

Report of the Directors

The board of directors of the Company (the “Board”) is pleased to present to the shareholders their report and the audited accounts of the Company and the Group for the year ended 31st December 2003.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the undertaking and implementation of construction projects, production and sale of building materials and real estate development. The activities of the Company’s subsidiaries and jointly-controlled entity are set out in notes 16 and 17 to the accounts. There were no significant changes in the nature of the Group’s principal activities during the year.

RESULTS AND PROFIT APPROPRIATION

The results of the Group for the year ended 31st December 2003, prepared in accordance with the accounting standards generally accepted in Hong Kong, and its financial position as at the same date, are set out on pages 37 and 38 of the annual report.

RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in note 27 to the accounts.

DISTRIBUTABLE RESERVES

According to the relevant laws and regulations in the PRC, the reserves of the Company available for distribution to shareholders amounted to RMB53,087,000 as at 31st December 2003. The Company had no distributable reserves as at 31st December 2002.

DIVIDENDS

At the board meeting held on 28th May 2004, the Directors declared a final dividend of RMB0.0635 per ordinary share for the year ended 31st December 2003. The proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2004.

FINANCIAL HIGHLIGHTS

The Group’s summaries of consolidated results and assets and liabilities for the last four years are set out on page 3 of the annual report.

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SEGMENT INFORMATION

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

- Construction – undertaking and implementing construction projects.
- Building materials – research and development, manufacture and distribution of building materials.
- Property development – development of properties and sale of developed properties.

The primary reporting of business segments for the year ended 31st December 2003 is set out in note 4 to the accounts.

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 turnover 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 Group'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 13 to the accounts.

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

During the period from 30th June 2003 when the Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") to 31st December 2003, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

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DIRECTORS AND SUPERVISORS

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

Directors

Executive Directors

Mr. Pang Baogen (*Chairman*)

Mr. Gao Jiming (*Deputy general manager*)

Mr. Gao Lin (*Deputy general manager*)

Mr. Zhou Hanwan (*Deputy general manager*)

Non-executive Directors

Mr. Wu Weimin

Mr. Hu Shaozeng

Independent Non-Executive Directors

Mr. Wang Youwei

Mr. Xu Yangsheng

Mr. Yi Deqing

Mr. Kwok Lam-Kwong, Larry

(resigned on 10th March 2004)

Supervisors

Supervisors

Mr. Sun Guofan

Mr. Xie Qisheng

Independent Supervisors

Mr. Sun Machuan

Mr. Chen Xingquan

Mr. Yu Zengmin

Report of the Directors

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Pang Baogen, Mr. Gao Jiming, Mr. Gao Lin and Mr. Zhou Hanwan were appointed as Executive Directors of the Company on 30th August 2002. Mr. Hu Shaozeng and Mr. Wu Weimin were appointed as Non-executive Directors of the Company on 30th August 2002 and 15th October 2002 respectively. Mr. Wang Youwei, Mr. Yi Deqing and Mr. Xu Yangsheng were appointed as Independent Non-executive Directors of the Company on 15th October 2002. Mr. Kwok Lam-Kwong, Larry was appointed as an Independent Non-executive Director of the Company on 8th June 2003 and resigned as an Independent Non-executive Director of the Company on 10th March 2004.

Mr. Sun Guofan and Mr. Xie Qisheng were appointed as supervisors of the Company on 30th August 2002. Mr. Sun Machuan was appointed as independent supervisor of the Company on 30th August 2002 and Mr. Yu Zengmin and Mr. Chen Xingquan were both appointed as independent supervisors of the Company on 15th October 2002.

As requested by Mr. Pang Baogen, the Company had convened a board meeting on 30th October 2003. At the board meeting, the Board accepted Mr. Pang's resignation as the Company's general manager and resolved to appoint Mr. Wei Falin as the general manager of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Brief biographical details of directors, supervisors and senior management of the Group are set out on pages 17 to 20 of the annual report.

