

Notes to the Accounts

1. GENERAL

Baoye Group Company Limited (the "Company") was established as a limited liability company in the People's Republic of China (the "PRC") in May 1998 under the name Zhejiang Baoye Construction Works Group Co., Ltd..

Pursuant to a group reorganisation as described in the prospectus of the Company dated 17th June 2003, the Company became a joint stock limited company and changed to its present name, Baoye Group Company Limited, on 30th August 2002.

The H shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 30th June 2003.

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.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HK GAAP"). This basis of accounting differs in certain material respects from that used in the preparation of the Group's statutory accounts in the PRC. The PRC statutory accounts of the Group have been prepared in accordance with accounting principles and financial regulations applicable to joint stock limited companies in the PRC ("PRC GAAP"). Appropriate restatements have been made to the PRC statutory accounts to conform with HK GAAP. Differences arising from the restatements are not incorporated in the Group's accounting records.

The accounts have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment properties are stated at fair value.

In the current year, the Group adopted the Statement of Standard Accounting Practice ("SSAP") 12 (revised) – "Income taxes", issued by the Hong Kong Society of Accountants, which is effective from 1st January 2003.

The effect of the change in accounting policy arising from the adoption of this revised standard by the Group is set out in note 2(o).

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove a majority of the members of the board of directors; or to cast a majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(b) Group accounting *(continued)*

(ii) Joint ventures

A joint venture is a contractual agreement 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.

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

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

(c) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries and jointly controlled entities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(d) Goodwill/negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/jointly controlled entity at the date of acquisition.

Goodwill on acquisitions is amortised using the straight-line method over its estimated useful life not exceeding 20 years.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(d) Goodwill/negative goodwill *(continued)*

Negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of.

Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

(e) Fixed assets

(i) *Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are valued at intervals of not more than three years by independent valuers; in each of the intervening years valuations are undertaken by professionally qualified executives of the Group. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) Fixed assets *(continued)*

(ii) Construction in progress

Construction in progress represents plant and properties under construction and is stated at cost, which includes development and construction expenditure incurred and other direct costs attributable to the construction and borrowing costs, less accumulated impairment losses. Construction in progress is not depreciated until such time as the assets are completed and available for use.

(iii) Other fixed assets

Other fixed assets, comprising land use rights, buildings, plant and machinery, motor vehicles and office equipment and others, are stated at cost less accumulated depreciation and accumulated impairment losses.

Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the profit and loss account in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset beyond its originally assessed standard of performances, the expenditure is capitalised as an additional cost of the asset.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) Fixed assets *(continued)*

(iv) Depreciation

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Other fixed assets are depreciated at rates sufficient to write off their cost less residual values and accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal useful lives and respective residual values are as follows:

	Useful lives	Residual values
Land use rights	over the unexpired period of rights	–
Buildings	20 years	10%
Plant and machinery	10 years	10%
Motor vehicles	5 years	10%
Office equipment and others	5 years	10%

(v) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in properties under construction and other fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(f) Properties under development

Properties under development are stated at the lower of cost and net realisable value. Cost comprises the cost of the land together with direct costs attributable to the development of the properties and borrowing costs capitalised during the period of development. Properties under development which are due for completion more than one year from the balance sheet date are shown as non-current assets while properties under development which are due for completion within one year from the balance sheet date are shown as current assets. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to complete and make the sale.

(g) Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost comprises the cost of the land together with the 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.

(h) Properties held for development

Properties held for development represented land use rights held for development and are stated at the lower of cost and net realisable value. 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.

(i) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(j) Construction contracts in progress

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised when incurred.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenues and expenses. The Group uses the percentage of completion method to determine the appropriate amount of revenue and costs to be recognised in a given period; the stage of completion is measured by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total costs for the contract. When it is probable total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The aggregate of the costs incurred and the profit/loss recognised on each contract is compared against the progress billings up to the year-end. Where costs incurred and recognised profits (less recognised losses) exceed progress billings, the balance is shown as due from customers on construction contracts, under current assets. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as due to customers on construction contracts, under current liabilities.

(k) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(l) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks, net of pledged bank deposits.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(m) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The Group recognises a provision for repairs of construction work still under warranty at the balance sheet date. This provision is calculated based on past history of the level of repairs.

(n) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) *Bonus plans*

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iii) *Pension obligation*

The Group contributes to a defined contributions retirement scheme organised and administered by the governmental authorities which is available to all employees. Contributions to the scheme by the Group and employees are calculated as a percentage of employees' basic salaries.

The Group's contributions to the defined contributions retirement scheme are expensed as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund. Details of the Group's retirement benefits are set out in note 11.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(o) 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 and jointly controlled entity, 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 revised 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 revised SSAP 12 is 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	(7,103)	(4,329)

The adjustments on deferred taxation mainly relate to revaluation of investment properties, pursuant to revised SSAP 12, where the carrying amount of the investment properties is increased to their revalued amounts 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 profit and loss account.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(p) **Contingent liabilities and contingent assets**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain event not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(q) **Revenue recognition**

When the outcome of a construction contract can be estimated reliably, contract revenue is recognised using the percentage of completion method, measured by reference to the contract costs incurred to date to estimated total contract costs for the contract. When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

Revenue from the sale 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.

Revenue from sales of completed properties held for sale is recognised upon execution of the sales agreements. When a developed property is sold in advance of completion, revenue is only recognised upon completion of the development. Deposits and installments received on properties sold prior to the date of revenue recognition are included in the balance sheet under "trade and other payables".

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividend income is recognised when the right to receive payment is established.

Operating lease rental income is recognised on a straight-line basis.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(r) **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(s) **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.

Grants relating to income are deferred and recognised in the profit and loss account over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of fixed assets are included in non-current liabilities as deferred income and are credited to the profit and loss account on a straight-line basis over the expected lives of the related assets.

(t) **Operating leases**

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(u) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, property held for development, property under development, completed properties held for sale, inventories, amount due from customers on construction contracts, receivables and operating cash, and exclude deferred tax assets, investment in a jointly controlled entity and investment properties. Segment liabilities comprise operating liabilities including amount due to customers on construction contracts and exclude items such as deferred tax liabilities, certain borrowings and income tax payable. Capital expenditure comprises additions to fixed assets.

In respect of geographical segment reporting, sales are based on the country in which the customer is located and the total assets and capital expenditure are allocated based on where the assets are located.

