

MANAGEMENT DISCUSSION AND ANALYSIS



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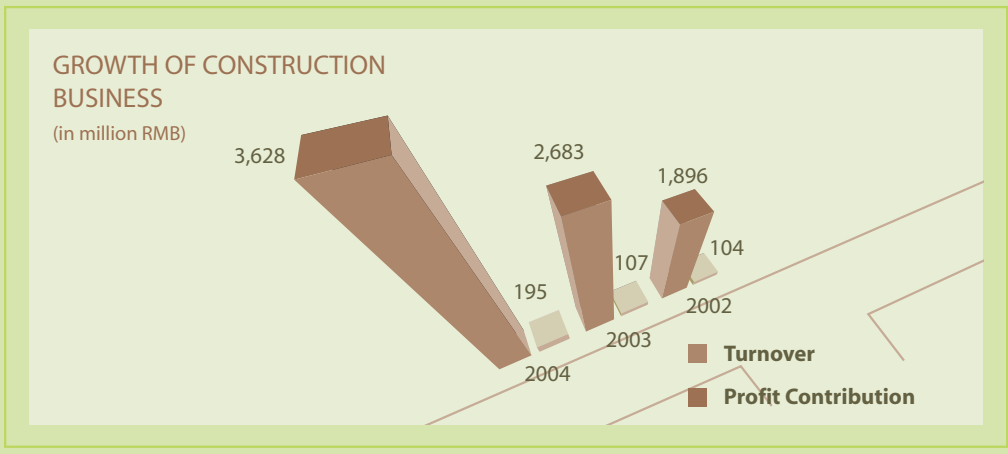
CHINA'S MACROECONOMIC ENVIRONMENT

Chinese government macroeconomic control measures have taken remedial effect since April 2004, aiming to slow down overheated industries such as concrete and steels, controlling land supply as well as regulating and rationalizing the infrastructure of these industries. These control measures ensured a healthy development of economy in China. In 2004, the total Gross Domestic Product and private fixed assets investment for Zhejiang Province, where the Group is based, amounted to RMB1.1243 trillion and RMB594.5 billion respectively, representing an increase of 14% and 20% over 2003. China and Zhejiang Province's substantial private fixed assets investments provided enormous market opportunity to the Group's construction and building materials businesses. The consistent and renewed high economic growth rates and continuous increases in urbanization have greatly enhanced the purchasing power and demand for residential properties. This is a positive impetus for the Group's property development business. At the same time, government macroeconomic control measures have taken further steps in regulating the market activities in construction, building materials and property development, causing a number of small and medium size enterprises, to phase out from the market. For large enterprises with reputable brand name, such as Baoye, this represents an excellent development opportunity to achieve remarkable gains.

BUSINESS REVIEW

1) Construction Business

For the year ended 31st December 2004, the Group's construction business achieved a turnover of RMB3,628,005,000 (approximately 83% of the Group's total turnover), profit contribution of RMB194,759,000 (approximately 48% of the Group's total profit), representing a growth of 35% and 82% respectively over the previous year. The Group adopted the percentage of completion method to recognise revenue of the construction business.



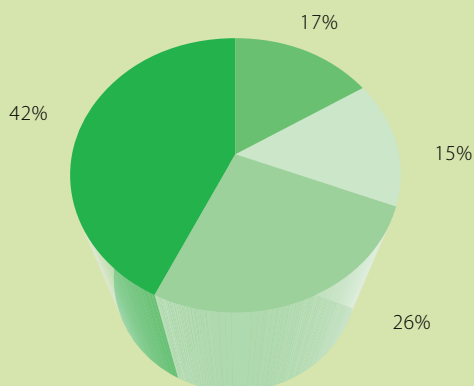
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In 2004, the Group's total construction contract value was RMB8,242,626,000, representing an increase of approximately 70% from the previous year. Details are as follows:

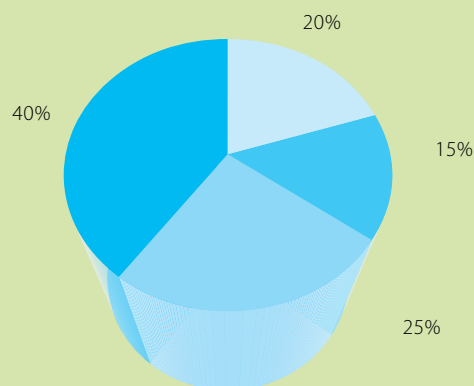
By category

	2004		2003		Change
	RMB'000	% of total	RMB'000	% of total	
Public Buildings	3,469,043	42%	1,946,175	40%	+78%
Urban Infrastructure Projects	2,147,054	26%	1,200,088	25%	+79%
Residential Projects	1,240,586	15%	738,354	15%	+68%
Industrial Projects	1,385,943	17%	965,841	20%	+43%
	8,242,626	100%	4,850,458	100%	+70%

2004



2003

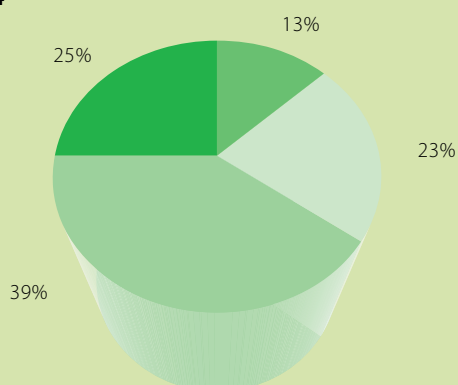


By Region

	2004		2003		Change
	RMB'000	% of total	RMB'000	% of total	
Shaoxing County	2,062,331	25%	1,417,304	29%	+46%
Other Counties of Zhejiang Province	3,213,831	39%	1,853,360	38%	+73%
Shanghai	1,842,081	23%	1,422,154	29%	+30%
Other Provinces	1,124,383	13%	157,640	4%	+613%
	8,242,626	100%	4,850,458	100%	+70%

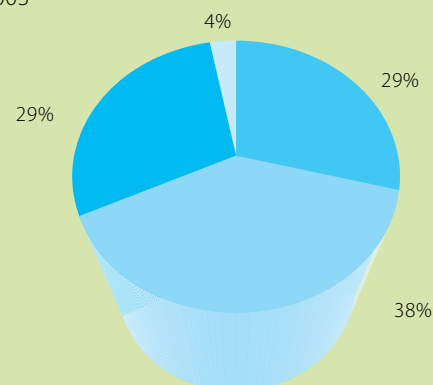
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2004



■ Shaoxing County ■ Other Counties of Zhejiang Province
■ Shanghai ■ Other Provinces

2003



■ Shaoxing County ■ Other Counties of Zhejiang Province
■ Shanghai ■ Other Provinces

In 2004, while the Group continued to consolidate its position in the Zhejiang and Shanghai markets, it also extended its foothold in the neighbouring cities, Central China and Northern China regional markets. For the year ended 31st December 2004, the Group has obtained 386 new construction projects with contract value totaling RMB6.18 billion, representing an increase of 25% over the same period last year. Moreover, large-size projects, projects with technical entry barriers, high profit projects, such as public works, city and town planning, and traffic projects undertaken by the Group have increased in numbers and registered higher percentages of the Group's construction business year-by-year. Macroeconomic control measures have made the construction business increasingly regulated, which have led to a number of Baoye's competitors gone out from the market, allowing the Group to obtain even greater market share.

As at 31st December 2004, the total amount of construction contract orders under construction plus new contracts being signed amounted to approximately RMB9.6 billion, it is expected 50% of which will be recognized in 2005 based on percentage of completion method.

The Group received awards for the following completed projects in 2004.

Award

Silver Medal of the State Outstanding Construction Projects

Qianjiang Cup

Bai Yulan Cup

Project

– Shaoxing Administrative Centre Project

– Shaoxing Civil Administration Welfare Centre, Seniors Activities Centre

– Shaoxing Skill Quality Supervisory Bureau, Administrative Examination Centre, Office Examination Building