HIGHEST PAID INDIVIDUALS

During the year, the five individuals with the highest remuneration in the Group are all directors of the Company. The relevant information is disclosed in note 12 to the accounts.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the executive Directors and Supervisors has entered into a service contract with the Company on or around 30th October 2002 and shall continue until the conclusion of the annual general meeting of the Company in 2005 and thereafter, subject to the approval of the shareholders' meeting of the Company, each service contract may be renewed each time for three years.

No Director or Supervisor has a service contract with the Company, which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

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INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As at 31st December 2003, the interests and short positions of each director, supervisor and chief executive of the Company in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange (for this purpose, the relevant provisions of the SFO will be interpreted as if applicable to supervisors) were as follows:

Director/ Supervisor/ Senior Management	Relevant entity	Type	No. of domestic shares held (Long position)	Approximate percentage of the total registered capital of the relevant entity
Mr. Pang Baogen	(i) The Company	Individual	198,753,054	37.4%
	(ii) Zhejiang Baoye Building Materials Industrialization Company Limited	Individual	11,514,000	19%
Mr. Hu Shaozeng	Zhejiang Baoye Building Materials Industrialization Company Limited	Individual	606,000	1%
Mr. Gao Jiming	The Company	Individual	13,024,647	2.5%
Mr. Gao Lin	The Company	Individual	9,544,775	1.8%
Mr. Zhou Hanwan	The Company	Individual	8,233,510	1.5%
Mr. Sun Guofan	The Company	Individual	11,705,283	2.2%
Mr. Gao Jun	The Company	Individual	5,794,259	1.1%
Mr. Xu Jianbiao	The Company	Individual	7,524,884	1.4%
Mr. Lou Zhonghua	The Company	Individual	5,633,172	1.1%

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INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS

No Director or Supervisor has, or at any time during the year had, any interest, in anyway, directly or indirectly, in any contract with the Company or its subsidiaries which was significant in relation to the business of the Company.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from disclosed under the headings "Interests of Directors, Supervisors and Senior Management", at no time during the year was the Company, or its subsidiaries, a party to any arrangement to enable the Directors, the Supervisors and their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

DETAILS OF SHARE OFFERING AND LISTING

Class of shares listed:	H share
Listing place:	Main board of the Stock Exchange
Offer price:	HK\$1.43 per H share
Listing date:	30th June 2003
Number of issued H shares:	180,684,000 H shares

SHARE CAPITAL

As at 31st December 2003, there were a total share capital of 531,426,053 shares of the Company which include:

	Number of shares	Approximate percentages of total share capital
Domestic Shares	350,742,053	66%
H Shares	180,684,000	34%

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SUBSTANTIAL SHAREHOLDERS

At 31st December 2003, so far as was known to the Directors, the following persons had an interest or short position in the shares or the 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, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any members of the Group:

Name	Name of Company	Number of shares or equity interest held (Long position)	Approximate percentage of the total registered capital of the relevant entity
1. Mr. Pang Baogen	(i) The Company	198,753,054 (Domestic shares)	37.4%
	(ii) Zhejiang Baoye Building Materials Industrialisation Company Limited	RMB11,514,000	19%
2. Mr. Cheah Cheng Hye	The Company	14,116,000 (Note 1) (H shares)	7.81% (Note 2)
3. Value Partners Limited	The Company	14,116,000 (Note 1) (H shares)	7.81% (Note 2)
4. Mr. Wu Zhen Dong	The Company	12,452,000 (H shares)	6.89% (Note 2)
5. Symbiospartners Investment Ltd.	The Company	9,210,000 (H shares)	5.10% (Note 2)
6. Zhejiang Baoye Construction Group Co. Ltd.	Zhejiang Baoye Building Materials Industrialisation Company Limited	RMB36,360,000	60%
7. 浙江省建築科學設計研究院 (Zhejiang Construction Science and Design Research Institute)	Zhejiang Baoye Building Materials Industrialisation Company Limited	RMB9,090,000	15%
8. 浙江省建設廳招待所 (The Reception Centre of Zhejiang Provincial Department of Construction)	Zhejiang Building Materials Industrialisation and Design Research Institute Company Limited	RMB600,000	10%