3. TRANSACTIONS WITH A FORMER SUBSIDIARY

Zhejiang Baoye Industrial Investment Company Limited ("Baoye Investment") is a former subsidiary of the Company which was disposed of on 11th January 2002. Since then, Baoye Investment was owned by Mr. Li Wenjiang and Ms. Xie Qiuzhen as to 83.33% and 16.67% respectively. As advised by Baoye Investment, the interests of Mr. Li Wenjiang and Ms. Xie Qiuzhen in Baoye Investment were held by them for and on behalf of Mr. Xia Deqing and Mr. Yan Guoqiang respectively from December 2002. In March 2004, such trust arrangement was terminated and since then, Mr. Xia Deqing and Mr. Yan Guoqiang have become the registered holders of the interests in Baoye Investment.

Mr. Li Wenjiang is a director of Shaoxing Baogang Woodwork Co., Ltd., a subsidiary of the Company incorporated in the PRC and has been owned as to 30% by Goldbase International Investments Limited and 70% by the Company since July 2003. Goldbase International Investments Limited is a company incorporated in Hong Kong and is owned as to 80% by Mr. Li Wenjiang.

Notes to the Accounts

3. TRANSACTIONS WITH A FORMER SUBSIDIARY *(continued)*

Receivables from Baoye Investment

During 2003, various advances were made to, and repayments received from, Baoye Investment. The maximum amount of net receivable (the "Receivables") due from Baoye Investment during the year was approximately RMB108,700,000. The Receivables from Baoye Investment were settled by cash shortly before 31st December 2003. Movement of the Receivables during 2003 is as follows:

	Beginning balance as at 1st January 2003 RMB'000	Advances made during the year ended 31st December 2003 RMB'000	Repayments during the year ended 31st December 2003 RMB'000	Balance as at 31st December 2003 RMB'000	Maximum balance during the year ended 31st December 2003 RMB'000
Amounts due from (to)					
Baoye Investment	-	536,525	(538,025)	(1,500)	108,700

Subsequent to 31st December 2003, new advances were made to Baoye Investment. The maximum balance amounted to approximately RMB106,655,000. All such advances were finally settled by cash before 30th March 2004.

Other transactions involving Baoye Investment

The Group had nominated Baoye Investment to represent it to participate in the early discussion and negotiation in respect of four potential transactions. If Baoye Investment successfully secures the transactions for Group, the Group, rather than Baoye Investment, will be the party to enter into agreement with the relevant parties concerned.

- the possible acquisition of 90% interest of a PRC entity (the "Acquisition Project") from an independent third party;
- the bidding for a piece of land (the "Land Project") situated in the PRC from the government. A subsidiary of the Company (the "Subsidiary") also participated in the bid;

Notes to the Accounts

3. TRANSACTIONS WITH A FORMER SUBSIDIARY *(continued)*

Other transactions involving Baoye Investment *(continued)*

- the bidding for two construction projects in the PRC regarding the construction work for Zhejiang Minghua Textile Raw Material Exhibition City Co., Ltd. (the “Minghua Construction Project”) and Tongxiang Baoye Phoenix Real Estate Co., Ltd. (the “Tongxiang Construction Project”). Zhejiang Minghua Textile Raw Material Exhibition City Co., Ltd. is a company incorporated in the PRC and is owned as to 67% by Mr. Li Wenjiang and 33% by two other independent third parties. Tongxiang Baoye Phoenix Real Estate Co., Ltd. is a company incorporated in the PRC and is owned as to 55% by Baoye Investment and 45% by four other independent third parties.

During 2003, the Group had provided a total of RMB72,000,000, RMB60,000,000, RMB30,000,000 and RMB15,000,000 respectively to Baoye Investment, which in turn, on behalf of the Group, paid guarantee money (the “Guarantee Money”) which was in the nature of a refundable deposit for the Acquisition Project, the Minghua Construction Project, the Tongxiang Construction Project and the Land Project respectively by various installments.

As Baoye Investment had not succeeded in its bid for the Land Project, which was awarded to the Subsidiary, the Guarantee Money in respect of the Land Project was refunded to the Group before 31st December 2003. However, Baoye Investment also paid all the Guarantee Money in respect of the other three projects back to the Group shortly before 31st December 2003, even though the projects were still in discussion and negotiation stage. Such Guarantee Money was provided to Baoye Investment again in 2004.

Subsequent to the above, it was decided that in order to expedite the negotiation process, the Group would participate directly in the negotiation for the Acquisition Project, the Minghua Construction Project and the Tongxiang Construction Project. In this connection, the Group paid directly to the relevant parties the respective Guarantee Money to replace the payments previously made on its behalf by Baoye Investment. The Guarantee Money previously paid by Baoye Investment was refunded by the relevant parties to Baoye Investment in April 2004 and the sum of which was then returned to the Group.

Notes to the Accounts

4. TURNOVER, REVENUE AND SEGMENT INFORMATION

Revenues recognised during the year are as follows:

	2003 RMB'000	2002 RMB'000
Turnover		
Construction contracts revenue	2,683,114	1,896,354
Sale of building materials	225,988	148,696
Sale of developed properties	83,768	251,292
Others	1,602	1,184
	2,994,472	2,297,526
Other revenues		
Rental income from investment properties, net of business tax	692	1,235
Gain on disposal of fixed assets	4,322	1,419
Gain on disposal of subsidiaries	109	2,690
Interest income on bank deposits	12,416	1,639
Government grants (note)	19,543	31,274
Others	6,475	1,796
	43,557	40,053
Total revenues	3,038,029	2,337,579

Note: The government grants mainly represented the award from the Finance Bureau of Shaoxing County and its affiliated town, Yangxunqiao Town.

