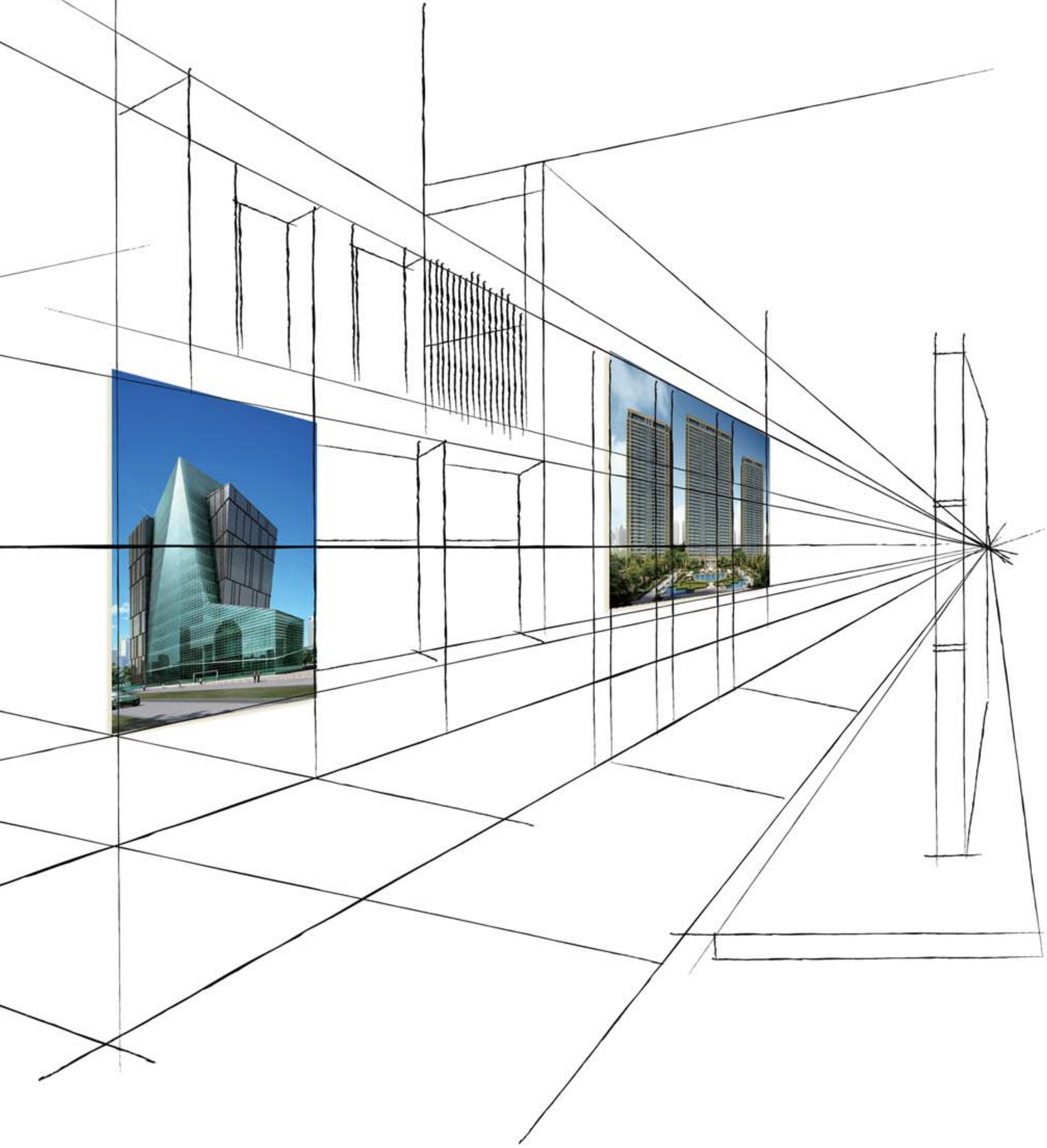
BAOYE GROUP COMPANY LIMITED
寶業集團股份有限公司

(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

annual report 2010 年年報

領先的中國城市化營運商

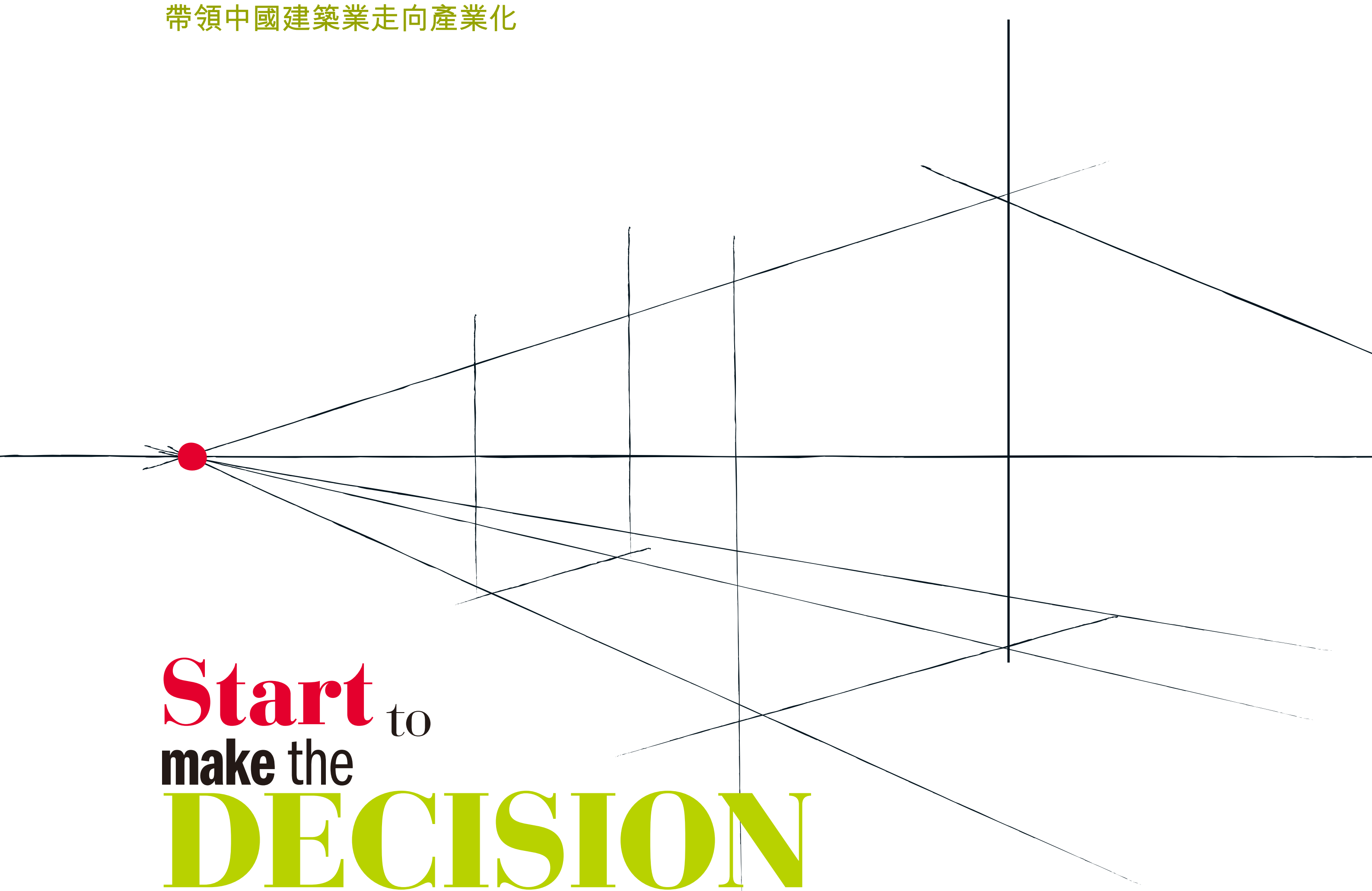


Our Mission

“From construction to manufacturing” leads construction industry towards industrialisation in China.

我們的使命

「從建造到製造」
帶領中國建築業走向產業化



Start to make the DECISION

Step one

Content

CORPORATE PROFILE

BUSINESS STRUCTURE

Baoye Group Company Limited

Building Materials Business

- Ready-mixed Concrete
- Curtain Wall
- Wood Products and Interior Decorations
- Steel Structure
- Concrete Pipes
- Fireproof Materials
- Others

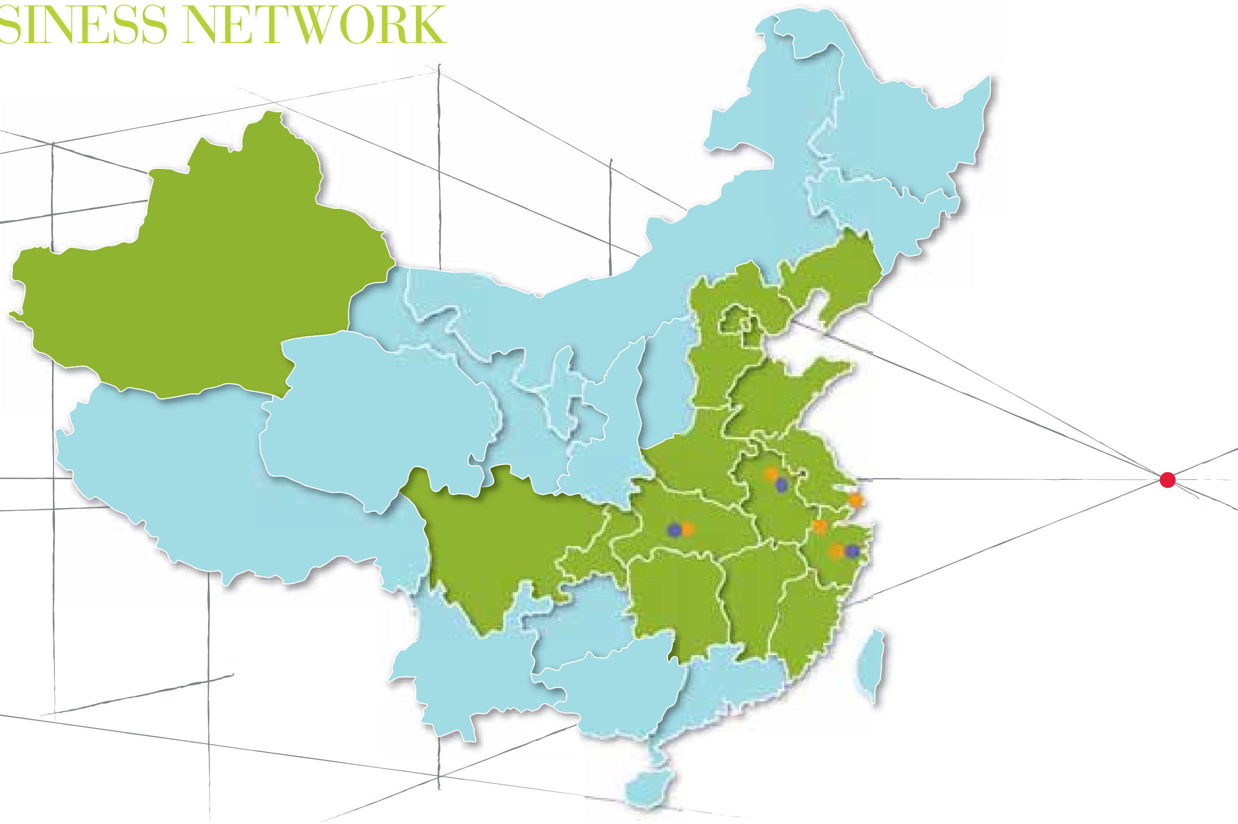
Construction Business

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

Property Development Business

- Shaoxing “Baoye Four Seasons Garden”
- Shaoxing “Daban Fengqing”
- Shaoxing “Yuyuan”
- Shaoxing “Yangxun Commercial Center”
- Shaoxing “Jiangwan Green Garden”
- Hefei “City Green Garden”
- Hefei “Baoye Tongcheng Green Garden”
- Hefei “Baoye Dongcheng Square”
- Wuhan “Baoye Xudong Yayuan”
- Hangzhou Xiaoshan “Jiangwan Luyuan”

BUSINESS NETWORK



Building Materials Business

- Shaoxing Building Materials Industrial Park
- Hefei Building Materials Industrial Park
- Wuhan Building Materials Industrial Park

Construction Business

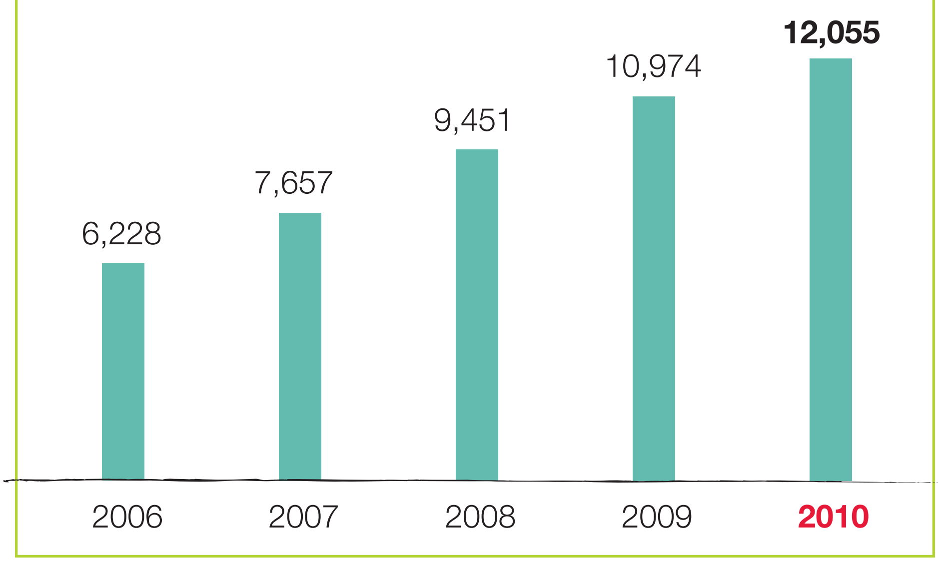
- Zhejiang
- Shanghai
- Jiangsu
- Anhui
- Hubei
- Hunan
- Beijing
- Tianjin
- Hebei
- Henan
- Shandong
- Liaoning
- Sichuan
- Chongqing
- Xinjiang
- Jiangxi
- Fujian

Property Development Business

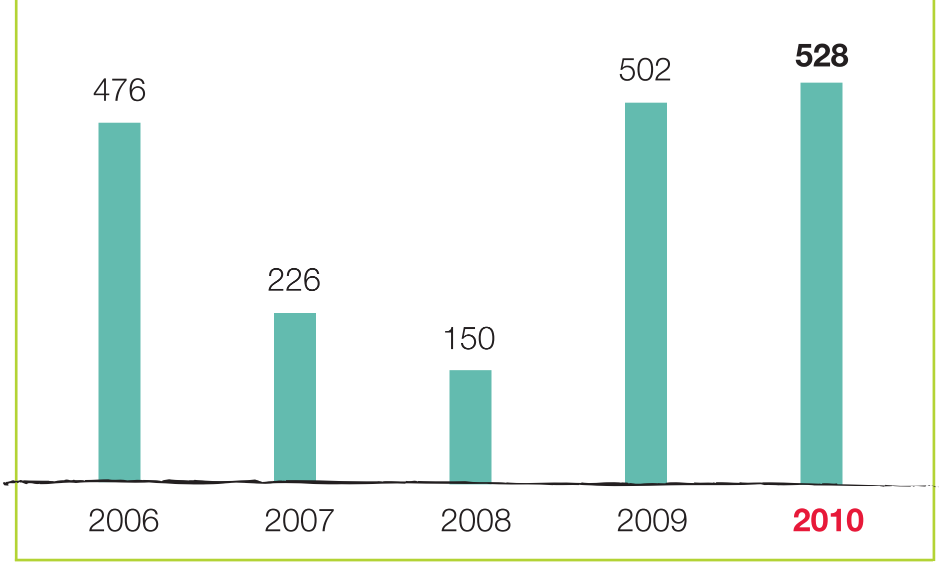
- Shaoxing
- Hefei
- Shanghai
- Hubei
- Hangzhou

FINANCIAL HIGHLIGHTS

Revenue
(in RMB million)



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



	Year Ended 31 December				
	2010	2009	2008	2007	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Results					
Revenue	**12,055,243**	10,973,575	9,451,498	7,657,066	6,227,853
Profit Attributable to the Equity Holders of the Company	**527,875**	502,239	150,044	225,795	476,032
Earnings per Share (RMB)	**0.796**	0.758	0.226	0.343	0.779
Assets and Liabilities					
Total Assets	**10,959,300**	9,977,724	9,440,012	7,692,050	5,771,319
Total Liabilities	**7,129,822**	6,498,535	6,449,484	4,795,642	3,582,065
Total Equity Holders' Funds	**3,829,478**	3,479,189	2,990,528	2,896,408	2,189,254

Key Financial Ratios

	As at 31 December	
	2010	2009
Return on equity	**14.0%**	14.9%
Net assets value per share (RMB)	**5.69**	5.09
Net cash ratio	**39%**	8%
Current ratio	**1.32**	1.33

CHAIRMAN's STATEMENT

On behalf of the Board, I am pleased to report the performance of the Group for the year ended 31 December 2010.

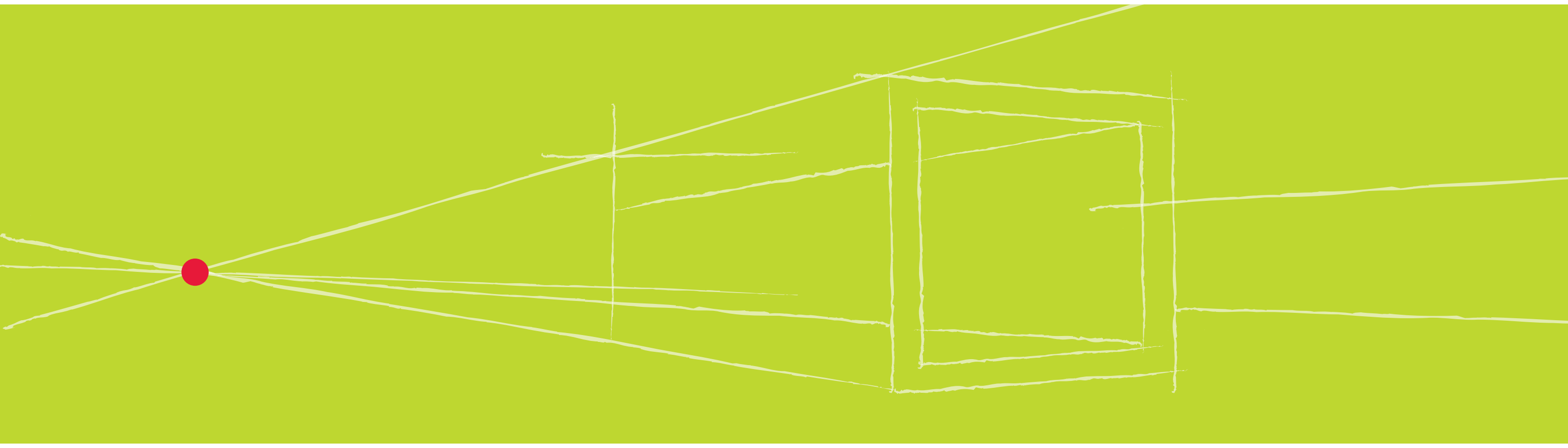
In 2010, the Group adopts prudent and pro-active approach to grasp the business opportunities by enhancing management capability, brand building, and flexible sales and marketing initiatives to alleviate the negative impacts that were brought by the speedy, complex, and rapid changes of macro-economic austerity policies and measures undertaken by the Chinese government aiming to withstand inflationary pressure and up-surging real estate properties prices; and consolidated revenue have registered commendable result. For the year ended 31 December 2010, the Group achieved an audited consolidated revenue of RMB12,055,243,000, representing an increase of approximately 10% as compared to last year; profit attributable to the equity holders of the Company amounted to RMB527,875,000, representing an increase of approximately 5% as compared to last year; earnings per share was RMB0.796, registering a growth of approximately 5% from the preceding year. The Board proposed a final divided of RMB0.16 for the year, an increase of approximately 23% as compared to last year. Details of operating and financial performance of the Group will be discussed in the "Management Discussion and Analysis" section of this annual report.