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SUBSTANTIAL SHAREHOLDERS (continued)

Name	Name of Company	Number of shares or equity interest held (Long position)	Approximate percentage of the total registered capital of the relevant entity
9. 浙江環宇建設集團有限公司 (Zhejiang Huanyu Construction Group Co., Ltd.)	Shaoxing Commodity Concrete Co., Ltd.	RMB5,547,000	25.8%
10. 紹興市市政工程公司 (Shaoxing Municipal Infrastructure Company)	Shaoxing Commodity Concrete Co., Ltd.	RMB4,880,500	22.7%
11. Zhejiang Baoye Construction Group Co., Ltd.	Zhejiang Baoye Real Estate Group Co., Ltd.	RMB5,000,000	10%
12. Zhejiang Baoye Construction Group Co., Ltd.	Zhejiang Baoye Infrastructure Construction Co., Ltd.	RMB3,750,000	12.5%
13. Zhejiang Baoye Building Materials Industrialisation Company Limited	Shaoxing Baoye Fireproof Materials Company Limited	RMB351,000	11.7%
14. Zhejiang Baoye Construction Group Co., Ltd.	Shaoxing Baoye New Building Materials Co., Ltd.	RMB500,000	25%
15. Zhejiang Baoye Building Materials Industrialisation Company Limited	Shaoxing Baoye New Building Materials Co., Ltd.	RMB1,500,000	75%
16. Zhejiang Baoye Real Estate Group Co., Ltd.	Shanghai Zibao Real Estate Development Co., Ltd.	RMB9,900,000	55%
17. 上海紫德房地產開發有限公司 (Shanghai Zide Real Estate Development Co., Ltd.)	Shanghai Zibao Real Estate Development Co., Ltd.	RMB2,700,000	15%
18. 童英強 (Tong Yingqiang)	Shanghai Zibao Real Estate Development Co., Ltd.	RMB2,700,000	15%
19. 徐建軍 (Mr. Xu Jianjun)	Shanghai Zibao Real Estate Development Co., Ltd.	RMB2,700,000	15%

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SUBSTANTIAL SHAREHOLDERS (continued)

Name	Name of Company	Number of shares or equity interest held (Long position)	Approximate percentage of the total registered capital of the relevant entity
20. Goldbase International Investments Limited	Shaoxing Baogang Woodwork Co., Ltd.	USD816,000	30%
21. Zhejiang Baoye Construction Group Co., Ltd.	Shaoxing Baoye Construction Intelligent Technology Co., Ltd.	RMB800,000	40%

Notes:

- The shares of Mr. Cheah Cheng Hye were held through Value Partners Limited.
- The percentage was calculated by dividing the total number of H shares held by the relevant parties by the total number of H shares in issue.

USE OF PROCEEDS OF H SHARE ISSUE

The Company issued 180,684,000 H shares in June 2003, which were listed on the Stock Exchange on 30th June 2003, raising a total amount of approximately RMB236,830,000 (net of expenses). Pursuant to the Prospectus, the Company intended to apply the proceeds of RMB85,054,000 in 5 projects, with the balance to be applied as working capital of the Group. As at 31st December 2003, the actual proceeds allocated by the Company to those projects were RMB123,260,000, with details as follows:

Project title	Proposed usage as set out in Prospectus (RMB'000)	Actual usage up to 31st December 2003 (RMB'000)	Difference between proposed and actual usages (RMB'000)
Project 1 Production lines for concrete bricks (Note 1)	41,000	9,323	(31,677)
Project 2 Production lines for steel structures and sandwich boards	32,000	30,809	(1,191)
Project 3 Production lines for curtain walls	24,000	24,000	–
Project 4 Production lines for wooden doors	14,000	14,000	–
Project 5 Research and development centre for building materials (Note 2)	18,000	6,922	(11,078)
Working Capital	107,830	107,830	–
Total	236,830	192,884	(43,946)

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USE OF PROCEEDS OF H SHARE ISSUE *(continued)*

Notes:

1. During the year ended 31st December 2003, the Group utilized approximately RMB9,323,000 for the establishment of production lines for concrete bricks. The RMB9,323,000 was used for the cost of land on which the production lines will be built. These production lines are in the planning stage.
2. During the year ended 31st December 2003, the Group utilized approximately RMB6,922,000 for the establishment of research and development centre ("R&D Centre") for building materials. The RMB6,922,000 was used for the cost of land on which the R&D Centre will be built. The Group completed the design and is in the course of constructing the R&D Centre.

The Company will continue to apply the remaining balance according to the Prospectus in the coming year.

EMPLOYEES

As at 31st December 2003, the Group had 1,137 staff. The total staff costs and wages amounted to RMB481,560,000 for the year ended 31st December 2003. Remuneration is determined by reference to market terms and the performance, qualifications and experience of individual employees. Employee benefits provided by the Group include provident fund schemes and housing provident fund.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the shareholders who are entitled to attend and vote at the forthcoming annual general meeting on 30th June 2004, the register of members of the Company will be closed from 29th May 2004 to 30th June 2004 (both days inclusive), during which no transfer of shares can be registered.

For the purpose of determining the shareholders who are entitled to receive the final dividend of RMB0.0635 per ordinary share, the Company will further announce the dates of closure of register of members upon the passing of the relevant resolution at the forthcoming annual general meeting by the shareholders.

CONNECTED TRANSACTIONS

The following transactions constituted connected transactions of the Group and were discloseable under the Listing Rules:

1. Concrete Supply

Shaoxing Commodity Concrete Co., Ltd. (紹興市商品混凝土有限公司)("Concrete Company"), an approximately 51.5% owned subsidiary of the Company, has been supplying concrete to its substantial shareholders, Shaoxing Municipal Infrastructure Company (紹興市市政工程公司) ("Municipal Infrastructure") and Zhejiang Huanyu Construction Group Co., Ltd. (浙江環宇建設集團有限公司) ("Zhejiang Huanyu") (formerly known as Shaoxing Construction and Installation Engineering Company (紹興市建築安裝工程公司)), which own approximately 22.7% and 25.8% of the equity interest of Concrete Company, respectively, on normal commercial terms and in the ordinary course of business. For the year ended 31st December 2003, the supply of concrete by Concrete Company to Municipal Infrastructure and Zhejiang Huanyu amounted to approximately RMB368,000 and RMB13,082,000 respectively.

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CONNECTED TRANSACTIONS *(continued)*

2. Guarantees

For the year ended 31st December 2003, the amount of intra-group guarantees was as follows:

	Guarantor	Borrower	Total Guarantee Amount (RMB'000)	Expiry Date of Guarantee
(a)	The Company	Zhejiang Baoye Real Estate Group Co., Ltd.	70,950	At various dates between 20th March 2004 to 30th April 2004
(b)	The Company	Concrete Company	6,000	At various dates between 27th January 2004 to 30th March 2004
(c)	The Company	Zhejiang Baoye Construction Group Co., Ltd.	200,000	At various dates between 20th March 2003 to 16th August 2004
(d)	The Company	Zhejiang Baoye Building Materials Industrialisation Company Limited	60,000	At various dates between 30th March 2004 to 15th August 2004
(e)	Zhejiang Shaoxing Baoye Real Estate Development Co., Ltd.	Zhejiang Baoye Construction Group Co., Ltd.	30,000	30th September 2003
(f)	Zhejiang Baoye Construction Group Co., Ltd.	Zhejiang Baoye Real Estate Group Co., Ltd.	5,000	15th October 2003
(g)	Zhejiang Baoye Construction Group Co., Ltd.	Zhejiang Baoye Building Materials Industrialisation Company Limited	38,000	29th October 2003
(h)	Zhejiang Baoye Construction Group Co., Ltd.	Concrete Company	4,000	3rd July 2003

