

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 ("Hong Kong Stock Exchange") 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 Institute of Certified Public 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 the Group 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.

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31st December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

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.

(ii) Jointly controlled entities

A jointly controlled entity is a contractual agreement whereby the Group and other parties establish a company to undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(b) Group accounting (continued)

(ii) Jointly controlled entities (continued)

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.

The Group recognises the portion of gains or losses on the sale of assets by the Group to the jointly controlled entity that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the jointly controlled entity that result from the purchase of assets by the Group from the jointly controlled entity until it resells the assets to an independent party. However, if a loss on the transaction provides evidence of a reduction in the net realisable value of current assets or an impairment loss, the loss is recognised immediately.

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 movements in reserves.

(d) 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 of not exceeding 20 years.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Goodwill (continued)

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.

(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.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Fixed assets (continued)

(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.

(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 fixed assets other than investment properties 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.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Fixed assets (continued)

(v) *Impairment and gain or loss on sale* (continued)

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.

(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) 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.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(j) 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.

(k) Inventories

Inventories comprise raw materials, work in progress, finished goods and production supplies 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.

(l) 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.

(m) 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.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(n) 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 restricted bank deposits.

(o) 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.

(p) 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.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(p) Employee benefits (continued)

(iii) Pension obligation (continued)

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.

(q) 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.

(r) 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.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(s) 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 the 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 receipts in advance.

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.

(t) 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.

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 comprised additions to fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

3. TRANSACTIONS WITH A FORMER SUBSIDIARY

Zhejiang Baoye Industrial Investment Company Limited ("ZBI") is a former subsidiary of the Company which was disposed of on 11th January 2002. ZBI has become an independent third party to the Company since December 2002.

Advances to ZBI

During January 2004, advances with maximum balance of RMB106,655,000 were made to ZBI, which were fully repaid by ZBI to the Group before 30th March 2004. Such advances were unsecured and interest free.

Other transactions involving ZBI

The Group had nominated ZBI to represent it to participate in the early discussion and negotiation in respect of the following three projects:

- the acquisition (the "Acquisition Project") of 90% interest of Hangzhou International Airport Mansion Development Co., Ltd. ("Airport Mansion") from an independent third party;
- the bidding for a construction project (the "Tongxiang Construction Project") for Tongxiang Baoye Phoenix Real Estate Co., Ltd. ("Baoye Phoenix"). Baoye Phoenix is a company incorporated in the PRC and is owned as to 55% by ZBI and 45% by four other independent third parties; and

NOTES TO THE ACCOUNTS

3. TRANSACTIONS WITH A FORMER SUBSIDIARY (continued)

Other transactions involving ZBI (continued)

- the bidding for a construction project (the "Minghua Construction Project") for Zhejiang Minghua Textile Raw Materials Exhibition City Co., Ltd. ("Minghua Textile"). Minghua Textile 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. Mr. Li Wenjiang is a former director of Shaoxing Baogang Woodwork Co., Ltd. ("Shaoxing Baogang"), a non-wholly owned subsidiary of the Company. Mr. Li Wenjiang resigned as a director of Shaoxing Baogang on 30th April 2004.

During January 2004, the Group had provided a total of RMB72,000,000, RMB30,000,000 and RMB60,000,000 respectively to ZBI, 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 Tongxiang Construction Project and the Minghua Construction Project respectively.

In order to expedite the negotiation process, the Group has decided to participate directly in the negotiation for the above mentioned three projects. In this connection, the Group paid directly to the relevant project owners the respective Guarantee Money to replace the payments previously made on its behalf by ZBI. The Guarantee Money previously paid by ZBI was refunded by the relevant project owners to ZBI and the sum of which was fully returned to the Group in April 2004.

Latest development of the three projects

- Acquisition Project:*
On 8th July 2004, the Group entered into an agreement with an independent third party, Hangzhou International Airport Co., Ltd. ("Hangzhou Airport"), for the acquisition of 90% of the equity interest in Airport Mansion. Airport Mansion mainly owns a right to use a piece of land located in a prime site of Hangzhou. The Group plans to develop a comprehensive commercial building on that site. The total consideration of the acquisition was RMB83,077,000, of which RMB72,000,000 had already been paid in the form of Guarantee Money by the Group.
- Tongxiang Construction Project:*
The Group won the bidding for the Tongxiang Construction Project with a total contract sum of RMB137,800,000 with the construction agreement signed on 10th May 2004. The Guarantee Money of RMB30,000,000 paid in advance by the Company was taken as the guarantee deposit pursuant to the terms of the construction agreement. The Group had received progress payments totalling RMB44,420,000 in relation to this project up to the date of approval of these accounts.

NOTES TO THE ACCOUNTS

3. TRANSACTIONS WITH A FORMER SUBSIDIARY (continued)

Latest development of the three projects (continued)

– *Minghua Construction Project:*

On 11th June 2004, the Group won the bidding for the construction of Phase I of Minghua Textile Raw Materials Exhibition City with a total contract sum of RMB116,024,000. A construction agreement was entered into on 26th February 2005 by the Group with Minghua Textile. Minghua Textile is owned as to 67% by Mr. Li Wenjiang, a former director of Shaoxing Baogang, a non-wholly owned subsidiary of the Company. Minghua Textile is regarded as a connected person of the Company and the transaction contemplated under this construction agreement constitute a connected transaction for the Company under the Listing Rules of the Hong Kong Stock Exchange. Accordingly, the construction agreement will only be effective after approval by independent shareholders at an extraordinary general meeting of the Company, which is scheduled to be held on 20th May 2005. Pursuant to the construction agreement, RMB30,000,000 of the Guarantee Money of RMB60,000,000 paid in advance by the Group will be taken as the guarantee deposit for fulfilling the construction contract for Phase I of the project, while the remaining RMB30,000,000 will continue to be used as guarantee money for the bidding of Phase II of the construction work of the project.