Notes to the Accounts

4. TURNOVER, REVENUE AND SEGMENT INFORMATION

Primary reporting format – business segments

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

- Construction – construction of real properties
- Building materials – manufacture and distribution of building materials
- Property development – development of properties and sale of developed properties

	Year ended 31st December 2003					Group RMB'000
	Construction RMB'000	Building materials RMB'000	Property development RMB'000	Other operations RMB'000	Elimination RMB'000	
Turnover	2,798,028	273,288	83,768	1,602	(162,214)	2,994,472
Segment results	112,092	43,078	14,077	(1,026)	(5,521)	162,700
Other revenues						43,557
Other operating expenses						(112)
Operating profit						206,145
Finance costs						(23,101)
Share of loss of a jointly controlled entity						(2,802)
Profit before taxation						180,242
Taxation						(58,347)
Profit after taxation						121,895
Minority interests						(9,486)
Profit attributable to shareholders						112,409
Segment assets	1,562,916	328,723	672,595	2,980	(83,430)	2,483,784
Unallocated assets						55,644
Total assets						2,539,428
Segment liabilities	717,414	139,851	589,983	1,080	(72,959)	1,375,369
Unallocated liabilities						275,045
Total liabilities						1,650,414
Capital expenditures	92,541	67,442	3,601	41	–	163,625
Depreciation	8,681	8,945	1,531	8	–	19,165
(Write back of provision) provision for doubtful receivables	(1,985)	727	(322)	–	–	(1,580)

Notes to the Accounts

4. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

	Year ended 31st December 2002					Group RMB'000
	Construction RMB'000	Building materials RMB'000	Property development RMB'000	Other operations RMB'000	Elimination RMB'000	
Turnover	1,987,114	180,746	251,292	1,184	(122,810)	2,297,526
Segment results	103,510	32,359	43,934	28	519	180,350
Other revenues						40,053
Other operating expenses						(875)
Operating profit						219,528
Finance costs						(5,502)
Share of loss of a jointly controlled entity						(1,016)
Profit before taxation						213,010
Taxation						(64,369)
Profit after taxation						148,641
Minority interests						(7,566)
Profit attributable to shareholders						141,075
Segment assets	826,314	236,667	288,332	2,986	(59,644)	1,294,655
Unallocated assets						84,316
Total assets						1,378,971
Segment liabilities	522,269	62,110	157,283	22	(54,856)	686,828
Unallocated liabilities						166,703
Total liabilities						853,531
Capital expenditures	19,472	82,091	1,548	5	-	103,116
Depreciation	8,901	5,634	1,602	6	-	16,143
Provision for doubtful receivables	8,843	917	362	-	-	10,122

Secondary reporting format – geographical segments

No geographical segments information is presented as substantially all the Group's business was carried out in the PRC.

Notes to the Accounts

5. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2003 RMB'000	2002 RMB'000
Crediting		
Gains on disposal of fixed assets	4,322	1,419
Write back of provision for doubtful receivables	2,307	–
Charging		
Depreciation of owned fixed assets	19,165	16,143
Staff costs (note 11)	481,560	292,961
Cost of inventories	2,445,164	1,751,491
Operating leases of land and buildings	1,749	561
Outgoings in respect of investment properties	36	65
Auditors' remuneration	1,855	40
Provision for doubtful receivables	727	10,122
Provision for warranty (note 24)	1,700	3,520
Loss on dilution of equity interest in subsidiaries	–	168
Land appreciation tax	5,908	17,923

6. FINANCE COSTS

	2003 RMB'000	2002 RMB'000
Interest on bank loans	26,270	6,199
Less: interest capitalised	(3,169)	(697)
	23,101	5,502

The capitalisation rates applied to funds borrowed generally and used for the development of properties and construction in progress were approximately 5.1% (2002: 5.9%) per annum.

Notes to the Accounts

7. TAXATION

The Company and its subsidiaries are subject to PRC Enterprise Income Tax at a rate of 33%.

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

	2003 RMB'000	2002 RMB'000
Current taxation		
– PRC enterprise income tax	59,985	68,718
Deferred taxation (note 28)	(1,638)	(4,349)
	58,347	64,369

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

	2003 RMB'000	2002 RMB'000
Profit before taxation	180,242	213,010
Calculated at a taxation rate of 33% (2002: 33%)	59,480	70,293
Income not subject to taxation	–	(987)
Expenses not deductible for taxation purposes	4,473	3,928
Loss sustained by group companies	876	36
Utilisation of previously unrecognised tax losses	(305)	(253)
Effect of partial income tax exemption	(6,177)	(8,648)
Taxation charge	58,347	64,369

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB161,309,000 (2002: RMB113,030,000).

Notes to the Accounts

9. DIVIDENDS

At a meeting held on 28th May 2004 the directors declared a final dividend of RMB0.0635 per ordinary share. This 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.

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of RMB112,409,000 (2002: RMB141,075,000).

The basic earnings per share is based on the weighted average number of 441,084,053 (2002: 350,742,053) ordinary shares in issued during the year. In determining the weighted average number of ordinary shares deemed to be issued during the year ended 31st December 2002, a total of 350,742,053 ordinary shares were deemed to be in issue since 1st January 2002 after taking into consideration of the effect of capitalisation issue as detailed in note 26.

No fully diluted earnings per share is presented as the Company has no dilutive potential shares.

11. STAFF COSTS

Staff costs, including directors' remuneration, are as follow:

	2003 RMB'000	2002 RMB'000
Wages and salaries	475,653	288,773
Social security expenses	3,602	3,094
Retirement benefit costs (note)	2,305	1,094
	481,560	292,961

Note: As stipulated by the Government regulations in Mainland China, the Company and its subsidiaries are required to contribute to the State-sponsored retirement scheme for all of its employees at 19% to 20% (2002: 19% 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 Accounts

12. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' and supervisors emoluments

The aggregate amounts of emoluments payable to directors and supervisors of the Company during the year are as follows:

	2003 RMB'000	2002 RMB'000
Fees for executive directors	–	–
Fees for non-executive directors	419	19
Fees for supervisors	60	25
Other emoluments for executive directors		
– Basic salaries and allowances	171	331
– Bonuses	1,339	1,046
– Retirement benefits	10	14
Other emoluments for non-executive directors	–	53
Other emoluments for supervisors	163	162
	2,162	1,650

The emoluments for all the directors (executive and non-executive) and supervisors fell within the band of RMB nil to RMB1,060,000 (HK\$1,000,000) during the years ended 31st December 2003 and 2002.

During the years ended 31st December 2003 and 2002, no director or supervisor waived any emoluments. No incentive payment for joining the Group nor compensation for loss of office was paid or payable to any directors or supervisors during the years ended 31st December 2003 and 2002.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include 5 (2002: 5) directors whose emoluments are reflected in the analysis presented above.

