RMB'000	2007 RMB'000
Interest income	**45,344**	66,100
Rental income	**13,648**	11,530
	58,992	77,630

31. OTHER GAINS – NET

	2008 RMB'000	2007 RMB'000
Gains/(losses) on disposals of property, plant and equipment and land use rights	**9,468**	(40,752)
Government compensation *(Note (a))*	**6,314**	80,801
Write-back of other payables *(Note (b))*	**3,746**	24,001
Gains on debts restructuring	**2,570**	9,141
Excess of interest in the acquired net assets from minority shareholders over cost	**–**	7,584
Fair value gains on investment properties *(Note 8)*	**1,702**	3,018
Others	**2,244**	2,698
	26,044	86,491

(a) In 2007, government compensation mainly represented the compensations received from the local government authorities for the resulting losses on disposals of property, plant and equipment and land use rights arising from the relocation of the plant facilities of the Group, as the relocation was requested by the local government authorities according to the relevant town redevelopment plans.

(b) 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.

32. EXPENSES BY NATURE

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

	2008 RMB'000	2007 RMB'000
Depreciation of property, plant and equipment *(Note 7)*	**93,766**	78,518
Amortisation of land use rights charged into income statement *(Note 6)*	**11,556**	11,053
Employee benefit expenses *(Note 33)*	**1,395,565**	1,012,835
Cost of inventories and properties sold	**7,473,444**	6,130,404
Operating leases of buildings	**7,531**	6,176
Auditors' remuneration	**2,800**	3,000
Others	**147,300**	159,772
	9,131,962	7,401,758

33. EMPLOYEE BENEFIT EXPENSES

	2008 RMB'000	2007 RMB'000
Wages and salaries	**1,366,187**	989,820
Welfare, medical and other expenses	**19,672**	15,337
Retirement benefit costs – defined contribution plans *(Note (a))*	**9,706**	7,678
	1,395,565	1,012,835

(a) Retirement benefit costs

As stipulated by the Government regulations in the PRC, the Group 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 20% (2007: 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.

(b) Directors' and supervisors' emoluments

The remuneration of each director and supervisor for the year ended 31 December 2008 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	9	609
Mr. Gao Jiming	–	450	8	458
Mr. Zhou Hanwan	–	450	8	458
Mr. Gao Lin	–	450	8	458
Mr. Wang Rongfu	–	467	8	475
Mr. Hu Shaozeng	38	–	–	38
Mr. Wang Youwei	38	–	–	38
Mr. Yi Deqing	38	–	–	38
Mr. Chan Yin Ming, Dennis	180	–	–	180
Mr. Sun Chuanlin	38	–	–	38
Mr. Kong Xiangquan *(Note (i))*	–	416	8	424
Mr. Qian Yongjiang *(Note (i))*	–	350	8	358
Mr. Chen Xingquan	20	–	–	20
Mr. Zhang Xindao	20	–	–	20
Mr. Li Yongsheng	20	–	–	20
	392	3,183	57	3,632

33. EMPLOYEE BENEFIT EXPENSES (continued)

(b) Directors' and supervisors' emoluments (continued)

The remuneration of each director and supervisor for the year ended 31 December 2007 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	6	606
Mr. Gao Jiming	–	450	6	456
Mr. Zhou Hanwan	–	450	6	456
Mr. Gao Lin	–	450	6	456
Mr. Wang Rongfu	–	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	19	–	–	19
Mr. Sun Guofan *(Note (i))*	–	120	2	122
Mr. Xie Qisheng *(Note (i))*	–	13	1	14
Mr. Kong Xiangquan *(Note (i))*	–	439	6	445
Mr. Qian Yongjiang *(Note (i))*	–	350	6	356
Mr. Chen Xingquan	20	–	–	20
Mr. Zhang Xindao	20	–	–	20
Mr. Li Yongsheng	20	–	–	20
	358	3,341	45	3,744

Note:

(i) Mr. Sun Guofan and Mr. Xie Qisheng resigned from their position as supervisors on 16 April 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 2008 and 2007, no director waived any emoluments. Neither incentive payment for joining the Group nor compensation for loss of office was paid or payable to any directors during the years ended 31 December 2008 and 2007.

(c) Five highest paid individuals

The 5 individuals whose emoluments were the highest in the Group for the year include four (2007: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2007: one) individual during the year are as follows:

	2008 ***RMB'000***	2007 *RMB'000*
Basic salaries and allowances	**520**	420

34. FINANCE COSTS

	2008 RMB'000	2007 RMB'000
Interest on borrowings wholly repayable within five years	**119,064**	87,626
Less: interest capitalised in construction in progress	**(2,365)**	(3,122)
Less: interest capitalised in properties under development	**(19,490)**	(16,216)
	97,209	68,288

The capitalisation rates applied to funds borrowed generally and used for the development of properties and construction in progress were approximately 7.5% (2007: 6%) per annum.