NOTES TO THE ACCOUNTS

4. TURNOVER, REVENUE AND INCOME AND SEGMENT INFORMATION

Revenues recognised during the year are as follows:

| | 2004 | 2003 |
|--|------------------|-----------|
| | RMB'000 | RMB'000 |
| Turnover | | |
| Construction contracts revenue | 3,628,005 | 2,683,114 |
| Sale of building materials | 236,679 | 225,988 |
| Sale of developed properties | 492,194 | 83,768 |
| Others | 21,556 | 1,602 |
| | 4,378,434 | 2,994,472 |
| Other revenues and income | | |
| Rental income from investment properties, net of business tax | 658 | 692 |
| Gain on disposals of fixed assets | 6,779 | 4,322 |
| Gain on disposal of a subsidiary | - | 109 |
| Interest income | 26,422 | 12,416 |
| Government grants | - | 19,543 |
| Government compensation (<i>note (a)</i>) | 30,861 | - |
| Others | 3,352 | 6,475 |
| | 68,072 | 43,557 |
| Total revenues and income | 4,446,506 | 3,038,029 |

- (a) The compensation was received from the local government authorities for loss of business arising from relocation of production plant at the request of these authorities during the year.

Primary reporting format – business segments

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

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

NOTES TO THE ACCOUNTS

4. TURNOVER, REVENUE AND INCOME AND SEGMENT INFORMATION (continued)

Primary reporting format – business segments (continued)

Other operation of the Group mainly comprises provision of the design and research service, production and sale of construction machinery, neither of which are of a sufficient size to be reported separately.

| | Year ended 31st December 2004 | | | | | Group RMB'000 |
|--|-------------------------------|----------------------------------|------------------------------------|--------------------------------|------------------------|------------------|
| | Construction RMB'000 | Building materials RMB'000 | Property development RMB'000 | Other operations RMB'000 | Elimination RMB'000 | |
| Turnover | 3,912,850 | 287,944 | 492,194 | 42,566 | (357,120) | 4,378,434 |
| Segment results | 199,759 | 44,896 | 169,394 | (6,311) | (5,505) | 402,233 |
| Unallocated revenues and income | | | | | | 37,211 |
| Unallocated expenses | | | | | | (632) |
| Operating profit | | | | | | 438,812 |
| Finance costs | | | | | | (23,981) |
| Share of loss of a jointly controlled entity | - | - | (2,100) | - | - | (2,100) |
| Profit before taxation | | | | | | 412,731 |
| Taxation | | | | | | (120,009) |
| Profit after taxation | | | | | | 292,722 |
| Minority interests | | | | | | (17,640) |
| Profit attributable to shareholders | | | | | | 275,082 |
| Segment assets | 2,161,378 | 541,517 | 895,861 | 34,521 | (114,516) | 3,518,761 |
| Unallocated assets | | | | | | 28,776 |
| Total assets | | | | | | 3,547,537 |
| Segment liabilities | 1,107,718 | 268,740 | 572,852 | 16,788 | (112,011) | 1,854,087 |
| Unallocated liabilities | | | | | | 534,808 |
| Total liabilities | | | | | | 2,388,895 |
| Capital expenditures | 86,538 | 153,455 | 355 | 12,308 | (4,440) | 248,216 |
| Depreciation | 15,263 | 12,412 | 2,026 | 1,071 | - | 30,772 |
| Write back of provision for doubtful receivables, net | (4,632) | 126 | 1,692 | 112 | - | (2,702) |

NOTES TO THE ACCOUNTS

4. TURNOVER, REVENUE AND INCOME AND SEGMENT INFORMATION (continued)

Primary reporting format – business segments (continued)

| | 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 |
| Unallocated revenues and income | | | | | | 43,557 |
| Unallocated expenses | | | | | | (112) |
| Operating profit | | | | | | 206,145 |
| Finance costs | | | | | | (23,101) |
| Share of loss of a jointly controlled entity | - | - | (2,802) | - | - | (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 for doubtful receivables, net | (1,985) | 727 | (322) | - | - | (1,580) |

NOTES TO THE ACCOUNTS

4. TURNOVER, REVENUE AND INCOME AND SEGMENT INFORMATION (continued)

Secondary reporting format – geographical segments

No geographical segments information is presented for both years 2003 and 2004 as substantially all the Group's businesses were carried out and all the Group's assets are located in the PRC.

5. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

| | 2004 RMB'000 | 2003 RMB'000 |
|---|-----------------|-----------------|
| <i>Crediting:</i> | | |
| Gains on disposals of fixed assets | 6,779 | 4,322 |
| Write back of provision for doubtful receivables, net | 2,702 | 1,580 |
| <i>Charging:</i> | | |
| Depreciation of fixed assets | 30,772 | 19,165 |
| Staff costs (note 11) | 672,105 | 481,560 |
| Cost of inventories sold | 3,580,662 | 2,445,164 |
| Operating leases of land and buildings | 2,939 | 1,749 |
| Auditors' remuneration | 1,800 | 1,855 |
| Provision for warranty | 2,400 | 1,700 |
| Amortisation of goodwill | 79 | – |

6. FINANCE COSTS

| | 2004 RMB'000 | 2003 RMB'000 |
|--|-----------------|-----------------|
| Interest on bank loans | 42,137 | 26,270 |
| Less: interest capitalised in construction in progress | (4,657) | (1,555) |
| Less: interest capitalised in properties under development | (13,499) | (1,614) |
| | 23,981 | 23,101 |

The capitalisation rates applied to funds borrowed generally and used for the development of properties and construction in progress were approximately 5.3% (2003: 5.1%) per annum.

NOTES TO THE ACCOUNTS

7. TAXATION

The amount of taxation charged to the consolidated profit and loss account represents:

| | 2004 | 2003 |
|--------------------------------------|----------------|---------|
| | RMB'000 | RMB'000 |
| Current taxation | | |
| – PRC enterprise income tax | 127,288 | 56,709 |
| Deferred taxation (<i>note 30</i>) | (7,279) | 1,638 |
| | 120,009 | 58,347 |

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

| | 2004 | 2003 |
|---|-----------------|---------|
| | RMB'000 | RMB'000 |
| Profit before taxation | 412,731 | 180,242 |
| Calculated at a taxation rate of 33% (2003: 33%) | 136,201 | 59,480 |
| Expenses not deductible for taxation purposes | 838 | 4,473 |
| Unrecognised tax losses | 2,702 | 876 |
| Utilisation of previously unrecognised tax losses | (4) | (305) |
| Effect of partial income tax exemption | (19,728) | (6,177) |
| Taxation charge | 120,009 | 58,347 |

(a) The Company and its subsidiaries comprising the Group are subject to PRC enterprise income tax at a rate of 33% (2003: 33%).