Notes to the Accounts

13. FIXED ASSETS

Group

Year ended 31st December 2003

	Office							Total
	Investment	Land use	Buildings	Plant and	Motor	equipment	Construction	
	properties	rights		machinery	vehicles	and others	in progress	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Cost or valuation:								
At 1st January 2003	29,522	8,151	85,604	77,445	50,622	9,594	12,771	273,709
Additions	-	64,033	3,718	23,812	16,243	3,034	52,785	163,625
Transfers to completed properties held for sale	(12,142)	-	(2,167)	-	-	-	-	(14,309)
Transfers	(12,192)	-	12,852	235	-	-	(895)	-
Disposal of a subsidiary	-	-	-	-	(441)	-	-	(441)
Disposals	-	-	(5,583)	(320)	(518)	(90)	-	(6,511)
At 31st December 2003	5,188	72,184	94,424	101,172	65,906	12,538	64,661	416,073
Accumulated depreciation:								
At 1st January 2003	-	290	13,535	35,233	22,016	4,614	-	75,688
Charge for the year	-	1,055	3,447	8,364	4,952	1,347	-	19,165
Transfers to completed properties held for sale	-	-	(1,114)	-	-	-	-	(1,114)
Disposal of a subsidiary	-	-	-	-	(7)	-	-	(7)
Disposals	-	-	(990)	(269)	(518)	(29)	-	(1,806)
At 31st December 2003	-	1,345	14,878	43,328	26,443	5,932	-	91,926
Net book value:								
At 31st December 2003	5,188	70,839	79,546	57,844	39,463	6,606	64,661	324,147
At 31st December 2002	29,522	7,861	72,069	42,212	28,606	4,980	12,771	198,021

Notes to the Accounts

13. FIXED ASSETS (continued)

The analysis of the cost or valuation at 31st December 2003 and 2002 of the above assets is as follows:

	Investment properties RMB'000	Land use and rights RMB'000	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 31st December 2003								
At cost	-	72,184	94,424	101,172	65,906	12,538	64,661	410,885
At valuation	5,188	-	-	-	-	-	-	5,188
	5,188	72,184	94,424	101,172	65,906	12,538	64,661	416,073
At 31st December 2002								
At cost	-	8,151	85,604	77,445	50,622	9,594	12,771	244,187
At valuation	29,522	-	-	-	-	-	-	29,522
	29,522	8,151	85,604	77,445	50,622	9,594	12,771	273,709

All investment properties, land use rights and buildings of the Group are located in the PRC and are held on leases of between 10 to 50 years.

The investment properties were revalued at 31st December 2003 on the basis of their open market value by Shaoxing Zhongxing Asset Revaluation Limited Company, an independent qualified valuer in the PRC. The revaluation surplus net of applicable deferred income taxes was credited to other reserves in shareholders' equity (note 27).

As at 31st December 2003, the construction in progress included interest capitalised of approximately RMB1,555,000 (2002: Nil).

As at 31st December 2003, the net book value of land use rights and buildings pledged as security for the Group's short-term loans amounted to RMB 37,633,000 (2002: nil) (note 25).

Notes to the Accounts

13. FIXED ASSETS (continued)

Company

	Year ended 31st December 2003				
	Land use rights	Buildings	Motor vehicles	Office equipment and others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:					
At 1st January 2003	–	–	1,590	57	1,647
Additions	64,033	388	3,042	669	68,132
At 31st December 2003	64,033	388	4,632	726	69,779
Accumulated depreciation:					
At 1st January 2003	–	–	99	–	99
Charge for the year	1,033	–	511	48	1,592
At 31st December 2003	1,033	–	610	48	1,691
Net book value:					
At 31st December 2003	63,000	388	4,022	678	68,088
At 31st December 2002	–	–	1,491	57	1,548

As at 31st December 2003, the net book value of land use rights and buildings pledged as security for the Company's short-term loans amounted to RMB 32,160,000 (2002: nil) (note 25).

14. PROPERTIES HELD FOR DEVELOPMENT

As at 31st December 2003 and 2002, the properties held for development represented the payment for land use rights under 70 years' lease in the PRC which are held for development of real properties.

Notes to the Accounts

15. PROPERTIES UNDER DEVELOPMENT

The Group's properties under development are located in the PRC and are due for completion:

	2003 RMB'000	2002 RMB'000
Within one year	247,194	22,737
More than one year	249,860	71,389
	497,054	94,126

As at 31st December 2003 the properties under development included interest capitalised of approximately RMB713,000 (2002: RMB212,000).

16. INVESTMENTS IN AND BALANCES WITH SUBSIDIARIES

Company

	2003 RMB'000	2002 RMB'000
Investment at cost, unlisted	398,720	381,760
Amounts due from subsidiaries	7,342	12,030
	406,062	393,790
Amounts due to subsidiaries	(140,493)	(154,604)

Notes to the Accounts

16. INVESTMENTS IN AND BALANCES WITH SUBSIDIARIES (continued)

The following is a list of the principal subsidiaries as at 31st December 2003:

Name	Place of incorporation and entity type	Attributable equity interest held		Registered capital	Principal activities
		Direct	Indirect		
Zhejiang Baoye Construction Group Co., Ltd. ("Baoye Construction")	The PRC, limited liability company	99%	–	RMB300,000,000	Construction and interior decoration
Zhejiang Baoye Curtain Wall Decoration Co., Ltd.	The PRC, limited liability company	83.1%	–	RMB10,800,000	Installation of curtain wall and steel framework
Zhejiang Baoye Infrastructure Construction Co., Ltd.	The PRC, limited liability company	87.5%	12.4%	RMB30,000,000	Construction of highway, bridge and other municipal infrastructure
Zhejiang Guangyi Construction and Decoration Co., Ltd.	The PRC, limited liability company	93.3%	6.6%	RMB15,000,000	Decoration and replenishment
Zhejiang Baoye Real Estate Group Co., Ltd. ("Baoye Real Estate") (formerly known as Zhejiang Shaoxing Baoye Real Estate Development Co., Ltd.)	The PRC, limited liability company	90%	9.9%	RMB50,000,000	Development and sales of properties
Zhejiang Baoye Building Materials Industrialisation Company Limited	The PRC, joint stock limited company	–	63.9%	RMB60,600,000	Production and sales concrete and construction materials

Notes to the Accounts

16. INVESTMENTS IN AND BALANCES WITH SUBSIDIARIES (continued)

Name	Place of incorporation and entity type	Attributable equity interest held		Registered capital	Principal activities
		Direct	Indirect		
Shaoxing Commodity Concrete Co., Ltd.	The PRC, limited liability company	51.5%	–	RMB21,500,000	Production and sales of concrete and construction materials
Shaoxing Baoye Fireproof Materials Co., Ltd.	The PRC, limited liability company	88.3%	7.5%	RMB3,000,000	Production and sales of steel, wood fireproof doors
Zhejiang Building Materials Industrialisation and Design Research Institute Co., Ltd.	The PRC, limited liability company	90%	–	RMB6,000,000	Construction and decoration design
Shaoxing Baoye New Building Materials Co., Ltd.	The PRC, limited liability company	–	72.7%	RMB2,000,000	Production and sales of construction materials
Shanghai Zibao Real Estate Development Co., Ltd.	The PRC, limited liability company	–	55%	RMB18,000,000	Development and sales of properties
Shaoxing Baogang Woodwork Co., Ltd.	The PRC, foreign invested enterprise	70%	–	USD2,720,000	Production and sales of wooden door and other wooden product
Shaoxing Baoye Construction Intelligent Technology Co., Ltd.	The PRC, limited liability company	60%	39.6%	RMB2,000,000	Installation of computer management system for building or community