In 2010, the world's economy has been gradually stepping out from the repercussion that were emerged by the international financial tsunami; the national debts crisis in Europe have been relieved, and the economic recovery in Europe and North America have taken off the ground. However, the trade frictions and difference in monetary policies between and amongst rival nations or countries continue to challenge the global economic stability. Under such circumstances, China's overall economy, with the RMB4 trillion fixed assets investment underway to boost domestic consumption, export volume growth remains strong, continues to maintain its high growth momentum. The year of 2011 is the first fiscal year of the twelfth "Five-Year-Plan" of the Chinese government, its macro-economic policies will primarily focus on structural changes, pro-active, and prudent but flexible measures in order to bring up the level of economic activities in China.

With increased investments in infrastructural projects in recent and coming years, the Chinese economy will see a hyper growth and will pave a solid foundation for future business development and offer a good operating environment for the construction business operators. The Group's construction business, as one of the premier construction operators in China, has managed to increase its clients' portfolios and market shares in the markets where the Group operates thus enhancing its status in these markets. The Group continues to adopt the "going out" market strategy from its home base, while consolidating its leading position in mature markets in Zhejiang, Shanghai, Jiangsu, Anhui and Hubei, in exploring the new emerging markets in Xinjiang, Sichuan, Chongqing, and Jiangxi. Moreover, it is pleased to note that the Group has successfully tapped into and were awarded certain infrastructural construction projects such as hi-speed railway stations and highway construction projects that were used to be dominated by state-owned construction enterprises. We believe that leveraging on our excellent construction project management teams and the Group's branding, the Group will cut a fair share of the cake in nationwide large-scale infrastructure construction projects and to attain sustainable growth and development for the construction business.

With respect to the real estate market in 2010, which rampant market prices were underlined by the ongoing and refreshing austerity macro-economic control policies and measures as well as administrative measures undertaken by the Chinese government throughout the year, which includes, but not limited to, curbing market demand, increasing land supply, and tightening up of purchase restrictions. As a result of which, the market prices of real estate properties were higher at the beginning of the year and lower at the end of the year. Simultaneously, the increase in land supply was significant; land prices remained high but volatile. At the beginning of the year, some local governments also issued strict and detailed regulatory rules to further regulate the real estate markets, and enforced

CHAIRMAN'S STATEMENT *(continued)*



the increase in supply of affordable housing, all of which shall have negative impact against the real estate markets in the upcoming year. However, China is currently riding on a fast pace of increased urbanisation, together with improved consumption spending capability and increased demand for quality housing, are the key drivers to support the continuous growth and development for the real estate markets in the longer run.

With respect to land bank, the Group will increase the land reserve, where appropriate, by adopting prudent strategy and speeding up the development of existing land reserve. On the product positioning, we will continue to develop residential properties at popular prices, and high-end residential properties at premium prices. On the regional coverage, we will focus on second and third tier cities in Hubei and Anhui. At the same time, we will also look for potential projects in Zhejiang and Shanghai. The Group's classic project, Baoye Four Seasons Garden Phase 1, was put up for pre-sale at slack market period in 2010, but was sold out in a short time. The Group's property business in Hubei and Anhui has also attributed satisfactory operating results for 2010.

The core print or the objective for the twelfth "Five-Year-Plan" is to accelerate the transformation of economic development mode, in promoting and implementing energy-saving, environmental-friendly, and industrialised residential housing in the construction and building sectors. The Group has always committed in the research on industrialised housing since it became one of the national pilot companies of industrialised housing nominated by the Ministry of Housing and Urban-Rural Construction in1997. After more than ten years of continuous research and development, the industrialised housing has realised three applications: 1) serving the traditional large-scale construction projects; 2) improving the quality of traditional residential housing; and 3) developing low-carbon residential industrialised housing having a life span of 100 years. The Group has established three industrialised housing bases in Shaoxing, Hefei and Wuhan, and extended to cover the Yangtze River Delta and Central China.

Benefitting from the accelerated development plan of Central China together with the twelfth "Five-Year-Plan", Anhui and Hubei will be given golden opportunities for future development. The Group's regional companies in Anhui and Hubei will be able to capture these growing opportunities guided by the twelfth "Five-Year-Plan" in the region, and to take the full advantages of the Group's "three-in-one" business model that can generate synergies between and amongst construction business, building materials and property development businesses in the development of new markets in this region.

The Group highly regards the importance and availability of steady operating cash flow, and has actively established banking relationship with major commercial banks and financial institutions. The Group will endeavour to strengthen the control over cash utilisation and reservation, improve cash management system, and centralise treasury activities to ensure that the Group is able to attain its successive and balance growth in a prudent manner. The Group will continue to strengthen its control in risk management, enhance awareness of risk prevention to minimise risks. The Group will continue to adopt the principles of prudent, efficient and low risk in expanding the businesses of the Group.

The Group firmly believes that human capital is the most valuable asset of the Company, which is also the most effective way of preserving the core competencies of the Group. The Group is committed to maintain an effective human resources management system, and to build and retain management teams that will support the Group's future business growth and development.

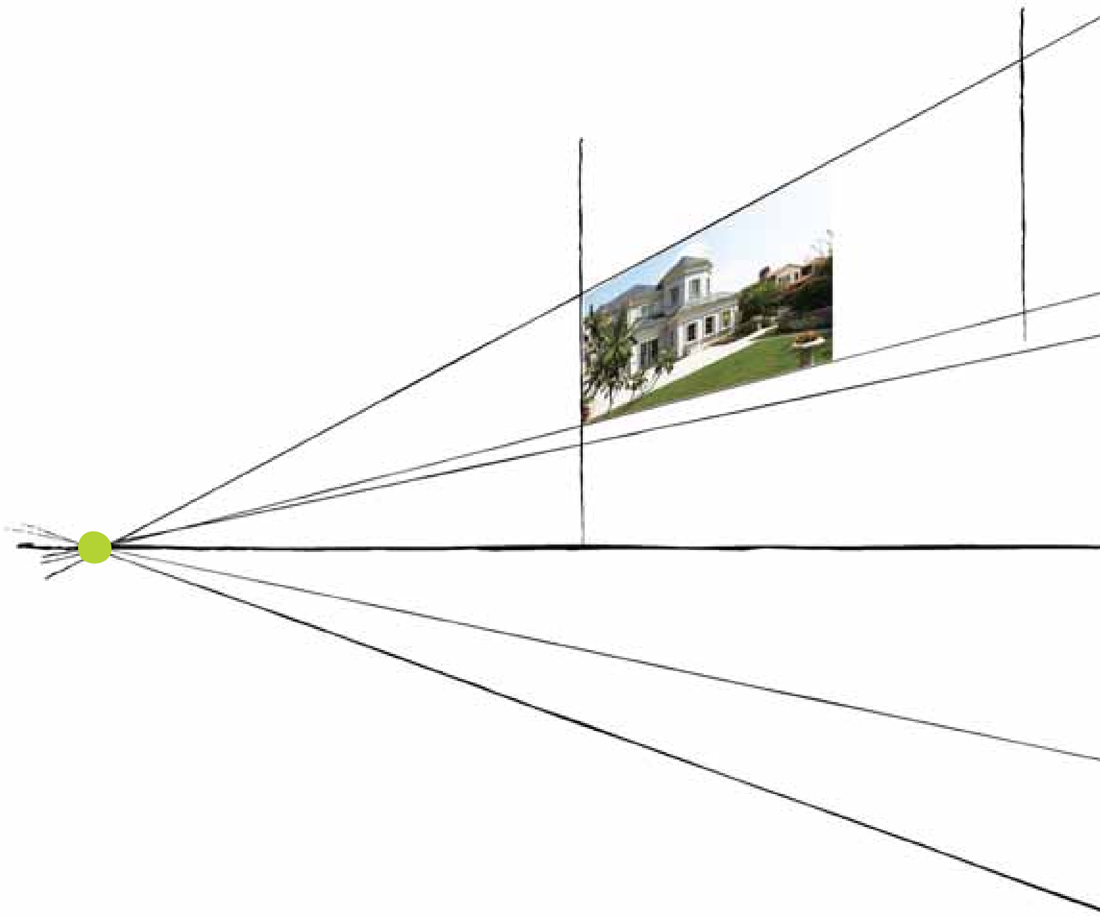
Based on objective assessment in our long term developing trend and competitive edges, the Group's five-year expansion strategy is to build construction business as the core, combine technologies with land resources, develop green energy-saving industrialised housing, and establishes the "Baoye" brand as a technology builder.

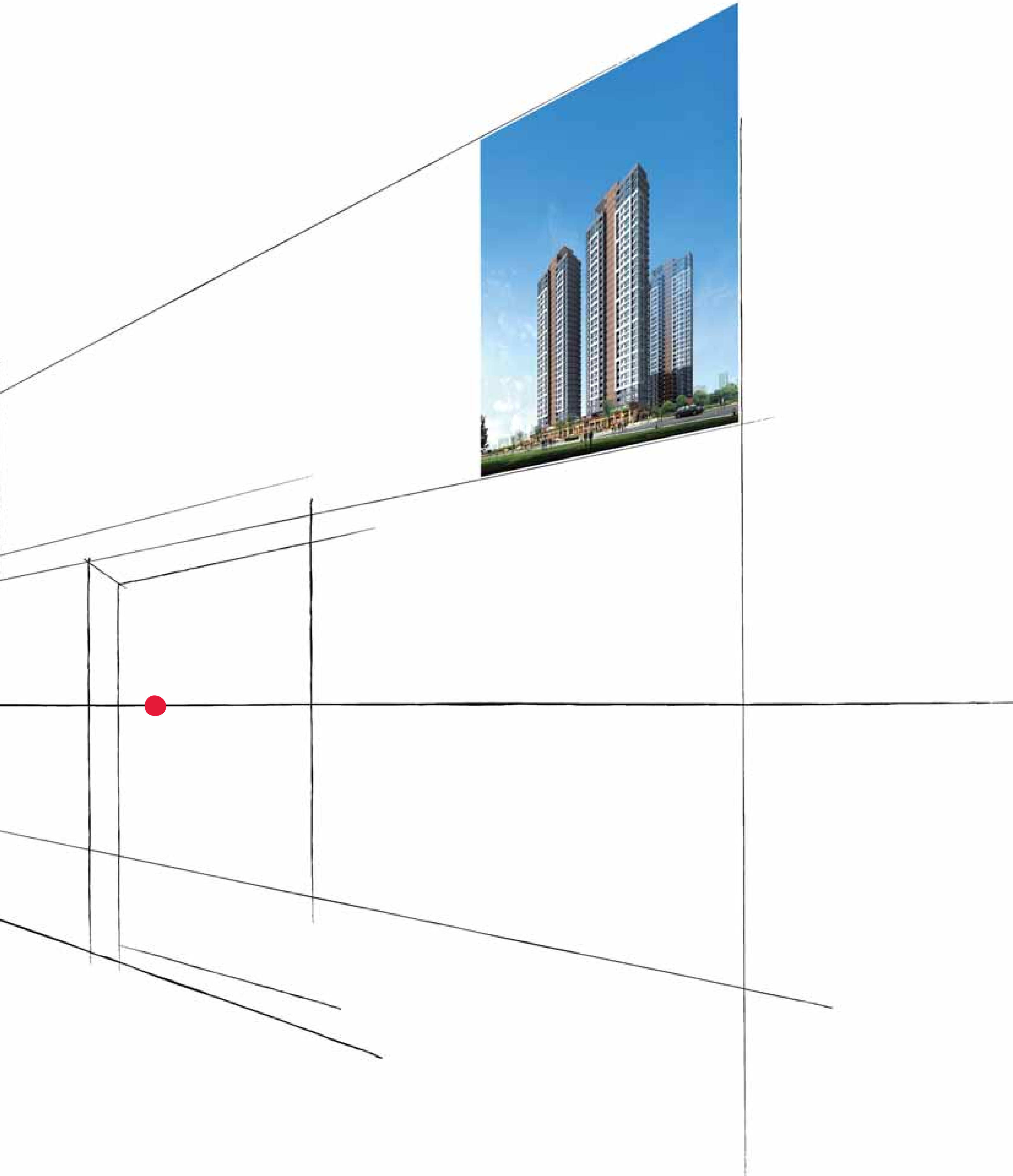
Since its listing on Hong Kong Exchanges and Clearing Limited ("HKEx"), the luckiest thing for Baoye is our investors who stand by us and share our vision. Investors' understanding, trust and support are the driving force for us to move forward. On behalf of the Board, I would like to take this opportunity to express our sincere gratitude to all the shareholders, investors, clients, suppliers, banks and intermediaries for their continuous patronage and support; and especially, our sincerest thanks go to the management teams and all employees of the Group, who have worked whole-heartedly and diligently in the past year; and together, we look forward to another rewarding year in 2011.

Pang Baogen
Chairman of the Board
28 March 2011

A romantic trip of TIMELESS SPLENDOR

Step Two





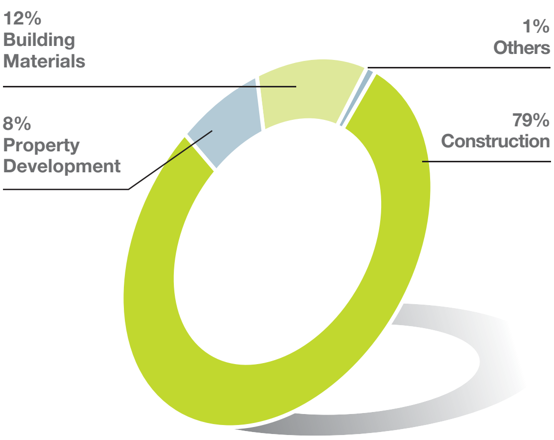
MANAGEMENT DISCUSSION AND ANALYSIS

Results Review

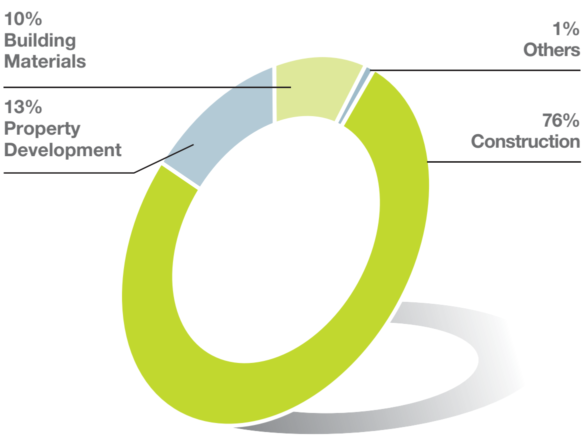
For the year ended 31 December 2010, the Group achieved a consolidated revenue of RMB12,055,243,000 (2009: RMB10,973,575,000), representing an increase of approximately 10% compared to the previous year; operating profit reached RMB812,099,000 (2009: RMB909,796,000), representing a decrease of approximately 11% compared to last year; profit attributable to the equity holders of the Company amounted to RMB527,875,000 (2009: RMB502,239,000), representing an increase of approximately 5% compared to last year; earnings per share was RMB0.796 (2009: RMB0.758), representing an increase of approximately 5% compared to last year. In 2010, the decline in operating profit was primarily due to the significant drop of 37% in revenue and 7% drop in gross profit margin that were registered in our property development business, the higher profit contribution sector of our business, compared to last year. The decline in profitability in the property development business was partially offset by the continued growth and improvement in the construction and building materials business for the Group's profitability taken as a whole.

Revenue

	2010		2009		**Change**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Construction	**9,534,950**	**79%**	8,302,405	76%	15%
Property Development	**912,505**	**8%**	1,439,847	13%	-37%
Building Materials	**1,488,909**	**12%**	1,152,323	10%	29%
Others	**118,879**	**1%**	79,000	1%	50%
Total	**12,055,243**	**100%**	10,973,575	100%	10%



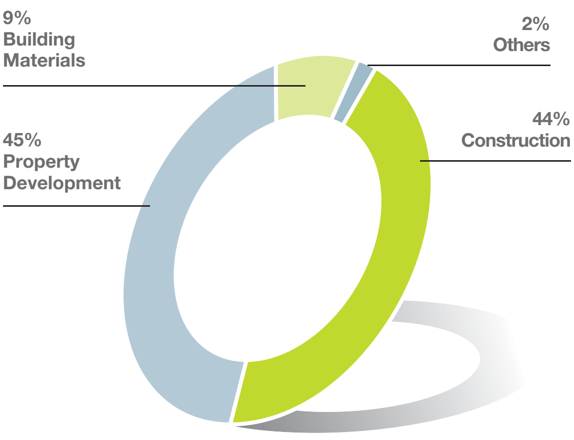
2010



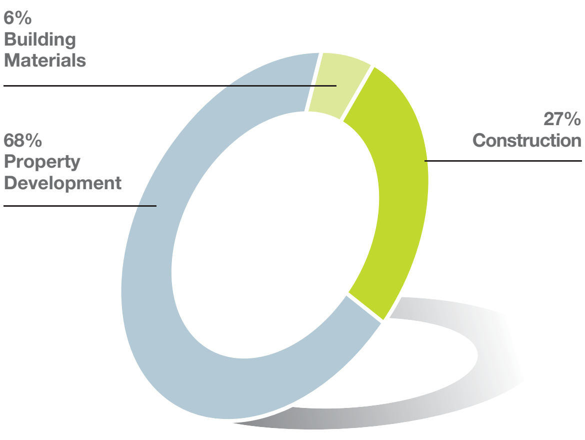
2009

Operating Profit

	2010		2009		Change
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Construction	**357,285**	**44%**	250,163	27%	43%
Property Development	**364,452**	**45%**	614,587	68%	-41%
Building Materials	**76,885**	**9%**	52,538	6%	46%
Others	**13,477**	**2%**	-7,492	-1%	N/A
Total	**812,099**	**100%**	909,796	100%	-11%



2010



2009

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

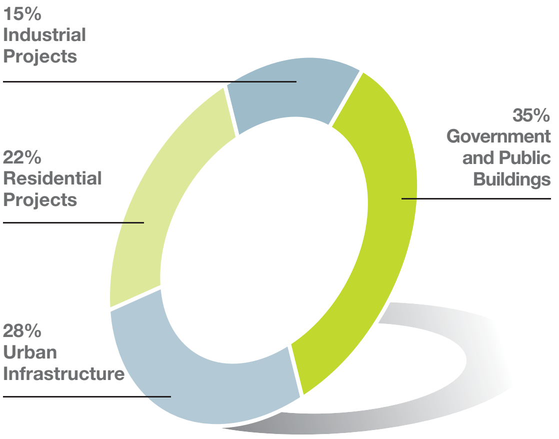
Construction Business

For the year ended 31 December 2010, the Group's construction business registered a revenue of RMB9,534,950,000, representing an increase of approximately 15% over last year; operating profit amounted to RMB357,285,000, representing an increase of approximately 43% over last year.