– Shaoxing Wenli Institute Centre Library

– Jiaxing Construction Bureau Building

– Wuyi No. 1 People's Hospital Emergency Building

– Shanghai Gaohang Town Government Office Building

– Shanghai Normal University Preparatory High School Apartments

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Award

Orchid Cup

Project

- Shaoxing Civil Administration Welfare Centre, Seniors Activities Centre
- Shaoxing Wenli Institute Centre Library
- Shaoxing Intermediate People's Courthouse
- Shaoxing Skill Quality Supervisory Bureau, Administrative Examination Centre, Office Examination Building
- Shaoxing Keqiao Economic Development Zone Public Service Centre Main Building
- Shaoxing Commerce Bureau Main Building
- Xinchang Liqun Power Station

Pujiang Cup

- Shanghai New Times Garden Phase IV, No. 3-10
- New Times Garden, Grade 2 No. 8
- Shanghai Golden Xijiao City Phase I, No. 7

West Lake Cup

- Hangzhou Yellow Dragon Building
- Hangzhou Gardens, Apartment Building C

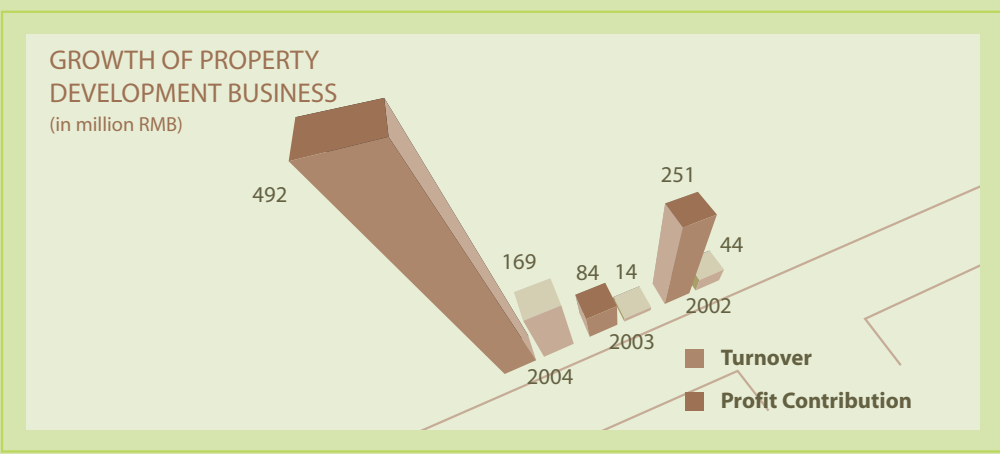


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2) Property Development Business

Real Estate Sales

In 2004, the turnover of the Group's property development business was RMB492,194,000 (approximately 11% of the Group's total turnover), profit contribution was RMB168,889,000 (approximately 42% of the Group's total profit), representing a robust growth of 488% and 1,146% respectively over the same period last year. The Group adopted the completion method to recognize the revenue of property development, which complies with the revised HK GAAP, which was effective in 2005.



The outstanding achievement of the Group's property development in 2004 was primarily attributable to the Shaoxing's Guazhu Fengqing project. Approximately 125,000 square metres of floor space of Guazhu Fengqing was sold, achieving a turnover of RMB477,060,000; average selling price per square metre in 2004 was RMB3,816, representing an increase of 19% as compared to RMB3,200 per square metre when it was initially launched in 2003.

real scenic view of Guazhu Fengqing



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Projects under Development

As at 31st December 2004, the Group's projects under development can be summarized as follows:

Name of Project	Location	Salable Area (In square meters)	Equity Interest of the Group
Yulan Huating	Shaoxing	81,100	100%
City Gardens Phase III	Shaoxing	44,850	100%
City Green Garden Phase I	Hefei	142,559	50%
Jing'an Ziyuan	Shanghai	51,344	70%



Yulan Huating

The Yulan Huating project is situated in Shaoxing's downtown area, next to national Band 1 schools. It has a gross floor area of 48,804 square metres. It is primarily dedicated to residential apartments with spaces for commercial activities. Construction for this project is basically completed and expected to be sold in the near future, with revenues and profits to be booked in 2005.

City Garden Phase III, located in downtown Shaoxing's Keqiao Centre, bordering City Gardens Phases I and II, is also developed by the Group. It is surrounded by commercial buildings, schools and hospitals, with convenient shopping and transportation, covering a floor area of 20,087 square metres. It is primarily a residential property project with certain areas allocated for commercial purpose. Construction for this project is basically completed and expected to be sold in the near future, with revenues and profits to be booked in 2005.