Notes to the Accounts

16. INVESTMENTS IN AND BALANCES WITH SUBSIDIARIES (continued)

The following subsidiary was disposed of during the year:

Name	Place of incorporation and entity type	Attributable equity interest indirectly held	Registered capital	Principal activities
Fuzhou Baoyue Real Estate Development Company Limited ("Fuzhou Baoyue")	The PRC, limited liability company	50.5%	RMB20,00,000	Development and sales of properties

On 2nd June 2003, the Company's subsidiary, Baoye Construction, disposed of its entire 51% interest in Fuzhou Baoyue at a consideration of RMB10,200,000.

17. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Share of net assets	11,182	13,984	11,182	13,984
Amount due from a jointly controlled entity	33,000	33,000	33,000	25,500
	44,182	46,984	44,182	39,484
Share of net assets:				
Unlisted shares, at cost	15,000	15,000	15,000	15,000
Share of loss of a jointly controlled entity	(3,818)	(1,016)	-	-
Provision for impairment losses	-	-	(3,818)	(1,016)
	11,182	13,984	11,182	13,984

Details of the jointly controlled entity is as follows:

Name	Place of incorporation and entity type	Attributable equity interest directly held	Registered capital	Principal activities
Hefei Qingfangcheng Baoye Real Estate Co., Ltd.	The PRC, limited liability company	50%	RMB30,00,000	Real estate development

The amount due from a jointly controlled entity is unsecured, non-interest bearing and has no fixed repayment terms.

Notes to the Accounts

18. INVENTORIES

Group

	2003 RMB'000	2002 RMB'000
Raw materials	11,212	5,372
Work in progress	–	241
Finished goods	8,469	6,075
Production supplies	171	212
	19,852	11,900

As at 31st December 2003 and 2002, inventories were carried at cost.

19. AMOUNTS DUE FROM/(TO) CUSTOMERS ON CONSTRUCTION CONTRACTS

Group

	2003 RMB'000	2002 RMB'000
Contract costs incurred plus attributable profits less foreseeable losses to date	4,850,458	4,591,478
Less: progress billings to date	(4,827,390)	(4,592,060)
	23,068	(582)
Included in current assets/(liabilities) under the following captions:		
Due from customers on construction contracts	234,852	204,145
Due to customers on construction contracts	(211,784)	(204,727)
	23,068	(582)

As at 31st December 2003, retentions and project deposits held by customers for contract work included in trade and other receivables of the Group under note 20 amounted to approximately RMB286,395,000 (2002: RMB175,379,000).

As at 31st December 2003, advances received from customers for contract work included in trade and other payables of the Group under note 22 amounted to approximately RMB nil (2002: RMB729,000).

Notes to the Accounts

20. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Trade and notes receivables (note a)	150,111	157,078	-	-
Less: provision for doubtful debts	(6,275)	(13,290)	-	-
	143,836	143,788	-	-
Prepayments and deposits	24,258	3,853	526	-
Other receivables	43,722	19,095	274	-
Prepayment for an real estate development project (note b)	229,390	55,000	229,390	-
Retention money receivables and project deposits (note 19)	286,395	175,379	-	-
	727,601	397,115	230,190	-

Note:

(a) At 31st December 2003, the ageing analysis of the trade and notes receivables is as follows:

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
0 to 3 months	67,239	82,615	-	-
3 months to 1 year	64,578	63,599	-	-
1 to 2 years	16,972	7,129	-	-
2 to 3 years	467	1,466	-	-
Over 3 years	855	2,269	-	-
	150,111	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) As at 31st December 2003, the Group had paid RMB229,390,000 to Shaoxing City Ministry of Land Resources and Zhejiang Province Kuaiji Mountain Tour District Administration Committee for the real estate development project of Kuaiji Tour District, of which RMB222,000,000 represents bidding deposits and the remaining balance represents the prepayments for tomb-transfer.

Notes to the Accounts

21. BANK BALANCES AND CASH

All cash and bank balances are placed with banks in the PRC. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by Government of Mainland China.

Certain deposits with banks amounting to approximately RMB16,285,000 as at 31st December 2003 (2002: RMB14,390,000) have been pledged to guarantee the performance of construction contracts work and notes payable.

22. TRADE AND OTHER PAYABLES

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Trade and notes payables (note a)	222,794	224,713	-	-
Other payables	88,152	48,026	1,887	1,853
Pre-sale receipt in advance	339,570	44,184	-	-
Deposits from project managers	59,007	39,429	-	-
Advance from customers for contract work (note 19)	-	729	-	-
Accruals	2,034	2,690	1,297	1,800
	711,557	359,771	3,184	3,653

Note:

(a) At 31st December 2003, the ageing analysis of the trade and notes payables is as follows:

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
0 to 3 months	144,244	60,878	-	-
3 months to 1 year	46,863	160,262	-	-
1 to 2 years	28,005	2,801	-	-
2 to 3 years	2,777	419	-	-
Over 3 years	905	353	-	-
	222,794	224,713	-	-

Notes to the Accounts

23. TAXES PAYABLE

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
PRC enterprise income tax	71,886	33,777	5,719	4,830
Value added tax	11,547	6,838	-	-
Business tax	35,466	33,015	6,397	6,399
Others	40,524	27,133	831	712
	159,423	100,763	12,947	11,941

24. PROVISION FOR WARRANTY

Group

	2003 RMB'000	2002 RMB'000
At the beginning of the year	4,880	1,480
Additional provision	1,700	3,520
Less: amount utilised	(1,580)	(120)
At the end of the year	5,000	4,880

The Group gives warranty on construction work and undertakes to repair construction work that is not satisfactory for periods which range from 6 months to 5 years.