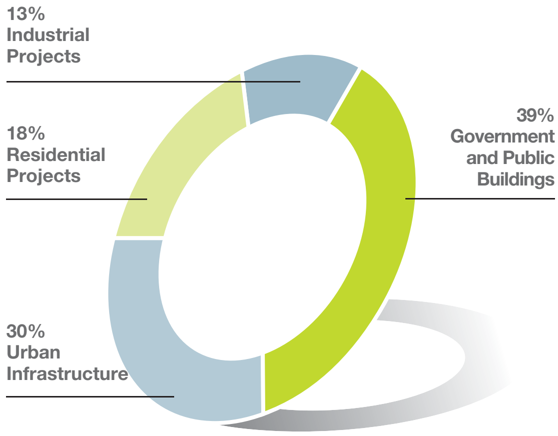
For the year ended 31 December 2010, the total contract value for construction-in-progress of the Group's construction business was RMB34,390,752,000, representing an increase of approximately 17% over last year, details of which are analysed below:

By project nature

	2010		2009		Change
	RMB'000	*% of total*	*RMB'000*	*% of total*	
Government and Public Buildings	**12,036,763**	**35%**	11,486,324	39%	5%
Urban Infrastructure	**9,629,411**	**28%**	8,835,634	30%	9%
Residential Projects	**7,565,965**	**22%**	5,301,381	18%	43%
Industrial Projects	**5,158,613**	**15%**	3,828,775	13%	35%
Total	**34,390,752**	**100%**	29,452,114	100%	17%



2010

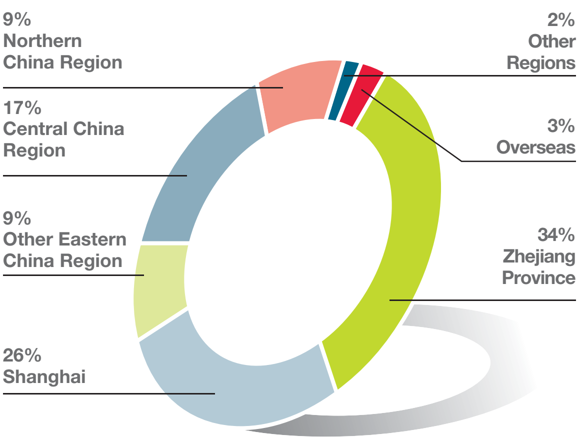


2009

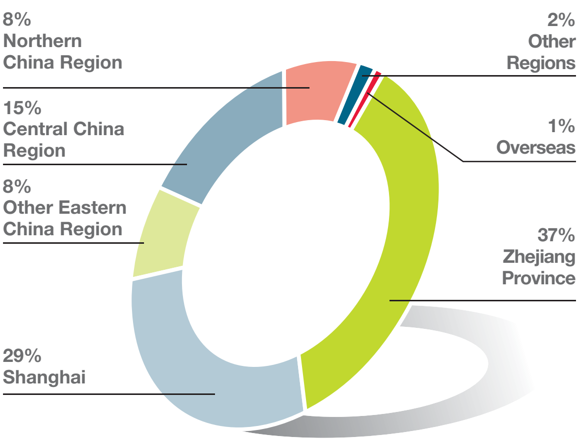
By region

	2010		2009		Change
	RMB'000	% of total	RMB'000	% of total	
Zhejiang Province	**11,692,856**	**34%**	10,897,282	37%	7%
Shanghai	**8,941,595**	**26%**	8,541,113	29%	5%
Other Eastern China Region	**3,095,167**	**9%**	2,356,169	8%	31%
Central China Region	**5,846,428**	**17%**	4,417,817	15%	32%
Northern China Region	**3,095,168**	**9%**	2,356,169	8%	31%
Other Regions	**756,597**	**2%**	589,043	2%	28%
Overseas*	**962,941**	**3%**	294,521	1%	227%
Total	**34,390,752**	**100%**	29,452,114	100%	17%

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



2010



2009

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

In 2010, the Group continues to adopt "brand building to gain market recognition and technologies advancement to develop new markets", regionalise operational centers, enhance risk management control, enhance management and business structure, maintain and explore home and new markets as its operational philosophies. During the year, the Group's construction business had secured new construction contracts valued at approximately RMB14 billion (2009: RMB12.4 billion), representing a growth of approximately 13% compared to last year. The new construction contracts outside Zhejiang province accounted to above 70% of total, which include the premium construction projects of Shangyu-Yuci stations of Hangzhou-Ningbo Railway, Phase II of Xinjiang Fulida, the Research and Development Center of "Internet of Things" in Shanghai, Punan Hospital Building Complex in Shanghai, the Headquarter of Bolonghu Group in Tianjin Economic Zone, the Incubating Centre of Ganzhou in Jiangxi, and Zigong Garden in Chongqing, etc.

The overseas construction business maintains a good growing trend. During the year, the new construction contracts valued at USD18,880,000 (2009: USD15,820,000), representing a growth of approximately 19% from last year.

In 2010, the construction projects undertaken by the Group in terms of quality and project management have been awarded numerous industry awards and recognitions. The Group has a total of 114 award-winning construction projects and received 6 national awards and 56 provincial awards, 2 for Luban Awards, and 1 for Zhantianyou Award for the first time during the year. These principal awards and recognitions include:

Project Name	Awards
People's Procuratorate of Shaoxing City Shijiazhuang Broadcast & Television Building Complex	Luban Award
Phase VIII of Dajun East Lake, Jiangsu (Eton Town)	Zhantianyou Award
Hangzhou Alibaba Software Production Base	National Outstanding Award
Hangzhou Taixu Lake Holiday Inn Sanmen Chamber of Commerce Building	National Outstanding Decoration Award
Yueqing Administrative Center Green Town Lijiang Building	Qianjiang Cup
Jing'an Ziyuan Shanghai Institute of Technology Fengxian School Huadong Hospital Emergency Building Wanyuan Community	Baiyulan Cup
Yichang No.1 People's Hospital	Chutian Cup
Qiuyue Garden of Green Town Lily Garden Suzhou Shangjie International New World Building	Huangshan Cup

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Property Development Business

Property Sales

In 2010, the net revenue of the Group's property development business amounted to RMB912,505,000 (the revenue before deductions of sales tax and related levies was RMB921,015,000), representing a decrease of approximately 37% over last year; operating profit amounted to RMB364,452,000, representing a decrease of approximately 41% from last year.

In 2010, revenue from property development business was mainly attributable to the sale of properties located in the second and third tier cities where average selling prices were significantly lower than that of the average selling prices last year, leading to lower revenue and operating profit.

In 2010, revenue was primarily derived from the sales of the projects tabulated below:

Project	Location	Average Selling Price *RMB/Square metre*	Selling Areas *Square metres*	Revenue *RMB'000*
City Green Garden Phase II and Phase III	Hefei	4,602	109,076	501,990
Baoye Moon Lake Garden	Jingmen Hubei	2,156	67,728	146,031
Jing'an Ziyuan	Shanghai	42,595	3,689	157,133

In 2010, local governments issued strict and detailed regulatory rules to regulate the real estate market, which include tightening credit lending, imposing new properties tax and restrictions on new unit purchases, which have resulted in market prices of real estate properties higher at the beginning of the year and lower at the end of the year. The Group responded favorably to market changes and has acquired desired results in pre-sale units. In 2010, the total pre-sold units approximated to 250,000 square metres, its total contract valued at approximately RMB2.6 billion. With

expected solid improvement in both revenue and gross profit margin, the revenue of these pre-sold units will be recognised and accounted for in the current year's and next year's financial results. The construction of these pre-sold units has been progressing well and the Group is confident that these units will be completed and delivered according to plan.

Projects under development

As at 31 December 2010, the projects under development of the Group are tabulated below:

Project Name	Location	Estimated Gross Floor Area *(square metres)*	Equity Interest of the Group
Baoye Four Seasons Garden	Shaoxing	525,000	100%
Daban Fengqing	Shaoxing	280,000	100%
Yuyuan	Shaoxing	89,000	49%
Yangxun Commercial Center	Shaoxing	36,000	100%
Jiangwan Green Garden	Shaoxing	49,000	100%
City Green Garden, Phase IV	Hefei	100,000	100%
Baoye Tongcheng Green Garden	Hefei	173,000	100%
Baoye Dongcheng Square	Hefei	228,500	100%
Baoye Xudong Yayuan	Wuhan	31,000	100%
Jiangwan Luyuan	Hangzhou	67,000	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 civilisation flourished. Other than its profound cultural tradition and being the origin of many myths and folklores, the area also has a large number of historical heritages. Being only 5 kilometres from downtown of Shaoxing City, it is known as the "natural treasure in the heart of a city". Baoye Four Seasons Garden has a site area of approximately 1,050,000 square metres with 0.5 time

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

plot ratio and a planned gross floor area of approximately 525,000 square metres for the development of deluxe villas, semi-detached villas, garden villas and town houses. It also consists of a golf club and a five-star resort hotel, a country park and a central lakeside garden with full-fledged facilities. Approximately 68,000 square metres of Baoye Four Seasons Garden Phase I have been pre-sold with encouraging results.

Daban Fengqing is located in Keqiao, Shaoxing County, having a total site area of approximately 100,000 square metres and an estimated gross floor area of 280,000 square metres. The land is in the development zone of the future central business district of Keqiao, alongside the "dual lake" district, east of Dabanhu, served by well-developed community facilities. The project will be positioned as a premier residential property in Keqiao, Shaoxing County and has been developed in two phases. Daban Fengqing Phase I with an estimated gross floor area of 130,000 square metres has been sold out and is expected to be delivered to owners in 2011. Besides, Daban Fengqing Phase II with an estimated gross floor area of 150,000 square metres has been pre-sold in 2010 with satisfactory results.

Yuyuan, located at No.1 Yangming Road, Shaoxing City, having a total site area of approximately 180,000 square metres with a plot ratio of 0.5 time, is designated for the development of 89,000 square metres up-scale residential properties. The Group and Greentown China Holdings Limited, a listed company on HKEx (stock code: 3900), jointly acquired the land and jointly develop it into a high-end property project in which the Group is interested in 49%. The land area is within the resort district of Kuaijishan Tourist Resort Zone, a prime location in Shaoxing City and is of close proximity to the Group's golf club and Baoye Four Seasons Garden. Yuyuan will be developed as a low density deluxe villa project. As at 31 December 2010, 27 villas of Phase I and 29 villas of Phase II have been sold out.

Yangxun Commercial Center, located in the center of Yangxunqiao Township, Shaoxing County, has a site area of approximately 10,000 square metres with 3.68 times plot ratio and an estimated gross floor area of 36,000 square metres. This project consists of residential, commercial units and agricultural products market complex. The pre-sale of the project has begun in the second half of 2010 with satisfactory results.

Jiangwan Green Garden is located in Yangxunqiao, Shaoxing County, has a total site area of 37,870 square metres and an estimated gross floor area of 49,000 square metres. The project consists of high-rise residential building, villas, town houses and some commercial units with beautiful scenery and convenient transportation. The planning work is going on well.

City Green Garden is located in Yaohai District, in a prime developing zone in Hefei City, Anhui, with convenient transportation. It mainly comprises high-end properties with a portion of retail shops and offices. City Green Garden has a total gross floor area of approximately 520,000 square metres, developed in four phases, of which Phase I, Phase II and Phase III has been recognised in the past few years including the year of 2010. City Green Garden Phase IV, with an estimated gross floor area of 100,000, is under development.

Baoye Tongcheng Green Garden is located in Baohe District of Hefei City, Anhui, with a site area of 58,570 square metres and 2.8 times plot ratio for development of residential area of 173,000 square metres. This property comprises nine high-rise buildings including condominiums, studio flats and a commercial complex. The project sets a new model of "green quality life style" and is of close proximity to University of Science and Technology of China and supported by full community services in Hefei. Baoye Tongcheng Green Garden is being developed in two phases, Tongcheng Green Garden Phase I, with an estimated gross floor area of 100,000 square metres has been sold out and is expected to be delivered to owners in 2011. Tongcheng Green Garden Phase II, with an estimated gross floor area of 73,000 square metres has been pre-sold in 2010 with satisfactory results.

Baoye Dongcheng Square is located in Changjiang East Road, the business center in Hefei, with convenient transportation and full community services. The project has a site area of 63,500 square metres with a gross floor area of 228,500 square metres. It's a city complex, consisting of residential, commercial units and offices. It is aimed to be developed as the landmark and commercial center at Dongmen, east of Hefei. The construction has been commenced in the second half of 2010 and is expected to be pre-sold in 2011.

Baoye Xudong Yayuan is located in Xudong Road, Wuchang District, Wuhan, with well-developed facilities and convenient transportation, having a total site area of 21,000 square metres and 2.8 times plot ratio for development of small dwelling-size properties of approximately 31,000 square metres. This project is being positioned as a low-density living community which is uncommon in downtown areas. As at 31 December 2010, the project has been entirely sold out.

Jiangwan Luyuan is located in Xiaoshan District, Hangzhou, having a total site area of approximately 50,000 square metres and a total gross floor area of approximately 67,000 square metres, facing the China Textile City with good location and convenient transportation and community facilities. The project will be developed into a low-carbon, green and environmental-friendly residential community with multi-storey building and townhouse. At present, the preparation works for the project are underway.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Land Reserves

During the year of 2010, pursuant to the Group's development strategy, the Group acquired two parcel of land by public tender. The aggregate land area amounted to approximately 101,370 square metres and the aggregate gross floor area amount to approximately 277,500 square metres. At present, the Group's land reserves are sufficient for the property development in the coming 3 to 5 years. The Group continues to adopt the prudent principle in acquiring new land bank, where appropriate, to meet the Company's development strategy and market conditions.

Building Materials Business

In 2010, the revenue of the Group's building materials business amounted to RMB1,488,909,000, representing an increase of approximately 29% over last year; operating profit was RMB76,885,000, representing an increase of approximately 46% over last year.

In 2010, the revenue of the Group's building materials is analysed below:

	2010 *RMB'000*	2009 *RMB'000*	**Change**
Ready-mixed concrete	**366,529**	277,558	32%
Curtain wall	**499,835**	345,697	45%
Wooden products and interior decorations	**320,243**	255,890	25%
Steel structure	**201,123**	184,372	9%
Concrete pipes	**50,438**	46,093	9%
Fireproof materials	**33,756**	16,201	108%
Others	**16,985**	15,340	11%
Total	**1,488,909**	1,152,323	29%

In 2010, benefiting from the government's initiative in infrastructural construction, the revenue of the Group's building materials business saw a corresponding increase. Significant increase in profit contribution was primarily attributed to the steady growth from ready-mixed concrete, and rapid profit increase from curtain wall and fireproof materials and the elimination of low margin products.

After more than a decade of continuous research and development, the Group's residential industrialisation of housing has achieved three applications: (1) serving the traditional large-scale construction projects; (2) improving the quality of traditional residential housing; and (3) developing low-carbon residential industrialised housing having a life span of 100 years.

In terms of the research and development of new building materials: Nanophotocatalysis mixed concrete is a new environmental-friendly construction material, which will provide impetus in upgrading the concrete and building materials industries with favorable market potential led by the country's environmental policies. Also, Ready-mixed concrete C15, C20, and C25 are considered as multipurpose-use products.

In terms of research and development of residential housing technology: the research and application of the composite retaining system in the green energy-saving industrialised residential housing, by researching materials component, connection measures and functions like waterproof, heat preservation, heat insulation and sound insulation, realising energy saving, mass production and on-site fabrication. So far, the Group had finished 5,000 square metres industrialised housing projects.

In terms of the research and development of low-rise dwelling packed technology and structural system: new steel structure system for low-rise dwelling is innovative with favorable market potential, which has been applied for use in several housing projects in China. At the same time, more than 5,000 square metres industrialised housing with structural system have been exported to Angola, Sudan and India, etc.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Prospect

Operation Prospect

The world economy is expected to resume its growth momentum in 2011. China's macro-economic policies are primarily drawn from the principles of preserving continuous economic growth, implementing structural changes, upbringing people's livelihood, and ensuring social stability through exercising of stringent and pro-active fiscal and monetary policies and measures. The Group expects an increase in the increased investments in fixed assets to boost domestic consumption. Under a series of austerity measures and administrative intervention undertaken by the Chinese government, the real estate market will have a medium term adjustment, but with the government policies to uplift the people's livelihood and increased in urbanisation in second and third tier cities, which will provide enormous growing and development potential in the longer term. The Group's products in energy saving, environmental-friendly, residential industrialised housing, and green and low-carbon housing would greatly benefit from the government development policies towards the building and construction industries and the Group would be able to capture this unprecedented growth opportunity that is emerging in China.

Business Prospect

Construction business is the platform for the Group's business development, which brings in steady and stable cash flow

- To follow the national macro-economic policy guidance of the PRC closely; to take active participation in the large-scale construction projects and infrastructural projects as well as its related investment markets and to enhance high-end construction market share in airport, railway, and highway.

- To implement new business model, such as BT (Build-Transfer) and BOT (Build-Operate-Transfer), etc.

- To actively participate in the construction of affordable housings. In 2011, China plans to invest over RMB1.3 trillion in the country's social security housing construction, aiming to build 10 million units, which will see an increase of 72% compared to 5.8 million units in 2010, accounting for 20% of the People's Republic of China's total property investment. It is a huge market that no one can ignore, and the demand for construction of affordable housing would definitely call for a golden opportunity that the Group will not miss.

Property development business is a support for the Group's business development, contributing substantial profits

- To continue adopting the Group's prudent developing strategy and expansion plans, to increase land bank by public tender or auction and acquisition. The Group's focus will be on rare land targets nearby city centre in the second and third tier cities in Hubei and Anhui, Central China.

- Based on market demand and the prevailing property development project, the Group will adjust business development strategy to shorten project development cycle and to speed up the process of development of land reserves in anticipation of increased sales floor area and in preparation for, in all material respect, keen market competition.

- During the year of 2010, the total pre-sold units approximated to 250,000 square metres, having a total contract valued at approximately RMB2.6 billion. With expected solid improvement in both revenue and gross profit margin, the revenue of these pre-sold units will be recognised and accounted for in the current year's and next year's financial results.

- The restrictions imposing on new unit purchases in certain cities are to restrain the speculative demand, where real estate properties prices have surged too fast and too high. However, at the same time, the demand for affordable housing, popular priced residential housing and city center housing remains strong, which will be the target of the Group's property business and development in the coming three to five years.

Building materials business is an important strategy to sustain continuous growth for the Group

- To rely on the Group's advantage in technology research, combine technologies advancement with land reserves, and to emphasize on development of green and low-carbon residential housing. At the same time, the Group intends to provide full range of product lines and services as well as quality products in establishing bridges and links with sizable enterprises.

- With the Baoye Hubei Company's overseas production base, trying to explore the possibility of building overseas residential industrialised housing production base.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

- To make full use of the Group's advanced laboratories, inspection and testing equipment, and branding to develop the business of third parties inspection and rating services.
- In 2011, the Group will add an additional automated production line for building materials in Shaoxing Material Construction Industrialised Base, the project's site area is about 40,000 square metres and is expected to produce 500 residential industrialised housing units and approximately 150,000 square metres of green and low-carbon healthy housing units per annum capacity after completion.

Financial Review

Treasury Policies

The Group has adopted prudent financial policies and exercised tight risk management control over its investment, financing and cash as well as maintaining a sound capital structure. The Group will adjust its investment, financing and capital structure from time to time according to sustainable development and internal resources available, with a view to optimising the capital structure of the Group.

The Group has established a financial settlement center, which centralises funding for all its subsidiaries at the group level. The Board believes that such policy can achieve better control on the treasury operations, minimise financing risks and lower the 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 2010. Such excellent credit rating will benefit the Group's financing activities and allows the Group to continue to enjoy the prime rate offered by the banks. During the year, the Group maintained most of its borrowings on an unsecured basis. The amount of secured debt accounted for approximately 42% (2009: 26%) of the total borrowings. In addition, approximately 28% of the total borrowings (2009: 19%) were jointly guaranteed by the chairman of the Board, Mr. Pang Baogen, the Group and the subsidiaries to the lending banks. Leveraging on its excellent credit rating, the Group intends to continue to obtain its borrowings on an unsecured basis, which will be supplemented by project financing when necessary.

The Group's objectives in the management of capital and financial resources 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.

In 2010, due to the good results in property pre-sale, the Group's financial position has been satisfactory and has maintained a net cash inflow. It has sufficient capital resource to expand its business, details of which are analysed below:

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
Cash and cash equivalents	**1,947,888**	1,677,452
Restricted bank deposits	**101,269**	239,756
Less: total borrowings	**(565,163)**	(1,645,710)
Net cash	**1,483,994**	271,498
Total equity attributable to the Company's equity holders	**3,773,281**	3,374,647
Net cash ratio	**39%**	8%

Key Financial Ratios

	As at 31 December	
	2010	2009
Return on equity	**14.0%**	14.9%
Net assets value per share (RMB)	**5.69**	5.09
Net cash ratio	**39%**	8%
Current ratio	**1.32**	1.33

Return on equity	=	profit attributable to the 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 cash ratio	=	net cash/total equity attributable to the Company's equity holders
Current ratio	=	current assets/current liabilities

During the year of 2010, profit attributable to equity holders of the Company were RMB527,875,000, an increase of approximately 5% compared to last year. Total equity attributable to the Company's equity holders increased approximately 12% compared to last year. Such increase posted a slight reduction of return on equity and an increase of approximately 12% of the net assets value per share compared to last year. At the end of 2010, the Group is in the position of net cash, having an improved net cash ratio at 39%. The Group's financial position is much stronger compared to last year due to satisfactory results attributable to sale of pre-sale units. Besides, a large portion of bank borrowings was repaid during the year. The net bank borrowings were RMB565,163,000, representing a decrease of 66% compared to last year.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Cash Flow Analysis

	Note	For the year ended 31 December 2010 RMB'000	2009 RMB'000
Net cash inflow from operating activities	*(i)*	**1,353,338**	1,157,203
Net cash inflow from investing activities	*(ii)*	**135,923**	101,427
Net cash outflow from financing activities	*(iii)*	**(1,218,825)**	(942,348)
Increase in cash and cash equivalents		**270,436**	316,282

Note:

(i) During the year, the net cash inflow from the operating activities was RMB1,353,338,000, an increase of RMB196,135,000 compared to last year, net cash inflow of RMB1,157,203,000, which was primarily attributable to the satisfactory pre-sale of property units and cash inflow.