Zhejiang Baoye Construction Group Co., Ltd. is owned by the Company as to approximately 99% while the remaining 1% is owned equally by three promoters of the Company, namely Mr. Wang Liequan, Mr. Chen Baorong and Mr. Xia Weimin.

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CONNECTED TRANSACTIONS *(continued)*

3. Other intra-group transactions

Sale of materials by Zhejiang Baoye Building Materials Industrialisation Company Limited ("Building Materials Industrialisation Company") to members of the Group ("BM Sales") and contracting out of construction works by Building Materials Industrialisation Company to members of the Group ("BM Contracting") amounted to RMB22,936,000 and RMB6,977,000 respectively.

Building Materials Industrialisation Company is owned by Zhejiang Baoye Construction Group Co., Ltd., Mr. Pang Baogen (a promoter and the controlling shareholder of the Company), Zhejiang Construction Science and Design Research Institute, Zhejiang Building Materials Industrialisation and Design Research Institute Co., Ltd. and Mr. Hu Shaozeng (a Non-executive Director of the Company) as to 60%, 19%, 15%, 5% and 1% respectively.

The Independent Non-executive Directors have reviewed the aforesaid connected transactions (as for the Guarantees, limited to items (c), (d), (e) and (g)) and confirmed that the transactions have been entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms or (where there is no available comparison), on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole and in accordance with the terms of the agreements (if any) governing such transactions; and
- (iii) the relevant cap amount as stated in the Prospectus has not been exceeded.

BANK LOANS AND OTHER BORROWINGS

As at 31st December 2003, the short-term bank loans of the Group was RMB542,950,000, of which unsecured borrowing was RMB496,950,000 and secured borrowing was RMB46,000,000. Details are set out in note 25 to the accounts.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association of the Company and related laws of HK and the PRC, which would oblige the Company to offer new shares on pro-rata basis to the existing shareholders of the Company.

POLICIES ON INCOME TAX

The Company and its subsidiaries paid PRC corporate income tax at a rate of 33% of its assessable profits according to the relevant laws and regulations in the PRC.

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POST BALANCE SHEET EVENTS

Save as the transactions with Zhejiang Baoye Industrial Investment Company Limited subsequent to year end as stated in Note 3 to the accounts, the Group has no significant post balance sheet event.

CONTINGENT LIABILITIES

As at 31st December 2003, the Group's contingent liabilities amounted to RMB50,000,000, arising entirely from guarantee given to banks in respect of mortgage facilities granted to outside parties. Please refer to note 30(a) of the accounts.

AUDIT COMMITTEE

The audit committee of the Company was established in accordance with the requirement of the Listing Rules. Members of the audit committee are Mr. Wang Youwei, Mr. Xu Yangsheng and Mr. Yi Deqing. The primary duties of the audit committee are to review and supervise the Group's financial reporting process and internal control system and offer advice and recommendations to the Board. The annual results of the Group for the year ended 31st December 2003 had been reviewed by the audit committee.

CODE OF BEST PRACTICE

The H shares of the Company were listed on the Stock Exchange on 30th June 2003. Since its listing up to 31st December 2003, the Company had complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

AUDITORS

The accounts of the Company was audited by PricewaterhouseCoopers. The auditor will be retired in the forthcoming annual general meeting and eligible for re-appointment.

By Order of the Board

Pang Baogen

Chairman

Shaoxing, Zhejiang, the PRC, 28th May 2004