(b) According to the tax circulars, Shaoxingdishui Qianqingzi 2005 No. 001 to No. 005, five subsidiaries of the Company, namely, Zhejiang Baoye Real Estate Group Co., Ltd. ("Baoye Real Estate"), Zhejiang Baoye Construction Group Co., Ltd., Shaoxing Baoye Fireproof Materials Co., Ltd., Zhejiang Guangyi Construction and Decoration Co., Ltd. and Zhejiang Baoye Curtain Wall Decoration Co., Ltd., are entitled to a 10% (2003: 10%) reduction of their enterprise income taxes as they are located in villages and towns of the PRC.

NOTES TO THE ACCOUNTS

7. TAXATION (continued)

- (c) According to the tax circular, Zhidishuizi 2003 No. 212 issued by the local tax bureau of Shaoxing County, a subsidiary of the Company, Zhejiang Baoye Building Materials Industrialisation Company Limited is entitled to an income tax credit of 40% on the purchase cost of certain qualified equipment manufactured in the PRC.
- (d) No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the year (2003: Nil).

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB109,630,000 (2003: RMB161,309,000).

9. DIVIDENDS

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

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of RMB275,082,000 (2003: RMB112,409,000) and the 531,426,053 (2003: weighted average of 441,084,053) ordinary shares in issued during the year.

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

11. STAFF COSTS

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

| | 2004 | 2003 |
|--|----------------|---------|
| | RMB'000 | RMB'000 |
| Wages and salaries | 663,611 | 475,653 |
| Welfare, medical and other expenses | 5,673 | 3,602 |
| Retirement benefit costs (<i>note (a)</i>) | 2,821 | 2,305 |
| | 672,105 | 481,560 |

NOTES TO THE ACCOUNTS

11. STAFF COSTS (continued)

- (a) As stipulated by the Government regulations in PRC, the Company and its subsidiaries are required to contribute to the state-sponsored retirement scheme for all of its employees at 19% to 20% (2003: 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.

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:

| | 2004 | 2003 |
|--|----------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Fees for executive directors | – | – |
| Fees for non-executive directors | 340 | 419 |
| Fees for supervisors | 50 | 60 |
| Other emoluments for executive directors | | |
| – Basic salaries and allowances | 336 | 171 |
| – Bonuses | 1,476 | 1,339 |
| – Retirement benefits | 10 | 10 |
| Other emoluments for non-executive directors | – | – |
| Other emoluments for supervisors | 192 | 163 |
| | 2,404 | 2,162 |

The emoluments for each of the directors and supervisors fell within the band of nil to RMB1,060,000 (HKD1,000,000) during the years ended 31st December 2004 and 2003.

During the years ended 31st December 2004 and 2003, no director and supervisor waived any emoluments. Neither 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 2004 and 2003.

NOTES TO THE ACCOUNTS

12. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include 4 (2003: 5) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 1 (2003: Nil) individual during the year are as follows:

| | 2004 RMB'000 | 2003 RMB'000 |
|-------------------------------|-----------------|-----------------|
| Basic salaries and allowances | 84 | – |
| Bonuses | 468 | – |
| Retirement benefits | 3 | – |
| | 555 | – |

The emoluments for the individual who is not a director and supervisor, fell within the band of nil to RMB1,060,000 (HKD1,000,000) during the year ended 31st December 2004.

13. INTANGIBLE ASSETS

Goodwill

| Year ended 31st December 2004 | RMB'000 |
|---|---------|
| Opening net book amount | – |
| Acquisition of subsidiaries and additional interest in a subsidiary (note 16) | 1,124 |
| Amortisation charge | (79) |
| | 1,045 |
| Closing net book amount | 1,045 |

| | 2004 RMB'000 | 2003 RMB'000 |
|--------------------------|-----------------|-----------------|
| Cost | 1,124 | – |
| Accumulated amortisation | (79) | – |
| | 1,045 | – |
| Net book amount | 1,045 | – |

NOTES TO THE ACCOUNTS

14. FIXED ASSETS

Group

| | Investment properties <i>RMB'000</i> | Land use rights <i>RMB'000</i> | Buildings <i>RMB'000</i> | Plant and machinery <i>RMB'000</i> | Motor vehicles <i>RMB'000</i> | Office equipment and others <i>RMB'000</i> | Construc- tion in progress <i>RMB'000</i> | Total <i>RMB'000</i> |
|------------------------------|--|--------------------------------------|-----------------------------|--|-------------------------------------|---|--|-------------------------|
| Cost or valuation: | | | | | | | | |
| At 1st January 2004 | 5,188 | 72,184 | 94,424 | 101,172 | 65,906 | 12,538 | 64,661 | 416,073 |
| Acquisition of subsidiaries | - | - | - | 7,999 | - | - | - | 7,999 |
| Additions | - | - | 18,072 | 98,456 | 5,690 | 3,318 | 115,330 | 240,866 |
| Transfers | - | - | 65,018 | 15,338 | - | - | (80,356) | - |
| Disposals | - | - | (589) | (4,795) | (375) | (107) | - | (5,866) |
| At 31st December 2004 | 5,188 | 72,184 | 176,925 | 218,170 | 71,221 | 15,749 | 99,635 | 659,072 |
| Accumulated depreciation: | | | | | | | | |
| At 1st January 2004 | - | 1,345 | 14,878 | 43,328 | 26,443 | 5,932 | - | 91,926 |
| Acquisition of subsidiaries | - | - | - | 649 | - | - | - | 649 |
| Charge for the year | - | 1,278 | 6,052 | 13,919 | 7,742 | 1,781 | - | 30,772 |
| Disposals | - | - | (40) | (473) | (361) | (23) | - | (897) |
| At 31st December 2004 | - | 2,623 | 20,890 | 57,423 | 33,824 | 7,690 | - | 122,450 |
| Net book value: | | | | | | | | |
| At 31st December 2004 | 5,188 | 69,561 | 156,035 | 160,747 | 37,397 | 8,059 | 99,635 | 536,622 |
| At 31st December 2003 | 5,188 | 70,839 | 79,546 | 57,844 | 39,463 | 6,606 | 64,661 | 324,147 |