City Gardens Phase III

City Green Garden Phase I is located on the south end of Heping Road, Hefei's Yaohai District, occupying a total floor area of 67,628 square metres in one of Hefei's Special Development Zones with convenient transportation. City Green Garden Phase I is primarily designed for residential use, including stores and offices. Construction of this project began in October 2004, with 25,000 square metres presold by 31st December 2004. All presale units were sold out on the first day. This project is expected to be completed by the end of 2005, with revenues and profits to be booked in 2006.



City Green Garden Phase I



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Jing'an Ziyuan is located on Jiangning Road in Shanghai's Jing'an District, 500 metres from the downtown Golden Triangle of Nanjing West Road, in a truly prime location. This project has a total land area of 8,337 square metres, to be developed as service apartments. Construction began in November 2004. According to recent service apartment sales in Shanghai, this project is anticipated to make a relatively large contribution to the Group's revenue in 2006.



Jing'an Ziyuan

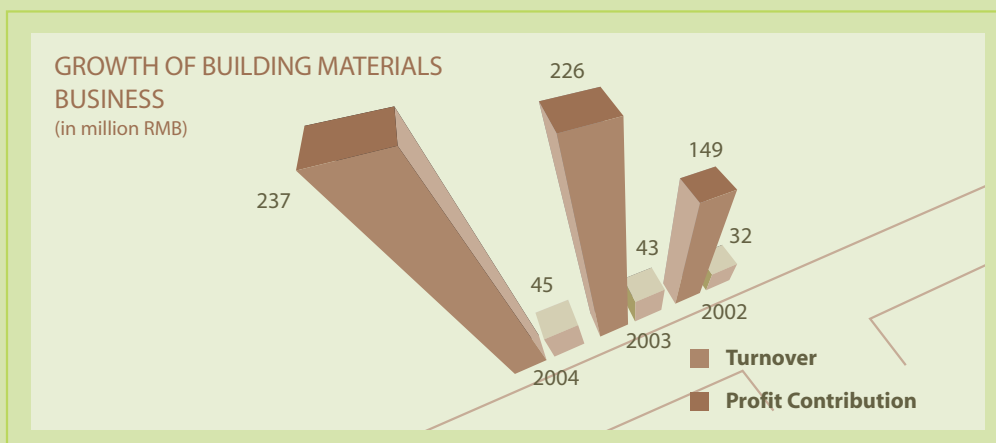
Land Reserves

As at 31st December 2004, the Group possessed a total land area of 1,264,253 square metres for future development, primarily in Shaoxing County, Zhejiang Province (approximately 1,047,190 square metres), Hangzhou, Zhejiang Province (approximately 9,898 square metres), and Hefei, Anhui Province (approximately 207,165 square metres), which will be sufficient for the Group's property development for the next three to five years. The Group's strategy on land reserves is to identify and acquire low cost land with high growth potential. The Group will not acquire land by bidding at excess price without prudent consideration.

3) Building Materials Business

For the year ended 31st December 2004, the Group's building materials business achieved a turnover of RMB236,679,000 (approximately 5% of the Group's total turnover), and a profit contribution of RMB44,896,000 (approximately 11% of the Group's total profit), representing a growth of 5% and 4% respectively over the previous year.

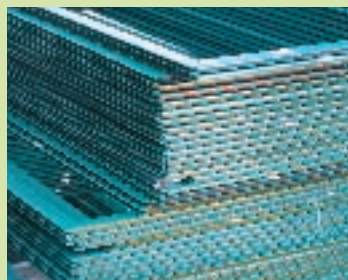
During 2004, due to the changes in city and town planning policy, part of the Group's factories in Keqiao Economic Development Zone Kedong Industrial Park had to be moved to the Baoye Residential Industrial Park in Shaoxing's Keqiao Economic Development Zone. The Group's building materials business was considerably affected by suspension in production resulting from the relocation of factories.