35. INCOME TAX EXPENSE

(i) Hong Kong Profits Tax

No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the year (2007: Nil).

(ii) PRC Enterprise Income Tax

PRC Enterprise Income Tax ("EIT") is provided on the assessable income of the Group's entities incorporated in the PRC, calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances.

The Company and its subsidiaries are subject to EIT at a rate of 25% (2007: 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% effective from 1 January 2008. As a result, the enterprise income tax rate of the Company and its subsidiaries incorporated in the PRC has been changed from 33% to 25% effective from 1 January 2008.

(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:

	2008 RMB'000	2007 RMB'000
Current income tax		
– PRC enterprise income tax	**111,370**	132,835
– PRC land appreciation tax	**47,231**	26,919
Deferred income taxes relating to the origination and reversal of temporary differences *(Note 29)*	**(22,855)**	(16,886)
Deferred income taxes resulting from change in the tax rates	**–**	(28,591)
	135,746	114,277

35. INCOME TAX EXPENSE (continued)

(iii) PRC land appreciation tax (continued)

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

	2008	2007
	RMB'000	*RMB'000*
Profit before income tax	**291,368**	349,915
Add: share of loss of associates	**2,347**	1,226
	293,715	351,141
Calculated at a tax rate of 25% (2007: 33%)	**73,429**	115,877
Effect of change in tax rate	**–**	(28,591)
Income not subject to tax	**–**	(3,038)
Expenses not deductible for tax purposes	**2,848**	1,297
Unrecognised tax losses	**26,728**	17,452
Utilisation of previously unrecognised tax losses	**(2,682)**	(6,756)
PRC land appreciation tax deductible for PRC enterprise income tax purpose	**(11,808)**	(8,883)
	88,515	87,358
PRC land appreciation tax	**47,231**	26,919
Income tax expense	**135,746**	114,277

36. 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 profit of RMB27,580,000 (2007: loss of RMB15,951,000).

37. 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.

	2008	2007
Profit attributable to equity holders of the Company *(RMB'000)*	**150,044**	225,795
Weighted average number of ordinary shares in issue *(thousands shares)*	**662,964**	658,628
Basic earnings per share *(RMB)*	**RMB0.226**	RMB0.343

Diluted

The Company had no dilutive potential shares in issue in both 2007 and 2008, thus the diluted earnings per share is the same as the basic earnings per share.

38. DIVIDENDS

	2008 RMB'000	2007 RMB'000
Proposed final dividend of RMB0.08 (2007: RMB0.07) per ordinary share	**53,037**	46,407

The directors recommend the payment of a final dividend of RMB0.08 per ordinary share, totalling RMB53,037,000. Such dividend is to be approved by the shareholders of the Company at the Annual General Meeting scheduled to be held on 26 June 2009. These 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 2007 was paid in 2008.

39. CASH GENERATED FROM/(USED IN) OPERATIONS

	2008 RMB'000	2007 RMB'000
Profit for the year	**155,622**	235,638
Adjustments for:		
Income tax expenses *(Note 35)*	**135,746**	114,277
Depreciation *(Note 7)*	**93,766**	78,518
Amortisation of land use rights *(Note 6)*	**11,556**	11,053
(Gains)/losses on disposal of property, plant and equipment and land use rights *(Note 31)*	**(9,468)**	40,752
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)
Reserves transfer to income statement arising from sales of completed properties held for sale	**(15,095)**	(21,338)
Fair value gains on investment properties	**(1,702)**	(3,018)
Interest income *(Note 30)*	**(45,344)**	(66,100)
Finance cost *(Note 34)*	**97,209**	68,288
Share of losses from associates *(Note 13)*	**2,347**	1,226
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	**(494,462)**	(1,305,589)
Increase in restricted bank deposits	**(214,564)**	(122,365)
Increase in inventories	**(1,267)**	(36,489)
Increase in balances with customers on construction contracts	**(142,504)**	(15,793)
Increase in trade and other receivables	**(36,681)**	(183,472)
Increase in receipts in advance	**555,482**	426,611
Increase/(decrease) in trade and other payables, and provision for warranty	**285,001**	(74,627)
Cash generated from/(used in) operations	**375,642**	(922,271)

39. CASH GENERATED FROM OPERATIONS (continued)

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

	2008 *RMB'000*	2007 *RMB'000*
Net book amount of land use rights *(Note 6)*	**18,550**	1,917
Net book amount of property, plant and equipment *(Note 7)*	**22,919**	53,579
Gains/(losses) on disposal of property, plant and equipment and land use rights *(Note 31)*	**9,468**	(40,752)
	50,937	14,744
Government compensation related to disposal of property, plant and equipment and land use rights	**–**	62,259
Proceeds from disposal of property, plant and equipment and land use rights	**50,937**	77,003

40. GUARANTEES

	Group		Company	
	2008 *RMB'000*	2007 *RMB'000*	2008 *RMB'000*	2007 *RMB'000*
Guarantees given to banks in respect of mortgage facilities granted to third parties *(Note (a))*	**50,830**	56,657	**–**	–
Guarantees given to banks in respect of bank loans granted to subsidiaries *(Note (b))*	**–**	–	**1,006,000**	836,000

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 securities.