NOTES TO THE ACCOUNTS

14. FIXED ASSETS (continued)

The analysis of the cost or valuation at 31st December 2004 and 2003 of the above assets is as follows:

| | Investment properties <i>RMB'000</i> | Land use rights <i>RMB'000</i> | Buildings <i>RMB'000</i> | Plant and machinery <i>RMB'000</i> | Motor vehicles <i>RMB'000</i> | Office equipment and others <i>RMB'000</i> | Construc- tion in progress <i>RMB'000</i> | Total <i>RMB'000</i> |
|------------------------------|--|--------------------------------------|-----------------------------|--|-------------------------------------|---|--|-------------------------|
| At 31st December 2004 | | | | | | | | |
| At cost | - | 72,184 | 176,925 | 218,170 | 71,221 | 15,749 | 99,635 | 653,884 |
| At valuation | 5,188 | - | - | - | - | - | - | 5,188 |
| | 5,188 | 72,184 | 176,925 | 218,170 | 71,221 | 15,749 | 99,635 | 659,072 |
| 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 |

NOTES TO THE ACCOUNTS

14. FIXED ASSETS (continued)

Company

| | Land use rights RMB'000 | Buildings RMB'000 | Motor vehicles RMB'000 | Office equipment and others RMB'000 | Construc- tion in progress RMB'000 | Total RMB'000 |
|------------------------------|-------------------------------|----------------------|------------------------------|--|---|------------------|
| Cost: | | | | | | |
| At 1st January 2004 | 64,033 | 388 | 4,632 | 726 | – | 69,779 |
| Additions | – | – | 371 | 227 | 3,621 | 4,219 |
| Transfer from subsidiaries | – | – | – | – | 44,746 | 44,746 |
| Disposals | – | – | – | (64) | – | (64) |
| At 31st December 2004 | 64,033 | 388 | 5,003 | 889 | 48,367 | 118,680 |
| Accumulated depreciation: | | | | | | |
| At 1st January 2004 | 1,033 | – | 610 | 48 | – | 1,691 |
| Charge for the year | 1,192 | 18 | 839 | 171 | – | 2,220 |
| Disposals | – | – | – | (8) | – | (8) |
| At 31st December 2004 | 2,225 | 18 | 1,449 | 211 | – | 3,903 |
| Net book value: | | | | | | |
| At 31st December 2004 | 61,808 | 370 | 3,554 | 678 | 48,367 | 114,777 |
| At 31st December 2003 | 63,000 | 388 | 4,022 | 678 | – | 68,088 |

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

The investment properties were revalued at 31st December 2004 on the basis of their open market value by Shaoxing Zhongxing Asset Revaluation Limited Company, an independent qualified valuer in the PRC.

NOTES TO THE ACCOUNTS

14. FIXED ASSETS (continued)

As at 31st December 2004, the construction in progress of the Group included interest capitalised of RMB6,212,000 (2003: RMB1,555,000). The construction in progress of the Company included interest capitalised of RMB2,058,000 (2003: Nil).

As at 31st December 2004, the net book value of land use rights and buildings secured as security for the Group's short-term bank loans amounted to RMB36,697,000 (2003: RMB37,633,000) (note 26). The net book value of land use rights and buildings secured as security for the Company's short-term bank loans amounted to RMB31,571,000 (2003: RMB32,160,000) (note 26).

15. PROPERTIES UNDER DEVELOPMENT

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

| | Group | | Company | |
|--------------------|-----------------|-----------------|-----------------|-----------------|
| | 2004 RMB'000 | 2003 RMB'000 | 2004 RMB'000 | 2003 RMB'000 |
| Within one year | 474,344 | 247,194 | – | – |
| More than one year | 459,659 | 249,860 | 227,820 | – |
| | 934,003 | 497,054 | 227,820 | – |

As at 31st December 2004, properties under development included interest capitalised of RMB13,499,000 (2003: RMB713,000).

16. INVESTMENTS IN SUBSIDIARIES

Company

| | 2004 RMB'000 | 2003 RMB'000 |
|-------------------------------|-----------------|-----------------|
| Investments at cost, unlisted | 526,479 | 398,720 |
| Amounts due from subsidiaries | 135,288 | 7,342 |
| Amounts due to subsidiaries | (39,635) | (140,493) |
| | 622,132 | 265,569 |

The amounts due from/(to) subsidiaries are unsecured, interest free and are not requested to be repaid within one year.

NOTES TO THE ACCOUNTS

16. INVESTMENTS IN SUBSIDIARIES (continued)

The following is a list of the principal subsidiaries as at 31st December 2004:

| Name | Place of incorporation and entity type | Attributable equity interest held | | Registered capital | Principal activities |
|--|--|-----------------------------------|------------|--|--|
| | | Directly | Indirectly | | |
| 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. | The PRC, limited liability company | 90% | 9.9% | RMB50,000,000 | Development and sales of properties |
| Zhejiang Baoye Building Materials Industrialisation Company Limited ("Baoye Building Materials") | The PRC, joint stock limited company | – | 63.9% | RMB60,600,000 (60,600,000 shares per RMB1 each) | Production and sales of concrete and construction materials |
| 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 and wood fireproof doors |

NOTES TO THE ACCOUNTS

16. INVESTMENTS IN SUBSIDIARIES (continued)

| Name | Place of incorporation and entity type | Attributable equity interest held | | Registered capital | Principal activities |
|---|--|-----------------------------------|------------|--------------------|---|
| | | Directly | Indirectly | | |
| Zhejiang Baoye Construction Design Research Institute Co., Ltd. (formerly known as 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. (note (a)) | The PRC, limited liability company | – | 70% | RMB18,000,000 | Real estate development |
| Shaoxing Baogang Woodwork Co., Ltd. | The PRC, foreign invested enterprise | 70% | – | USD2,720,000 | Production and sales of wooden door and other wooden products |
| Shaoxing Baoye Construction Intelligent Technology Co., Ltd. | The PRC, limited liability company | 60% | 39.6% | RMB2,000,000 | Installation of computer management system |
| Hangzhou International Airport Mansion Development Co., Ltd. (note (b)) | The PRC, limited liability company | 90% | – | RMB80,000,000 | Development of Hangzhou International Airport Mansion |

NOTES TO THE ACCOUNTS

16. INVESTMENTS IN SUBSIDIARIES (continued)

| Name | Place of incorporation and entity type | Attributable equity interest held | | Registered capital | Principal activities |
|---|--|-----------------------------------|------------|--------------------|---|
| | | Directly | Indirectly | | |
| Shaoxing Huaxin Ready-mixed Commodity Concrete Co., Ltd. | The PRC, limited liability company | 51.5% | – | RMB20,000,000 | Production and sales of concrete and construction materials |
| Hefei Baoye Concrete Co., Ltd. | The PRC, limited liability company | 90% | 9.9% | RMB10,000,000 | Production and sales of concrete and construction materials |
| Zhejiang Baoye Steel Structure Co., Ltd. | The PRC, limited liability company | 95% | 4.95% | RMB20,000,000 | Production, design and sales of steel structure products |
| Shaoxing Guangmao Logistics Co., Ltd. | The PRC, limited liability company | 90% | 6.4% | RMB5,000,000 | Provision of freight services and sales of construction materials |
| Hefei Zhongbao Machinery Manufacture Co., Ltd. (note (c)) | The PRC, limited liability company | – | 89.9% | RMB10,000,000 | Production and sales of machinery and fittings |

