

REPORT OF THE DIRECTORS

The Board is pleased to present their annual report and the audited accounts of the Group for the year ended 31st December 2004.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the provision of construction service, manufacture and distribution of building materials and property development. The activities of the Company's subsidiaries and the jointly controlled entity are set out in notes 16 and 17 to the accounts. There were no significant changes in the nature of the Group's principal activities during the year.

FINANCIAL RESULTS

The results of the Group for the year ended 31st December 2004 prepared in accordance with HK GAAP are set out in the consolidated profit and loss account on page 57.

The financial positions of the Group and the Company as at 31st December 2004 are set out in the balance sheets of the accounts prepared in accordance with HK GAAP on pages 58 to 60.

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 7 of this report.

RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in the note 29 to the accounts.

DISTRIBUTABLE RESERVES

According to the relevant laws and regulations in the PRC, the reserves of the Company available for distribution to shareholders amounted to RMB87,889,000 as at 31st December 2004 (2003: RMB53,087,000).

DIVIDENDS

At the board meeting held on 1st April 2005, the Directors declared a final dividend of RMB0.1436 (2003: RMB0.0635) per ordinary share for the year ended 31st December 2004. The proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2005.

REPORT OF THE DIRECTORS

SEGMENT INFORMATION

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

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

The primary reporting of business segments for the year ended 31st December 2004 is set out in note 4 to the accounts.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the five largest customers and purchases from the five largest suppliers of the Group accounted for less than 30% of the Group's aggregate turnover and purchases respectively.

None of the directors, their associates or any shareholders (which, to the knowledge of the directors own more than 5% interests of the Group's share capital) had any interest in the above major suppliers or customers.

FIXED ASSETS

Details of the movements in fixed assets of the Group during the year are set out in note 14 to the accounts.

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

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

REPORT OF THE DIRECTORS

DIRECTORS AND SUPERVISORS

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

Directors

Executive Directors

Mr. Pang Baogen (*Chairman*)
 Mr. Gao Jiming (*Deputy General Manager*)
 Mr. Gao Lin (*Deputy General Manager*)
 Mr. Zhou Hanwan (*Deputy General Manager*)

Non-executive Directors

Mr. Wu Weimin
 Mr. Hu Shaozeng

Independent Non-executive Directors

Mr. Wang Youwei	
Mr. Yi Deqing	
Mr. Kwok Lam-kwong, Larry	(resigned on 10th March 2004)
Mr. Xu Yangsheng	(resigned on 21st September 2004)
Mr. Dennis Yin Ming Chan	(appointed on 23rd September 2004)

Supervisors

Supervisors

Mr. Sun Guofan
 Mr. Xie Qisheng

Independent Supervisors

Mr. Chen Xinquan	
Mr. Yu Zengmin	
Mr. Sun Machuan	(resigned on 23rd September 2004)
Mr. Li Yongsheng	(appointed on 23rd September 2004)

REPORT OF THE DIRECTORS

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board has obtained written confirmations from all Independent Non-executive Directors concerning their independence in accordance with rule 3.13 of the Listing Rules of HKEx. The Directors are in the opinion that the existing Independent Non-executive Directors are independent based on the guidelines set out in rule 3.13 of the Listing Rules of HKEX.

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Mr. Dennis Yin Ming Chan was appointed as an Independent Non-executive Director of the Company on 23rd September 2004.
2. Mr. Kwok Lam-Kwong, Larry and Mr. Xu Yangsheng resigned as an Independent Non-executive Director of the Company on 10th March 2004 and 21st September 2004 respectively.
3. Mr. Li Yongsheng was appointed as an Independent Supervisor of the Company on 23rd September 2004.
4. Mr. Sun Machuan resigned as an Independent Supervisor of the Company on 23rd September 2004.
5. The Company had convened a board meeting on 5th August 2004. At the board meeting, the Board resolved to appoint Mr. Simon Fung Ching as the Chief Financial Officer of the Group.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Brief biographical details of directors, supervisors and senior management of the Group are set out on pages 37 to 40 of the annual report.

HIGHEST PAID INDIVIDUALS

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

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and Supervisors had entered into a service contract with the Company and shall continue until the conclusion of the 2004 annual general meeting of the Company and thereafter, subject to the approval of the shareholders' meeting of the Company, each service contract may be renewed.