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During the year, turnover of the Group's building materials business are as follows:

Products of Building Materials	Turnover <i>(RMB'000)</i>	% of total
Ready-mixed Concrete	152,379	64%
Concrete Piles	37,471	16%
Concrete Ducts	10,820	5%
Large Roof Sheathings	17,811	7%
Fireproof Materials	6,661	3%
Bridge Bream Plates	5,912	3%
Steel Structures	5,625	2%
Total	236,679	100%



In 2004, the Group continued to deploy the investment capital solicited from initial public offering to the Baoye Residential Industrial Park in Shaoxing Keqiao Economic Development Zone. RMB33,346,000 was used to procure production line facilities for steel structure and RMB10,600,000 was used in the construction of a research and development centre. As at 31st December 2004, the construction for glass curtain wall production plant, wooden manufacturing production plant and steel structures production plant all have been completed and their commercial production have been commenced in due course.

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BUSINESS PROSPECTS

The economy of China continues to remain strong and is conducive to development, and the Chinese government’s support for the private sector economic policy has increased over time. These conditions have not only set a good economic environment for the Group, but also have provided policy safeguards for the nationwide development of the Group’s business. China has continually been promoting private fixed asset investments, which has helped the Group grow larger and has provided core attributes to the strengthening of the Group’s main businesses of construction, building materials, and property development. The Board has complete faith in the future business development of the Group.

1) Construction Business

At present, the domestic construction market is going through a period of transformation and consolidation. As a dominant domestic private construction enterprise, the Group should continue to solidify its market position and take advantage of opportunity to advance its nationwide expansion leveraging on the Group’s strong financial position and human resources, excellent management model and reputation in the industry.



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- To seize the opportunity provided by the government policy of "State Retreats, Private Forwards" in acquiring suitable state-owned construction enterprises outside the Zhejiang Province, which would fit in our legal and financial initiatives.
- To continue consolidating the construction markets of Zhejiang and Shanghai, being the two-largest markets of the Group; and progress towards developing Central China regional markets with base in Hebei and Wuhan; effectively upbring the Group's market share in Central and Western China.
- To utilize the Group's expertise in prefabricated building materials to develop projects in high end market with technical entry barriers and obtain high returns.

2) Property Development

Apart from certain regions where property markets may be overheated, the overall development of China's real estate business is relatively healthy, especially in large cities of Central-Western China and small and medium cities in developed regions, in which property developers have fairly large room for growth. In 2004, the Chinese government strengthened the control on properties, and it is anticipated that the government will continue to tighten up macroeconomic control measures including



reducing land supply, increasing the current interest rates, controlling credit and decreasing the size of relocation of old-city areas etc. from 2005 and onwards. However, the fundamental goal for these measures is to impose stricter standards in order to pave a more stable and healthy development platform for property development business.

In recent years, the property development business has contributed greatly to the total profitability of the Group and has become a core business of the Group in its pursue to establish as a nationwide all-rounded construction enterprise. However, the Group is extremely cautious with regard to its property development operations. The Group will only increase its land reserves if there is an opportunity to acquire low cost land with high growth potential. In the next few years, the Group will concentrate in developing four large projects: the Four Seasons Garden in Shaoxing County, Zhejiang Province, the International Airport Building in Hangzhou, Zhejiang Province, the Jing'an Ziyuan in Shanghai and the City Green Garden in Hefei, Anhui Province. All of these projects will be developed and built in the next three to five years. The abundant low cost land reserve coupled with synergy from excellent construction and advanced prefabricated building materials of the Group

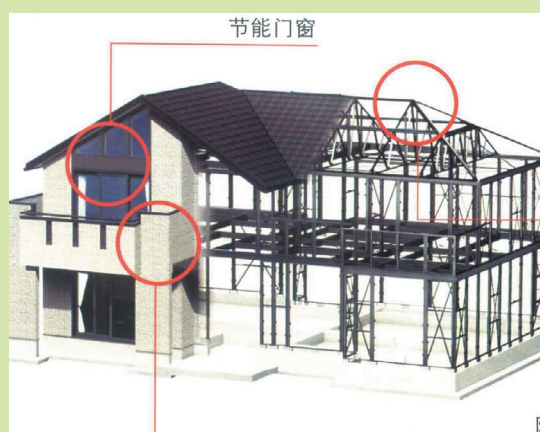


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would guarantee the profitability of these property projects when the property price goes up. Even if property prices decline, these projects may still be able to generate profit above the industry average figure, putting the Group in a very advantageous position. The Group believes that China's property development enterprises will enter into a period of quality and brand competition in the future. Thus the Group seeks to consolidate and enhance its dominant quality and brand positioning of Baoye property development operation.

