



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

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

**INTERIM
REPORT
2003**



CORPORATE INFORMATION

LEGAL NAME OF THE COMPANY

Baoye Group Company Limited

REGISTERED ADDRESS AND HEAD OFFICE

Yangxunqiao Township
Shaoxing County
Zhejiang Province
The PRC

PLACE OF BUSINESS IN HONG KONG

3705-6, 37th Floor
Gloucester Tower
The Landmark
Central, Hong Kong

AUTHORISED REPRESENTATIVE

Mr. Pang Baogen
Mr. Gao Jiming
(Mr. Zhou Hanwan as alternate authorised representative)

COMPANY SECRETARY

Ms. Chung Oi Yin, Irene ACS, ACIS

H SHARE LISTING

The Stock Exchange of Hong Kong Limited

H SHARE'S STOCK SHORT NAME

寶業集團 (Baoye Group)

STOCK CODE

2355

SPONSOR

First Shanghai Capital Limited
19th Floor
Wing On House
71 Des Voeux Road Central
Hong Kong

HONG KONG SHARE REGISTRAR

Tengis Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai, Hong Kong

INVESTOR AND MEDIA RELATIONS

Strategic Financial Relations (China) Limited
Unit A, 29th Floor, Admiralty Centre I
18 Harcourt Road, Hong Kong
Website: www.strategic.com.hk

AUDITORS

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

LEGAL ADVISERS

As to Hong Kong law:
Kwok & Yih
37th Floor Gloucester Tower
The Landmark
Central, Hong Kong

As to PRC law:

Jingtian & Gongcheng
15th Floor
The Union Plaza
20 Chaoyang Menwaidajie
Beijing 100020, The PRC

PRINCIPAL BANKERS

Agricultural Bank of China
Shaoxing City Yuezhong branch
1 Ren Ming Zhong Road
Shaoxing City, Zhejiang Province
The PRC

Bank of Communications
Qingfangcheng branch
232 Keqiao Da Road
Keqiao Township
Shaoxing County
Zhejiang Province
The PRC

China Construction Bank
Shaoxing County branch
27 Jianhu Road
Keqiao Township
Shaoxing County
Zhejiang Province
The PRC

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE SIX MONTHS ENDED 30TH JUNE 2003

| | | Unaudited | |
|--|--------------|-------------------------|----------------|
| | | Six months ended | |
| | | 30th June | |
| | | 2003 | 2002 |
| | <i>Notes</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Turnover | | 1,227,998 | 1,041,640 |
| Cost of sales | | (1,087,641) | (921,653) |
| | | <hr/> | <hr/> |
| Gross profit | | 140,357 | 119,987 |
| Other revenues | | 20,498 | 10,326 |
| Distribution, administrative and other operating expenses | | (28,178) | (39,843) |
| | | <hr/> | <hr/> |
| Operating profit | 3 | 132,677 | 90,470 |
| Finance costs | | (8,138) | (2,273) |
| Share of loss of a joint venture | | (144) | (184) |
| | | <hr/> | <hr/> |
| Profit before taxation | | 124,395 | 88,013 |
| Taxation | 4 | (36,905) | (25,845) |
| | | <hr/> | <hr/> |
| Profit after taxation | | 87,490 | 62,168 |
| Minority interests | | (6,188) | (3,103) |
| | | <hr/> | <hr/> |
| Profit attributable to shareholders | | <u>81,302</u> | <u>59,065</u> |
| | | <hr/> | <hr/> |
| Basic earnings per share | 5 | <u>0.23</u> | <u>0.17</u> |

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30TH JUNE 2003

| | | Unaudited 30th June 2003 RMB'000 | Audited 31st December 2002 RMB'000 <i>As restated</i> |
|---|----|---|--|
| Non-current assets | | | |
| Fixed assets | 6 | 273,514 | 198,021 |
| Properties held for development | | 474 | 8,695 |
| Properties under development | | 52,957 | 71,389 |
| Investment in a joint venture | | 48,840 | 46,984 |
| Non-current deposits | 6 | 360,448 | 113,000 |
| Deferred tax assets | 13 | 6,474 | 6,794 |
| | | <u>742,707</u> | <u>444,883</u> |
| Current assets | | | |
| Inventories | | 14,053 | 11,900 |
| Properties under development | | 65,733 | 22,737 |
| Completed properties held for sale | | 9,536 | 26,549 |
| Due from customers on construction contracts | 7 | 213,717 | 204,145 |
| Amounts due from related parties | | 3,759 | 20,272 |
| Trade and other receivables | 8 | 739,654 | 397,115 |
| Cash and bank balances | | 317,293 | 251,370 |
| | | <u>1,363,745</u> | <u>934,088</u> |
| Current liabilities | | | |
| Trade and other payables | 9 | 454,115 | 359,771 |
| Taxes payable | | 120,425 | 100,763 |
| Due to customers on construction contracts | 7 | 227,734 | 204,727 |
| Amounts due to related parties | | - | 33,615 |
| Amounts due to directors | | - | 900 |
| Provision for warranty | 10 | 6,588 | 4,880 |
| Short-term bank loans | 11 | 445,000 | 143,950 |
| | | <u>1,253,862</u> | <u>848,606</u> |
| Net current assets | | <u>109,883</u> | <u>85,482</u> |
| Total assets less current liabilities | | <u>852,590</u> | <u>530,365</u> |
| Non-current liabilities | | | |
| Deferred tax liabilities | 13 | 5,099 | 4,925 |
| Minority interests | | | |
| | | 64,336 | 67,895 |
| Net assets | | <u>783,155</u> | <u>457,545</u> |