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

REPORT OF THE DIRECTORS

INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As at 31st December 2004, the interest and short position of each director, supervisor and senior management of the Company in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange (for this purpose, the relevant provisions of the SFO will be interpreted as if applicable to Supervisors) were as follows:

Director/ Supervisor/ Senior management	Relevant entity	Capacity	No. of domestic shares held (Long position)	Approximate percentage of the total registered capital of the relevant entity
Mr. Pang Baogen	(i) The Company	Individual	198,753,054	37.4%
	(ii) Zhejiang Baoye Building Materials Industrialization Company Limited (Note 1)	Individual	11,514,000	19%
Mr. Hu Shaozeng	Zhejiang Baoye Building Materials Industrialization Company Limited	Individual	606,000	1%
Mr. Gao Jiming	The Company	Individual	13,024,647	2.5%
Mr. Sun Guofan	The Company	Individual	11,705,283	2.2%
Mr. Gao Lin	The Company	Individual	9,544,775	1.8%
Mr. Zhou Hanwan	The Company	Individual	8,233,510	1.5%
Mr. Xu Jianbiao	The Company	Individual	7,524,884	1.4%
Mr. Gao Jun	The Company	Individual	5,794,259	1.1%
Mr. Lou Zhonghua	The Company	Individual	5,633,172	1.1%
Mr. Wang Rongbiao	The Company	Individual	2,647,911	0.5%

Note 1: On 26th February 2005, an acquisition agreement was entered into between the Company and Mr. Pang Baogen, the Chairman of the Board, whereby the Company has conditionally agreed to acquire and Mr. Pang has conditionally agreed to dispose of his 19% of equity interests in Zhejiang Baoye Building Materials Industrialization Company Limited. The consideration for the Acquisition is RMB11,514,000. Details of this transaction were set forth in the announcement dated 26th February 2005.

REPORT OF THE DIRECTORS

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Except for the transactions as disclosed in the other intra-group transactions under paragraph headed "Connected Transactions" of this report, no contract of significance in relation to the Company's business to which the Company, its subsidiaries or its jointly controlled entities was a party and in which the Directors or the Supervisors of the Company had a material interests, whether directly or indirectly, subsisted at the end of the year or at any time during the year (excluding Directors' service contracts).

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

INTERESTS OF DIRECTORS IN COMPETING BUSINESS

During the year and up to the date of this report, none of the Directors has any interest in business, which competes or may compete with the business of the Group under the Listing Rules.

DETAILS OF SHARE OFFERING AND LISTING

IPO

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

A placement of 36,136,800 new H shares was completed on 13th January 2005 with net proceeds of HK\$140,424,000. Details of the placement were set forth in the announcement dated 13th January 2005.

REPORT OF THE DIRECTORS

SHARE CAPITAL

As at 31st December 2004, there were a total share capital of 531,426,053 shares of the Company which includes:

	Number of shares	Approximate percentage of total share capital
Domestic Shares	350,742,053	66%
H shares	180,684,000	34%
<hr/>		
Total	531,426,053	100%

PUBLIC FLOAT

Based on the publicly available information and to the best knowledge of the Directors, the Company has maintained sufficient public float as at the latest practicable date prior to the date of this annual report.

SUBSTANTIAL SHAREHOLDERS

At 31st December 2004, so far as was known to the Directors, the following person, other than the Directors, Supervisors and senior management of the Company, had an interest in the shares of the Company as recorded in the register required to be kept under section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Name of Company	Number of H shares held (Long position)	Approximate percentage of the total issued H shares capital
1. Mr. Cheah Cheng Hye	The Company	16,276,000 (note 1)	9% (note 1)
2. Value Partners Limited	The Company	16,276,000 (note 1)	9% (note 1)
3. Atlantis Investment Management Ltd	The Company	12,824,000	7% (note 2)
4. Symbiospartners Investments Limited	The Company	9,210,000	5% (note 3)

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS (continued)

Note:

1. The 16,276,000 H shares are held by Value Partners Limited as investment manager. Mr. Cheah Cheng Hye is interested in approximately 31.82% of the total issued share capital of Value Partners Limited. Pursuant to the SFO, Mr. Cheah Cheng Hye is deemed to be interested in the H shares held by Value Partners Limited.
2. The 12,824,000 H shares are held by Atlantis Investment Management Ltd. as investment manager.
3. the 9,210,000 H shares are held by Symbiopartners Investment Limited as beneficial owner.
4. The share capital of the Company does not consist of any state-owned shares.

Save as disclosed above, the register required to be kept under section 336 of Part XV of the SFO showed that the Company had not been notified of any other interests or short positions in the shares and underlying shares of the Company as at 31st December 2004.

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.