3) Building Materials Business

China's huge investment in private fixed assets and rapid urbanisation not only boost the development of the construction and property industries, but also provided enormous market opportunity for the building materials industry. The transformation of the Chinese construction industry's model from construction to manufacturing has already evolved as an irreversible trend, but the key element to



the realization of this revolutionary reform lies in the rapid development of prefabricated building materials products.

As a leader in the "industrialization of China's building materials", the Group has always been dedicated to developing cost-effective and environmental friendly high-quality building materials, including light steel structures, curtain walls, wooden doors, ready-mixed concrete, concrete piles, concrete ducts, large roof sheathings and fireproof materials. Due to the fact that

the market capacity of the "industrialization of building materials" could worth several trillions of RMB in the coming years, the prefabricated building materials business will become the major driver of the Group's profit growth. In 2004, the Group's first Residential Industrial Park in Shaoxing, the largest in China, has been completed and commenced production. The construction of the second Residential Industrial Park in Hefei will begin in 2005.

In the coming years, the Group will continue to establish more industrial parks across China with the expansion of construction business. Simultaneously, the Group is in talks with renowned international "prefabricated building materials" manufacturers on possible strategic cooperation on residential industrialization business in China, with an aim to realize our goal, "from construction to manufacturing" and to establish an conglomerate enterprise that could support growth in every facet or segment of our core businesses.

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FINANCIAL REVIEW

Treasury Policies

The Group has adopted prudent financial policies and exercise tight risk management control over its investment, financing and cash. Its capital structure has always remained sound and solid. The Group will adjust its investment, financing and capital structure from time to time in accordance with its continuous development and internal resources available, with a view of optimizing the capital structure of the Group.

The Group has established a Financial Settlement Centre, which has centralized funding for all its subsidiaries at the group level. This policy achieves better control of treasury operations; avoid financing risks and lower average cost of funding.

Financial Resources and Liabilities

The Group anticipated fluctuation and integration of its business in the coming months resulting from the macroeconomic control measures implemented by the Chinese government. Hence, the Group seized various golden opportunities to increase the land reserves and properties held for development, which led to an increase in bank borrowings to RMB912,000,000 at 31st December 2004 (31st December 2003: RMB542,950,000), representing an increase of approximately 68% over the pervious year.

With the support of steady growth in cash flow, sound credit record and excellent reputation in the industry, the Group was awarded an AAA credit rating in 2004 by a credit rating institution recognized by the People's Bank of China. Such excellent credit rating is beneficial to the Company's financing activities and allows the Group to continue to enjoy the prime rate under the interest rate policy of the People's Bank of China. During the year, the Group maintained most of its borrowings on an unsecured basis. The amount of unsecured debt represents approximately 95% of the total borrowings as at 31st December 2004. If permissible, the Group will continue to maintain its borrowings on an unsecured basis whenever possible.

As at 31st December 2004, the Group's bank borrowings, net of bank and cash balances amounted to RMB358,854,000 (31st December 2003: RMB44,258,000). The Group's gearing ratio, calculated on the basis of net bank borrowings (total bank borrowing less bank and cash balances) over total assets is 10% (31st December 2003: 2%). The Group will also continue its policy of maintaining a prudent gearing ratio.



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Bank borrowings are solely denominated in RMB and have been arranged on a floating rate basis. The Group anticipates that fluctuation in the RMB exchange rate will not have a substantial effect on the business performance and the financial status of the Group.

On 13th January 2005, the Group entered into a placing agreement with UBS AG in relation to the placing of aggregate of 36,136,800 H shares in the share capital of the Company at HK\$4.05 per placing Share. The net proceeds of the placing was HK\$140,424,000. The Board intends to apply the net proceeds for possible expansion of business outside the Zhejiang Province and as general working capital. This placing has further strengthened the financial position of the Group and provides necessary funding for business development.