Notes to the Accounts

25. BORROWINGS

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Short-term bank loans				
Unsecured				
– Unguaranteed	160,000	–	160,000	–
– Guaranteed by				
The Company	336,950	120,950	–	–
Subsidiaries	–	23,000	–	–
Secured	46,000	–	46,000	–
	542,950	143,950	206,000	–

Interest was charged at 5% to 6% of the outstanding loan balances for the years ended 31st December 2003 (2002: 5% to 7%).

As at 31st December 2003, the secured short-term bank loans were pledged by the land use rights and buildings of the Company amounting to RMB32,160,000 and those of its subsidiary, Baoye Construction, amounting to RMB5,473,000.

Notes to the Accounts

26. SHARE CAPITAL

The movements of share capital are as follows:

	Number of Shares (in thousand)	Paid-in capital RMB'000	Share capital RMB'000
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 of RMB1.00 each)	350,742	(350,742)	350,742
Balances as at 31st December 2002	350,742	–	350,742
Movement during year ended 31st December 2003:			
Issue of H shares	180,684**	–	180,684**
Balances as at 31st December 2003	531,426	–	531,426

* 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 RMB1.00 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 RMB56,150,000 after deducting the share issuance costs in relation to the issuing of new H Shares of approximately RMB37,390,000. The share capital had not been verified by certified public accountants in the PRC.

Notes to the Accounts

27. RESERVES

Group

	Capital reserve (note b)	Share issuance costs	Asset revaluation reserve	Statutory surplus reserve (note a(i))	Statutory public welfare fund (note a(ii))	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1st January 2003 as previously reported	-	(9,620)	13,120	10,644	5,322	91,666	111,132
Changes in accounting policy (note 2(o))							
- provision for net deferred tax liabilities	-	-	(4,329)	-	-	-	(4,329)
As at 1st January 2003 as restated	-	(9,620)	8,791	10,644	5,322	91,666	106,803
Issue of shares	93,540	-	-	-	-	-	93,540
Share issuance costs	-	(27,770)	-	-	-	-	(27,770)
Transfer	(37,390)	37,390	-	-	-	-	-
Profit for the year	-	-	-	-	-	112,409	112,409
Transfer to statutory surplus reserve	-	-	-	11,012	-	(11,012)	-
Transfer to statutory public welfare fund	-	-	-	-	5,506	(5,506)	-
As at 31st December 2003	56,150	-	8,791	21,656	10,828	187,557	284,982
Representing:							
2003 final dividend proposed						33,746	
Retained earnings						153,811	
Retained earnings as at 31st December 2003						187,557	
Company and subsidiaries	56,150	-	8,791	21,656	10,828	191,375	288,800
Jointly controlled entity	-	-	-	-	-	(3,818)	(3,818)
At 31st December 2003	56,150	-	8,791	21,656	10,828	187,557	284,982

Notes to the Accounts

27. RESERVES (continued)

Group (continued)

	Capital reserve (note b) RMB'000	Share issuance costs RMB'000	Asset revaluation reserve RMB'000	Statutory surplus reserve (note a(i)) RMB'000	Statutory public welfare fund (note a(ii)) RMB'000	Retained earnings RMB'000	Total RMB'000
As at 1st January 2002 as previously reported	-	-	21,527	19,589	9,512	178,198	228,826
Changes in accounting policy (note 2(o)) - provision for net deferred tax liabilities	-	-	(7,103)	-	-	-	(7,103)
As at 1st January 2002 as restated	-	-	14,424	19,589	9,512	178,198	221,723
Profit for the year	-	-	-	-	-	141,075	141,075
Release upon disposal of equity interest in subsidiaries	-	-	(5,633)	-	-	-	(5,633)
Capitalisation into paid-in capital (note 26)	-	-	-	(19,589)	(9,512)	(211,641)	(240,742)
Transfer to statutory surplus reserve	-	-	-	10,644	-	(10,644)	-
Transfer to statutory public welfare fund	-	-	-	-	5,322	(5,322)	-
Share issuance costs	-	(9,620)	-	-	-	-	(9,620)
As at 31st December 2002	-	(9,620)	8,791	10,644	5,322	91,666	106,803
Company and subsidiaries	-	(9,620)	8,791	10,644	5,322	92,682	107,819
Jointly controlled entity	-	-	-	-	-	(1,016)	(1,016)
At 31st December 2002	-	(9,620)	8,791	10,644	5,322	91,666	106,803

Notes to the Accounts

27. RESERVES (continued)

Company

	Capital reserve (note b) RMB'000	Share issuance costs RMB'000	Statutory surplus reserve (note a(i)) RMB'000	Statutory public welfare fund (note a(ii)) RMB'000	(Accumulated losses)/ Retained earnings RMB'000	Total RMB'000
As at 1st January 2003	-	(9,620)	10,644	5,322	(91,704)	(85,358)
Issue of shares	93,540	-	-	-	-	93,540
Share issuance costs	-	(27,770)	-	-	-	(27,770)
Transfer	(37,390)	37,390	-	-	-	-
Profit for the year	-	-	-	-	161,309	161,309
Transfer to statutory surplus reserve	-	-	11,012	-	(11,012)	-
Transfer to statutory public welfare fund	-	-	-	5,506	(5,506)	-
As at 31st December 2003	56,150	-	21,656	10,828	53,087	141,721
Representing:						
2003 final dividend proposed					33,746	
Retained earnings					19,341	
Retained earnings as at 31st December 2003					53,087	

Notes to the Accounts

27. RESERVES (continued)

Company (continued)

	Capital reserve (note b)	Share issuance costs	Statutory surplus reserve (note a(i))	Statutory public welfare fund (note a(ii))	(Accumulated losses)/ Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1st January 2002	-	-	19,589	9,512	22,873	51,974
Profit for the year	-	-	-	-	113,030	113,030
Capitalisation into paid-in capital (note 26)	-	-	(19,589)	(9,512)	(211,641)	(240,742)
Transfer to statutory surplus reserve	-	-	10,644	-	(10,644)	-
Transfer to statutory public welfare fund	-	-	-	5,322	(5,322)	-
Share issuance costs	-	(9,620)	-	-	-	(9,620)
As at 31st December 2002	-	(9,620)	10,644	5,322	(91,704)	(85,358)

(a) Reserve funds

(i) Statutory surplus reserve

The Group is required each year to transfer 10% of the profit after tax as reported under the PRC statutory financial statements to the statutory surplus reserve until the balance reaches 50% of the registered share capital. This reserve can be used to reduce any losses incurred or to increase ordinary shares. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.