Note:

- (a) During the year, Baoye Real Estate entered into an agreement with Mr. Xu Jianjun, a minority shareholder, to acquire an additional 15% equity interest of Shanghai Zibao Real Estate Development Co., Ltd. ("Zibao Real Estate") from Mr. Xu Jianjun for a consideration of RMB2,900,000, resulting a goodwill of RMB564,000. Following the acquisition, Baoye Real Estate owned 70% equity interest of Zibao Real Estate.
- (b) During the year, the Company entered into an agreement with Hangzhou Airport to acquire 90% equity interest of Airport Mansion from Hangzhou Airport at a consideration of RMB83,077,000, resulting a goodwill of RMB113,000.
- (c) During the year, Baoye Real Estate entered into an agreement with Hefei Qingfangcheng Baoye Real Estate Co., Ltd. ("Hefei Qingfangcheng"), a jointly controlled entity of the Company, to acquire 90% equity interest of Hefei Zhongbao Machinery Manufacture Co., Ltd. ("Zhongbao Machinery") from Hefei Qingfangcheng at a consideration of RMB9,000,000, resulting a goodwill of RMB447,000.

NOTES TO THE ACCOUNTS

17. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

(a) The investment represents:

Group

| | 2004 <i>RMB'000</i> | 2003 <i>RMB'000</i> |
|--|------------------------|------------------------|
| Share of net assets at 1st January | 11,182 | 13,984 |
| Share of loss | (2,100) | (2,802) |
| Share of net assets at 31st December | 9,082 | 11,182 |
| Amounts due from a jointly controlled entity | – | 33,000 |
| | 9,082 | 44,182 |

Company

| | 2004 <i>RMB'000</i> | 2003 <i>RMB'000</i> |
|--|------------------------|------------------------|
| Unlisted investments, at cost | 15,000 | 15,000 |
| Provision for impairment losses | (5,918) | (3,818) |
| Amounts due from a jointly controlled entity | – | 33,000 |
| | 9,082 | 44,182 |

Details of the jointly controlled entity are 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% | RMB30,000,000 | Real estate development |

NOTES TO THE ACCOUNTS

17. INVESTMENT IN A JOINTLY CONTROLLED ENTITY (continued)

- (b) The loans to a jointly controlled entity as at 31st December 2004 are unsecured, charged at the rates ranging from 5.04% to 5.32% per annum and repayable within one year.
- (c) The amounts due from/(to) a jointly controlled entity are unsecured, interest free and have no fixed repayment terms.

18. INVENTORIES

Group

| | 2004 <i>RMB'000</i> | 2003 <i>RMB'000</i> |
|---------------------|------------------------|------------------------|
| Raw materials | 17,442 | 11,212 |
| Work in progress | 5,683 | – |
| Finished goods | 14,015 | 8,469 |
| Production supplies | 174 | 171 |
| | 37,314 | 19,852 |

As at 31st December 2004, no inventory is carried at net realisable value (2003: Nil).

19. CONSTRUCTION CONTRACTS

Group

| | 2004 <i>RMB'000</i> | 2003 <i>RMB'000</i> |
|--|------------------------|------------------------|
| Contract costs incurred plus attributable profits less foreseeable losses to date | 8,242,626 | 4,850,458 |
| Less: progress billings to date | (8,160,564) | (4,827,390) |
| | 82,062 | 23,068 |
| Included in current assets/(liabilities) under the following captions: | | |
| Due from customers on construction contracts | 412,580 | 234,852 |
| Due to customers on construction contracts | (330,518) | (211,784) |
| | 82,062 | 23,068 |

NOTES TO THE ACCOUNTS

19. CONSTRUCTION CONTRACTS (continued)

As at 31st December 2004, retentions and project deposits held by customers for contract work included in other receivables of the Group under note 21 amounted to RMB451,302,000 (2003: RMB286,395,000).

20. TRADE RECEIVABLES

Group

| | 2004 | 2003 |
|------------------------------------|----------------|---------|
| | RMB'000 | RMB'000 |
| Trade and notes receivables | 329,693 | 150,111 |
| Less: provision for doubtful debts | (9,141) | (6,275) |
| | 320,552 | 143,836 |

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

Group

| | 2004 | 2003 |
|--------------------|----------------|---------|
| | RMB'000 | RMB'000 |
| 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 |
| | 329,693 | 150,111 |

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.

NOTES TO THE ACCOUNTS

21. OTHER RECEIVABLES

| | Group | | Company | |
|---|-----------------|-----------------|-----------------|-----------------|
| | 2004 RMB'000 | 2003 RMB'000 | 2004 RMB'000 | 2003 RMB'000 |
| Prepayments and deposits | 25,160 | 24,258 | 8 | 526 |
| Other receivables | 56,647 | 43,722 | 21,872 | 274 |
| Prepayments for a real estate development project | 50,000 | 229,390 | 50,000 | 229,390 |
| Retention money receivables and project deposits (note 19) | 451,302 | 286,395 | – | – |
| | 583,109 | 583,765 | 71,880 | 230,190 |

22. BANK BALANCES AND CASH

| | Group | | Company | |
|--------------|-----------------|-----------------|-----------------|-----------------|
| | 2004 RMB'000 | 2003 RMB'000 | 2004 RMB'000 | 2003 RMB'000 |
| Cash on hand | 9,830 | 6,168 | 808 | 1,296 |
| Cash at bank | 543,316 | 492,524 | 39,926 | 287,453 |
| | 553,146 | 498,692 | 40,734 | 288,749 |

Note:

- (a) As at 31st December 2004, certain deposits with banks amounting to RMB22,051,000 (2003: RMB16,285,000) have been confined to be used for guarantee the performance of certain construction contracts work and notes payable.
- (b) All cash and bank balances are deposited with banks in the PRC. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC Government.