Use of Proceeds

The total amount raised by the issue of H shares by the Group in 2003 was approximately RMB236,830,000. During the year, the Company basically used the proceeds pursuant to the prospectus of the Company issued in June 2003, details of which are as follows:

	<i>RMB'000</i>
Balance as at 1st January 2004 of unused proceeds	43,946
Proceeds used during the year, including:	
– Construction of production lines and purchase of facilities for steel structure	33,346
– Construction of a research and development centre for building materials	10,600
Total	43,946

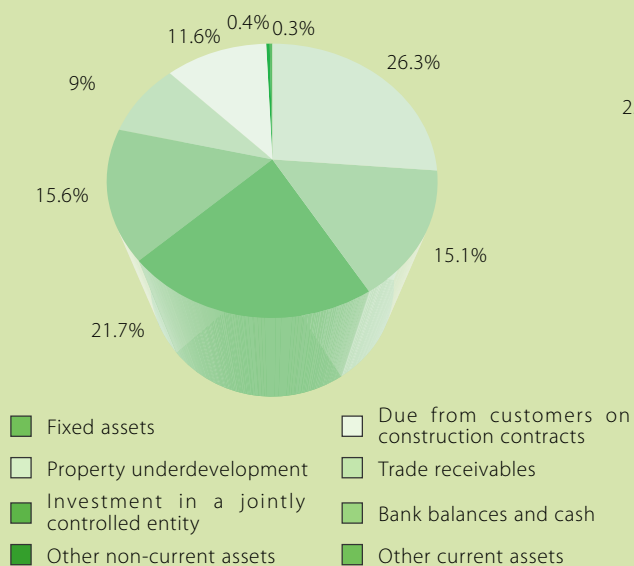
All unused proceeds of RMB43,946,000 as at 1st January 2004 have been fully utilised during the year.

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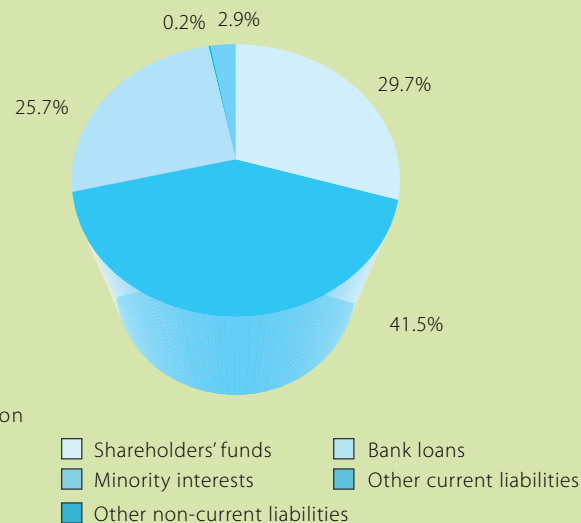
Capital Structure Analysis

	Note	Year ended 31st December				Changes %
		2004		2003		
		RMB'000	% of total	RMB'000	% of total	
Assets						
Fixed assets	(a)	536,622	15.1%	324,147	12.8%	+65.5%
Properties under development	(b)	934,003	26.3%	497,054	19.6%	+87.9%
Investment in a jointly controlled entity	(c)	9,082	0.3%	44,182	1.7%	-79.4%
Other non-current assets		14,054	0.4%	157,756	6.2%	-91.1%
Due from customers on construction contracts	(d)	412,580	11.6%	234,852	9.2%	+75.7%
Trade receivables	(e)	320,552	9.0%	143,836	5.7%	+122.9%
Bank balances and cash		553,146	15.6%	498,692	19.6%	+10.9%
Other current assets		767,498	21.7%	638,909	25.2%	+20.1%
Total		3,547,537	100.0%	2,539,428	100.0%	+39.7%
Share capital and liabilities						
Shareholders' funds	(f)	1,054,064	29.7%	816,408	32.1%	+29.1%
Minority interests		104,578	2.9%	72,606	2.9%	+44.0%
Other non-current liabilities		5,499	0.2%	6,042	0.2%	-9.0%
Bank loans	(g)	912,000	25.7%	542,950	21.4%	+68.0%
Other current liabilities		1,471,396	41.5%	1,101,422	43.4%	+33.6%
Total		3,547,537	100.0%	2,539,428	100.0%	+39.7%