(ii) During the year, the net cash inflow from the investing activities was RMB135,923,000, an increase of RMB34,496,000 compared to last year, net cash inflow of RMB101,427,000, which was mainly attributable to the increase of disposal of land use rights, properties, plants, and equipment compared to last year and the decrease of land purchase.

(iii) During the year, the net cash outflow from the financing activities was RMB1,218,825,000, increasing RMB276,477,000 compared to net cash outflow in 2009 was approximately RMB942,348,000. Of which, representing a decrease of net bank borrowings of RMB204,000,000, an increase of dividend for equity holders of the Company and non-control interests of the Company for RMB73,000,000 compared to last year.

Land Appreciation Tax

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, and has also prepaid the land appreciation taxes based on the sale values multiplied by certain assessed rates determined by the respective local tax authorities where the properties are located. For the twelve months ended 31 December 2010, the Group's land appreciation tax amounted to approximately RMB74,017,000. Besides, the Group is an integrated enterprise with construction, property development and building materials as its three main businesses. Therefore, the financial impact resulting from the tax pronouncement towards the Group's operating results would be minimal.

External Guarantee and Fulfillment

	2010 RMB'000	2009 RMB'000
Guarantees given to banks in respect of mortgage facilities granted for certain purchasers	**373,304**	146,091

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 delivery of the building ownership certificates of such properties to the banks as securities.

Details of the Charges on the Group's Assets

As at 31 December 2010, land use rights, property, plant and equipment and properties under development at a total value of approximately RMB889,288,000 (as at 31 December 2009: RMB1,016,859,000) were pledged to banks as security in securing bank borrowings.

Capital Expenditure Plan

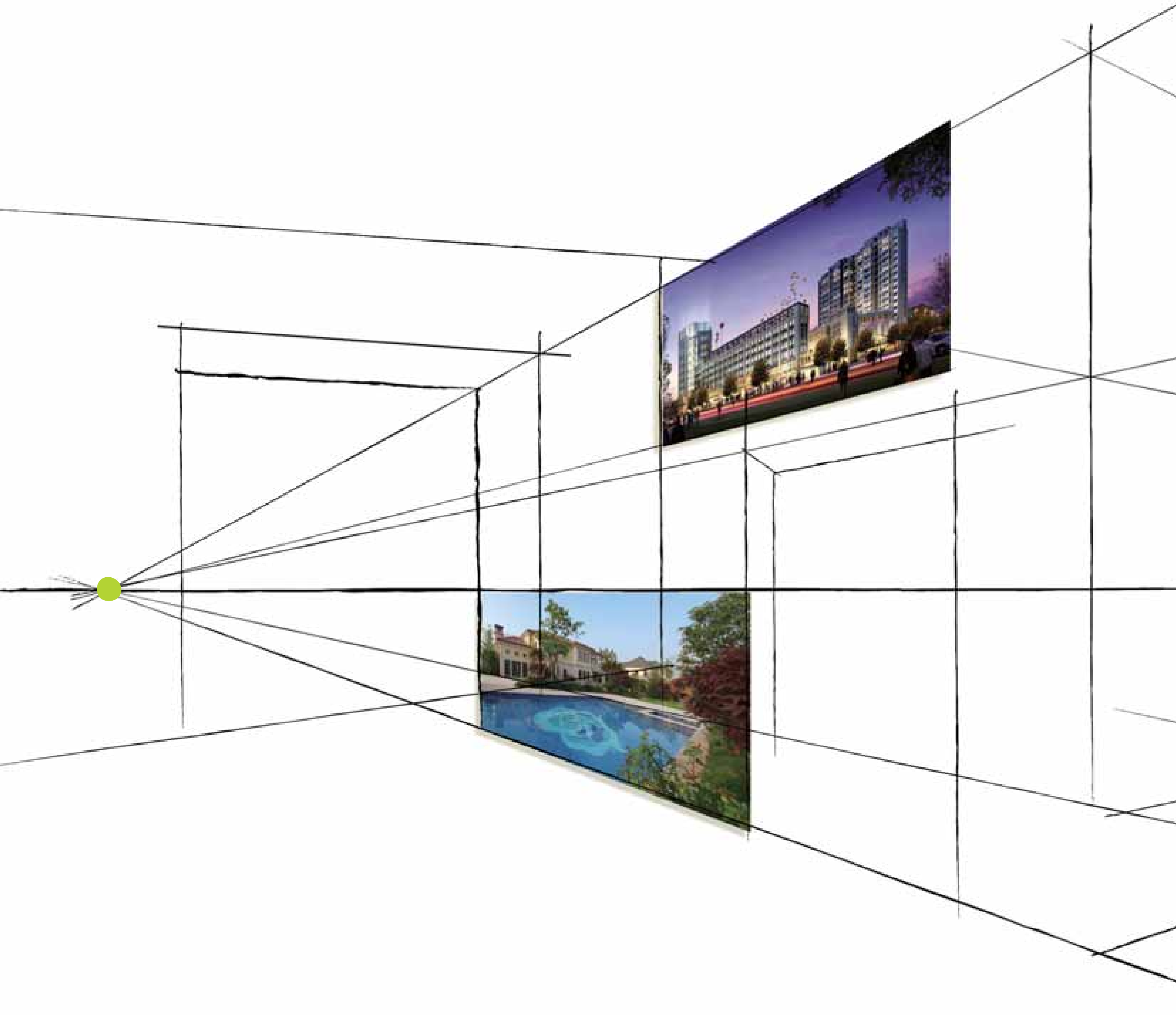
The Group adopts a prudent approach in capital expenditure spending to secure cash resources on safety basis. In 2011, the capital expenditure will amount to approximately RMB880,000,000, in which approximately RMB30,000,000 will be used in procuring industrial housing production line, and approximately RMB800,000,000 will be used to acquire land use rights. At the same time, the Group will pay more attention to market changes and will increase its investments in acquisition of land and relevant businesses at appropriate timing and at reasonable costs.

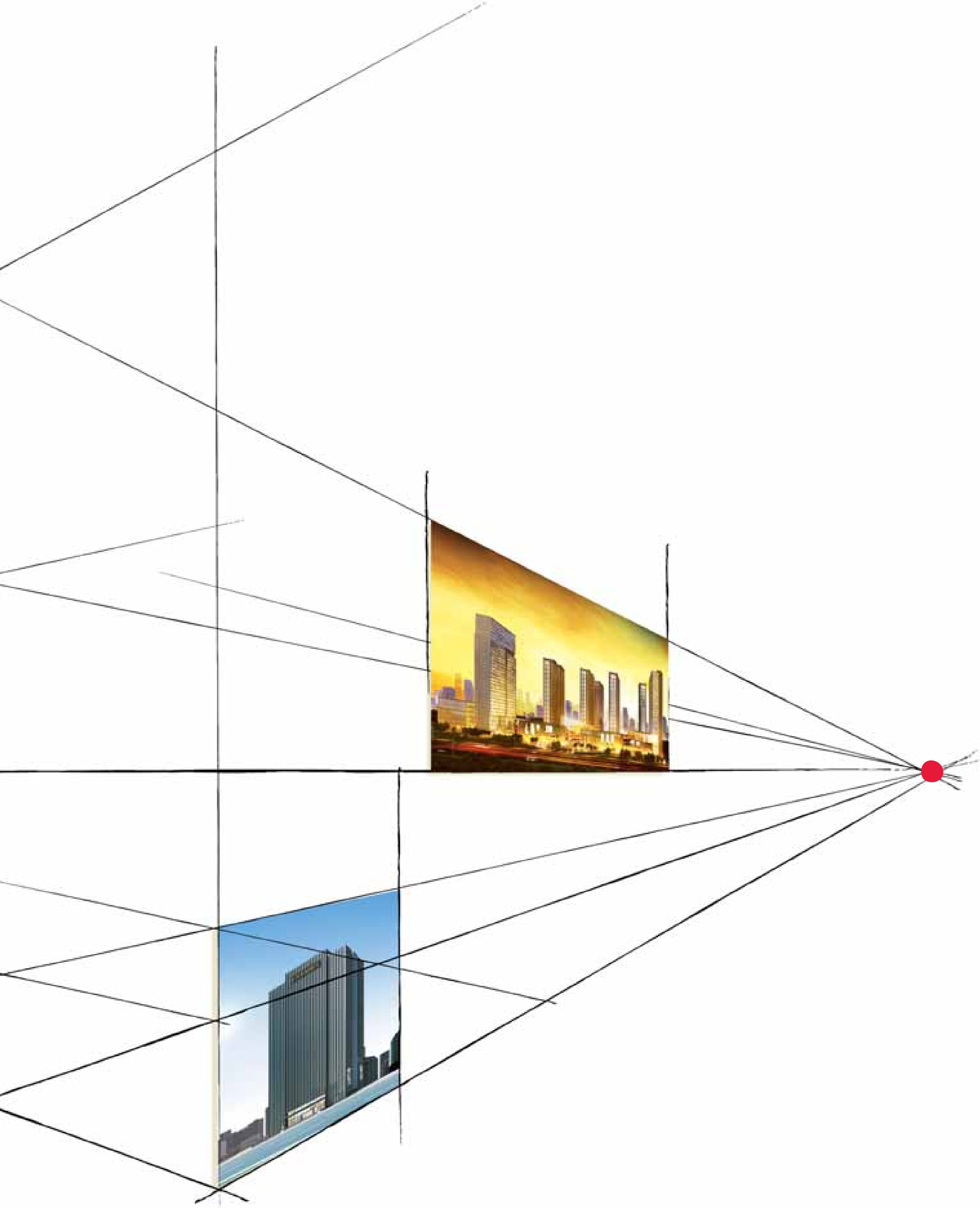
Adjustment of RMB Exchange Rate and Foreign Exchange Risks

The majority of the Group's business and bank borrowings are denominated and accounted for in RMB. Therefore the Group does 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.

To escape the BONDS of EARTH

Step Three

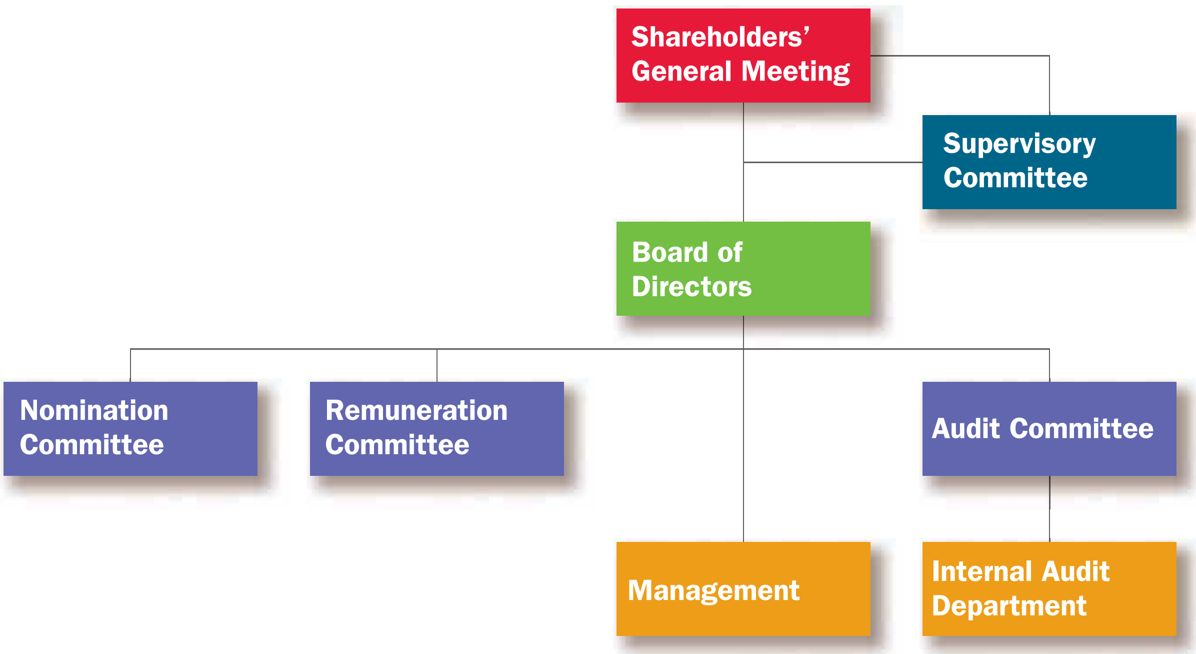




CORPORATE GOVERNANCE REPORT

The Group is committed to establishing an efficient, orderly and transparent corporate governance mechanism. Since its listing, the Company strives to comply with the Company Law of the PRC ("Company Law"), the Rules Governing the Listing of Securities on Hong Kong Exchanges and Clearing Limited ("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 maximise 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 by poll, shareholders' voting rights, will be circulated to shareholders 20 clear business days before the date of shareholders' general meeting according to the latest revised Listing Rules.

Board of Directors

The Board manages the Group's operations and development strategies. 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 ten directors, including five executive directors, namely Mr. Pang Baogen (the chairman of the Board), Mr. Gao Jiming, Mr. Gao Lin, Mr. Zhou Hanwan and Mr. Wang Rongfu, and five independent non-executive directors, namely Mr. Wang Youwei, Mr. Yi Deqing, Mr. Hu Shaozeng, Mr. Chan Yin Ming, Dennis and Mr. Wang Youqing, 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 Chinese construction industry. Mr. Wang Youqing has acquired rich law and government management experience and has a deep 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, making the shareholders' interest considered and ensured sufficiently. All the independent non-executive directors have confirmed their independence to the Group, and the Group, in its opinion, believes they are independent.

All members of the Board had entered into three-year service contracts with the Company respectively. According to the memorandum and articles of association of the Company, all directors will retire by rotation in every three years at the annual general meeting of the Company, but are eligible for re-election.

Brief biographical details of the directors are set out on pages 39 to 42 of the annual report.

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in Appendix 10 to the Listing Rules as its own code of conduct regarding the securities transactions by the directors. Having made specific enquiries with each director, all directors have confirmed that they have complied with the required standards set out in the Model Code throughout the year of 2010.

The remunerations of each of the directors of the Company are disclosed on an individual basis, details of which are set out in note 32 to the consolidated financial statements. Since its listing, the Company maintains liability insurance for its directors, supervisors 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 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.

CORPORATE GOVERNANCE REPORT *(continued)*

Attendance of Board Meeting

Name	Attendance/Number of board meetings
Executive Directors	
Mr. Pang Baogen	4/4
Mr. Gao Jiming	4/4
Mr. Gao Lin	4/4
Mr. Zhou Hanwan	4/4
Mr. Wang Rongfu	4/4
Independent Non-executive Directors	
Mr. Wang Youwei	4/4
Mr. Yi Deqing	4/4
Mr. Hu Shaozeng	4/4
Mr. Chan Yin Ming, Dennis	4/4
Mr. Sun Chuanlin*	2/4
Mr. Wang Youqing[#]	2/4

* Mr. Sun Chuanlin resigned as an independent non-executive director of the Company on 29 March 2010.

[#] Mr. Wang Youqing has been appointed as an independent non-executive director of the Company in the 2009 annual general meeting held on 17 June 2010.

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 Appendix 14 to the Listing Rules and 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 all three members 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 the fees for approval by the Board.

Remuneration Committee

The terms of reference of the remuneration committee are in accordance with the Appendix 14 to the Listing Rules. The remuneration committee is responsible for formulating the remuneration policy in respect of directors, supervisors 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 the year of 2010 and all three members attended the meeting. The major tasks accomplished during the year include:

- review the remuneration policy, the terms of service contracts; and
- assessing the performance of all executive directors, supervisors and senior managers.

Nomination Committee

The terms of reference of the nomination committee are in accordance with the Appendix 14 to the Listing Rules. The nomination committee comprises two independent non-executive directors, Mr. Wang Youwei (chairman of the nomination committee) and Mr. Yi Deqing, and one executive director, Mr. Gao Jiming. The nomination committee held one meeting in 2010 and all three members attended the meeting. The major tasks accomplished during the year include:

- 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 and supervisors to the Board.

CORPORATE GOVERNANCE REPORT *(continued)*

Directors Responsibility on the Financial Statements

The directors of the Company acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2010, which were prepared in accordance with statutory requirements and applicable accounting standards. The reporting responsibilities of the external auditors on the financial statements are set out in the Independent Auditor's Report on pages 51 to 52 of the annual report.

Controls Mechanism

Supervisory Committee

The supervisory committee is the standing supervisory organisation of the Company, which is responsible for supervising the functions of the Board and its members and the senior management such as the general manager and deputy general managers. The supervisory committee is accountable to the shareholders meeting and exercises the following authority in accordance with the applicable laws.

– examining the financial statements of the Company;

– supervising the directors, general manager, 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 manager, 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 comprises five supervisors, who will serve for a term of three years and are eligible for re-election. The number of members and composition of the supervisory committee of the Company comply with the requirements of the relevant laws and regulations. The supervisory committee comprises Mr. Kong Xiangquan (chairman of the supervisory committee), Mr. Qian Yongjiang, Mr. Yuan Ajin and independent supervisors, Mr. Li Yongsheng and Mr. Zhang Xindao.

The supervisory committee convened two meetings during the year and all of the five supervisors attended the meetings. The supervisory committee has also adopted the Model Code as its own code of conduct regarding the securities transactions by the supervisors. Having made specific enquiries with each supervisor, all supervisors have confirmed that they have complied with the required standards set out in the Model Code throughout the year of 2010.

Internal Audit

The Company has established an internal audit department. 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. 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 a number of constructive recommendations for adoption by certain subsidiaries and branches to improve their deficiencies.

Code on Corporate Governance Practices

In the opinion of the Board, the Company 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 2010, 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 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 the Group's policies efficiently. Therefore, the Board endorsed the position of chief executive officer to be assumed by the chairman of the Board. Nevertheless, the Board will regularly review the management structure to ensure that it meets the business development requirements of the Group.

INVESTOR RELATIONS

The Company pays great attention to maintain good relations with investors, it firmly believes that investor relations are an important aspect of a listed company. Transparency and high efficiency in disclosing accurate corporate information pertaining to operating conditions, development strategies, results of operations and prospects are important to investors. The Company endeavors to interact with its investors, enhance transparency and corporate governance, which enhance shareholders value and create a win-win situation for the Company and its investors.

In addition to issuing the regular interim report and annual report, the Group releases latest news related to the Company's business to investors through different media platforms, receiving visiting investors and analysts and attending "one-on-one" meetings at the Company's premises. During the year, these investors' and analysts' visits have surpassed more than thirty times. Taking the suggestions and consultations from shareholders, investors, analysts, media and the public, our investor relations personnel follow up with each visitor to whom they have been served.

Substantial Shareholders of H share

As at 31 December 2010, 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 Ltd	65,104,000	20.85%	9.82%
JPMorgan Chase & Co.	28,764,000	9.21%	4.34%
HSBC Global Asset Management (Hong Kong) Limited	28,000,000	8.96%	4.22%
Henderson Global Investors Limited	24,948,000	7.99%	3.76%

Important Dates

Events	Date
Issued Interim Results Announcement of 2010	On 27 August 2010
Issued Annual Results Announcement of 2010	On 28 March 2011
Closure of register of member of the Company	13 May 2011 to 13 June 2011 (both dates inclusive)
Annual General Meeting of 2010	On 13 June 2011
Payment date of the final dividend of 2010	On 8 July 2011

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 Housing and Urban-Rural Development of the People's Republic of China. 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 contractual management model. Besides, Mr. Pang is also the vice-chairman of the Construction Companies Committee in China, the vice-chairman of Construction Association in Zhejiang, representative of the 11th People's Congress of Zhejiang Province and the director of the Institute of Construction and Housing Industrialisation of National Construction Engineering Technology Research Center.

Mr. Gao Lin, born in 1970, is an executive director and the director of the operation management committee of the Company, a director and the general manager of Baoye Hubei Construction Group Company Limited. He holds a professor level 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 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, Outstanding Entrepreneur in Hubei Province, Outstanding Youth in Hubei Province, Model Worker of 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, vice-chairman of Construction Industry Association in Hubei, vice-chairman of Construction Industry Association in Wuhan, representative of the 13th People's Congress of Wuchang District, Wuhan City and a member of the construction and environment protection committee in Wuchang District, Wuhan City. He joined the Group in 1987.