NOTES TO THE ACCOUNTS

23. TRADE PAYABLES

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

| | Group | | Company | |
|--------------------|-----------------|-----------------|-----------------|-----------------|
| | 2004 RMB'000 | 2003 RMB'000 | 2004 RMB'000 | 2003 RMB'000 |
| 0 to 3 months | 117,956 | 144,244 | – | – |
| 3 months to 1 year | 140,881 | 46,863 | 150 | – |
| 1 to 2 years | 17,999 | 28,005 | – | – |
| 2 to 3 years | 4,356 | 2,777 | – | – |
| Over 3 years | 2,307 | 905 | – | – |
| | 283,499 | 222,794 | 150 | – |

24. OTHER PAYABLES

| | Group | | Company | |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2004 RMB'000 | 2003 RMB'000 | 2004 RMB'000 | 2003 RMB'000 |
| Other tax payables | 90,429 | 87,537 | 7,051 | 7,228 |
| Other payables | 124,992 | 88,152 | 20,302 | 1,887 |
| Deposits from project managers | 79,763 | 59,007 | – | – |
| Accruals | 2,205 | 2,034 | 1,500 | 1,297 |
| | 297,389 | 236,730 | 28,853 | 10,412 |

NOTES TO THE ACCOUNTS

25. PROVISION FOR WARRANTY

Group

| | 2004 <i>RMB'000</i> | 2003 <i>RMB'000</i> |
|--------------------------|-------------------------------|-------------------------------|
| At beginning of the year | 5,000 | 4,880 |
| Additional provision | 2,400 | 1,700 |
| Less: amount utilised | (4,780) | (1,580) |
| At end of the year | 2,620 | 5,000 |

The Group gives 6 months to 5 years warranties on construction work and undertakes to repair construction work that fail to perform satisfactorily. Provision has been recognised for expected warranty claims based on the past experience of the level of repairs.

26. BORROWINGS

| | Group | | Company | |
|------------------------------|-------------------------------|------------------------|-------------------------------|------------------------|
| | 2004 <i>RMB'000</i> | 2003 <i>RMB'000</i> | 2004 <i>RMB'000</i> | 2003 <i>RMB'000</i> |
| Short-term bank loans | | | | |
| Unsecured | 866,000 | 496,950 | 350,000 | 160,000 |
| Secured | 46,000 | 46,000 | 46,000 | 46,000 |
| | 912,000 | 542,950 | 396,000 | 206,000 |

Note:

- (a) As at 31st December 2004, the secured short-term bank loans were secured by the land use rights and buildings of the Company with net book values amounting to RMB31,571,000 (2003: RMB32,160,000) and those of its subsidiary, Baoye Construction, amounting to RMB5,126,000 (2003: RMB5,473,000).
- (b) Interest of these loans was charged on the outstanding loan balances at 5% to 6% (2003: 5% to 6%) per annum.

NOTES TO THE ACCOUNTS

27. AMOUNTS DUE FROM/(TO) SHAREHOLDERS AND MINORITY SHAREHOLDERS

The balances with shareholders and minority shareholders were unsecured, interest free and had no fixed repayment terms or repayable in accordance with the terms of sales contracts entered.

- (a) The amounts due from minority shareholders mainly represented receivables arising from sales of products. The amounts due to minority shareholders mainly represented dividends payable to minority shareholders, which have not been paid out as at 31st December 2004.
- (b) The amount due from a shareholder mainly represented receivables arising from sales of real estate properties and the amounts due to shareholders mainly represented the deposits received in relation to the sale of real estate properties.

28. SHARE CAPITAL

The movements of share capital are as follows:

| | Number of shares <i>(in thousand)</i> | Share capital <i>RMB'000</i> |
|---|---|--|
| At 1st January 2003 | 350,742 | 350,742 |
| Issue of H shares <i>(note (a))</i> | 180,684 | 180,684 |
| At 31st December 2003 and 31st December 2004 | 531,426 | 531,426 |

Note:

- (a) 180,684,000 H Shares of RMB1.00 each were issued at HKD1.43 (RMB1.52) each and were fully paid up in form of cash, resulting in capital reserve of RMB56,150,000 after deducting the share issuance costs.
- (b) Details of the placing of the Company's shares that took place on 13th January 2005 are shown in note 35.

NOTES TO THE ACCOUNTS

29. RESERVES

Group

| | Capital reserve (Note (b)) RMB'000 | Investment properties revaluation reserve RMB'000 | Other assets 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 2004 | 56,150 | 1,240 | 7,551 | 21,656 | 10,828 | 187,557 | 284,982 |
| Transfer to profit and loss account upon sale of completed properties | - | - | (3,680) | - | - | - | (3,680) |
| Profit for the year | - | - | - | - | - | 275,082 | 275,082 |
| Transfer to statutory surplus reserve | - | - | - | 27,388 | - | (27,388) | - |
| Transfer to statutory public welfare fund | - | - | - | - | 13,694 | (13,694) | - |
| Dividends | - | - | - | - | - | (33,746) | (33,746) |
| As at 31st December | | | | | | | |
| 2004 | 56,150 | 1,240 | 3,871 | 49,044 | 24,522 | 387,811 | 522,638 |
| Representing: | | | | | | | |
| 2004 final dividend proposed | | | | | | 81,502 | |
| Retained earnings | | | | | | 306,309 | |
| | | | | | | <u>387,811</u> | |
| Company and subsidiaries | 56,150 | 1,240 | 3,871 | 49,044 | 24,522 | 393,729 | 528,556 |
| Jointly controlled entity | - | - | - | - | - | (5,918) | (5,918) |
| At 31st December 2004 | 56,150 | 1,240 | 3,871 | 49,044 | 24,522 | 387,811 | 522,638 |

NOTES TO THE ACCOUNTS

29. RESERVES (continued)

Group (continued)

| | Capital reserve (Note (b)) RMB'000 | Share issuance costs RMB'000 | Investment properties revaluation reserve RMB'000 | Other assets 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 2003 | - | (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 | (7,551) | 7,551 | - | - | - | - |
| 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 | - | 1,240 | 7,551 | 21,656 | 10,828 | 187,557 | 284,982 |
| Representing: | | | | | | | | |
| 2003 final dividend proposed | | | | | | | 33,746 | |
| Retained earnings | | | | | | | 153,811 | |
| | | | | | | | <u>187,557</u> | |
| Company and subsidiaries | 56,150 | - | 1,240 | 7,551 | 21,656 | 10,828 | 191,375 | 288,800 |
| Jointly controlled entity | - | - | - | - | - | - | (3,818) | (3,818) |
| At 31st December 2003 | 56,150 | - | 1,240 | 7,551 | 21,656 | 10,828 | 187,557 | 284,982 |