(ii) Statutory public welfare fund

The Group is required each year to transfer 5% to 10% of the profit after tax as reported under the PRC statutory financial statements to the statutory public welfare fund. This reserve is restricted to capital expenditure for staff collective welfare facilities which are owned by the Group. The statutory public welfare fund is not available for distribution to the shareholders except upon liquidation of the Company.

Notes to the Accounts

27. RESERVES (continued)

(a) Reserve funds (continued)

(iii) Transfer from profit for the year

The amount transferred to the statutory surplus reserve and statutory public welfare fund shall be based on the profit after tax in the statutory financial statements prepared in accordance with PRC GAAP.

(b) Capital reserve

Capital reserve represents the premium on the issue of shares of the Company. Pursuant to relevant PRC regulations, capital reserve can be used to increase ordinary shares and to reduce any losses incurred, subject to approval by shareholders at general meeting.

(c) Profit distributable to shareholders

Pursuant to the articles of association of the Company, the profit after appropriation to reserves and available for distribution to shareholders shall be the lower of the accumulated distributable profits as determined based on PRC GAAP and the accumulated distributable profits adjusted according to HK GAAP.

28. 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 on deferred tax assets/(liabilities) account is as follows:

Group

	2003 RMB'000	2002 RMB'000
At beginning of year	1,869	(6,431)
Deferred taxation (credited)/charged to profit and loss account	(1,638)	4,349
Release upon disposal of subsidiaries	-	3,951
At end of year	231	1,869

Notes to the Accounts

28. DEFERRED TAXATION (continued)

The movement in deferred tax assets and liabilities (prior to off setting of balance within in the same taxation jurisdiction) during the years 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 previously reported	6,794	3,454	(516)	(516)	(70)	(1,079)	6,208	1,859
Adjustments arising from adoption of revised accounting policy – Reclassification	-	-	516	516	70	1,079	586	1,595
Balance at 1st January as restated	6,794	3,454	-	-	-	-	6,794	3,454
(Credited)/charged to profit and loss account	(521)	3,340	-	-	-	-	(521)	3,340
Balance at 31st December	6,273	6,794	-	-	-	-	6,273	6,794

Deferred tax liabilities

	Revaluation of investment properties		Interest expenses 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 arising from adoption of revised accounting policy – 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)
(Credited)/charged to profit and loss account	(141)	-	(976)	1,009	(1,117)	1,009
Release upon disposal of subsidiaries	-	3,951	-	-	-	3,951
Balance at 31st December	(4,996)	(4,855)	(1,046)	(70)	(6,042)	(4,925)

Notes to the Accounts

29. CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash (outflow)/inflow generated from operations:

	2003 RMB'000	2002 RMB'000
Profit before taxation	180,242	213,010
Depreciation	19,165	16,143
Share of loss of a jointly controlled entity	2,802	1,016
(Write back of provision)/provision for doubtful receivables	(1,580)	10,122
Gain on disposal of fixed assets	(4,322)	(1,419)
Gain on disposal of subsidiaries	(109)	(2,690)
Interest income	(12,416)	(1,639)
Interest expenses	23,101	5,502
Operating profit before working capital changes	206,883	240,045
(Increase)/decrease in properties under development, properties held for development and completed properties held for sale	(357,754)	119,693
(Increase)/decrease in pledged bank deposits	(1,895)	3,978
Increase in inventories	(7,952)	(1,533)
Increase in balances with customers on construction contracts	(23,650)	(48,978)
Increase in trade and other receivables	(321,006)	(82,695)
Increase in trade and other payables	405,314	118,609
Net cash (outflow)/inflow generated from operations	(100,060)	349,119

Notes to the Accounts

29. CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing activities

	Paid-in/ share capital including capital reserve	Minority interests	Bank loans
	RMB'000	RMB'000	RMB'000
As at 1st January 2002 as previously reported	110,000	47,985	210,600
Changes in accounting policy			
– provision for net deferred tax liabilities	–	(1,187)	–
As at 1st January 2002 as restated	110,000	46,798	210,600
Capitalisation of paid-in capital	240,742	–	–
Disposal of subsidiaries	–	(6,523)	(10,000)
Net cash outflow from borrowings	–	–	(56,650)
Injections from minority shareholders	–	26,620	–
Profit attributable to minority shareholders	–	7,566	–
Effect of dilution of equity interest in subsidiaries	–	168	–
Others	–	(6,734)	–
As at 31st December 2002	<u>350,742</u>	<u>67,895</u>	<u>143,950</u>
As at 1st January 2003 as previously reported	350,742	67,905	143,950
Changes in accounting policy			
– provision for net deferred tax liabilities	–	(10)	–
As at 1st January 2003 as restated	350,742	67,895	143,950
Issue of shares	236,834	–	–
Disposal of a subsidiary	–	(9,747)	–
Net cash inflow from borrowings	–	–	399,000
Injections from minority shareholders	–	6,755	–
Profit attributable to minority shareholders	–	9,486	–
Profit appropriation to minority shareholders	–	(1,676)	–
Others	–	(107)	–
As at 31st December 2003	<u>587,576</u>	<u>72,606</u>	<u>542,950</u>

Notes to the Accounts

29. CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Disposal of a subsidiary

	2003 RMB'000
Net assets disposed:	
Bank balances and cash	7,288
Other current assets	139
Fixed assets	434
Non-current deposits	50,000
Liabilities	(38,023)
Minority interest	(9,747)
	10,091
Gain on disposal	109
Satisfied by cash	10,200
Analysis of net inflows of cash in respect of the disposal of subsidiaries:	
Cash consideration	10,200
Cash and bank balances disposed	(7,288)
	2,912

30. CONTINGENT LIABILITIES

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Guarantee given to banks in respect of mortgage facilities granted to outside parties (note a)	50,000	9,248	-	-
Guarantee given to banks in respect of bank loans granted to subsidiaries	N/A	N/A	336,950	120,950
Guarantee given to a bank in respect of a bank loan granted to a jointly controlled entity	-	20,000	-	20,000
	50,000	29,248	336,950	140,950

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

Notes to the Accounts

31. COMMITMENTS

(a) Capital commitments

- (i) At 31st December 2003, the Group and the Company had the following capital commitments in respect of the development costs of properties under development and properties held for development:

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
– Authorised but not contracted for	297,658	215,084	–	–
– Contracted but not provided for	–	400,000	–	–
	297,658	615,084	–	–

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 year.