| | | Unaudited 30th June 2003 <i>RMB'000</i> | Audited 31st December 2002 <i>RMB'000</i> <i>As restated</i> |
|-----------------------------------|----|---|---|
| Financed by: | | | |
| Shareholders' equity | | | |
| Share capital | 12 | 531,426 | 350,742 |
| Reserves | | 78,761 | 15,137 |
| Retained earnings | | 172,968 | 91,666 |
| Total Shareholders' equity | | <u>783,155</u> | <u>457,545</u> |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE 2003

| | | Unaudited Six months ended 30th June 2003 <i>RMB'000</i> | 2002 <i>RMB'000</i> |
|--|--|--|-------------------------------|
| Net cash inflow/(outflow) from operating activities | | (231,869) | 133,826 |
| Net cash outflow from investing activities | | (42,058) | (51,487) |
| Net cash inflow/(outflow) from financing activities | | 570,280 | (42,875) |
| Increase in cash and cash equivalents | | 296,353 | 39,464 |
| Cash and cash equivalents at 1st January | | 236,980 | 189,899 |
| Cash and cash equivalents at 30th June | | <u>533,333</u> | <u>229,363</u> |
| Analysis of balances of cash and cash equivalents: | | | |
| Cash and bank balances | | 317,293 | 247,586 |
| Proceeds from share issuance included in trade and other receivables (<i>Note 8</i>) | | 246,791 | - |
| Less: pledged deposits | | (30,751) | (18,223) |
| | | <u>533,333</u> | <u>229,363</u> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30TH JUNE 2003

| | Unaudited | | | | | | | Total |
|---|----------------|-----------------|---------------------|---------------------------|---------------------------|-------------------------------|-------------------|----------------|
| | Share capital | Capital reserve | Share issuance cost | Asset revaluation reserve | Statutory surplus reserve | Statutory public welfare fund | Retained earnings | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1st January 2003, as previously reported | 350,742 | - | (9,620) | 13,120 | 10,644 | 5,322 | 91,666 | 461,874 |
| Change in accounting policy - provision for net deferred tax liabilities (Note 1a) | - | - | - | (4,329) | - | - | - | (4,329) |
| At 1st January 2003 as restated | 350,742 | - | (9,620) | 8,791 | 10,644 | 5,322 | 91,666 | 457,545 |
| Profit for the period | - | - | - | - | - | - | 81,302 | 81,302 |
| Issue of shares | 180,684 | 93,540 | - | - | - | - | - | 274,224 |
| Share issuance cost | - | (39,536) | 9,620 | - | - | - | - | (29,916) |
| At 30th June 2003 | <u>531,426</u> | <u>54,004</u> | <u>-</u> | <u>8,791</u> | <u>10,644</u> | <u>5,322</u> | <u>172,968</u> | <u>783,155</u> |

| | Unaudited | | | | | | | Total |
|---|-----------------|-----------------|---------------------|---------------------------|---------------------------|-------------------------------|-------------------|----------------|
| | Paid-in capital | Capital reserve | Share issuance cost | Asset revaluation reserve | Statutory surplus reserve | Statutory public welfare fund | Retained earnings | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1st January 2002, as previously reported | 110,000 | - | - | 21,527 | 19,589 | 9,512 | 178,198 | 338,826 |
| Change in accounting policy - provision for net deferred tax liabilities (Note 1a) | - | - | - | (7,103) | - | - | - | (7,103) |
| At 1st January 2002 as restated | 110,000 | - | - | 14,424 | 19,589 | 9,512 | 178,198 | 331,723 |
| Profit for the period | - | - | - | - | - | - | 59,065 | 59,065 |
| Release upon disposal of equity interest in subsidiaries | - | - | - | (5,633) | - | - | - | (5,633) |
| Share issuance cost | - | - | (2,105) | - | - | - | - | (2,105) |
| At 30th June 2002 | <u>110,000</u> | <u>-</u> | <u>(2,105)</u> | <u>8,791</u> | <u>19,589</u> | <u>9,512</u> | <u>237,263</u> | <u>383,050</u> |

NOTES TO CONDENSED ACCOUNTS

(1) Basis of preparation and accounting policies

These unaudited consolidated condensed accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants.

In connection with the listing of the Company's H shares on the Main Board of The Stock Exchange of Hong Kong Limited on 30th June 2003, the Company issued a prospectus (the "Prospectus") on 17th June 2003 and an accountants' report (the "Accountants' Report") is included in the Prospectus. These condensed accounts should be read in conjunction with the financial information of the Group for the year ended 31st December 2002 as set out in the Accountants' Report.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the preparation of the financial information for the year ended 31st December 2002 as set out in the Accountants Report, except that the Group has changed certain of its accounting policies following its adoption of SSAP 12 "Income Taxes" issued by the Hong Kong Society of Accountants and SSAP 35 "Government Grants and Disclosure of Government Assistance" which are effective for accounting periods commencing on or after 1st January 2003 and 1st July 2002, respectively.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out below:

(a) *Deferred taxation*

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred 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 taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future.