Mr. Gao Jiming, born in 1962, is an executive director of the Company. He is a graduate of the China University of Geosciences, 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 vice-chairman of the Real Estate Association of Shaoxing County. He joined the Group in 1978.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(continued)*

Mr. Zhou Hanwan, born in 1954, is an executive director of the Company and 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 National Outstanding Construction Project Manager, National Outstanding Construction Entrepreneur, Outstanding Construction Company Manager of Zhejiang, Top 10 Outstanding Entrepreneurs of construction in Zhejiang, Model Worker of Shaoxing City, Talent with great contribution to the development of Shaoxing City. He also has been appointed the lead member of the onsite 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, a 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 Provincial Construction Design Research Institute, a committee member of China Civil Engineering Association, a deputy director and officer in charge of the Construction Technology Committee of Zhejiang Province, a deputy director and officer in charge of the Earthquake Prevention Committee of Zhejiang Province, a deputy director of Zhejiang Civil Engineering Construction Association, a senior consultant of the Zhejiang Construction Design 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 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 Zhejiang 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 34 years of experience in public accountancy, management consultancy, manufacturing, distribution, telecommunications retailing, logistics and financial services.

Mr. Wang Youqing, born in 1946, is an independent non-executive director of the Company. Mr. Wang graduated from East China University of Political Science and Law, and holds a senior district attorney qualification. Mr. Wang is a member of Communist Party of China and was a chief district attorney of the People's District Attorney Department of Shaoxing County, the chief district attorney and general secretary of the People's District Attorney Department of Shaoxing City and a deputy director of the Standing Committee of People's Congress in Shaoxing City. Mr. Wang has retired.

Supervisors

Mr. Kong Xiangquan, born in 1959, a qualified senior 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 in1984.

Mr. Yuan Ajin, born in 1949, is a qualified engineer and the deputy general manager of the equipment leasing department of Zhejiang Baoye Construction Group Company Limited, a subsidiary of the Group. Mr. Yuan joined the Group in 1975, and is one of the promoters of the Company.

Independent Supervisors

Mr. Li Yongsheng, born in 1940, is an independent supervisor of the Company. Mr. Li was the district attorney of Shaoxing District Attorney Office. 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. Currently, Mr. Zhang is the general manager of Shaoxing Tianyi Green Power Company Limited.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(continued)*

Senior Management

Mr. Wang Liequan, born in 1963, is the deputy director of operation management committee of the Company. Mr. Wang graduated from the University of California, with a master degree, majoring in business administration. He holds a professor level senior engineer qualification, and a registered first-class constructor qualification. Mr. Wang was awarded the Model Worker of Shaoxing City, the Model Worker of Zhejiang Province, the Model Worker of Beijing City and the National Model Worker, the National Outstanding Laborer and apprentice of Luban of Chinese Construction Industry Association. He is currently the deputy director of China Economic and Social Committee of Central Communist Party School, the consultant of Zhijiang Development Forum of Beijing University, the standing vice president of Zhejiang Enterprises Union in Beijing, the vice president of Yue Businessmen Association. Mr. Wang joined the Group in 1981.

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

Mr. Jiang Xiaohua, born in 1970, is the chief accountant of the Company. Mr. Jiang graduated from Jiangxi University of Finance and Economics in 1993, majoring in finance and taxation. He graduated from Zhejiang University and obtained the master degree in 2003. Mr. Jiang holds the senior accountant certification and was awarded as one of the National Accounting Leading Talents. He was previously the Inspection officer of Finance and Taxation Bureau of Shaoxing County and the Chief Financial Officer of Tianlong Group Company Limited. Mr. Jiang joined the Group in 2004.

Mr. Gao Jun, born in 1972, is a member of the operation management committee of the Company and the general manager of Baoye Group Anhui Company Limited. Mr. Gao graduated from the China University of Geosciences, majoring in civil engineering, and holds a senior engineer qualification. Mr. Gao is currently a representative of the 14th People's Congress of Hefei City, a standing committee member of 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. Mr. Gao joined the Group in 1989.

Mr. Jin Jixiang, born in 1967, is a member of the operation management committee of the Company. Mr. Jin 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 professor level senior engineer qualification. He was awarded the national excellent decoration entrepreneur, Top 10 Outstanding Entrepreneurs of Construction in Zhejiang, Outstanding Manager of Construction in Zhejiang, Model Worker of Shaoxing City and the Advanced Productivity Worker of Shaoxing City. Mr. Jin joined the Group in 1985.

Mr. Lou Zhonghua, born in 1968, is a member of the operation management committee of the Company. Mr. Lou 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. Mr. Lou 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 Wuhan Science and Technology University majoring in civil engineering, and holds a senior engineer qualification. Mr. Wang 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 2010.

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 9 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 2010 are set out in the balance sheets of the consolidated financial statements prepared in accordance with HKFRS on pages 53 to 54.

The results of the Group for the year ended 31 December 2010 prepared in accordance with HKFRS are set out in the consolidated income statement on page 55.

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 22 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 the equity holders amounted to RMB340,498,000 as at 31 December 2010 (2009: RMB243,708,000).

Dividends

At the board meeting held on 28 March 2011, the Board proposed a final dividend of RMB0.16 (2009: RMB0.13) per ordinary share for the year ended 31 December 2010.

Segment Information

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

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

The segment information for the year ended 31 December 2010 is set out in note 5 to the consolidated financial statements.

DIRECTORS' REPORT *(continued)*

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 2010, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Directors and Supervisors

The directors and supervisors of the Company for 2010 are as follows:

Directors

Executive Directors

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

Independent Non-executive Directors

Mr. Wang Youwei
Mr. Yi Deqing
Mr. Hu Shaozeng
Mr. Chan Yin Ming, Dennis
Mr. Sun Chuanlian (Resigned on 29 March 2010)
Mr. Wang Youqing (Appointed on 17 June 2010)

Supervisors

Supervisors

Mr. Kong Xiangquan *(Chairman of the Supervisory Committee)*
Mr. Qian Yongjiang
Mr. Chen Xingquan (Resigned on 29 March 2010)
Mr. Yuan Ajin (Appointed on 17 June 2010)

Independent Supervisors

Mr. Li Yongsheng
Mr. Zhang Xindao

Changes of Directors, Supervisors and Senior Management

During the year, Mr. Sun Chuanlin resigned as an independent non-executive director of the Company and Mr. Wang Youqing was appointed as an independent non-executive director of the Company; Mr. Chen Xingquan resigned as an independent supervisor of the Company and Mr. Yuan Ajin was appointed as a supervisor of the Company (please refer to the announcement of the Company dated 29 March 2010 for further details). These appointments were approved at the 2009 annual general meeting of the Company held on 19 June 2010. Mr. Fung Ching Simon resigned as the chief financial officer and secretary to the Board of the Company on 31 July 2010. Save as disclosed above, there is no other change of directors, supervisors or senior management during the year.

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 pages 39 to 42 of the annual report.

Remuneration of Directors

The remuneration of the directors of the Company is disclosed on an individual named basis in note 32 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 32(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.

DIRECTORS' REPORT *(continued)*

Interests of Directors, Supervisors, Chief Executive and Senior Management

As at 31 December 2010, the interests and short positions of directors, supervisors, chief executive and senior management of the Company and any of the associated corporations within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("SFO"), which are required to be (i) notified to the Company and HKEx pursuant to Division 7 and 8 of Part XV of the SFO; or (ii) entered into the register required to be kept by the Company under Section 352 of Part XV of the SFO; or (iii) notified to the Company and HKEx pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers, were as follows:

Directors/Senior Management	Relevant entity	Capacity	No. of domestic shares (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. Pang Baogen	Zhejiang Baoye Curtain Wall Decoration Company Limited	Individual	361,244	0.71%
Mr. Gao Jiming	The Company	Individual	13,024,647	1.96%
Mr. Gao Jiming	Zhejiang Baoye Curtain Wall Decoration Company Limited	Individual	180,622	0.36%
Mr. Gao Lin	The Company	Individual	9,544,775	1.44%
Mr. Gao Lin	Zhejiang Baoye Curtain Wall Decoration Company Limited	Individual	120,415	0.24%
Mr. Zhou Hanwan	The Company	Individual	8,233,510	1.24%
Mr. Zhou Hanwan	Zhejiang Baoye Curtain Wall Decoration Company Limited	Individual	120,415	0.24%
Mr. Wang Rongfu	The Company	Individual	7,147,039	1.08%
Mr. Wang Rongfu	Zhejiang Baoye Curtain Wall Decoration Company Limited	Individual	120,415	0.24%
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. Lou Zhonghua	Zhejiang Baoye Curtain Wall Decoration Company Limited	Individual	120,415	0.24%
Mr. Wang Rongbiao	The Company	Individual	2,647,911	0.40%
Mr. Jin Jixiang	The Company	Individual	2,440,527	0.37%
Mr. Wang Liequan	The Company	Individual	1,641,473	0.25%

Directors' and Supervisors' Service Contracts

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 annual general meeting of 2010 of the Company. The Company has not signed any service contract, with any director or supervisor, which is 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 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 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

	Initial Public Offering	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 HKEx	Main Board of HKEx.	Main Board of HKEx.	Main Board of 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 2010, 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.

DIRECTORS' REPORT *(continued)*

Human Resources

As at 31 December 2010, the Group had approximately 3,705 permanent employees (2009: approximately 3,725). There are approximately 63,810 indirectly employed construction site workers (2009: approximately 63,050). These workers are not directly employed by the Group. Total staff costs amounted to approximately RMB1,942,642,000 (2009: RMB1,486,682,000) for the year ended 31 December 2010. Remuneration is determined by reference to market terms as well as the performance, qualifications and experience of individual employee. The Group is subject to social insurance contribution plans organised by the PRC local governments. In accordance with relevant national and local labor and social welfare laws and regulations, employee benefits provided by the Group include pension and medical insurance coverage, injury insurance, maternity insurance and unemployment insurance. The Group highly values human resources management, and devotes to establishing a high quality team to support its long term business development. The Board is currently working on devising and implementing a more effective employee incentive plan.

Connected Transactions

During the year of 2010, the Group had no connected transaction that would require disclosure under the Listing Rules. Apart from the related party balances disclosed in Note 10 and related party transactions disclosed in Note 27(b), the Group had no other significant related party transactions during the year ended 31 December 2010.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the articles of association of the Company and related laws of Hong Kong 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 2010, the Company and its subsidiaries 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. Baoye Group Zheijiang Construction Industry Institute Company Limited, a subsidiary of the Group, is being recognised as a hi-tech enterprise in 2010 and will enjoy the corporate income tax rate of 15% in the coming three years. Details of the Group's income tax are disclosed in note 34 to the consolidated financial statements.

External Guarantee and Fulfillment

	2010 ***RMB'000***	2009 *RMB'000*
Guarantees given to banks in respect of mortgage facilities granted for certain purchasers	**373,304**	146,091

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 delivery of the building ownership certificates of such properties 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 cash and cash equivalents were deposited in commercial banks 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 provisions set out in 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, Chairman of the Board. For further details, please refer to the Corporate Governance Report as set out in this annual report.

Auditors

PricewaterhouseCoopers ("PwC Hong Kong") is appointed as the Group's international auditor, and Shine Wing CPAs Company Limited ("Shine Wing") is appointed as the Group's PRC 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 2010 is set out as follows:

	2010		2009	
	Audit fees	**Other fees***	Audit fees	Other fees*
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
PricewaterhouseCoopers	**3,000**	**–**	2,800	–
Shine Wing	**480**	**35**	480	35

* Other fees were primarily disbursement for travel expenses.

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint PwC Hong Kong as the Group's international auditor, and PricewaterhouseCoopers Zhongtian CPAs Company Limited as the Group's PRC statuary auditor. Please refer to the announcement of the Company dated 28 March 2011 for further details.

Closure of Register of Member

The register of members of the Company will be closed from 13 May 2011 to 13 June 2011, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend and to attend and vote at the annual general meeting to be held on 13 June 2011, 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, Wanchai, Hong Kong (for holders of the Company's H Share) no later than 4:30 p.m. on 12 May 2011.

Appreciation

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

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

Zhejiang, the PRC
28 March, 2011

SUPERVISORS' REPORT

To the Shareholders,

In the year 2010, the supervisory committee of Baoye Group Company Limited (the "Supervisory Committee"), in compliance with the provision of the 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 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 2010 and has great confidence in the future of the Company.

Finally, I, on behalf of the Supervisory Committee, would 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
Baoye Group Company Limited
Kong Xiangquan
Chairman

Zhejiang, the PRC
28 March, 2011

INDEPENDENT AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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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 53 to 109, which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, 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 consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated financial statements.

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

INDEPENDENT AUDITOR'S REPORT *(continued)*

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, 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, 28 March 2011

CONSOLIDATED AND COMPANY'S BALANCE SHEETS

As at 31 December 2010

		Group		Company	
		As at 31 December		As at 31 December	
		2010	2009	**2010**	2009
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
ASSETS					
Non-current assets					
Land use rights	*6*	**556,193**	529,264	**5,778**	10,016
Property, plant and equipment	*7*	**912,660**	902,696	**30,960**	35,457
Goodwill	*8*	**16,534**	16,534	**–**	–
Investment in subsidiaries	*9*	**–**	–	**820,703**	849,411
Investment in jointly controlled entity	*10(a)*	**36,735**	40,769	**49,000**	49,000
Loans to jointly controlled entity	*10(b)*	**103,187**	264,787	**243,222**	386,532
Investment in associates	*11*	**2,555**	29,378	**–**	–
Available-for-sale financial assets	*13*	**12,849**	5,340	**–**	–
Deferred income tax assets	*28*	**29,353**	31,445	**–**	–
		1,670,066	1,820,213	**1,149,663**	1,330,416
Current assets					
Amounts due from subsidiaries	*9*	**–**	–	**365,275**	28,304
Inventories	*14*	**106,648**	108,690	**–**	–
Properties under development	*15*	**3,202,726**	2,552,347	**–**	–
Completed properties held for sale		**575,855**	369,217	**–**	–
Due from customers on construction contracts	*16*	**1,494,272**	1,581,402	**–**	–
Trade receivables	*17*	**700,404**	617,593	**–**	–
Other receivables	*18*	**1,160,172**	1,011,054	**15,267**	250
Restricted bank deposits	*19*	**101,269**	239,756	**–**	–
Cash and cash equivalents	*20*	**1,947,888**	1,677,452	**436,322**	492,488
		9,289,234	8,157,511	**816,864**	521,042
Total assets		**10,959,300**	9,977,724	**1,966,527**	1,851,458
EQUITY					
Equity attributable to the equity holders of the Company					
Share capital	*21*	**662,964**	662,964	**662,964**	662,964
Share premium	*21*	**847,295**	847,295	**847,295**	847,295
Reserves	*22*	**100,871**	122,527	**100,990**	79,590
Retained earnings					
– Proposed final dividend	*23, 36*	**106,074**	86,185	**106,074**	86,185
– Others	*23*	**2,056,077**	1,655,676	**234,424**	157,523
		3,773,281	3,374,647	**1,951,747**	1,833,557
Non-controlling interests		**56,197**	104,542	**–**	–
Total equity		**3,829,478**	3,479,189	**1,951,747**	1,833,557

CONSOLIDATED AND COMPANY'S BALANCE SHEETS *(continued)*

As at 31 December 2010

		Group		Company	
		As at 31 December		As at 31 December	
		2010	2009	**2010**	2009
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
LIABILITIES					
Non-current liabilities					
Borrowings	*27*	**70,000**	310,000	**–**	–
Deferred income tax liabilities	*28*	**46,975**	64,072	**–**	515
		116,975	374,072	**–**	515
Current liabilities					
Trade payables	*24*	**1,177,108**	964,012	**–**	–
Other payables	*25*	**1,105,716**	859,264	**8,884**	11,490
Receipts in advance	*26*	**2,706,300**	1,376,476	**–**	–
Current income tax liabilities		**463,368**	379,267	**5,896**	5,896
Due to customers on construction contracts	*16*	**1,065,192**	1,209,734	**–**	–
Borrowings	*27*	**495,163**	1,335,710	**–**	–
		7,012,847	6,124,463	**14,780**	17,386
Total liabilities		**7,129,822**	6,498,535	**14,780**	17,901
Total equity and liabilities		**10,959,300**	9,977,724	**1,966,527**	1,851,458
Net current assets		**2,276,387**	2,033,048	**802,084**	503,656
Total assets less current liabilities		**3,946,453**	3,853,261	**1,951,747**	1,834,072

The notes on pages 59 to 109 are an integral part of these consolidated financial statements.

Approved by the Board of Directors on 28 March 2011 and were signed on its behalf.

Pang Baogen
Director

Gao Jiming
Director

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

		Year ended 31 December	
		2010	2009
	Note	***RMB'000***	*RMB'000*
Revenue	*5*	**12,055,243**	10,973,575
Cost of sales	*31*	**(11,104,052)**	(9,834,357)
Gross profit		**951,191**	1,139,218
Other income	*29*	**41,593**	42,763
Other gains – net	*30*	**172,405**	55,336
Selling and marketing costs	*31*	**(34,766)**	(43,205)
Administrative expenses	*31*	**(318,324)**	(284,316)
Operating profit		**812,099**	909,796
Finance costs	*33*	**(35,594)**	(43,706)
Share of losses of jointly controlled entity	*10*	**(4,034)**	(5,639)
Share of losses of associates	*11*	**(299)**	(50)
Profit before income tax		**772,172**	860,401
Income tax expense	*34*	**(225,747)**	(274,169)
Profit for the year		**546,425**	586,232
Attributable to:			
– Equity holders of the Company		**527,875**	502,239
– Non-controlling interests		**18,550**	83,993
		546,425	586,232
Earnings per share for profit attributable to the equity holders of the Company			
– basic and diluted (expressed in RMB per share)	*35*	**0.796**	0.758
Dividends	*36*	**106,074**	86,185

The notes on pages 59 to 109 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Profit for the year	**546,425**	586,232
Other comprehensive income:		
Transfer of reserves to income statement upon sale of revaluated properties, net of tax	**(33,601)**	(21,734)
Change in fair value of available-for-sale financial assets, net of tax	**4,132**	–
Other comprehensive income for the year, net of tax	**(29,469)**	(21,734)
Total comprehensive income for the year	**516,956**	564,498
Total comprehensive income attributable to:		
– Equity holders of the Company	**498,406**	480,505
– Non-controlling interests	**18,550**	83,993
	516,956	564,498

The notes on pages 59 to 109 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Attributable to the equity holders of the Company						
	Share capital RMB'000	Share premium RMB'000	Reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2009	662,964	847,295	132,846	1,304,074	2,947,179	43,349	2,990,528
Comprehensive income:							
Profit for the year	–	–	–	502,239	502,239	83,993	586,232
Other comprehensive income							
Transfer of reserves to income statement upon sale of revalued properties	–	–	(21,734)	–	(21,734)	–	(21,734)
Total comprehensive income for the year	–	–	(21,734)	502,239	480,505	83,993	564,498
Transactions with owners:							
Transfer to statutory surplus reserve	–	–	11,415	(11,415)	–	–	–
Dividends	–	–	–	(53,037)	(53,037)	(22,800)	(75,837)
Total transactions with owners	–	–	11,415	(64,452)	(53,037)	(22,800)	(75,837)
Balance at 31 December 2009	662,964	847,295	122,527	1,741,861	3,374,647	104,542	3,479,189
Balance at 1 January 2010	**662,964**	**847,295**	**122,527**	**1,741,861**	**3,374,647**	**104,542**	**3,479,189**
Comprehensive income:							
Profit for the year	**–**	**–**	**–**	**527,875**	**527,875**	**18,550**	**546,425**
Other comprehensive income							
Transfer of reserves to income statement upon sale of revalued properties	**–**	**–**	**(33,601)**	**–**	**(33,601)**	**–**	**(33,601)**
Change in fair value of available-for-sale financial assets	**–**	**–**	**4,132**	**–**	**4,132**	**–**	**4,132**
Total comprehensive income for the year	**–**	**–**	**(29,469)**	**527,875**	**498,406**	**18,550**	**516,956**
Transactions with owners:							
Transfer to statutory surplus reserve	**–**	**–**	**21,400**	**(21,400)**	**–**	**–**	**–**
Capital contributions by non-controlling interests	**–**	**–**	**–**	**–**	**–**	**600**	**600**
Acquisition of additional interest in subsidiaries *(Note 40(a))*	**–**	**–**	**(13,747)**	**–**	**(13,747)**	**(27,075)**	**(40,822)**
Disposal of interest in subsidiaries without loss of control *(Note 40(b))*	**–**	**–**	**160**	**–**	**160**	**12,441**	**12,601**
Dividends	**–**	**–**	**–**	**(86,185)**	**(86,185)**	**(52,861)**	**(139,046)**
Total transactions with owners	**–**	**–**	**7,813**	**(107,585)**	**(99,772)**	**(66,895)**	**(166,667)**
Balance at 31 December 2010	**662,964**	**847,295**	**100,871**	**2,162,151**	**3,773,281**	**56,197**	**3,829,478**

The notes on pages 59 to 109 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2010

	Note	Year ended 31 December 2010 RMB'000	2009 RMB'000
Cash flows from operating activities			
Cash generated from operations	37	**1,591,397**	1,430,152
Interest paid		**(80,030)**	(110,153)
Income tax paid		**(158,029)**	(162,796)
Net cash generated from operating activities		**1,353,338**	1,157,203
Cash flows from investing activities			
Repayment of the loans by jointly controlled entity		**161,600**	222,763
Payments for investment in an associate		**–**	(600)
Acquisition of additional interest in subsidiaries		**(40,822)**	–
Proceeds from disposal of interest in subsidiaries		**12,601**	–
Proceeds from disposal of subsidiaries		**34,753**	–
Purchase of available-for-sale financial assets		**(1,999)**	–
Purchase of property, plant and equipment		**(190,334)**	(164,192)
Proceeds from sale of property, plant and equipment	37	**103,517**	31,892
Purchase of land use rights		**(67,714)**	(116,028)
Proceeds from sale of land use rights	37	**82,728**	23,939
Proceeds from sale of investment properties		**–**	60,890
Interest received		**41,593**	42,763
Net cash generated from investing activities		**135,923**	101,427
Cash flows from financing activities			
Proceeds from borrowings		**2,400,000**	3,195,690
Repayments of borrowings		**(3,480,547)**	(4,072,201)
Dividends paid to equity holders of the Company		**(86,185)**	(53,037)
Capital contributions by non-controlling interests		**600**	–
Dividends paid to non-controlling interests		**(52,693)**	(12,800)
Net cash used in from financing activities		**(1,218,825)**	(942,348)
Net increase in cash and cash equivalents		**270,436**	316,282
Cash and cash equivalents at beginning of the year		**1,677,452**	1,361,170
Cash and cash equivalents at end of the year		**1,947,888**	1,677,452

The notes on pages 59 to 109 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 28 March 2011.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of 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) *New and amended standards adopted by the Group*

The following new standards and amendments to standards, which have been published and are mandatory for the financial year beginning on 1 January 2010, are relevant to the Group:

- HKFRS 3 (revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

  The revised standard continues to apply the acquisition method to business combinations, with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.