HUMAN RESOURCES

As at 31st December 2004, the Group had 1,171 full time administrative staff (2003: 1,137 staff), they are the Group's permanent employee. Workers on construction site is about 41,000 (2003: 34,000 employees), these workers are not permanent employee of the Group. The total staff costs amounted to RMB672,105,000 (2003: RMB481,560,000) for the year ended 31st December 2004. Remuneration is determined by reference to market terms and the performance, qualifications and experience of individual employee. Employee benefits provided by the Group include provident fund schemes.

REPORT OF THE DIRECTORS

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 20th April 2005 to 20th May 2005, (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's H shares registrar in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbor View Centre 56 Gloucester Road, Wanchai, Hong Kong (for holders of H shares) or the registered office address of the Company at Yangxunqiao Township, Shaoxing County, Zhejiang Province, the People's Republic of China (for holders of domestic shares), no later than 4:00 p.m. on 19th April 2005.

CONNECTED TRANSACTIONS

The following transactions constituted continuing connected transactions of the Group ("Ongoing Connected Transactions") and were discloseable under the Listing Rules:

1. Concrete Supply

Shaoxing Commodity Concrete Co., Ltd. (紹興市商品混凝土有限公司) ("Concrete Company"), an approximately 51.5% owned subsidiary of the Company, has been supplying concrete, on normal commercial terms and in the ordinary course of business, to its shareholders, Shaoxing Municipal Infrastructure Company (紹興市市政工程公司) ("Municipal Infrastructure") and Zhejiang Huanyu Construction Group Co., Ltd (浙江環宇建設集團有限公司) ("Zhejiang Huanyu") (formerly known as Shaoxing Construction and Installation Engineering Company (紹興市建築安裝工程公司)), which own approximately 22.7% and 25.8% of the equity interest of the Concrete Company respectively. For the year ended 31st December 2004, the supply of concrete by the Concrete Company to Municipal Infrastructure and Zhejiang Huanyu amounted to approximately RMB482,000 and RMB8,310,000 respectively.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (continued)

2. Guarantees

For the year ended 31st December 2004, the amount of intra-group guarantees was as follows:

Guarantor	Borrower	Total Guarantee Amount (RMB'000)	Expiry Date of Guarantee
(a) The Company	Zhejiang Baoye Construction Group Co., Ltd	220,000	various dates between 13th April 2005 to 4th September 2005
(b) The Company	Zhejiang Baoye Building Materials Industrialization Co., Ltd	130,000	various dates between 21st May 2005 to 4th September 2005
(c) Zhejiang Baoye Real Estate Co., Ltd	Zhejiang Baoye Construction Group Co., Ltd	30,000	10th April 2005

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

3. Other intra-group transactions

Sale of materials by Zhejiang Baoye Building Materials industrialization Company Limited ("Building Industrialization") to members of the Group and contracting out of construction works by Building Industrialization to members of the Group amounted to RMB31,678,000 and RMB14,683,000 respectively.

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

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (continued)

3. Other intra-group transactions (continued)

The Independent Non-executive Directors have reviewed the aforesaid connected transactions and confirmed that the transactions have been entered into:

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

The International Auditors of the Company has confirmed to the Board the matters set out under Rule 14A.38 of the Listing Rules in respect of those Ongoing Connected Transactions that:

- (i) the Ongoing Connected Transactions have received the approval of the Board;
- (ii) the Ongoing Connected Transactions are in accordance with the pricing policies as stated in the Company's annual report;
- (iii) the Ongoing Connected Transactions have been entered into in accordance with the terms of the agreements governing the transactions; and
- (iv) the Ongoing Connected Transactions have been conducted within the cap amounts, as specified in the conditional waiver letter of the Stock Exchange dated 18th June 2003.

PRE-EMPTIVE RIGHTS

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

POLICIES ON INCOME TAX

The Company and its subsidiaries basically paid PRC corporate income tax at a rate of 33% of its assessable profits according to the relevant laws and regulations in the PRC. Details of the Group's income tax information is disclosed in note 7 to the accounts.

REPORT OF THE DIRECTORS

EXTERNAL GUARANTEE AND FULFILLMENT

	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Guarantee given to banks in respect of mortgage facilities granted to third parties	58,690	50,000

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

Save as disclosed above, the Group had not provide any other external guarantee during the year.

LITIGATION AND ARBITRATION

As at the date of this report, there was no material litigation and arbitration for the Group.