The adoption of the new SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

The impact on the adoption of the new SSAP 12 are summarised as follows:

| | As at 1st January 2002 RMB'000 Credit/(Debit) | As at 31st December 2002 RMB'000 Credit/(Debit) |
|---------------------------|--|--|
| Deferred tax liabilities | 9,885 | 4,925 |
| Deferred tax assets | (1,595) | (586) |
| Minority interests | (1,187) | (10) |
| Asset revaluation reserve | <u>(7,103)</u> | <u>(4,329)</u> |

The adjustments on deferred taxation mainly relates to revaluation of investment properties, pursuant to new SSAP 12, where the carrying amount of the investment properties is increased to revaluated amount but the tax base remains at depreciated cost, a taxable temporary difference arises which results in a deferred tax liability. Such adjustments have no impact on the consolidated results.

(b) *Government grants*

A government grant is recognised, when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

The adoption of the new SSAP 35 did not have a material impact on the Group.

(2) **Segment information**

The Group is principally engaged in (1) the provision of construction services, (2) manufacturing and distribution of building materials, and (3) property development and sales of developed properties. An analysis of the Group's revenue and results for the period by business segments is as follows:

| | Six months ended 30th June 2003 | | | | | Consolidated RMB'000 |
|--|--|---|---|---|--------------------------------|---------------------------------|
| | Construction RMB'000 | Building materials RMB'000 | Property development RMB'000 | Other operations RMB'000 | Elimination RMB'000 | |
| Turnover | <u>1,116,658</u> | <u>128,252</u> | <u>68,358</u> | <u>149</u> | <u>(85,419)</u> | <u>1,227,998</u> |
| Segment results | <u>71,851</u> | <u>26,292</u> | <u>15,018</u> | <u>(86)</u> | <u>(896)</u> | 112,179 |
| Other revenues | | | | | | <u>20,498</u> |
| Operating profit | | | | | | 132,677 |
| Finance costs | | | | | | (8,138) |
| Share of loss of a joint venture | | | | | | <u>(144)</u> |
| Profit before taxation | | | | | | 124,395 |
| Taxation | | | | | | <u>(36,905)</u> |
| Profit after taxation | | | | | | 87,490 |
| Minority interests | | | | | | <u>(6,188)</u> |
| Profit attributable to shareholders | | | | | | <u>81,302</u> |

| | Six months ended 30th June 2002 | | | | | Consolidated RMB'000 |
|--|---------------------------------|----------------------------------|------------------------------------|--------------------------------|------------------------|-------------------------|
| | Construction RMB'000 | Building materials RMB'000 | Property development RMB'000 | Other operations RMB'000 | Elimination RMB'000 | |
| Turnover | 945,763 | 67,746 | 89,745 | 715 | (62,329) | 1,041,640 |
| Segment results | 50,674 | 14,629 | 15,086 | (88) | 666 | 80,967 |
| Other revenues | | | | | | 10,326 |
| Other operating expenses | | | | | | (823) |
| Operating profit | | | | | | 90,470 |
| Finance costs | | | | | | (2,273) |
| Share of loss of a joint venture | | | | | | (184) |
| Profit before taxation | | | | | | 88,013 |
| Taxation | | | | | | (25,845) |
| Profit after taxation | | | | | | 62,168 |
| Minority interests | | | | | | (3,103) |
| Profit attributable to shareholders | | | | | | 59,065 |

(3) Operating profit

Operating profit is stated after crediting and charging the following:

| | Six months ended 30th June | |
|---|-------------------------------|-----------------|
| | 2003 RMB'000 | 2002 RMB'000 |
| <i>Crediting</i> | | |
| Gains on disposals of fixed assets | 738 | 603 |
| <i>Charging</i> | | |
| Depreciation of owned fixed assets | 9,050 | 6,290 |
| Staff costs (including directors' remuneration) | 151,719 | 141,766 |
| Operating leases of land and buildings | 331 | 267 |
| Outgoings in respect of investment properties | 33 | 33 |
| Retirement benefit costs | 1,142 | 378 |
| Provision for doubtful receivables | – | 8,386 |
| Provision for warranty | 1,800 | 1,760 |
| Loss on dilution of equity interest in subsidiaries | – | 168 |
| Land appreciation tax | 2,924 | 8,588 |

(4) Taxation

The companies comprising the Group are subject to Enterprise Income Tax ("EIT") in the People's Republic of China (the "PRC") at a rate of 33%.

The amounts of taxation charged to the consolidated profit and loss account represent:

| | Six months ended 30th June | |
|----------------------|-------------------------------|-----------------|
| | 2003 RMB'000 | 2002 RMB'000 |
| PRC current taxation | 36,411 | 29,259 |
| Deferred taxation | 494 | (3,414) |
| | 36,905 | 25,845 |

(5) Earnings per share

The calculation of basic earnings per share are based on the Group's profit attributable to shareholders of RMB81,302,000 (2002: RMB59,065,000).

The basic earnings per share are based on the weighted average of 355,733,306 (2002: 350,742,053) ordinary shares in issue during the period.

No dilutive earnings per share is presented as the Company has no dilutive potential ordinary shares during the period.