  The Group has applied this revised standard prospectively from 1 January 2010 but no business combination occurred in 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) ***New and amended standards adopted by the Group*** (continued)

- As the Group has adopted HKFRS 3 (revised), it is required to adopt HKAS 27 (revised), 'Consolidated and separate financial statements', at the same time. HKAS 27 (revised) 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. HKAS 27 (revised) contained consequential amendments to HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures'.

  The Group has applied this revised standard from 1 January 2010 and therefore, the Group changed its accounting policy for transactions with non-controlling interests from 1 January 2010.

  Previously transactions with non-controlling interests were treated as transactions with parties external to the Group. Disposals therefore resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

  Since the Group applied this revised standard prospectively, there were no adjustments were necessary to any of the amounts previously recognised in the financial statements.

  See Note 40 for further details of the transactions with non-controlling interests during the year.

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 which are relevant to but have no impact on the Group, or not, currently relevant to the Group (although they may affect the accounting for future transactions and events):

- HKAS 1 (amendment), 'Presentation of financial statements'
- HKAS 7 (amendment), 'Statement of Cash Flows'
- HKAS 17 (amendment), 'Lease'
- HKAS 18 (amendment), 'Revenue'
- HKAS 36 (amendment), 'Impairment of assets'
- HKAS 38 (amendment), 'Intangible assets'
- HKAS 39 (amendment), 'Financial instruments: Recognition and measurement'
- HKFRS 1 (revised), 'First-time adoption of HKFRSs'
- HKFRS 2 (amendment), 'Group cash-settled share-based payment transactions'
- HKFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'
- HK Interpretation 5 'Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause'
- HK(IFRIC)-Int 9, 'Reassessment of embedded derivatives and HKAS 39, Financial instruments: Recognition and measurement'
- HK(IFRIC)-Int 16, 'Hedges of a net investment in a foreign operation'
- HK(IFRIC)-Int 17, 'Distribution of non-cash assets to owners'
- HK(IFRIC)-Int 18, 'Transfers of assets from customers'

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(c) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted:

		Effective for annual periods beginning on or after
HKFRS 9	Financial instruments	1 January 2013
HK(IFRIC) 19	Extinguishing financial liabilities with equity instruments	1 July 2010
Amendments to HKAS 1	Presentation of Financial Statements	1 January 2011
Amendments to HKAS 27	Consolidated and Separate Financial Statements	1 July 2010
Amendments to HKAS 32	Classification of rights issues	1 February 2010
Amendments to HKAS 34	Interim Financial Reporting	1 January 2011
Amendments to HKFRS 1	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters	1 July 2010
Amendments to HKFRS 1	First-time Adoption of Hong Kong Financial Reporting Standards	1 January 2011
Amendments to HKFRS 3 (Revised)	Business Combinations	1 July 2010
Amendments to HKFRS 7	Financial Instruments: Disclosures	1 January 2011
Amendments to HK (IFRIC) 13	Customer Loyalty Programmes	1 January 2011
Amendments to HK (IFRIC) 14	Prepayments of a minimum funding requirement	1 January 2011
Amendments to HKAS 12	Income taxes	1 January 2012

The Group has commenced an assessment of the impact of the new standards, amendments to the standards and interpretations but is not yet in a position to state whether these new standards, amendments to standards and interpretations would have a significant impact to the Group's results of operations and financial position.

2.2 Consolidation

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2. Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(a) Subsidiaries (continued)

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interest issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in income statement (Note 2.6).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

(b) Transactions with non-controlling interests

As explained in Note 2.1(a), the Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Associates and jointly controlled entities

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. A jointly controlled entity is an entity which there is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. Investments in associates and jointly controlled entities are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates and jointly controlled entities includes goodwill identified on acquisition, net of any accumulated impairment loss.

2. Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(c) ***Associates and jointly controlled entities*** (continued)

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

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

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less provision for impairment losses (Note 2.7). The results of jointly controlled entities are accounted for by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

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 the Group's 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 income statements within "finance costs". All other foreign exchange gains and losses are presented in the income statement within "other gains – net".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2. Summary of significant accounting policies (continued)

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

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.

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 2.7).

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 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 at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. 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 identified according to operating segment.

2. Summary of significant accounting policies (continued)

2.7 Impairment of investments in subsidiaries, associates and jointly controlled entities and other non-financial assets

Assets that have an indefinite useful life 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 from impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries, associates or jointly controlled entities is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary, associate or jointly controlled entity in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.8 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 assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2. Summary of significant accounting policies (continued)

2.8 Financial assets (continued)

(b) Recognition and measurement (continued)

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

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'.

2.9 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the debtor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- Being becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

The Group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

2. Summary of significant accounting policies (continued)

2.9 Impairment of financial assets (continued)

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. 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 income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2.10 Land use rights

The Group made upfront payments to obtain operating leases of land use rights. If the land use rights are held for development and subsequent sales, the upfront payments are recorded as part of the cost of properties under development (Note 2.11). If the land use rights are held by the Group for own use, the upfront payments are recorded as a separate asset and are amortised to the income statement on a straight-line basis over the lease periods.

2.11 Properties under development

Properties under development are stated at the lower of cost and net realisable value. Cost comprises the payments for land use rights held for development, 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.

2.12 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.

2.13 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). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.14 Trade and other receivables

Trade receivables are amounts due from customers for merchandise (including the properties and building materials) sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2. Summary of significant accounting policies (continued)

2.15 Construction contracts

A construction contract is defined as a contract specifically negotiated for construction of an asset. Contract costs are recognised as cost in the period when they are 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.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

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.

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).

Progress billings not yet paid by customers and retention are included within "trade and other receivables".

2.16 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.

2.17 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.

2.18 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

2. Summary of significant accounting policies (continued)

2.19 Borrowings and borrowing costs

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 (referred to as "borrowing costs") is recognised in the income statement over the period of the borrowings using the effective interest method, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

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.

2.20 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

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 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.

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 assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2. Summary of significant accounting policies (continued)

2.21 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 Group's contributions to the above defined contributions retirement scheme are expensed as incurred.

2.22 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.

(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. Summary of significant accounting policies (continued)

2.23 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 costs are deferred and recognised in income statement over the period necessary to match them with the costs that they are intended to compensate.

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*** – Payments made under operating leases (net of any incentives received from the lessor), are charged to the income statement on a straight-line basis over the period of the lease.

(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 and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or the Board of Directors, as appropriate.

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.

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 certain countries in Africa. This exposes the Group to foreign exchange risk. The conversion and remittance of these currencies are subject to regulations in these countries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

(i) Foreign exchange risk (continued)

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 2010 and 2009 are as follows:

	Group As at 31 December		Company As at 31 December	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Assets				
U.S dollar ("USD")	**53,503**	22,794	**–**	–
Djibouti Franc ("DJF")	**32,952**	29,178	**–**	–
Botswana pula ("BWP")	**24,861**	8,869	**–**	–
Seychelles Rupee ("SCR")	**4,733**	4,683	**–**	–
Other foreign currencies	**842**	1,005	**19**	741
Liabilities				
DJF	**(51,876)**	(38,056)	**–**	–
BWP	**(23,245)**	(10,960)	**–**	–
SCR	**(6,957)**	(6,323)	**–**	–

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 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 As at 31 December		Company As at 31 December	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Decrease/(increase) in profit for the year				
– USD	**(2,548)**	(1,140)	**–**	–
– DJF	**901**	444	**–**	–
– BWP	**(77)**	105	**–**	–
– SCR	**106**	82	**–**	–
– Other foreign currencies	**(40)**	(50)	**(1)**	(37)

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

(ii) Price risk

The Group is exposed to the certain raw materials (such as cement and steel) price risk, but does not enter into forward contract to hedge the risk. In addition, the Group is also 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 these investments.

As at 31 December 2010, management considered that the price risk of the equity securities is not material to the Group as the available-for-sale financial asset is not significant.

(iii) Interest rate risk

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 when 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 2010, if interest rates on borrowings had been 1% higher/lower with all other variables held constant, net profit for the current year would have been RMB4,643,000 (2009: RMB5,287,000) 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. The loans to the jointly controlled equity are at fixed rate by reference to prevailing rates at the loan market.

(iv) Credit risk

The Group is exposed to credit risk in relation to its trade and other receivables, due from customers on construction contracts, loans to jointly controlled entity, 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.

In addition, the Company is also exposed to credit risk in relation to its other receivables, amounts due from subsidiaries, loans to jointly controlled entity, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

(iv) ***Credit risk*** (continued)

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 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.

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

(v) ***Liquidity risk***

The Group has established a central treasury department (group treasury) to manage its cash flow. 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. The Group treasury maintains flexibility in funding by maintaining adequate amount of cash and cash equivalent and having available sources of financing.

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.

	Group				Company
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total	Less than 1 year
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2010					
Borrowings	**495,163**	**–**	**70,000**	**565,163**	**–**
Interest of borrowings	**11,696**	**3,769**	**392**	**15,857**	**–**
Trade payables	**1,177,108**	**–**	**–**	**1,177,108**	**–**
Other payables (excluding other taxes payables)	**960,815**	**–**	**–**	**960,815**	**4,105**
Total	**2,644,782**	**3,769**	**70,392**	**2,718,943**	**4,105**
At 31 December 2009					
Borrowings	1,335,710	310,000	–	1,645,710	–
Interest of borrowings	16,942	18,596	–	35,538	–
Trade payables	964,012	–	–	964,012	–
Other payables (excluding other taxes payables)	780,984	–	–	780,984	6,683
Total	3,097,648	328,596	–	3,426,244	6,683

The Group has adequate financial resources to repay these debts when full due.

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.

As at 31 December 2010, the Group has surplus cash and cash equivalents over borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3. Financial risk management (continued)

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets that are measured as at fair value at 31 December 2010 and 2009.

	As at 31 December 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Assets				
Available-for-sale financial assets				
– Equity securities	**7,509**	**–**	**5,340**	**12,849**

	As at 31 December 2009			
	Level 1	Level 2	Level 3	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Available-for-sale financial assets				
– Equity securities	–	–	5,340	5,340

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

3. Financial risk management (continued)

3.3 Fair value estimation (continued)

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for financial instruments.

There were no transfers of financial assets between level 1 and level 2 fair value hierarchy classifications during the year ended 31 December 2010. In addition, there were no significant changes in level 3 instruments for the year ended 31 December 2010 and 2009.

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.

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

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. If the overall estimated gross profit margin of construction contracts changes by 10% (2009: 10%), the revenue will be reduced by RMB49,012,000 (2009: RMB36,480,000) or increased by RMB49,521,000 (2009: RMB36,804,000).

(b) Income taxes and deferred taxation

Significant judgement and estimate are 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.

The amounts of current and deferred tax assets and liabilities are disclosed in the consolidated balance sheet.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

5. Segment information

The chief operating decision-maker mainly includes executive directors, who review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operation segments based on these reports.

The executive directors consider the operation from a business perspective, by assessing the performance of the following three main operation segments:

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

The Group's other operations mainly comprise the provision of architectural and interior design services, provision of construction equipment rental services.

The executive directors assess the performance of the operating segments based on a measure of operating profit. This measurement basis excludes financial costs and share of results of associates and jointly controlled entity from the operating segments. Other information provided, except as noted below, to the executive directors is measured in a manner consistent with that in the financial statements. In the Group no segment assets and segment liabilities are provided to the executive directors.

Sales between segments are carried out on terms agreed upon by the respective parties. The revenue from external parties reported to the executive directors is measured in a manner consistent with that in the consolidated income statement and consolidated statement of comprehensive income.

The segment information provided to executive directors for the reportable segments for the year ended 31 December 2010 is as follows:

	Year ended 31 December 2010				
	Construction *RMB'000*	Property development *RMB'000*	Building materials *RMB'000*	Others *RMB'000*	Group *RMB'000*
Total revenue	10,103,707	912,505	1,632,048	129,819	12,778,079
Inter-segment revenue	(568,757)	–	(143,139)	(10,940)	(722,836)
Revenue (from external customers)	9,534,950	912,505	1,488,909	118,879	12,055,243
Operating profit	357,285	364,452	76,885	13,477	812,099
Depreciation	32,963	2,668	43,803	17,278	96,712
Amortisation	7,016	–	3,058	2,522	12,596
Impairment of receivables	2,420	(61)	(1,190)	(34)	1,135
Share of losses of jointly controlled entity	–	4,034	–	–	4,034
Share of losses of associates	–	299	–	–	299
Income tax expense	58,059	144,890	19,076	3,722	225,747

5. Segment information (continued)

The segment information for the year ended 31 December 2009 is as follows:

	Year ended 31 December 2009				
	Construction	Property development	Building materials	Others	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total revenue	8,739,757	1,439,847	1,313,022	82,324	11,574,950
Inter-segment revenue	(437,352)	–	(160,699)	(3,324)	(601,375)
Revenue (from external customers)	8,302,405	1,439,847	1,152,323	79,000	10,973,575
Operating profit/(loss)	250,163	614,587	52,538	(7,492)	909,796
Depreciation	33,866	3,254	46,143	11,637	94,900
Amortisation	7,233	–	3,560	841	11,634
Impairment of receivables	(35)	(1,004)	(1,592)	195	(2,436)
Share of losses of jointly controlled entity	–	5,639	–	–	5,639
Share of losses of associates	–	50	–	–	50
Income tax expense	56,199	206,567	11,267	136	274,169

The reconciliation of the operating profit to profit before income tax is shown in the consolidated income statement.

The Company is domiciled in the PRC. The Group's business activities were mainly carried out in the PRC where the vast majority of the Group's assets are located. The Group had also undertaken construction business in three African countries, 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. The revenue from external customers in the PRC is RMB11,834,081,000 (2009: RMB10,826,202,000), and the total of revenue from external customers from other countries is RMB221,162,000 (2009: RMB147,373,000).

The total of non-current assets other than financial instruments and deferred tax assets located in the PRC is RMB1,506,977,000 (2009: RMB1,503,145,000), and the total of these non-current assets located in other countries is RMB17,700,000 (2009: RMB15,496,000).

All the revenue derived from a single external customer was less than 10% of the Group's total revenue for the year ended 31 December 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

6. Land use rights

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Opening net book amount	**529,264**	446,220	**10,016**	10,338
Additions	**67,714**	116,028	**–**	–
Disposals	**(17,533)**	(21,350)	**(3,947)**	–
Disposals of subsidiaries	**(10,656)**	–	**–**	–
Amortisation	**(12,596)**	(11,634)	**(291)**	(322)
End of the year	**556,193**	529,264	**5,778**	10,016

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Outside Hong Kong, held on:				
Leases of over 50 years	**157,649**	159,415	**–**	–
Leases of between 10 to 50 years	**398,544**	369,849	**5,778**	10,016
	556,193	529,264	**5,778**	10,016

Included in the Group's interests in land use rights as at 31 December 2010 are certain land use rights amounting to RMB4,379,700 (2009: RMB4,379,700), for which the Group was in the process of applying for the relevant formal land use rights certificates.

As at 31 December 2010, total net book values of land use rights pledged as security for the Group's bank borrowings amounted to RMB12,156,000 (2009: RMB47,340,000) (Note 27(a)).

7. Property, plant and equipment

Group

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2009						
Cost	698,480	289,301	100,332	117,981	85,042	1,291,136
Accumulated depreciation	(188,065)	(82,788)	(59,654)	(104,386)	–	(434,893)
Net book amount	510,415	206,513	40,678	13,595	85,042	856,243
Year ended 31 December 2009						
Opening net book amount	510,415	206,513	40,678	13,595	85,042	856,243
Additions	39,838	22,989	2,842	5,272	96,032	166,973
Transfer	58,776	2,893	–	–	(61,669)	–
Disposals	(23,946)	(1,181)	(231)	(262)	–	(25,620)
Depreciation charge	(46,087)	(30,431)	(10,474)	(7,908)	–	(94,900)
Closing net book amount	538,996	200,783	32,815	10,697	119,405	902,696
At 31 December 2009						
Cost	764,690	309,116	101,039	121,929	119,405	1,416,179
Accumulated depreciation	(225,694)	(108,333)	(68,224)	(111,232)	–	(513,483)
Net book amount	538,996	200,783	32,815	10,697	119,405	902,696
Year ended 31 December 2010						
Opening net book amount	**538,996**	**200,783**	**32,815**	**10,697**	**119,405**	**902,696**
Additions	**34,432**	**32,832**	**14,847**	**15,288**	**95,099**	**192,498**
Transfer	**100,390**	**58,060**	**–**	**–**	**(158,450)**	**–**
Disposals	**(38,794)**	**(46,456)**	**(556)**	**(16)**	**–**	**(85,822)**
Depreciation charge	**(42,203)**	**(34,216)**	**(11,075)**	**(9,218)**	**–**	**(96,712)**
Closing net book amount	**592,821**	**211,003**	**36,031**	**16,751**	**56,054**	**912,660**
At 31 December 2010						
Cost	**849,711**	**333,382**	**112,950**	**136,913**	**56,054**	**1,489,010**
Accumulated depreciation	**(256,890)**	**(122,379)**	**(76,919)**	**(120,162)**	**–**	**(576,350)**
Net book amount	**592,821**	**211,003**	**36,031**	**16,751**	**56,054**	**912,660**

Depreciation expenses of RMB49,729,000 (2009: RMB53,621,000) has been expensed in cost of sales and RMB46,983,000 (2009: RMB41,279,000) in administrative expenses.