- (ii) At 31st December 2003, the Group and the Company had the following capital commitments authorised but not provided for in respect of land and buildings, plant and machinery:

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Land and buildings	43,245	70,578	43,245	70,578
Plant and machinery	22,428	91,395	22,428	91,395
	65,673	161,973	65,673	161,973

Notes to the Accounts

31. COMMITMENTS

(b) Commitments under operating leases

– Where the Group is the lessor

At 31st December 2003, the Group and the Company had future aggregate minimum lease receivables under non-cancellable operating leases in respect of land and buildings are as follows:

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Not later than one year	477	1,755	–	–
Later than one year and not later than five years	–	82	–	–
	477	1,837	–	–

– Where the Group is the lessee

At 31st December 2003, the Group and the Company had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Not later than one year	1,126	381	–	–
Later than one year and not later than five years	467	28	–	–
	1,593	409	–	–

Notes to the Accounts

32. BALANCES WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence, or if they are minority shareholders of the Group's subsidiaries. Related parties may be individuals or other entities.

(i) Balances with related parties

As at 31st December 2003 and 2002, the Group had the following significant balances with related parties:

	2003 RMB'000	2002 RMB'000
Amounts due from related parties		
– Shanghai Zide Real Estate Development Co., Ltd. (note a)	910	–
– Zhejiang Huanyu Construction Group Co., Ltd. ("Zhejiang Huanyu") (note a)	10,551	10,992
– Shaoxing Municipal Infrastructure Company ("Municipal Infrastructure") (note a)	4,066	3,734
– Tong Yingqiang (note a)	–	2,700
– Xu Jianjun (note a)	–	2,700
	15,527	20,126

	2003 RMB'000	2002 RMB'000
Amounts due from shareholders		
– Chen Lianlu (note b, d)	–	5
– Wang Rongfu	–	141
	–	146

Notes to the Accounts

32. BALANCES WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(i) Balances with related parties *(continued)*

	2003 RMB'000	2002 RMB'000
Amounts due to related parties		
– Labour Union Committee of Zhejiang Baoye Curtain Wall Decoration Co., Ltd.	318	–
– Shaoxing Feiyue Investment Company Limited (note a, e)	–	19,600
	318	19,600
Amounts due to shareholders		
– Xu Jianbiao (note d)	–	300
– Pang Baisong (note b, d)	–	300
– Gao Jun (note d)	–	200
– Wu Zhanglin (note d)	–	300
– Yuan Ajin (note d)	–	300
– Tang Li Ping (note b, d)	–	200
– Xia Weimin (note d)	997	300
– Xia Yahong (note b, d)	–	300
– Sun Guoxun (note b)	105	1,500
– Xia Huihua (note b, d)	–	300
– Wang Jianhua	5,884	6,500
– Wang Liequan (note d)	1,776	715
– Chen Baorong	3,078	2,800
	11,840	14,015
Amounts due to directors (note c)		
– Pang Baogen (note d)	–	300
– Gao Lin (note d)	–	300
– Zhou Hanwan (note d)	–	300
	–	900

As at 31st December 2003 and 2002, all balances with related parties were unsecured, non-interest bearing and had no fixed repayment terms.

Notes to the Accounts

32. BALANCES WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(i) Balances with related parties *(continued)*

Additional information on amounts due from related parties:

	Maximum amount outstanding during the year	
	2003	2002
	RMB'000	RMB'000
Amounts due from related parties		
– Shanghai Zide Real Estate Development Co., Ltd.	910	–
– Staff Shareholding Committee of Zhejiang Baoye Construction Works Group Company	–	60,000
– The Reception Centre of Zhejiang Provincial Department of Construction	–	600
– Zhejiang Construction Science and Design Research Institute	–	19,800
– Zhejiang Huanyu	10,992	10,992
– Municipal Infrastructure	4,066	3,734
– Tong yingqiang	–	2,700
– Xu Jianjun	–	2,700
Amounts due from shareholders		
– Sun Yongxiang	–	7
– Xu Jianbiao	–	8
– Xia Weimin	–	2,159
– Xie Baojin (note b)	–	160
– Wang Jianhua	–	664
– Chen Baorong	–	3,236
– Chen Lianlu	–	150
– Wang Rongfu	–	141
Amounts due from directors		
– Zhou Hanwan	–	2,100

Notes to the Accounts

32. BALANCES WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(i) Balances with related parties *(continued)*

- (a) Minority shareholders of the subsidiaries of the Group.
- (b) These individuals became shareholders of the Company in February 2002.
- (c) All the above directors are also shareholders of the Company.
- (d) Included in the balances as at 31st December 2002 were deposits paid in relation to the purchase of certain units in Baoye Garden (see note 32(ii)).
- (e) The balance represents the amount due to Shaoxing Feiyue Investment Company Limited by Fuzhou Baoyue. Fuzhou Baoyue was disposed of in 2003 (note 29).

Notes to the Accounts

32. BALANCES WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(ii) Related party transactions

The Group had the following significant transactions with related parties during the year:

	2003 RMB'000	2002 RMB'000
Non-continuing transactions		
Fixed fee paid to		
– Municipal Infrastructure	–	52
– Zhejiang Huanyu	–	187
Sales of real estate properties to the following parties (note f)		
Sales to directors		
– Gao Lin	1,171	–
– Zhou Hanwan	1,171	–
Sales to shareholders		
– Xu Jianbiao	1,171	–
– Gao Jun	1,171	–
– Xia Weimin	1,265	–
– Xia Yahong	850	–
– Xia Huihua	850	–
– Wang Liequan	1,171	–
– Wang Rongfu	1,171	–
Sales to related parties (note g)		
– Pang Weixiang	1,171	–
– Pang Jianhong	850	–
– Yuan Zhonghua	850	–
– Wu Yeqing	850	–
Continuing transactions		
Sales of concrete to		
– Zhejiang Huanyu	13,082	16,685
– Municipal Infrastructure	368	71

Notes to the Accounts

32. BALANCES WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(ii) Related party transactions *(continued)*

- (f) These related parties had purchased certain units in Baoye Garden, which has been constructed by Baoye Real Estate. The selling price of such units were lower than the market price but the other terms of sales were on normal commercial terms.
- (g) These individuals are direct relatives of shareholders of the Company.
- (h) 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 and Mr. Wu Xianfu 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.

33. SUBSEQUENT EVENTS

Save as the transactions with Baoye Investment subsequent to year end as stated in note 3, the Company had no significant subsequent events.

34. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 28th May 2004.



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

Yangxunqiao Township, Shaoxing Country, Zhejiang Province, The PRC,
中國浙江紹興縣楊汛橋鎮
Tel 電話：575-4135837 Fax 傳真：575-4118792