(6) Capital expenditures

| | Non-current deposits | Fixed assets |
|--|---------------------------------|---------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Opening net book amount as at 1st January 2003 | 113,000 | 198,021 |
| Additions | 343,735 | 85,438 |
| Disposal of a subsidiary (<i>Note 14</i>) | (50,000) | (434) |
| Disposals | - | (461) |
| Depreciation charge (<i>Note 3</i>) | - | (9,050) |
| Transfer out | (46,287) | - |
| | <hr/> | <hr/> |
| Closing net book amount as at 30th June 2003 | 360,448 | 273,514 |

(7) Amounts due from/(to) customers on construction contracts

| | 30th June 2003 | 31st December 2002 |
|--|---------------------------|-------------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Contract costs incurred plus attributable profits less foreseeable losses to date | 4,187,604 | 4,591,478 |
| Less: progress billing to date | (4,201,621) | (4,592,060) |
| | <hr/> | <hr/> |
| | (14,017) | (582) |
| | <hr/> | <hr/> |
| Represented by: | | |
| Due from customers on construction contracts | 213,717 | 204,145 |
| Due to customers on construction contracts | (227,734) | (204,727) |
| | <hr/> | <hr/> |
| | (14,017) | (582) |

(8) Trade and other receivables

| | 30th June 2003 | 31st December 2002 |
|--|---------------------------|-------------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Trade and notes receivables (<i>Note a</i>) | 139,278 | 157,078 |
| Less: provision for doubtful debts | (11,034) | (13,290) |
| | <hr/> | <hr/> |
| | 128,244 | 143,788 |
| Prepayment and deposits | 6,479 | 3,853 |
| Other receivables | 47,473 | 19,095 |
| Share issuance proceeds receivable (<i>Note b</i>) | 246,791 | - |
| Retention money receivables and project deposits | 310,667 | 230,379 |
| | <hr/> | <hr/> |
| | 739,654 | 397,115 |

Note:

- (a) The ageing analysis of the trade and notes receivables is as follows:

| | 30th June 2003 | 31st December 2002 |
|--------------------|---------------------------|-------------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| 0 to 3 months | 76,381 | 82,615 |
| 3 months to 1 year | 34,811 | 63,599 |
| 1 to 2 years | 23,871 | 7,129 |
| 2 to 3 years | 1,545 | 1,466 |
| Over 3 years | 2,670 | 2,269 |
| | <hr/> | <hr/> |
| | 139,278 | 157,078 |

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.

- (b) Certain proceeds from shares issuance were held by the underwriter, First Shanghai Securities Limited, as at 30th June 2003.

(9) Trade and other payables

| | 30th June 2003 | 31st December 2002 |
|--|---------------------------|-------------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Trade and notes payables | 143,240 | 224,713 |
| Other payables | 60,016 | 48,026 |
| Pre-sales receipt in advance | 204,734 | 44,184 |
| Deposits from project managers | 44,240 | 39,429 |
| Advance from customers on construction contracts | 1,549 | 729 |
| Accruals | 336 | 2,690 |
| | <hr/> | <hr/> |
| | 454,115 | 359,771 |

The ageing analysis of the trade and notes payables is as follows:

| | 30th June 2003 | 31st December 2002 |
|--------------------|---------------------------|-------------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| 1 to 3 months | 89,857 | 60,878 |
| 3 months to 1 year | 43,245 | 160,262 |
| 1 to 2 years | 7,683 | 2,801 |
| 2 to 3 years | 2,455 | 419 |
| Over 3 years | - | 353 |
| | <hr/> | <hr/> |
| | 143,240 | 224,713 |

(10) Provision for warranty

| | <i>RMB'000</i> |
|-----------------------|----------------|
| At 1st January 2003 | 4,880 |
| Additional provision | 1,800 |
| Less: amount utilised | (92) |
| | <hr/> |
| At 30th June 2003 | <u>6,588</u> |

The Group gives warranties on construction work and undertakes to repair construction work that is not satisfactory. The warranties on construction work normally covers different components for 6 months to 5 years as stipulated in the contracts.

(11) Short-term bank loans

| | 30th June 2003 | 31st December 2002 |
|-----------|---------------------------|-------------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Unsecured | <u>445,000</u> | <u>143,950</u> |

Interest were charged at 5% to 7.5% and 5% to 7% of the outstanding loan balances for the period ended 30th June 2003 and year ended 31st December 2002 respectively.

The unsecured bank loans were guaranteed by the Company and its subsidiaries.

(12) Share capital

The movements of paid-in/share capital are as follows:

| | Number of shares | Paid-in capital* | Share capital |
|---|-----------------------------|-----------------------------|----------------------|
| | <i>(in thousand)</i> | <i>RMB'000</i> | |
| Balances as at 1st January 2002 | N/A* | 110,000 | N/A* |
| Movement during the year ended 31st December 2002: | | | |
| Capitalisation into paid-in capital | N/A* | 240,742 | N/A* |
| Capitalisation upon transformation into shares in a joint stock limited company (registered, issued and fully paid (RMB1.00 each)) | <u>350,742</u> | <u>(350,742)</u> | <u>350,742</u> |
| Balances as at 31st December 2002 | 350,742 | - | 350,742 |
| Movement during the six months ended 30th June 2003: | | | |
| Issue of H shares | <u>180,684**</u> | <u>N/A*</u> | <u>180,684</u> |
| Balances as at 30th June 2003 | <u>531,426</u> | <u>N/A*</u> | <u>531,426</u> |

* Prior to the transformation into a joint stock limited company in the PRC, the capital of the Company was not divided into ordinary shares and accordingly, no information regarding the number of shares is presented.