As at 31 December 2010, there was no property, plant and equipment pledged as security for the Group's bank borrowings (2009: RMB6,088,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

7. Property, plant and equipment (continued)

Company

	Buildings RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Total RMB'000
At 1 January 2009				
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
Year ended 31 December 2009				
Opening net book amount	32,735	845	876	34,456
Additions	3,442	–	33	3,475
Depreciation charge	(2,057)	(231)	(186)	(2,474)
Closing net book amount	34,120	614	723	35,457
At 31 December 2009				
Cost	40,286	5,964	1,696	47,946
Accumulated depreciation	(6,166)	(5,350)	(973)	(12,489)
Net book amount	34,120	614	723	35,457
Year ended 31 December 2010				
Opening net book amount	**34,120**	**614**	**723**	**35,457**
Additions	**2,786**	**–**	**4,335**	**7,121**
Disposals	**(7,990)**	**–**	**–**	**(7,990)**
Depreciation charge	**(1,494)**	**(231)**	**(1,903)**	**(3,628)**
Closing net book amount	**27,422**	**383**	**3,155**	**30,960**
At 31 December 2010				
Cost	**33,464**	**5,964**	**6,031**	**45,459**
Accumulated depreciation	**(6,042)**	**(5,581)**	**(2,876)**	**(14,499)**
Net book amount	**27,422**	**383**	**3,155**	**30,960**

8. Goodwill – Group

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

The goodwill is stated at cost and mainly arose from the acquisition of the equity interest in Hefei 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 and estimates made by management, of which the gross margin in 41%. The discount rate used is a pre-tax rate and reflects specific risks relating to the real estate projects developed by Hefei Baoye Real Estate, which is approximate 10%. The growth rate is assumed to be zero. Based on the impairment test on the goodwill associated with Hefei Baoye Real Estate performed on 31 December 2010, no impairment provision is required.

9. Investment in and balances with subsidiaries

	Company	
	2010	2009
	RMB'000	*RMB'000*
Investments at cost, unlisted	**820,703**	849,411
Amounts due from subsidiaries	**365,275**	28,304

The amounts due from subsidiaries are unsecured, interest free and are repayable on demand. As at 31 December 2010, the amounts due from subsidiaries are neither past due nor impaired.

The following is a list of the principal subsidiaries as at 31 December 2010, all of which are limited liability companies incorporated and operating in the PRC, except for Baoye Hubei Construction Engineering Group Co., Ltd., which also operates in African countries:

Name	**Attributable equity interest held**		**Registered capital**	**Principal activities**
	Directly	*Indirectly*	*RMB'000*	
浙江寶業建設集團有限公司 Zhejiang Baoye Construction Group Co., Ltd.	99%	–	360,000	Construction and construction related business
浙江寶業幕牆裝飾有限公司 Zhejiang Baoye Curtain Wall Decoration Co., Ltd.	83.1%	–	50,800	Manufacture and installation of curtain wall and steel framework
浙江寶業交通建設工程有限公司 Zhejiang Baoye Infrastructure Construction Co., Ltd.	87.5%	12.4%	30,000	Construction of highway, bridge and other municipal infrastructure
浙江廣藝建築裝飾工程有限公司 Zhejiang Guangyi Construction and Decoration Co., Ltd.	100%	–	50,000	Decoration and replenishment

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

9. Investment in and balances with subsidiaries (continued)

Name	Attributable equity interest held		Registered capital	Principal activities
	Directly	*Indirectly*	*RMB'000*	
浙江寶業房地產集團有限公司 Zhejiang Baoye Real Estate Group Co., Ltd.	90%	9.9%	50,000	Development and sales of properties
紹興寶業四季園房地產有限公司 Shaoxing Baoye Four Seasons Garden Real Estate Co., Ltd.	100%	–	100,000	Development and sales of properties
浙江寶業住宅產業化有限公司 Zhejiang Baoye Building Materials Industrialisation Co., Ltd.	40%	59.4%	53,600	Production and sales of concrete and construction materials
紹興寶業建築防火材料有限公司 Shaoxing Baoye Fireproof Materials Co., Ltd.	40%	59.4%	31,514	Production and sales of steel, wood fireproof doors, and other wooden products
紹興寶業新型建材有限公司 Shaoxing Baoye New Building Materials Co., Ltd.	–	99.4%	5,000	Production and sales of construction materials
上海紫寶房地產開發有限公司 Shanghai Zibao Real Estate Development Co., Ltd.	–	99.9%	18,000	Development and sales of properties
紹興市華欣預拌混凝土有限公司 Shaoxing Huaxin Pre-mix Commodity Concrete Co., Ltd.	100%	–	20,000	Production and sales of concrete and construction materials
浙江寶業鋼結構有限公司 Zhejiang Baoye Steel Structure Co., Ltd.	95%	4.95%	20,000	Production, design and sales of steel structure products
安徽寶業住宅產業化公司 Anhui Baoye Building Materials Industrialisation Co., Ltd.	–	100%	60,000	Production and sales of concrete and construction materials
合肥寶業混凝土有限公司 Hefei Baoye Concrete Co., Ltd.	–	100%	12,500	Production and sales of concrete and construction materials
合肥寶業房地產有限公司 Hefei Baoye Real Estate Co., Ltd.	–	100%	30,000	Development and sales of properties

9. Investment in and balances with subsidiaries (continued)

Name	Attributable equity interest held *Directly*	*Indirectly*	Registered capital *RMB'000*	Principal activities
安徽華騰投資有限公司 Anhui Huateng Investment Co., Ltd.	–	75%	20,000	Development and sales of properties
寶業湖北建工集團有限公司 Baoye Hubei Construction Engineering Group Co., Ltd.	90%	9.9%	86,980	Construction and construction related business
湖北省建工第三建設有限公司 Hubei Construction Engineering No.3 Co., Ltd.	–	100%	50,800	Construction and construction related business
湖北省建工第五建設有限公司 Hubei Construction Engineering No.5 Co., Ltd.	–	100%	80,000	Construction and construction related business
湖北省建工工業設備安裝有限公司 Hubei Industrial Equipment Installation Co., Ltd.	–	100%	50,190	Installation of industrial equipment
湖北省建工機械施工有限公司 Hubei Engineering Machinery Construction Co., Ltd.	–	100%	20,000	Provision of construction services
湖北省建工混凝土製品有限公司 Hubei Construction Engineering Concrete Products Co., Ltd.	–	100%	20,080	Production and sales of concrete and construction materials
湖北省建工房地產開發有限公司 Hubei Construction Engineering Real Estate Development Co., Ltd.	–	100%	20,000	Development and sales of properties
湖北省建工物資貿易有限公司 Hubei Construction Engineering Material Trading Co., Ltd.	–	100%	18,300	Provision of leasing services
安徽金糧置業有限公司 Anhui Jinliang Real Estate Company Limited	–	100%	172,000	Development and sales of properties

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

9. Investment in and balances with subsidiaries (continued)

Name	Attributable equity interest held		Registered capital	Principal activities
	Directly	*Indirectly*	*RMB'000*	
紹興寶業會稽山國際度假村有限公司 Shaoxing Baoye Kuaiji Mountain International Vocation Village Co., Ltd.	100%	–	80,000	Development and management of vacation village
合肥中寶機械製造有限公司 Hefei Zhongbao Machinery Manufacture Co., Ltd.	–	100%	20,000	Production and sales of machinery and fittings
浙江寶業建築設計研究院有限公司 Zhejiang Baoye Construction Design Research Institute Co., Ltd.	–	99%	6,000	Provision of architectural and interior design service
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.	20%	79.2%	10,000	Construction technology research and development

10. Investment in and loans to jointly controlled entity

(a) Investment in jointly controlled entity

Group

The Group has a 49% equity interest in a jointly controlled entity, Shaoxing Greentown and Baoye Real Estate Company Limited ("SGB"), which is a limited liability company engaged in real estate development business in the PRC. Movement of the investment is as follows:

	Investment cost	Share of losses	Total
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January 2009	49,000	(2,592)	46,408
Addition	–	(5,639)	(5,639)
As at 31 December 2009	49,000	(8,231)	40,769
Addition	–	(4,034)	(4,034)
As at 31 December 2010	49,000	(12,265)	36,735

10. Investment in and loans to jointly controlled entity (continued)

(a) Investment in jointly controlled entity (continued)

The following amounts represent the Group's 49% share of the assets and liabilities, and revenue and results of SGB.

	2010 RMB'000	2009 RMB'000
Assets		
Non-current assets	**7,463**	6,520
Current assets	**957,552**	769,535
	965,015	776,055
Liabilities		
Non-current liabilities	**414,827**	387,777
Current liabilities	**513,453**	347,509
	928,280	735,286
Net assets	**36,735**	40,769
Revenue	**–**	–
Expense	**(5,379)**	(7,518)
Income tax credit	**1,345**	1,879
Loss after income tax	**(4,034)**	(5,639)

Assets mainly represented 49% share of properties under development, including a land use right for development owned by SGB.

Company

	2010 RMB'000	2009 RMB'000
Investments at cost, unlisted	**49,000**	49,000

(b) Loans to jointly controlled entity

	Group RMB'000	Company RMB'000
As at 1 January 2009	487,550	564,597
Repayment	(222,763)	(222,763)
Interest accrued	–	44,698
As at 31 December 2009	**264,787**	**386,532**
Repayment	**(161,600)**	**(161,600)**
Interest accrued	**–**	**18,290**
As at 31 December 2010	**103,187**	**243,222**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

10. Investment in and loans to jointly controlled entity (continued)

(b) Loans to jointly controlled entity (continued)

The Group and other joint venture made loans to SGB in proportion to their respective equity interest held. These loans are unsecured, have no repayment term and are bearing interest at 10.98% per annum.

During the year, interest on the loans amounted to RMB18,290,000 (2009: RMB44,698,000) was fully capitalised in properties under development by SGB in its separate financial statements. Such interest income has been eliminated in the Group's consolidated financial statements.

11. Investment in associates – Group

	2010 **RMB'000**	2009 RMB'000
Beginning of the year	**29,378**	28,828
Additions	**–**	600
Return of investment cost	**(26,524)**	–
Share of losses	**(299)**	(50)
End of the year	**2,555**	29,378

No goodwill is included in investment in associates.

The Group's interests in its principal associates, all of which are unlisted limited liability companies incorporated in the PRC, and its share of the net assets and results are as follows:

Name	Assets RMB'000	Liabilities RMB'000	Revenues RMB'000	Profit/(loss) RMB'000	% Interest Held
2010					
Hubei Construction Engineering Land Co., Ltd.	**180,471**	**(180,471)**	**789**	**177**	**34%**
Wuhan Modern Real Estate Development Co., Ltd.	**16,035**	**(14,155)**	**–**	**(564)**	**30%**
Hubei Baoye Curtain Wall Engineering Co., Ltd.	**1,006**	**(331)**	**2,381**	**88**	**20%**
	197,512	**(194,957)**	**3,170**	**(299)**	
2009					
Hubei Construction Engineering Land Co., Ltd.	173,690	(147,387)	3,291	132	34%
Wuhan Modern Real Estate Development Co., Ltd.	11,623	(9,134)	–	(168)	30%
Hubei Baoye Curtain Wall Engineering Co., Ltd.	1,127	(541)	263	(14)	20%
	186,440	(157,062)	3,554	(50)	

12. Financial instruments by category

	Notes	Group Loans and receivables RMB'000	Group Available-for-sale financial assets RMB'000	Company Loans and receivables RMB'000
Assets				
At 31 December 2010				
Available-for-sale financial assets	13	**–**	**12,849**	**–**
Trade receivables	17	**700,404**	**–**	**–**
Other receivables (excluding prepayments)	18	**1,054,007**	**–**	**15,267**
Amounts due from subsidiaries	9	**–**	**–**	**365,275**
Due from customers on construction contracts	16	**1,494,272**	**–**	**–**
Loans to jointly controlled entity	10(b)	**103,187**	**–**	**243,222**
Restricted bank deposits	19	**101,269**	**–**	**–**
Cash and cash equivalents	20	**1,947,888**	**–**	**436,322**
Total		**5,401,027**	**12,849**	**1,060,086**
At 31 December 2009				
Available-for-sale financial assets	13	–	5,340	–
Trade receivables	17	617,593	–	–
Other receivables (excluding prepayments)	18	978,321	–	250
Amounts due from subsidiaries	9	–	–	28,304
Due from customers on construction contracts	16	1,581,402	–	–
Loans to jointly controlled entity	10(b)	264,787	–	386,532
Restricted bank deposits	19	239,756	–	–
Cash and cash equivalents	20	1,677,452	–	492,488
Total		5,359,311	5,340	907,574

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

12. Financial instruments by category (continued)

	Notes	Group Financial liabilities stated at amortised cost RMB'000	Company Financial liabilities stated at amortised cost RMB'000
Liabilities			
At 31 December 2010			
Trade payables	24	**1,177,108**	**–**
Other payables and accruals (excluding other taxes payables)	25	**960,815**	**4,105**
Due to customers on construction contracts	16	**1,065,192**	**–**
Borrowings	27	**565,163**	**–**
Total		**3,768,278**	**4,105**
At 31 December 2009			
Trade payables	24	964,012	–
Other payables and accruals (excluding other taxes payables)	25	780,984	6,683
Due to customers on construction contracts	16	1,209,734	–
Borrowings	27	1,645,710	–
Total		4,600,440	6,683

13. Available-for-sale financial assets – Group

	2010 RMB'000	2009 RMB'000
Beginning of the year	**5,340**	5,340
Additions	**1,999**	–
Net gains recognised in other comprehensive income	**5,510**	–
End of the year	**12,849**	5,340

Available-for-sale financial assets include the following:

	2010 RMB'000	2009 RMB'000
Listed securities:		
– Equity securities – the PRC	**7,509**	–
Unlisted securities:		
– Equity securities – the PRC	**5,340**	5,340
	12,849	5,340
Market value of listed securities	**7,509**	–

14. Inventories – Group

	2010	2009
	RMB'000	*RMB'000*
At cost:		
Raw materials	**65,840**	63,636
Work in progress	**14,775**	26,522
Finished goods	**26,033**	18,532
	106,648	108,690

15. Properties under development

	Group	
	2010	2009
	RMB'000	*RMB'000*
Land use rights	**2,247,331**	1,672,555
Development costs	**817,126**	763,222
Finance costs capitalised	**138,269**	116,570
	3,202,726	2,552,347

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

	Group	
	2010	2009
	RMB'000	*RMB'000*
To be completed over one year	**2,207,305**	1,764,605
To be completed within one year	**995,421**	787,742
	3,202,726	2,552,347

As at 31 December 2010, total carrying value of properties under development pledged as security for the Group's bank borrowings amounted to RMB877,132,000 (2009: RMB963,431,000) (Note 27(a)).

In addition, as at 31 December 2010, included in properties under development, land use rights of RMB656,377,340 (2009: RMB122,602,000) held by the Group were in the process of applying for the relevant formal land use rights certificates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

15. Properties under development (continued)

The carrying value of the land use rights included in properties under development is analysed as follows:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Outside Hong Kong, held on:		
Leases of over 50 years	**1,685,524**	1,556,074
Leases of between 10 to 50 years	**561,807**	116,481
	2,247,331	1,672,555

16. Due from/(to) customers on construction contracts – Group

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:

	2010	2009
	RMB'000	*RMB'000*
Contract costs incurred plus recognised profits (less recognised losses) to date	**34,390,752**	29,452,114
Less: progress billings to date	**(33,961,672)**	(29,080,446)
	429,080	371,668
Represented by:		
Due from customers on construction contracts	**1,494,272**	1,581,402
Due to customers on construction contracts	**(1,065,192)**	(1,209,734)
	429,080	371,668

All amounts due from customers on construction contracts are not considered impaired and there is no concentration of credit risk with respect to these balances as the Group has a large number of customers.

As at 31 December 2010, retentions and project deposits held by customers for contract work included in other receivables of the Group amounted to RMB747,204,000 (2009: RMB793,414,000) (Note 18).

17. Trade receivables – Group

	2010	2009
	RMB'000	*RMB'000*
Trade receivables	**725,069**	641,123
Less: provision for doubtful debts	**(24,665)**	(23,530)
	700,404	617,593

17. Trade receivables – Group (continued)

Customers are generally granted credit terms of 1 to 3 months for construction business, 1 to 12 months for building materials business and no credit terms for property development business. The net book value of trade receivables approximates their fair value. As at 31 December 2010, the ageing analysis of the trade receivables is as follows:

	2010 **RMB'000**	2009 RMB'000
Within 3 months	**373,206**	238,342
3 months to 1 year	**159,149**	192,043
1 to 2 years	**78,624**	126,983
2 to 3 years	**62,310**	43,443
Over 3 years	**51,780**	40,312
	725,069	641,123

Trade receivables that are less than 12 months past due are not considered impaired. As of 31 December 2010, trade receivables of RMB162,162,000 (2009: RMB175,573,000) were past due but not impaired. These related to a number of independent customers who had no recent history of default. The ageing analysis of these trade receivables is as follows:

	2010 **RMB'000**	2009 RMB'000
1 to 2 years	**74,743**	118,507
2 to 3 years	**51,105**	33,772
Over 3 years	**36,314**	23,294
	162,162	175,573

As of 31 December 2010, trade receivables of RMB30,552,000 (2009: RMB35,165,000) were impaired. The amount of the provision was RMB24,665,000 as of 31 December 2010 (2009: RMB23,530,000). 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:

	2010 **RMB'000**	2009 RMB'000
1 to 2 years	**3,881**	8,476
2 to 3 years	**11,205**	9,671
Over 3 years	**15,466**	17,018
	30,552	35,165

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

17. Trade receivables – Group (continued)

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

	2010 RMB'000	2009 RMB'000
At 1 January	**23,530**	25,966
Creation/(Reversal) of provision	**1,135**	(2,436)
At 31 December	**24,665**	23,530

The creation and reversal of provision for doubtful debts has been included in administrative expenses in the income statement.

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 USD in equivalent of RMB 40,783,000, in DJF in equivalent of RMB7,870,000 as at 31 December 2010. As at 31 December 2009, trade receivables of RMB11,232,000 were denominated in DJF and RMB1,140,000 were denominated in BWP.

18. Other receivables

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Retention money and project deposits	**747,204**	793,414	**–**	–
Prepayments	**106,165**	32,733	**–**	–
Others	**306,803**	184,907	**15,267**	250
	1,160,172	1,011,054	**15,267**	250

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 RMB9,313,000 (2009: RMB1,977,000), in BWP in equivalent of RMB2,532,000 (2009: RMB487,000) and in SCR in equivalent of RMB798,000 (2009: RMB138,000) as at 31 December 2010.

19. Restricted bank deposits – Group

The restricted bank deposits mainly represent the deposits denominated in RMB confined to be used for tender bidding or to guarantee the performance of certain construction contracts work.

20. Cash and cash equivalents

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at bank and in hand	**1,958,843**	1,682,387	**436,322**	474,488
Short-term bank deposits	**90,314**	234,821	**–**	18,000
	2,049,157	1,917,208	**436,322**	492,488
Denominated in:				
– RMB	**1,993,562**	1,865,653	**436,303**	491,747
– USD	**12,720**	22,794	**–**	–
– DJF	**15,769**	15,969	**–**	–
– BWP	**22,329**	7,242	**–**	–
– SCR	**3,935**	4,545	**–**	–
– Other currencies	**842**	1,005	**19**	741
	2,049,157	1,917,208	**436,322**	492,488
Less: Restricted bank deposits *(Note 19)*	**(101,269)**	(239,756)	**–**	–
	1,947,888	1,677,452	**436,322**	492,488

The effective interest rate as at 31 December 2010 of the short-term bank deposits of the Group is 1.84% (2009: 1.93%), and these deposits have original maturities of three months or less.

As at 31 December 2010 and 2009, all of the Group's cash and cash equivalents were deposited in commercial banks in accordance with the applicable laws and regulations. The Group had no bank deposits which cannot be withdrawn upon maturity.

21. Share capital and premium

	Ordinary shares	Share premium	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2009, 31 December 2009 and 2010	662,964	847,295	1,510,259

As at 31 December 2010, the total authorised number of ordinary shares is 662,964,005 shares (2009: 662,964,005 shares) with a par value of RMB1.00 per share (2009: RMB1.00 per share). All issued shares are fully paid.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

22. Reserves

Group

	Assets revaluation reserve *RMB'000* *(Note (a))*	Available-for-sale financial assets reserve *RMB'000*	Statutory surplus reserve *RMB'000* *(Note (b))*	Others *RMB'000*	Total *RMB'000*
Balance at 1 January 2009	64,671	–	68,175	–	132,846
Appropriation from retained earnings	–	–	11,415	–	11,415
Transfer of reserves to income statement upon sale of revaluated properties	(21,734)	–	–	–	(21,734)
Balance at 31 December 2009	42,937	–	79,590	–	122,527
Balance at 1 January 2010	**42,937**	**–**	**79,590**	**–**	**122,527**
Appropriation from retained earnings	**–**	**–**	**21,400**	**–**	**21,400**
Transfer of reserves to income statement upon sale of revaluated properties	**(33,601)**	**–**	**–**	**–**	**(33,601)**
Revaluation of available-for-sale financial assets *(Note 13)*	**–**	**5,510**	**–**	**–**	**5,510**
Revaluation – tax *(Note 28)*	**–**	**(1,378)**	**–**	**–**	**(1,378)**
Transactions with non-controlling interests *(Note 40)*	**–**	**–**	**–**	**(13,587)**	**(13,587)**
Balance at 31 December 2010	**9,336**	**4,132**	**100,990**	**(13,587)**	**100,871**

Company

	Statutory surplus reserve *(Note (b))*	
	2010 ***RMB'000***	2009 *RMB'000*
Balance at 1 January	**79,590**	68,175
Appropriation from retained earnings	**21,400**	11,415
Balance at 31 December	**100,990**	79,590

Notes:

(a) Assets revaluation reserve

Assets revaluation reserve relates to the fair value adjustments to properties held for sale 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.