(b) The Company has executed guarantees amounting to approximately RMB1,495,000,000 (2007: RMB1,720,000,000) with respect to banking facilities made available to subsidiaries. As at 31 December 2008, the borrowings outstanding against the facilities amounted to RMB1,006,000,000 (2007: RMB836,000,000).

41. COMMITMENTS

(a) Commitments for properties under development

	2008 *RMB'000*	2007 *RMB'000*
Contracted but not provided for	**82,791**	37,831

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

As at 31 December 2008, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2008 *RMB'000*	2007 *RMB'000*
Not later than one year	**3,378**	2,646
Later than one year and not later than five years	**2,016**	2,127
	5,394	4,773

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

As at 31 December 2008, the Group had future aggregate minimum lease receivable under non-cancellable operating leases in respect of land and buildings as follows:

	2008 *RMB'000*	2007 *RMB'000*
Not later than one year	**2,595**	2,860
Later than one year and not later than five years	**5,016**	4,969
Later than five years	**2,029**	2,608
	9,640	10,437

42. RELATED-PARTY TRANSACTIONS

Apart from the related party balances disclosed in Note 12, Note 25(a) and related party transactions disclosed in Note 28(b), the Group had the following significant related party transactions during the year ended 31 December 2008.

Key management compensation

	2008 *RMB'000*	2007 *RMB'000*
Salaries and other short-term employee benefits	**3,632**	3,744

Key management of the Group included the directors and supervisors.

Definition

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

The Company/Baoye	Baoye Group Company Limited, a joint stock limited company incorporated in the PRC and listed on the Main Board of HKEx.
The Group/Baoye Group	Baoye Group Company Limited, its subsidiaries and jointly controlled entity
Baoye Construction	Zhejiang Baoye Construction Group Company Limited, a subsidiary of the Group
Baoye Real Estate	Zhejiang Baoye Real Estate Group Company Limited, a subsidiary of the Group
Baoye Industrialisation	Zhejiang Baoye Building Materials Industrialisation Company Limited, a subsidiary of the Group
Anhui Baoye	Baoye Group Anhui Company Limited, a subsidiary of the Group
Hubei Baoye	Baoye Hubei Construction Group Company Limited, a subsidiary of the Group
Construction business	The activities of undertaking and implementation of construction projects conducted by the Group
Property development business	The activities of development and sale of real estate conducted by the Group
Building materials business	The activities of research and development, production and sale of building materials conducted by the Group
Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
SFO	Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong
H share	Overseas listed foreign share of nominal value RMB1.00 each in the registered capital of the Company, which are listed on the HKEx, and subscribed for in HK dollars
HKEx	The Stock Exchange of Hong Kong Limited
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers
Board	The Board of Directors of Baoye Group Company Limited
Supervisory Committee	The Supervisory Committee of Baoye Group Company Limited
Daiwa Japan	Daiwa House Industry Company Limited in Japan
Company Law	The Company Law of the People's Republic of China

Information for Shareholders

Directors

Executive Directors

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

Independent Non-executive Directors

Mr. Wang Youwei
Mr. Yi Deqing
Mr. Hu Shaozeng
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

Auditors

International Auditor

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

Statutory Auditor

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Beijing, PRC
Post Code: 100027

Legal Advisers

As to Hong Kong law

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8 Finance Street
Central, Hong Kong

As to PRC law

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No.20 Chaoyangmen Waidajie
Beijing, PRC
Post Code: 100020

Hong Kong Share Registrar

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26th Floor, Tesbury Centre,
28 Queen's Road East,
Hong Kong

Investor Relations Consultant

Strategic Financial Relations (China) Limited
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18 Harcourt Road, Hong Kong

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Room 1902, MassMutual Tower
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Authorised Representatives

Mr. Pang Baogen
Mr. Gao Jiming

Stock Code

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Contact

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IMPORTANT DATES IN 2009

Events	Date
Closure of register of members of the Company	26 May 2009 to 26 June 2009 (both dates inclusive)
Annual General Meeting of 2008	26 June 2009
Payment date of final dividend of 2008	15 July 2009

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

Website 網址：**www.baoyegroup.com**