** 180,684,000 H Shares of RMB1 each were issued at HKD1.43 (equivalent to approximately RMB1.52) each and were fully paid up in form of cash, resulting in capital reserve (share premium) of approximately RMB54,004,000, after deducting the transaction costs in relation to the issuing of new H Shares of approximately RMB39,536,000, of which approximately RMB9,620,000 were recorded as share issuance costs in equity as at 31st December 2002.

(13) Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 33% (2002: 33%).

The movement in deferred tax assets and liabilities during the period are as follows:

Deferred tax assets

| | Provision for doubtful receivables | | Revaluation of investment properties | | Interest expenses capitalised | | Total | |
|--|------------------------------------|---------|--------------------------------------|---------|-------------------------------|---------|---------|---------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Balance at 1st January as provisory reported | 6,794 | 3,454 | (516) | (516) | (70) | (1,079) | 6,208 | 1,859 |
| Adjustments arising from adoption of new SSAP12 | | | | | | | | |
| - Reclassification | - | - | 516 | 516 | 70 | 1,079 | 586 | 1,595 |
| Balance at 1st January as restated | 6,794 | 3,454 | - | - | - | - | 6,794 | 3,454 |
| Charged/(credited) to profit and loss account | (320) | 3,340 | - | - | - | - | (320) | 3,340 |
| Balance at 30th June 2003/ 31st December 2002 | 6,474 | 6,794 | - | - | - | - | 6,474 | 6,794 |

Deferred tax liabilities

| | Revaluation of investment properties | | Interest expense capitalised | | Total | |
|--|--------------------------------------|---------|------------------------------|---------|---------|---------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Balance at 1st January as previously reported | - | - | - | - | - | - |
| Adjustments on adoption of new SSAP 12 | | | | | | |
| - Reclassification | (516) | (516) | (70) | (1,079) | (586) | (1,595) |
| - Investment property revaluation | (4,339) | (8,290) | - | - | (4,339) | (8,290) |
| Balance at 1st January as restated | (4,855) | (8,806) | (70) | (1,079) | (4,925) | (9,885) |
| Charged/(credited) to profit and loss account | (123) | - | (51) | 1,009 | (174) | 1,009 |
| Release upon disposal of subsidiary | - | 3,951 | - | - | - | 3,951 |
| Balance at 30th June 2003/ 31st December 2002 | (4,978) | (4,855) | (121) | (70) | (5,099) | (4,925) |

(14) Disposal of a subsidiary

The following subsidiary was disposed of during the six months ended 30th June 2003.

| Name | Date/Place of incorporation | Percentage of equity interest held | Resisted capital | Principal activities | Date of Disposal |
|---|-----------------------------|------------------------------------|------------------|-------------------------|------------------|
| Fuzhou Baoyue Real Estate Development Company Limited | 20th August 2002 The PRC | 51% | RMB20,000,000 | Real estate development | 2nd June 2003 |

On 2nd June 2003, the Company's subsidiary, Zhejiang Baoye Construction Group Company Limited disposed of its entire 51% interest in Fuzhou Baoyue Real Estate Development Company Limited at a consideration of RMB10,200,000 to an independent third party.

The assets and liabilities of this subsidiary disposed of are as follows:

| | <i>RMB'000</i> |
|--|----------------|
| Fixed assets (<i>note 6</i>) | 434 |
| Non-current deposits (<i>note 6</i>) | 50,000 |
| Other assets less liabilities | (30,543) |
| Minority interest | (9,747) |
| | <hr/> |
| Fair value of net assets | 10,144 |
| Sales proceeds | (10,200) |
| | <hr/> |
| Gain on disposal of a subsidiary | (56) |
| | <hr/> |

(15) Contingent liabilities

| | 30th June 2003 | 31st December 2002 |
|---|---------------------------|-------------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Guarantee given to banks in respect of mortgage facilities granted to outside parties (<i>note a</i>) | 24,656 | 9,248 |
| Guarantee given to a bank in respect of a bank loan granted to a joint venture | 20,000 | 20,000 |
| | <hr/> | <hr/> |
| | 44,656 | 29,248 |
| | <hr/> | <hr/> |

Note:

- (a) The Group had issued above performance guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of property projects developed by the subsidiaries of the Group. The banks will release such guarantee only upon the building ownership certificate of such property is delivered to the bank as security.

(16) Capital commitments

| | 30th June 2003 | 31st December 2002 |
|-----------------------------------|---------------------------|-------------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Contracted but not provided for | – | 400,000 |
| Authorised but not contracted for | 409,401 | 215,084 |
| | <u>409,401</u> | <u>615,084</u> |

Included in the commitments as at 31st December 2002 were commitments of RMB400 million entered into by Fuzhou Baoyue Real Estate Development Company Limited which was disposed of during the six months ended 30th June 2003.