2004 Assets Structure



2004 Share Capital and Liabilities Structure



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Capital Structure Analysis (continued)

Note:

- (a) Fixed assets increased by RMB212,475,000 for the year, of which RMB102,903,000 was contributed to the purchase of machinery, which were mainly purchasing production facilities for factories of building materials business of the Group, and RMB34,974,000 was contributed to the construction in progress, which were mainly construction of new factory plants in the Baoye Residential Industrial Park in Shaoxing.
- (b) Properties under development increased from RMB497,054,000 last year to RMB934,003,000 this year. The amount of due for completion within one year was RMB474,344,000, mainly represented property projects for "Yulan Huating" and "City Garden Phase III". The amount of due for completion in more than one year was RMB459,659,000, mainly represented property projects, "Four Season Garden" located in Kuaiji Mountain tour district.
- (c) The jointly controlled entity is Hefei Qingfangcheng Baoye Real Estate Co., Ltd., whose main business is development of "City Green Garden" in Hefei.
- (d) The Group adopted the percentage of completion method to account for revenue of construction business. The increase in due from customers on construction contracts of RMB177,728,000 were mainly for construction projects such as "Suzhou Industry Park", "CBD Central Plaza" in Anhui Hefei, and "Yiwu International Commercial City".
- (e) As at 31st December 2004, the ageing analysis of the trade receivables is as follows:

	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
0 to 3 months	244,138	67,239
3 months to 1 year	52,182	64,578
1 to 2 years	26,635	16,972
2 to 3 years	6,037	467
Over 3 years	701	855
	<hr/>	<hr/>
	329,693	150,111
Less: provision for doubtful debts	(9,141)	(6,275)
	<hr/>	<hr/>
	320,552	143,836

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.

- (f) Shareholders' funds increased by RMB237,656,000, which was contributed by profit for the year of RMB275,082,000 and net of 2003 dividend paid of RMB33,746,000 and revaluation reserve recognised in consolidated profit and loss account upon sale of completed properties of RMB3,680,000.
- (g) Short-term bank loans increased by RMB369,050,000 for the year. All of them are unsecured and with interest bearing at 5% to 6% per annum.

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Cash Flow Analysis

	Note	Year ended 31st December		Changes %
		2004 RMB'000	2003 RMB'000	
Net cash inflow/(outflow) from operating activities	(a)	59,132	(161,642)	+137%
Net cash outflow from investing activities	(b)	(353,406)	(242,688)	+46%
Net cash inflow from financing activities	(c)	342,962	649,757	-47%

Note:

- (a) The net cash inflow generated from operations was RMB165,689,000 for the year, an increase of RMB265,749,000 as compared to the net cash outflow of RMB100,060,000 for the previous year. This was mainly attributed to the significant increase in turnover of the Group, the profit before taxation for the year has increased by RMB232,489,000 as compared to that of last year.
- (b) The increase in net cash outflow from investing activities was mainly caused by the acquisition of 90% equity interest in Hangzhou International Airport Mansion Development Co., Ltd. at a consideration of RMB83,077,000, of which RMB72,000,000 had been settled by cash during the year. In addition, loans of RMB106,000,000 had been provided to a jointly controlled entity, Hefei Qingfangcheng Baoye Real Estate Co., Ltd.
- (c) The significant decrease in net cash inflow from financing activities were mainly due to the payment of 2003 final dividend of RMB33,746,000 and there was IPO proceeds of RMB274,224,000 raised in the previous year.

Capital Commitments

As at 31st December 2004, the Group had no capital commitments (31st December 2003: RMB65,673,000).

Progress of The Three Projects Negotiated Through Baoye Investment in 2003

Zhejiang Baoye Industrial Investment Company Limited ("Baoye Investment") paid the guarantee money in respect of the three projects on behalf of the Group in 2003. During the first half of 2004, the Group paid such guarantee money directly instead. The bidding/acquisition of the three projects had been completed, details are set out in note 3 of the accounts. The Group do not have any fund advances or other transactions with Baoye Investment since then.