NOTES TO THE ACCOUNTS

29. RESERVES (continued) Company

| | Capital reserve (Note (b)) 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 2004 | 56,150 | 21,656 | 10,828 | 53,087 | 141,721 |
| Profit for the year | – | – | – | 109,630 | 109,630 |
| Transfer to statutory surplus reserve | – | 27,388 | – | (27,388) | – |
| Transfer to statutory public welfare fund | – | – | 13,694 | (13,694) | – |
| Dividends | – | – | – | (33,746) | (33,746) |
| As at 31st December 2004 | 56,150 | 49,044 | 24,522 | 87,889 | 217,605 |

Representing:

2004 final dividend proposed

81,502

Retained earnings

6,387

87,889

NOTES TO THE ACCOUNTS

29. RESERVES (continued)

Company (continued)

| | Capital reserve (Note (b)) RMB'000 | Share issuance costs RMB'000 | Statutory surplus reserve (Note (a)(i)) RMB'000 | Statutory (Accumulated public welfare fund (Note (a)(ii)) RMB'000 | 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 | |
| | | | | | <u>53,087</u> | |

(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.

NOTES TO THE ACCOUNTS

29. RESERVES (continued)

(a) Reserve funds (continued)

(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.

(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 share capital 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.

30. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 33% (2003: 33%).

The movement on deferred tax assets/(liabilities) net balances is as follows:

| | Group | | Company | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2004 RMB'000 | 2003 RMB'000 | 2004 RMB'000 | 2003 RMB'000 |
| At beginning of year | 231 | 1,869 | – | – |
| Credited/(charged) to profit and loss account | 7,279 | (1,638) | (679) | – |
| At end of year | 7,510 | 231 | (679) | – |

NOTES TO THE ACCOUNTS

30. DEFERRED TAXATION (continued)

The movement in deferred tax assets and liabilities (prior to offsetting of balance within the same taxation jurisdiction) during the year are as follows:

Group

Deferred tax assets

| | Provision for doubtful receivables | | Tax losses | | Elimination of unrealised profit resulting from intragroup transactions | | Total | |
|---|------------------------------------|---------|------------|---------|---|---------|---------|---------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Balance at 1st January | 6,273 | 6,794 | - | - | - | - | 6,273 | 6,794 |
| (Charged)/credited to profit and loss account | (892) | (521) | 2,223 | - | 5,405 | - | 6,736 | (521) |
| Balance at 31st December | 5,381 | 6,273 | 2,223 | - | 5,405 | - | 13,009 | 6,273 |

Deferred tax liabilities

| | Accelerated tax depreciation | | Revaluation of assets | | Interest expense capitalised | | Total | |
|---|------------------------------|---------|-----------------------|---------|------------------------------|---------|---------|---------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Balance at 1st January | (538) | - | (4,458) | (4,855) | (1,046) | (70) | (6,042) | (4,925) |
| Transfers | - | (538) | - | 538 | - | - | - | - |
| (Charged)/credited to profit and loss account | (139) | - | 1,933 | (141) | (1,251) | (976) | 543 | (1,117) |
| Balance at 31st December | (677) | (538) | (2,525) | (4,458) | (2,297) | (1,046) | (5,499) | (6,042) |

NOTES TO THE ACCOUNTS

30. DEFERRED TAXATION (continued)

The amounts shown in the balance sheet include the following:

| | 2004 <i>RMB'000</i> | 2003 <i>RMB'000</i> |
|--|-------------------------------|-------------------------------|
| Deferred tax assets to be recovered after more than 12 months | 7,515 | 5,381 |
| Deferred tax liabilities to be settled after more than 12 months | (5,400) | (5,499) |

Company

Deferred tax liabilities

| | Interest expense capitalised | |
|------------------------------------|-------------------------------------|-------------------------------|
| | 2004 <i>RMB'000</i> | 2003 <i>RMB'000</i> |
| Balance at 1st January | - | - |
| Charged to profit and loss account | (679) | - |
| Balance at 31st December | (679) | - |

The amounts shown in the balance sheet include the following:

| | 2004 <i>RMB'000</i> | 2003 <i>RMB'000</i> |
|--|-------------------------------|-------------------------------|
| Deferred tax liabilities to be settled after more than 12 months | (670) | - |

NOTES TO THE ACCOUNTS

31. CONSOLIDATED CASH FLOW STATEMENT

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

| | 2004 <i>RMB'000</i> | 2003 <i>RMB'000</i> |
|--|------------------------|------------------------|
| Profit before taxation | 412,731 | 180,242 |
| Depreciation | 30,772 | 19,165 |
| Amortisation of goodwill | 79 | – |
| Share of loss of a jointly controlled entity | 2,100 | 2,802 |
| Write back of provision for doubtful receivables, net | (2,702) | (1,580) |
| Gain on disposals of fixed assets | (6,779) | (4,322) |
| Gain on disposal of a subsidiary | – | (109) |
| Interest income | (26,422) | (12,416) |
| Interest expenses | 23,981 | 23,101 |
| Operating profit before working capital changes | 433,760 | 206,883 |
| Increase in properties under development, properties held for development and completed properties held for sale | (214,880) | (357,754) |
| Increase in restricted bank deposits | (5,766) | (1,895) |
| Increase in inventories | (15,347) | (7,952) |
| Increase in balances with customers on construction contracts | (58,994) | (23,650) |
| Increase in trade and other receivables and amounts due from minority shareholders | (163,305) | (321,006) |
| Increase in trade and other payables, receipts in advance, amounts due to shareholders and a jointly controlled entity and provision for warranty | 190,221 | 405,314 |
| Net cash inflow/(outflow) generated from operations | 165,689 | (100,060) |

NOTES TO THE ACCOUNTS

31. CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing activities

| | Share capital and capital reserve <i>RMB'000</i> | Minority interests <i>RMB'000</i> | Bank loans <i>RMB'000</i> |
|--|---|---|------------------------------|
| As at 1st January 2003 | 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 | 587,576 | 72,606 | 542,950 |
| As at 1st January 2004 | 587,576 | 72,606 | 542,950 |
| Net cash inflow from borrowings | – | – | 369,050 |
| Injections from minority shareholders | – | 9,744 | – |
| Profit attributable to minority shareholders | – | 17,640 | – |
| Profit appropriation to minority shareholders | – | (3,256) | – |
| Acquisition of subsidiaries | – | 10,180 | – |
| Acquisition of interest in a subsidiary from a minority shareholder | – | (2,336) | – |
| As at 31st December 2004 | 587,576 | 104,578 | 912,000 |