(17) Related party transactions

The Group had the following significant related party transactions during the period:

| | Six months ended | |
|---|---------------------------|---------------------------|
| | 30th June 2003 | 30th June 2002 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Non-continuing transactions | | |
| Fixed fee paid to <i>(Note a)</i> | | |
| – Shaoxing Municipal Infrastructure Company ("Municipal Infrastructure") | – | 52 |
| – Zhejiang Huanyu Construction Group Co., Ltd. ("Zhejiang Huanyu") | – | 187 |
| | <u>–</u> | <u>239</u> |
| Sales of real estate properties <i>(Note b)</i> | | |
| Sales to directors <i>(Note c)</i> | | |
| – Pang Baogen | 1,171 | – |
| – Gao Lin | 850 | – |
| – Zhou Hanwan | 1,171 | – |
| | <u>3,192</u> | <u>–</u> |
| Sales to shareholders | | |
| – Xu Jianbiao | 1,171 | – |
| – Pang Baisong | 850 | – |
| – Gao Jun | 1,171 | – |
| – Wu Zhanglin | 850 | – |
| – Yuan Ajin | 850 | – |
| – Tang Liping | 850 | – |
| – Xia Weimin | 850 | – |
| – Xia Yahong | 850 | – |
| – Xia Huihua | 850 | – |
| – Wang Liequan | 1,171 | – |
| – Wang Rongfu | 1,171 | – |
| | <u>11,711</u> | <u>–</u> |
| Continuing transactions | | |
| Sales to | | |
| – Zhejiang Huanyu | 4,850 | 10,011 |
| – Municipal Infrastructure | 22 | 43 |
| | <u>4,872</u> | <u>10,054</u> |

- (a) According to the terms of the agreement entered into between the Company, Zhejiang Huanyu and Municipal Infrastructure, the owners of Shaoxing Commodity Concrete Co., Ltd. ("Concrete Company"), Concrete Company was required to pay an annual fixed fee based on 15% of Zhejiang Huanyu's and Municipal Infrastructure's investments to Zhejiang Huanyu and Municipal Infrastructure. After the payment of the fixed fee, the Company was entitled to all of the Concrete Company's remaining profit. Effective 20th June 2002, when Concrete Company was converted from a state and collectively jointly-owned enterprise into a limited liability company, the fixed fee payment arrangement was discontinued, and profit is to be shared among the investors according to their percentage of interest held.
- (b) These related parties had purchased certain units in Baoye Garden, which has been constructed by Zhejiang Shaoxing Baoye Real Estate Development Co., Ltd. The selling price of such units were lower than the market price but the other terms of sale were on normal commercial terms.
- (c) All the above directors are also shareholders of the Company.
- (d) Certain companies of the Group had entered into Internal Undertaking Contract of Construction Projects with the project managers. The shareholders of the Company, Mr. Xia Weimin, Mr. Chen Baorong, Mr. Wang Jianghua, Mr. Wu Xianfu and Mr. Wang Liequan were also project managers and the directors confirm that the terms of their Internal Undertaking Contract of Construction Projects are similar to those of other project managers who were not shareholders of the Company.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30th June 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2003, the Group passed a major milestone. On 30th June 2003, the Company's H shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), representing a new era in the Group's business development.

The Group principally undertakes and implements construction projects; together with the research, development and sale of building materials; and real estate development in Zhejiang Province and the Yangtze River Delta of the PRC.

RESULTS

For the six months ended 30th June 2003, the Group recorded a turnover of RMB1,228 million, representing an increase of 18% as compared to the corresponding period last year. Profit attributable to shareholders increased by 38% to RMB81.3 million from RMB59.1 million for the same period last year. Earnings per share were RMB0.23 during the period.

The board of Directors (the "Board") does not recommend the payment of an interim dividend for the six months ended 30th June 2003, as the H shares of the Company were just listed on the Stock Exchange on 30th June 2003.

BUSINESS REVIEW

The Construction Business

Undertaking and implementing construction projects has been the Group's core business since the establishment of its predecessor in 1975.

The Group is principally engaged in the undertaking and implementation of construction projects for public utilities as well as for industrial and private building construction. The Group is also engaged in a full range of construction services, from external to interior decoration, electrical and electronic facilities installation, fire-proof facilities installation, curtain wall production and installations of any kind. During the review period, the Group's construction business recorded an income of RMB1,062 million (after intra-group eliminations), accounting for 86% of the Group's total turnover.

After the Group obtained its premium class certification for general building construction contracting works (房屋建築工程施工總承包特級證書) in 2002, the highest qualification awarded by the PRC's Ministry of Construction ("MOC"), the number of construction projects won by the Group have continued to increase. During the period, the Group completed 99 construction projects. These projects include:

38 public utility projects such as the library of Shaoxing Wanli Institute (紹興文理學院) and Paojiang International Logistics Centre (袍江國際物流中心);

45 residential projects such as Shanghai Four-Season Spring House (上海四季春別墅) and Shanghai New Times Garden (上海新時代花園); and

16 industrial projects such as Changli Furniture Trade Building (昌麗傢俬商貿大廈) and Yulong Industrial and Trade Building (裕隆工貿大樓).

In addition, in the first half of 2003, the Group had 252 construction projects in progress, including 143 public utility projects, 63 residential projects and 46 industrial projects, with total contract values of approximately RMB4,940 million. Among these, over 100 projects are expected to be completed in the second half of the year.