23. Retained earnings

	Group RMB'000	Company RMB'000
At 1 January 2009	1,304,074	201,018
Profit for the year	502,239	107,142
Dividends paid	(53,037)	(53,037)
Transfer to statutory surplus reserve	(11,415)	(11,415)
At 31 December 2009	1,741,861	243,708
At 1 January 2010	**1,741,861**	**243,708**
Profit for the year	**527,875**	**204,375**
Dividends paid	**(86,185)**	**(86,185)**
Transfer to statutory surplus reserve	**(21,400)**	**(21,400)**
At 31 December 2010	**2,162,151**	**340,498**

24. Trade payables – Group

As at 31 December 2010, the ageing analysis of the trade payables is as follows:

	2010 RMB'000	2009 RMB'000
Within 3 months	**562,819**	365,088
3 months to 1 year	**361,712**	332,263
1 to 2 years	**96,539**	131,065
2 to 3 years	**56,550**	67,388
Over 3 years	**99,488**	68,208
	1,177,108	964,012

25. Other payables

	Group		Company	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Deposits from project managers	**389,688**	335,944	**–**	–
Other taxes payables	**144,901**	78,280	**4,779**	4,807
Accruals	**28,919**	22,898	**–**	3,300
Others	**542,208**	422,142	**4,105**	3,383
	1,105,716	859,264	**8,884**	11,490

26. Receipts in advance

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

27. Borrowings

	Group	
	2010	2009
	RMB'000	*RMB'000*
Non-current liabilities		
Long-term bank borrowings		
– Secured *(Note (a))*	**–**	310,000
– Unsecured	**70,000**	–
	70,000	310,000
Current liabilities		
Short-term bank borrowings		
– Secured *(Note (a))*	**235,000**	110,000
– Unsecured with guarantee *(Note (b))*	**160,000**	315,420
– Other unsecured	**100,163**	910,290
	495,163	1,335,710
	565,163	1,645,710

Notes:

(a) As at 31 December 2010, the secured bank borrowings of the Group were secured by the land use rights and properties under development of the Group with net book value amounting to RMB12,156,000 (2009:RMB47,340,000) and RMB877,132,000 (2009: RMB963,431,000) respectively.

(b) These loans are guaranteed by:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Mr. Pang Baogen and the Company (jointly)	**–**	10,000
Mr. Pang Baogen and Zhejiang Baoye Construction Group Co., Ltd. (jointly)	**160,000**	305,420
	160,000	315,420

Mr. Pang Baogen is the chairman of the Board of Directors, as well as a major shareholder of the Company.

(c) The exposure of the 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	
	2010	2009
	RMB'000	*RMB'000*
Within 1 year	**495,163**	1,335,710
Between 1 and 2 years	**–**	310,000
Between 2 and 5 years	**70,000**	–
	565,163	1,645,710

27. Borrowings (continued)

The weighted average effective interest rates as at 31 December 2010 and 2009 were as follows:

	Group 2010	2009
Bank borrowings	**5.43%**	5.58%

The fair values of borrowings approximate their carrying amounts. All the carrying amounts of the borrowings are denominated in RMB.

28. Deferred income tax – Group

The amounts shown in the balance sheet include the following:

	2010 ***RMB'000***	2009 *RMB'000*
Deferred tax assets:		
– Deferred tax assets to be recovered after more than 12 months	**16,017**	18,158
– Deferred tax assets to be recovered within 12 months	**13,336**	13,287
	29,353	31,445
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after more than 12 months	**(27,114)**	(33,460)
– Deferred tax liabilities to be settled within 12 months	**(19,861)**	(30,612)
	(46,975)	(64,072)
Deferred tax liabilities (net)	**(17,622)**	(32,627)

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

	Provision for receivables impairment *RMB'000*	**Unrealised profit resulting from intragroup transactions** *RMB'000*	**Total** *RMB'000*
At 1 January 2009	10,719	16,715	27,434
Recognised in the income statement	(647)	4,658	4,011
At 31 December 2009	**10,072**	**21,373**	**31,445**
Recognised in the income statement	**(940)**	**(1,152)**	**(2,092)**
At 31 December 2010	**9,132**	**20,221**	**29,353**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

28. Deferred income tax – Group (continued)

Deferred tax liabilities

	Fair value gain on available-for-sale financial assets *RMB'000*	Fair value adjustment on assets upon acquisition *RMB'000*	Interest capitalised *RMB'000*	Total *RMB'000*
At 1 January 2009	–	(74,654)	(3,250)	(77,904)
Recognised in the income statement	–	25,259	(11,427)	13,832
At 31 December 2009	**–**	**(49,395)**	**(14,677)**	**(64,072)**
Recognised in the income statement	**–**	**24,697**	**(6,222)**	**18,475**
Recognised in other comprehensive income	**(1,378)**	**–**	**–**	**(1,378)**
At 31 December 2010	**(1,378)**	**(24,698)**	**(20,899)**	**(46,975)**

Deferred income tax assets are recognised for tax losses 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 in respect of losses amounting to RMB66,965,000 (2009: RMB87,465,000) that can be carried forward against future taxable income. These tax losses will expire at various dates up to and including 2014 (2009: 2013).

29. Other income

Other income represents interest income from bank deposits.

30. Other gains – net

	2010 ***RMB'000***	2009 *RMB'000*
Gains on disposals of land use rights	**65,195**	2,589
Government compensation	**49,547**	18,312
Gains on disposals of subsidiaries	**24,097**	–
Gains on disposals of property, plant and equipment	**17,695**	6,272
Gains on debts restructuring	**7,477**	8,679
Gains on disposals of investment properties	**–**	15,655
Others	**8,394**	3,829
	172,405	55,336

31. Expenses by nature

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

	2010	2009
	RMB'000	*RMB'000*
Depreciation of property, plant and equipment *(Note 7)*	**96,712**	94,900
Amortisation of land use rights *(Note 6)*	**12,596**	11,634
Employee benefit expenses *(Note 32)*	**1,942,642**	1,486,682
Cost of construction contracts	**7,374,980**	6,690,408
Cost of properties sold	**581,104**	731,429
Cost of inventories sold	**1,255,422**	973,860
Operating leases of buildings	**7,527**	11,259
Auditors' remuneration	**3,000**	2,800
Others	**183,159**	158,906
	11,457,142	10,161,878

32. Employee benefit expenses

	2010	2009
	RMB'000	*RMB'000*
Wages and salaries	**1,909,130**	1,456,122
Welfare, medical and other expenses	**22,748**	20,272
Retirement benefit costs – defined contribution plans *(Note (a))*	**10,764**	10,288
	1,942,642	1,486,682

Notes:

(a) Retirement benefit costs

As stipulated by the Government regulations in the PRC, the Group is required to contribute to the state-sponsored retirement scheme for all of its employees in the PRC at 18 % to 20% (2009: 18% to 20%) of the eligible salary of its employees on a monthly basis. The state-sponsored retirement scheme is responsible for the entire pension obligations payable to all retired employees and the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the monthly contributions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

32. Employee benefit expenses (continued)

(b) Directors' and supervisors' emoluments

The remuneration of each director and supervisor for the year ended 31 December 2010 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	–	800	4	804
Mr. Gao Lin	–	800	4	804
Mr. Gao Jiming	–	500	4	504
Mr. Zhou Hanwan	–	500	4	504
Mr. Wang Rongfu	–	689	4	693
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 (*)	19	–	–	19
Mr. Wang Youqing (*)	19	–	–	19
Mr. Kong Xiangquan	–	428	4	432
Mr. Qian Yongjiang	–	439	4	443
Mr. Chen Xingquan (*)	10	–	–	10
Mr. Yuan Ajin (*)	10	–	–	10
Mr. Zhang Xindao	20	–	–	20
Mr. Li Yongsheng	20	–	–	20
	392	4,156	28	4,576

The remuneration of each director and supervisor for the year ended 31 December 2009 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	–	800	3	803
Mr. Gao Lin	–	800	3	803
Mr. Gao Jiming	–	500	3	503
Mr. Zhou Hanwan	–	500	3	503
Mr. Wang Rongfu	–	689	3	692
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	–	416	3	419
Mr. Qian Yongjiang	–	350	3	353
Mr. Chen Xingquan	20	–	–	20
Mr. Zhang Xindao	20	–	–	20
Mr. Li Yongsheng	20	–	–	20
	392	4,055	21	4,468

Note:

* During the year ended 31 December 2010, Mr. Sun Chuanlin and Mr. Chen Xingquan resigned from their position as director and supervisor, respectively. In addition, Mr. Wang Youqing and Mr. Yuan Ajin were appointed as director and supervisor of the Company, respectively.

During the years ended 31 December 2010 and 2009, 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 2010 and 2009.

32. Employee benefit expenses (continued)

(c) Five highest paid individuals

The 5 individuals whose emoluments were the highest in the Group for the year are all directors whose emoluments are reflected in the analysis presented above. For the year 2009, the 5 individuals whose emoluments were the highest in the Group included four directors whose emoluments are reflected in the analysis presented above, and the emoluments payable to the remaining one individual were as follows:

	2010 ***RMB'000***	2009 *RMB'000*
Basic salaries and allowances	**–**	600

33. Finance costs

	2010 ***RMB'000***	2009 *RMB'000*
Interest on borrowings wholly repayable within five years	**80,030**	110,153
Less: interest capitalised in construction in progress	**(2,164)**	(2,781)
Less: interest capitalised in properties under development	**(42,272)**	(63,666)
	35,594	43,706

The capitalisation rates applied to funds borrowed generally and used for the development of properties and construction in progress were approximately 5.2% (2009: 6.2%) per annum.

34. 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 (2009: Nil).

(ii) PRC Corporate Income Tax

PRC Corporate Income Tax ("CIT") 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.

The Company and its subsidiaries are subject to CIT at a rate of 25% (2009: 25%).

(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 expense charged to the consolidated income statement represents:

	2010 ***RMB'000***	2009 *RMB'000*
Current income tax		
– PRC CIT	**168,113**	196,634
– PRC land appreciation tax	**74,017**	95,378
Deferred income taxes, net *(Note 28)*	**(16,383)**	(17,843)
	225,747	274,169

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

34. 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:

	2010	2009
	RMB'000	*RMB'000*
Profit before income tax	**772,172**	860,401
Add: share of losses of associates	**299**	50
share of losses of jointly controlled entity	**4,034**	5,639
	776,505	866,090
Calculated at a tax rate of 25% (2009: 25%)	**194,126**	216,523
Income not subject to tax	**(237)**	(166)
Expenses not deductible for tax purposes	**1,283**	971
Unrecognised tax losses	**8,265**	8,627
Utilisation of previously unrecognised tax losses	**(33,203)**	(25,928)
Under provision in prior years	**–**	2,609
PRC land appreciation tax deductible for PRC corporate income tax purpose	**(18,504)**	(23,845)
	151,730	178,791
PRC land appreciation tax	**74,017**	95,378
Income tax expense	**225,747**	274,169

35. Earnings per share

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

	2010	2009
Profit attributable to the equity holders of the Company (RMB'000)	**527,875**	502,239
Ordinary shares in issue during the year (thousands shares)	**662,964**	662,964
Basic earnings per share (RMB)	**0.796**	0.758

The Company had no dilutive potential shares in issue, thus the diluted earnings per share are the same as the basic earnings per share.

36. Dividends

	2010 RMB'000	2009 RMB'000
Proposed final dividend of RMB0.16 (2009: RMB0.13) per ordinary share	**106,074**	86,185

The directors recommend the payment of a final dividend of RMB0.16 (2009: RMB0.13) per ordinary share, totalling RMB106,074,000 (2009: RMB86,185,000). Such dividend is to be approved by the shareholders of the Company at the Annual General Meeting scheduled to be held on 13 June 2011. These financial statements do not reflect this dividend payable. The final dividend of RMB86,185,000 (RMB0.13 per ordinary share) for 2009 and RMB53,037,000 (RMB0.08 per ordinary share) for 2008 was paid in 2010 and 2009, respectively.

37. Cash generated from operations

	2010 RMB'000	2009 RMB'000
Profit for the year	**546,425**	586,232
Adjustments for:		
Income tax expense *(Note 34)*	**225,747**	274,169
Depreciation *(Note 7)*	**96,712**	94,900
Amortisation of land use rights *(Note 6)*	**12,596**	11,634
Gains on disposal of property, plant and equipment *(Note 30)*	**(17,695)**	(6,272)
Gains on disposal of land use rights *(Note 30)*	**(65,195)**	(2,589)
Transfer of reserve to income statement upon sales of revaluated properties	**(33,601)**	(21,734)
Gains on disposals of investment properties	**–**	(15,655)
Gains on disposals of subsidiaries *(Note 30)*	**(24,097)**	–
Interest income	**(41,593)**	(42,763)
Finance cost *(Note 33)*	**35,594**	43,706
Share of losses from associates *(Note 11)*	**299**	50
Share of losses from jointly controlled entity *(Note 10)*	**4,034**	5,639
Changes in working capital:		
Increase in properties under development and completed properties held for sale	**(814,745)**	(257,830)
Decrease in restricted bank deposits	**138,487**	222,875
Decrease in inventories	**2,042**	8,868
(Increase)/Decrease in balances with customers on construction contracts	**(57,412)**	95,947
(Increase)/Decrease in trade and other receivables	**(231,929)**	62,967
Increase in receipts in advance	**1,329,824**	131,726
Increase in trade and other payables	**485,904**	238,282
Cash generated from operations	**1,591,397**	1,430,152

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

37. Cash generated from operations (continued)

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

	Property, plant and equipment		**Land use rights**	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Net book amount *(Note 6 and 7)*	**85,822**	25,620	**17,533**	21,350
Gains on disposals *(Note 30)*	**17,695**	6,272	**65,195**	2,589
Proceeds from disposals	**103,517**	31,892	**82,728**	23,939

There were no other material non-cash transactions in the Group for the year ended 31 December 2010.

38. Guarantees

	Group		**Company**	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Guarantees given to banks in respect of mortgage facilities granted for certain purchasers *(Note)*	**373,304**	146,091	**–**	–
Guarantees given to banks in respect of bank loans granted to subsidiaries	**–**	–	**250,000**	881,420

Note:

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 properties developed by the subsidiaries of the Group. The banks will release such guarantees upon the delivery of the building ownership certificates of such properties to the banks as securities.

39. Commitments

(a) Commitments for properties under development

	2010	2009
	RMB'000	*RMB'000*
Contracted but not provided for	**633,900**	657,267

39. Commitments (continued)

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

As at 31 December 2010, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2010 *RMB'000*	2009 *RMB'000*
Not later than one year	**2,223**	1,846
Later than one year and not later than five years	**2,973**	2,333
	5,196	4,179

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

As at 31 December 2010, the Group had future aggregate minimum lease receivable under non-cancellable operating leases in respect of land and buildings as follows:

	2010 *RMB'000*	2009 *RMB'000*
Not later than one year	**4,365**	4,199
Later than one year and not later than five years	**6,318**	5,325
Later than five years	**1,547**	2,029
	12,230	11,553

40. Transactions with non-controlling interests

(a) Acquisition of additional interests in subsidiaries

On 6 August 2010, the Group acquired an additional 30% equity interest of Shanghai Zibao Real Estate Development Co., Ltd ("Shanghai Zibao") for a consideration of RMB32,380,000. The carrying amount of the non-controlling interests acquired on the acquisition date was RMB24,932,000. The Group recognised a decrease in equity attributable to the equity holders of the Company of RMB7,448,000. After the transaction, Shanghai Zibao was 99.9% held by the Company.

In addition, the Group also acquired additional equity interest of two subsidiaries for an aggregated consideration of RMB8,442,000. The carrying amount of the equity interest acquired on the acquisition date was RMB2,143,000; therefore, the Group recognised a decrease in equity attributable to the equity holders of the Company of RMB6,299,000.

The effect is summarised as follows:

	2010 *RMB'000*
Total carrying amount of non-controlling interests acquired	**27,075**
Total consideration paid to non-controlling interests	**(40,822)**
Excess of consideration paid recognised in equity	**(13,747)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

40. Transactions with non-controlling interests (continued)

(b) Disposal of interests in subsidiaries without loss of control

During the year, the Group disposed certain equity interest in certain subsidiaries. The total consideration received was RMB12,601,000. The carrying amount of the equity interest disposed of on the date of disposal was RMB12,441,000. Therefore, the Group recognised an increase in equity attributable to the equity holders of the Company of RMB160,000. The effect is summarised as follows:

	2010 *RMB'000*
Total consideration received from non-controlling interests	**12,601**
Total carrying amount of non-controlling interests disposed of	**(12,441)**
Gain on disposal within equity	**160**

(c) Effects of transactions with non-controlling interests on the equity attributable to the equity holders of the Company for the year ended 31 December 2010

	RMB'000
Total comprehensive income for the year attributable to the equity holders of the Company	**527,875**
Changes in equity attributable to the equity holders of the Company arising from:	
– Acquisition of additional interests in subsidiaries	**(13,747)**
– Disposal of interests in subsidiaries without loss of control	**160**
Net effect for transactions with non-controlling interests on changes in equity attributable to equity holders of the Company	**(13,587)**
	514,288

41. Related-party transactions

Apart from the related party balances disclosed in Note 10 and related party transactions disclosed in Note 27(b), the Group had no other significant related party transactions during the year ended 31 December 2010.

Key management of the Group are the directors and supervisors, whose compensation has been disclosed in Note 32(b).

DEFINITION

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

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

INFORMATION FOR SHAREHOLDERS

Directors

Executive Directors

Mr. Pang Baogen *(Chairman)*
Mr. Gao Jiming
Mr. Gao Lin
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
(Resigned on 29 March 2010)
Mr. Wang Youqing
(Appointed on 17 June 2010)

Supervisors

Supervisors

Mr. Kong Xiangquan *(Chairman)*
Mr. Qian Yongjiang
Mr. Yuan Ajin
(Appointed on 17 June 2010)

Independent Supervisors

Mr. Li Yongsheng
Mr. Zhang Xindao
Mr. Chen Xingquan
(Resigned on 29 March 2010)

Audit Committee

Mr. Wang Youwei *(Chairman)*
Mr. Yi Deqing
Mr. Chan Yin Ming, Dennis

Remuneration Committee

Mr. Chan Yin Ming, Dennis *(Chairman)*
Mr. Pang Baogen
Mr. Yi Deqing

Nomination Committee

Mr. Wang Youwei *(Chairman)*
Mr. Yi Deqing
Mr. Gao Jiming

Company Secretary

Ms. Ngan Lin Chun, Esther FCIS, FCS

Auditors

International Auditor

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

Statutory Auditor

Shine Wing CPAs
Floor 9, Block A Fuhua Mansion
No.8 Beidajie, Chaoyangmen
Beijing, PRC
Post Code: 100027

Legal Advisers

As to Hong Kong law

Mallesons Stephen Jaques
13/F, Gloucester Tower,
The Landmark,
15 Queen's Road Central,
Central, Hong Kong

As to PRC law

Fenxun Partners
Suite 1008, China World Tower 2
China World Trade Center
No.1 Jianguomenwai Avenue
Beijing, PRC
Post Code: 100004

Hong Kong H Share Registrar

Tricor Tengis Limited
Floor 26, Tesbury Center
28 Queen's Road East
Wanchai, Hong Kong

Principal Banks

Agricultural Bank of China Limited
Bank of China Limited
Bank of Communications Company Limited
China Construction Bank Corporation
China Minsheng Banking Corporation Limited
Industrial and Commercial Bank of China Limited
Industrial Bank Company Limited
Shanghai Pudong Development Bank Company Limited
Shenzhen Development Bank Limited

Registered Address

Yangxunqiao Township
Shaoxing County
Zhejiang Province, PRC
Tel: 86 575 84069420
Post Code: 312028

Correspondence Address in Hong Kong

Room 1902, MassMutual Tower,
38 Gloucester Road, Wanchai
Hong Kong

Authorised Representatives

Mr. Pang Baogen
Mr. Gao Jiming

Stock Code

HKEx ("2355")

Contact

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