NOTES TO THE ACCOUNTS

31. CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Purchase of subsidiaries

During the year, as mentioned in note 16(b) and (c), the Group acquired interests in Airport Mansion and Zhangbao Machinery. Details of the cash flow arising from the acquisitions are as follows:

| | <i>RMB'000</i> |
|--|----------------|
| Net assets acquired | |
| Fixed assets | 7,350 |
| Properties under development | 72,529 |
| Inventories | 2,115 |
| Trade and other receivables | 18,652 |
| Bank balances and cash | 12,033 |
| Trade and other payables | (10,982) |
| Minority shareholders' interests | (10,180) |
| | <hr/> 91,517 |
| Goodwill | 560 |
| | <hr/> 92,077 |
| Satisfied by | |
| Other payables | 11,077 |
| Amounts due to a jointly controlled entity | 9,000 |
| Cash | 72,000 |
| | <hr/> 92,077 |

The subsidiaries acquired during the year contributed RMB7,786,000 to the Group's net operating cash flow and no cash was paid in respect of the net returns on investments and servicing of finance, taxation and investment activities.

NOTES TO THE ACCOUNTS

31. CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Purchase of subsidiaries (continued)

Analysis of the net outflow in respect of the purchase of the subsidiaries:

| | 2004 RMB'000 |
|---|-----------------|
| Cash consideration | 72,000 |
| Bank balances and cash acquired | (12,033) |
| | <hr/> |
| Net cash outflow in respect of the purchase of subsidiaries | 59,967 |

32. CONTINGENT LIABILITIES

| | Group | | Company | |
|---|-----------------|-----------------|-----------------|-----------------|
| | 2004 RMB'000 | 2003 RMB'000 | 2004 RMB'000 | 2003 RMB'000 |
| Guarantees given to banks in respect of mortgage facilities granted to third parties (note (a)) | 58,690 | 50,000 | – | – |
| Guarantees given to banks in respect of bank loans granted to subsidiaries | – | – | 456,000 | 336,950 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 58,690 | 50,000 | 456,000 | 336,950 |

- (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 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.

NOTES TO THE ACCOUNTS

33. COMMITMENTS

(a) Capital commitments

- (i) The Group and the Company had the following capital commitments authorised but not provided for:

| | Group | | Company | |
|---------------------|-----------------|-----------------|-----------------|-----------------|
| | 2004 RMB'000 | 2003 RMB'000 | 2004 RMB'000 | 2003 RMB'000 |
| Land and buildings | - | 43,245 | - | 43,245 |
| Plant and machinery | - | 22,428 | - | 22,428 |
| | - | 65,673 | - | 65,673 |

(b) Commitments under operating leases

- Where the Group is the lessor

At 31st December 2004, the Group had future aggregate minimum lease receivables under non-cancellable operating leases in respect of land and buildings as follows:

| | Group | |
|-------------------------|-----------------|-----------------|
| | 2004 RMB'000 | 2003 RMB'000 |
| Not later than one year | 477 | 477 |

- Where the Group is the lessee

At 31st December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and building as follows:

| | Group | |
|---|-----------------|-----------------|
| | 2004 RMB'000 | 2003 RMB'000 |
| Not later than one year | 979 | 1,126 |
| Later than one year and not later than five years | 86 | 467 |
| | 1,065 | 1,593 |

The Company had no commitments under operating leases.

NOTES TO THE ACCOUNTS

34. BALANCES WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(i) Balances with related parties

The Group had the following significant balances with related parties:

| | 2004 RMB'000 | 2003 RMB'000 |
|--|-----------------|-----------------|
| Amounts due from minority shareholders who have significant influence on the respective subsidiaries | | |
| – Zhejiang Huanyu Construction Group Co., Ltd. (“Zhejiang Huanyu”) | 14,903 | 10,551 |
| – Shaoxing Municipal Infrastructure Company (“Municipal Infrastructure”) | 3,789 | 4,066 |

(ii) Related party transactions

Save as disclosed above, the Group had the following significant transactions with related parties during the year:

| | 2004 RMB'000 | 2003 RMB'000 |
|--|-----------------|-----------------|
| Sales of concrete to | | |
| – Zhejiang Huanyu (<i>note (a)</i>) | 8,310 | 13,082 |
| – Municipal Infrastructure (<i>note (a)</i>) | 482 | 368 |
| Interest charged to a jointly controlled entity, Hefei Qingfangcheng (<i>note 17(b)</i>) | 3,685 | – |
| Sales of real estate properties to directors | – | 2,342 |

- (a) Sales were made in accordance with the terms of the sales contracts and at market price.

NOTES TO THE ACCOUNTS

35. SUBSEQUENT EVENTS

- (a) On 13th January 2005, the Company entered into a placing agreement with UBS AG in relation to the placing of an aggregate of 36,136,800 new H Shares of the Company at HKD4.05 per placing share. The net proceeds of the placing amounted to HKD140,424,000.
- (b) On 26th February 2005, a shares acquisition agreement was entered into between the Company and Mr. Pang Baogen (Mr. Pang), the chairman of the board of directors of the Company, whereby the Company conditionally agreed to acquire and Mr. Pang conditionally agreed to dispose of his 19% equity interest in Baoye Building Materials, a subsidiary of the Company. The consideration for the acquisition is RMB11,514,000.
- (c) On 26th February 2005, Baoye Construction, another subsidiary of the Company, entered into a construction agreement with Minghua Textile, pursuant to which Baoye Construction conditionally agreed to perform certain design, construction and installation work of Zhejiang Textile Raw Materials Exhibition City Textile Raw Materials Trade Centre. The total fee for the design, construction and installation work under this construction agreement amounted to RMB116,024,000. Minghua Textile is owned as to 67% by Mr. Li Wenjiang who is a former director of Shaoxing Baogang, a subsidiary of the Company.

36. COMPARATIVES

Where necessary, comparative figures have been adjusted to conform with changes in presentation in current year.

37. ULTIMATE HOLDING COMPANY

The Company's directors consider that the Company has no ultimate holding company.

38. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 1st April 2005.