The Building Materials Business

The Group continuously explores semi-finished building materials that will save costs and energy, and meet national requirements for environmental protection. These materials include ready-mixed concrete, concrete piles, concrete ducts, large-roof sheathing, plastic spiral ducts and fire-proof-materials. During the period, the Group's sales of building materials recorded a total of RMB97.87 million (after intra-group eliminations) amounting to 8% of the Group's total turnover.

In the past few years, the Group has maintained its innovations and improvements in building materials, leading to reductions in production costs. Therefore, during the period, the Group was able to sell its building materials at lower prices to capture a higher market share. The building materials business of the Group recorded a gross profit of RMB24.4 million (after intra-group eliminations), a 43.7% increase when compared to the same period last year.

In line with the Group's goal to actively expand its building materials business, the Group has started its development of a building materials industrial plant, the "Baoye Residential Industry (Building Materials) Park" ("寶業住宅產業(建材)園區"), located in the Kexi Industrial Park (柯西工業園), at the Keqiao Economic Development Zone (柯橋經濟開發區), Shaoxing County, Zhejiang Province. The Baoye Residential Industry (Building Materials) Park consists of a research and development centre for building materials and several building material production lines. Under the review period, the Group has started the development of the Baoye Residential Industry (Building Materials) Park, where construction of the first phase of basic facilities was about to be completed. This includes the completion of the curtain wall production line and fire-proof-door

standard factory with a yearly production volume of approximately 400,000 square metres of curtain wall and 75,000 sets of fire-proof doors. The steel structure production factory has also commenced construction. Baoye Residential Industry (Building Materials) Park is expected to be completed in 2004 with the production of premium building curtain wall products, concrete bricks and steel structures.

The Real Estate Business

The Group's real estate business developed very rapidly these years, expanding from Zhejiang Province to other districts in Eastern China. The Group has 2 projects under development including Keqiao City Garden Phase III and Guazhu Fengqing. During the review period, the Group's real estate business generated total sales amounting to RMB68.36 million (after intra-group eliminations), representing 6% of the Group's total turnover.

The Group has established a reputation in the property market. The continuous economic growth in China, together with Shaoxing's average personal income ranking top in Zhejiang Province, as well as the higher standards of living and the increasing importance of quality living conditions, are all leading to a continuous rise in property prices. Benefiting from these favourable factors, the price of the Group's properties are also rising. During the period, the gross profit margin of the real estate business increased from 30% to 35%, but the number of units of completed properties decreased. As such, gross profit derived from the real estate business (after intra-group eliminations) decreased from RMB26.77 million in the same period last year to RMB23.77 million during the review period.

PROSPECTS

In its Ninth-Five-Year-Plan (1996-2000), the PRC Government designated the construction industry as a "pillar industry". Zhejiang Province, one of the provinces with the highest gross domestic product in the country, enjoys gross construction values with a compounded annual growth rate of 16.2%, which is higher than the national average. The profitability of the construction industry of Zhejiang Province was also ranked first in the PRC. The construction market therefore offers huge growth potential.

The Group, based in Yangtze River Delta, a region with rapid economic growth, will leverage its well-known "Baoye" brand, which has been established over 28 years, the distinctive advantages conveyed by its premium class certificate, together with its valuable experience and specialist knowledge in the construction industry to grasp the many opportunities arising from the booming construction and property markets in China. With continuing urbanization and increasing national investment, together with the stimulus generated by China's entry into World Trade Organization, the 2008 Olympics in Beijing and the 2010 World Exposition in Shanghai, the construction and property industries are seeing infinite opportunity. The Group will actively participate in large-scale construction projects, while strictly controlling construction costs and the quality of each and every project to strengthen its leading position in the PRC construction industry.

In addition, to incorporate the "Building Material Industrialization" policy launched by the PRC government to encourage and regulate the use of environmentally-friendly and energy saving building materials among construction companies, the Group will invest RMB220 million to establish the Baoye Residential Industry (Building Materials) Park to manufacture semi-finished building materials that save cost and energy to meet these national requirements for environmental protection. The first-phase construction of the basic facilities is about to be completed, including the completion of the curtain wall production line and fire-proof-door standards factory. The steel structure production factory has also commenced construction. The Group believes that its valuable experience in the construction industry favours its development of

building materials business. Pioneering the Building Materials Industrialization process, providing top quality, environmental building materials for the PRC's construction industry and reducing the construction cost and its duration, will all help to drive the development of the construction industry.

The Group has already developed a strong base in Zhejiang Province for its real estate business. In the future, the Group will be seeking development opportunities in Zhejiang and other districts with high potential. Leveraging its hi-tech building materials from Baoye Residential Industry (Building Materials) Park and modern construction design the Group will demonstrate its strengths in the development of top quality residential buildings. These developments will also strengthen the Group's reputation and enhance its chances in winning large-scale construction tenders.

The Group is expanding its business based on a "vertical integration" model to synchronize all its business activities. Building on the construction business as its core, and leveraging the "Baoye" brand to expand its building materials and real estate businesses, while at the same time strictly controlling cost and enhancing construction quality, the Group will expand its income sources, establishing strong foundations for future development and bringing shareholders more favourable results.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June 2003, the Group's cash and cash equivalent balances amounted to RMB533.3 million, compared with RMB237 million as at 31st December 2002. As at 30th June 2003, the shareholders' fund of the Group amounted to RMB531.4 million, representing an increase of RMB180.7 million from RMB350.7 million as at 31st December 2002.