ENTRUSTED DEPOSITS AND OVERDUE TIME DEPOSITS

As at the date of this report, the Group did not have any entrusted deposits placed in financial institutions in the PRC. All of the Group's bank balances were deposited in commercial banks in the PRC in accordance with the applicable laws and regulations. The Group had no bank deposits which cannot be withdrawn upon maturity.

AUDIT COMMITTEE

The Audit Committee of the Company was established since its listing in Hong Kong pursuant to the Listing Rules. Members of the Audit Committee comprise the Independent Non-executive Directors, including Mr. Wang Youwei, Mr. Yi Deqing and Mr. Dennis Yin Ming Chan. The primary duties of the Audit Committee are to review and supervise the Group's financial reporting process, internal control system, appointment and replacement of Auditors as well as assessing the Auditors' performance and reasonableness of their service fees, and providing recommendation to the Board in this regard. The annual results of the Group for the year ended 31st December 2004 had been reviewed by the Audit Committee and approved by the Board.

CODE OF BEST PRACTICE

The H shares of the Company were listed on the Stock Exchange on 30th June 2003. Since its listing up to 31st December 2004, the Company had complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

REPORT OF THE DIRECTORS

AUDITORS

PricewaterhouseCoopers is appointed as the Company's international auditors, and Shine Wing CPAs Co., Ltd ("Shine Wing") is appointed as the Company's statutory auditors in 2004. The accounts contained herein this annual report were prepared in accordance with HK GAAP and have been audited by PricewaterhouseCoopers.

The remuneration of the auditors in the year 2004 is set out as follows:

	2004		2003	
	Audit fees	Other fees	Audit fees	Other fees
PricewaterhouseCoopers (HK\$'000)	1,500	50	1,500	50
PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd (HK\$'000)	–	–	250	–
Shine Wing (RMB'000)	330	20	–	–

Notes:

1. PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd was the statutory auditors of the Company in 2003, and the Company changed its statutory auditors to Shine Wing in 2004. Save as disclosed, the Company has not changed its auditors for the preceding three years.
2. Other fees mainly represented disbursement such as travelling expenses.

A resolution will be submitted at the forthcoming annual general meeting to re-appoint Messrs. PricewaterhouseCoopers and Shine Wing as the Company's international auditors and statutory auditors respectively.

REPORT OF THE DIRECTORS

SUBSEQUENT EVENT

The following events took place after the financial year end of the Group.

On 13th January 2005, the Company placed 36,136,800 new H shares. The net proceeds of the placement was HK\$140,424,000. The Company intends to apply the net proceeds for possible expansion of business outside Zhejiang Province and as general working capital. Details of the placement were set forth in the announcement dated 13th January 2005.

On 26th February 2005, Zhejiang Baoye Construction Group Company Limited ("Baoye Construction"), a non-wholly owned subsidiary of the Company, entered into a construction agreement (the "Construction Agreement") with Zhejiang Minghua Textile Raw Material Exhibition City Co., Ltd ("Minghua Textile") pursuant to which Baoye Construction has conditionally agreed to perform certain design, construction and installation work of Zhejiang Textile Raw Material Exhibition City Textile Raw Material Trade Centre. As Minghua Textile is associate with Baoye Construction, the transaction under the Construction Agreement constitutes a connected transaction for the Company under the Listing Rules. The Directors propose to seek the independent shareholders' approval of the Construction Agreement at the extraordinary general meeting ("EGM") held on 20th May 2005 by way of a poll. Details of this connected transaction were set forth in the announcement dated 26th February 2005.

On 26th February 2005, an acquisition agreement was entered into between the Company and Mr. Pang Baogen ("Mr. Pang"), the Chairman of the Board, whereby the Company has conditionally agreed to acquire and Mr. Pang has conditionally agreed to dispose of his 19% of equity interests in Zhejiang Baoye Building Materials Industrialisation Company Limited at a consideration of RMB11,514,000 (the "Acquisition"). As Mr. Pang is an Executive Director and a substantial shareholder of the Company, the Acquisition constitutes a connected transaction for the Company under the Listing Rules. Pursuant to the articles of association of the Company, approval from the shareholders is required for any contract, transaction or arrangement entered into between a Director and the Company. Accordingly, the Directors propose to seek the shareholders' approval of the Acquisition Agreement at the EGM by way of a poll. Details of this connected transaction were set forth in the announcement dated 26th February 2005.

APPRECIATION

The Board would like to take this opportunity to express gratitude to our shareholders, customers, banks, professional parties and employees for their continuous patronage and support.

By order of the Board

Pang Baogen

Chairman

Shaoxing, Zhejiang, the PRC

1st April 2005