As at 30th June 2003, the Group had outstanding bank loans amounting to RMB445 million, representing an increase of RMB301 million from RMB144 million as at 31st December 2002. All of the outstanding bank loans was repayable within one year.

As at 30th June 2003, the gearing ratio of the Group was 59.8% (as at 31st December 2002: 61.9%) which was arrived at by dividing total debts by total assets.

NUMBER AND REMUNERATION OF EMPLOYEES, REMUNERATION POLICIES, BONUS AND SHARE OPTION SCHEMES AND TRAINING SCHEMES

Including the Directors, as at 30th June 2003, the Group employed a total of 1,035 full-time employees. The remuneration of the employees are commensurate with their respective performance, level of responsibilities and contribution to the Group.

DETAILS OF THE CHARGES ON GROUP ASSETS

As at 30th June 2003, none of the asset of the Group was pledged.

CONTINGENT LIABILITIES

As at 30th June 2003, the Group's contingent liabilities amounted to RMB44.7 million, arising primarily from guarantee given to banks in respect of mortgage facilities granted to outside parties of RMB24.7 million and guarantee given to a bank in respect of a bank loan granted to a joint venture amounting to RMB20 million.

FOREIGN EXCHANGE EXPOSURE

Since the Group currently receives all of its revenue and makes substantially all of its payments in Renminbi, except those overseas purchases which involve foreign currency, the Directors do not consider that the Group is exposed to any material foreign currency exchange risk. The Directors believe that the Group will have sufficient foreign exchange to meet its foreign exchange requirements.

SHARE CAPITAL

Share capital of the Company as at 30th June 2003 is as follows:

| Class of Shares | Number of Shares | % of Issued Share |
|-----------------|------------------|-------------------|
| Domestic Shares | 350,742,053 | 66% |
| H Shares | 182,684,000 | 34% |

DIRECTORS' AND SUPERVISORS' INTEREST IN SHARES

As at 30th June 2003, save as disclosed herein, none of the directors, chief executive or supervisors of the Company had any interest in the shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) that is required to be declared to the Company and the Stock Exchange of Hong Kong under Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (including interests and short positions which any such director or supervisor is taken or deemed to have under such provisions of the Securities and Futures Ordinance), or as recorded in the register maintained by the Company as required under Section 352 of the Securities and Futures Ordinance, or as required by the Model Code for Securities Transactions by Directors of Listed Companies for directors of listed companies in dealing in securities.

(a) The Company – interests in shares

| Name | Nature of interest | Number of domestic shares | Percentage of the issued share capital |
|-----------------|--------------------|--------------------------------|--|
| Mr. Pang Baogen | Beneficial owner | 198,753,054 (long position) | 37.4 |
| Mr. Gao Jiming | Beneficial owner | 13,024,647 (long position) | 2.5 |
| Mr. Gao Lin | Beneficial owner | 9,544,775 (long position) | 1.8 |
| Mr. Zhou Hanwan | Beneficial owner | 8,233,510 (long position) | 1.5 |
| Mr. Sun Guofan | Beneficial owner | 11,705,283 (long position) | 2.2 |

(b) Associated corporations – interests in shares

| Name | Associated corporation | Nature of interests | Percentage of the registered share capital of associated corporation |
|-----------------|--|---------------------|--|
| Mr. Pang Baogen | Building Materials Industrialisation Company | Beneficial owner | 19% |
| Mr. Hu Shaozeng | Building Materials Industrialisation Company | Beneficial owner | 1% |

DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS

No director or supervisor had a material interest in any contract of the Company to which the Company, its subsidiaries or its fellow subsidiaries was a party during the six months ended 30th June 2003.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the Prospectus, at no time during the six months ended 30th June 2003 was the Company, its subsidiaries, its ultimate holding company or its fellow subsidiaries a party to any arrangement to enable the Company's directors or supervisors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed under the paragraph headed "Directors' and Supervisors' Interest in Shares", as at 30th June 2003, so far as is known to the Directors, there are no other persons (other than a director or supervisor) who had an interest or short position in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance, or as recorded in the register maintained by the Company as required under section 336 of the Securities and Futures Ordinance.

PURCHASE, SALES OR REDEMPTION OF SECURITIES

Save as disclosed in the Prospectus, the Company and its subsidiaries did not engage in the purchase, sales or redemption of the securities* (as defined in Appendix 71 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules")) during the six months ended 30th June 2003.

SIGNIFICANT RELATED PARTY TRANSACTIONS

The significant related party transactions undertaken by the Group during the six months ended 30th June 2003 are set out in note 17 to the unaudited condensed consolidated interim financial statements.

ACQUISITIONS AND DISPOSALS

Save as disclosed in the Prospectus, there were no material acquisitions and disposals of subsidiaries or associated companies of the Company for the six months ended 30th June 2003.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

To the best knowledge of the Directors, the Company has complied with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the unaudited condensed consolidated interim financial statements as contained in this interim report.

AUDIT COMMITTEE

The interim results of the Group have been reviewed by the Board's audit committee which consists of three independent non-executive Directors, namely Mr. Wang Youwei, Mr. Yi Deqing and Mr. Xu Yangsheng. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters.

On behalf of the Board
Baoye Group Company Limited
Pang Baogen
Chairman

Hong Kong, 13th September 2003