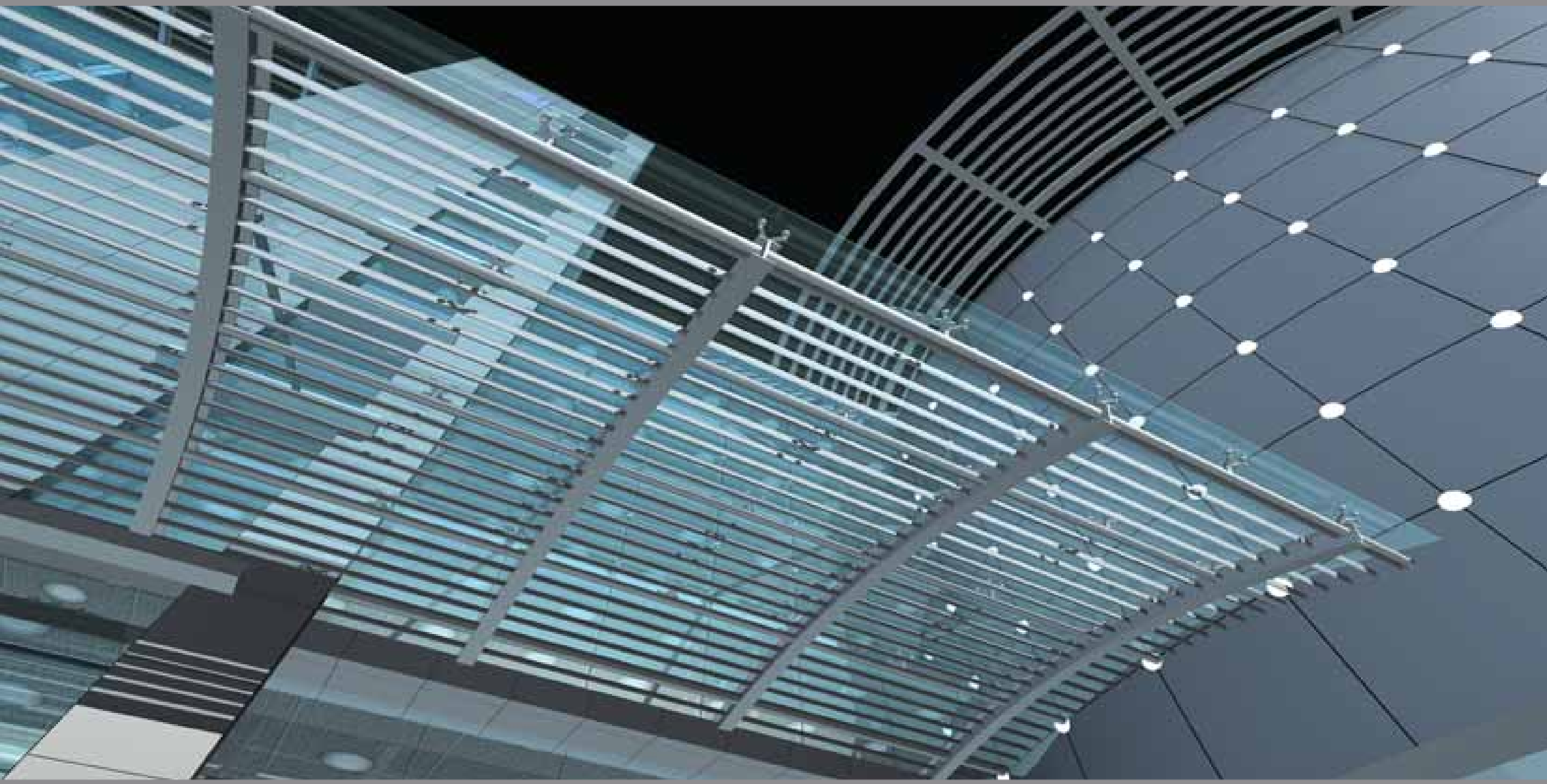
INTERIM REPORT **2005**



China's Urbanization Operator

宝 业
BAOYE

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

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

(a joint stock limited company incorporated in the People's Republic of China)
(stock code: 2355)

2005 Interim Report

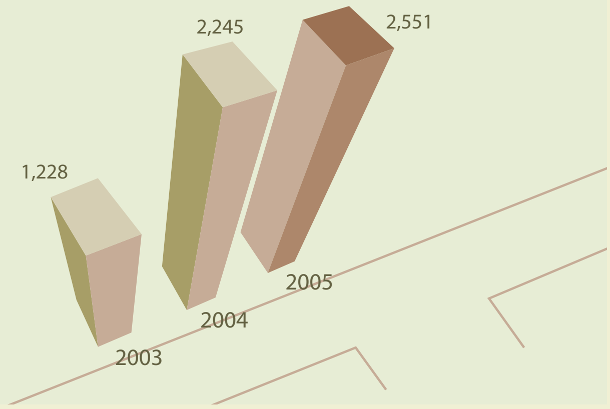
CONTENTS

HIGHLIGHTS

HIGHLIGHTS

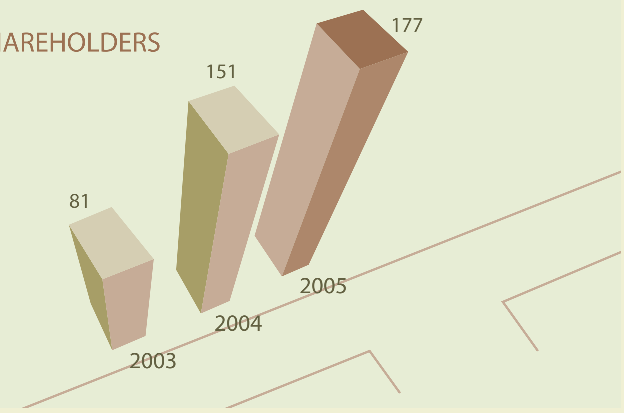
TURNOVER

For the six months ended 30 June
(RMB' million)



PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

For the six months ended 30 June
(RMB' million)



HIGHLIGHTS

	Six months ended 30 June		
	2005	2004	2003
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Results			
Turnover	**2,550,957**	2,245,116	1,227,998
Profit attributable to shareholders of the Company	**176,659**	151,170	81,302
Basic earnings per share (RMB)	**0.31**	0.28	0.23
Financial Index			
Return on equity	**13.6%**	16.2%	10.4%
Net assets value per share (RMB)	**2.4**	1.9	1.6
Net gearing ratio	**17%**	40%	16%
Current ratio	**1.17**	1.03	1.09
Cash inflow/(outflow) from operating activities	**78,349**	(143,416)	(231,869)

HIGHLIGHTS

- For the six months ended 30 June 2005, the Group's turnover was **RMB 2,550,957,000**, representing an increase of approximately **14%** over the corresponding period in 2004, whereas profit attributable to shareholders of the Company was **RMB176,659,000**, representing an increase of approximately **17%** over the corresponding period last year.

- During the period, the Group's property development business recorded a turnover of **RMB528,178,000**, up **99%** compared with the corresponding period last year, mainly derived from the two properties in Shaoxing, namely Yulan Huating and City Garden Phase III.

- During the period, the Group's construction business achieved a turnover of **RMB1,686,585,000**. The Group's total construction projects in progress reached **RMB10.1 billion**, up **53%** from the same period last year. Moreover, the Group managed to solicit 170 new construction contract orders in the sum of **RMB2.97 billion**, up **6%** over the same period last year.

- As a result of the recent PRC government policies of promoting energy-saving and environmental friendly construction, the Group accelerates the development of building materials industrialization products. During the period, the building materials business recorded a turnover of **RMB286,220,000**, representing an increase of approximately **29%** over the corresponding period last year.

UNAUDITED INTERIM CONDENSED FINANCIAL INFORMATION

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2005

	Note	30 June 2005 RMB'000 (Unaudited)	31 December 2004 RMB'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	7	**452,697**	462,284
Investment properties	7	**5,188**	5,188
Land use rights	7	**102,087**	69,561
Goodwill	7	**1,045**	1,045
Properties under development	9	**395,401**	547,692
Deferred income tax assets		**11,991**	13,009
		968,409	1,098,779
Current assets			
Inventories		**54,287**	37,314
Properties under development	9	**273,721**	474,344
Completed properties held for sale	9	**120,066**	31,527
Due from customers on construction contracts	10	**514,576**	412,580
Amounts due from minority shareholders		**22,302**	24,127
Amount due from a shareholder		**–**	421
Loans to a jointly controlled entity		**–**	45,500
Trade receivables	11	**392,540**	320,552
Other receivables	12	**676,493**	590,378
Restricted bank deposits		**28,080**	22,051
Cash and cash equivalents		**701,437**	543,877
		2,783,502	2,502,671
Total assets		**3,751,911**	3,601,450

UNAUDITED INTERIM CONDENSED FINANCIAL INFORMATION

CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*
As at 30 June 2005

	Note	30 June 2005 RMB'000 (Unaudited)	31 December 2004 RMB'000 (Restated)
EQUITY			
Capital and reserves attributable to the Company's equity shareholders			
Share capital	13	567,563	531,426
Other reserves	14	245,950	134,827
Retained earnings		484,208	306,309
Proposed dividend		–	81,502
		1,297,721	1,054,064
Minority interests		63,351	104,578
Total equity		1,361,072	1,158,642
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		6,428	5,499
Current liabilities			
Trade payables	15	395,434	283,499
Other payables	16	318,266	299,109
Receipts in advance		133,632	388,297
Current income tax liabilities		93,465	134,754
Due to customers on construction contracts	10	437,892	330,518
Amounts due to minority shareholders		2,229	1,488
Amounts due to shareholders		7,330	7,217
Amount due to a jointly controlled entity		–	12,807
Dividend payable		40,293	–
Provision for warranty	17	3,870	2,620
Short-term borrowings	18	952,000	977,000
		2,384,411	2,437,309
Total liabilities		2,390,839	2,442,808
Total equity and liabilities		3,751,911	3,601,450
Net current assets		399,091	65,362
Total assets less current liabilities		1,367,500	1,164,141

UNAUDITED INTERIM CONDENSED FINANCIAL INFORMATION

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2005

	Note	Unaudited Six months ended 30 June 2005 RMB'000	2004 RMB'000 (Restated)
Turnover	6	**2,550,957**	2,245,116
Cost of sales	20	**(2,293,871)**	(1,977,292)
Gross profit		**257,086**	267,824
Other gains – net	19	**59,713**	15,252
Selling and marketing costs	20	**(2,404)**	(1,096)
Administrative expenses	20	**(50,356)**	(48,201)
Operating profit		**264,039**	233,779
Finance costs		**(22,416)**	(10,174)
Profit before income tax		**241,623**	223,605
Income tax expense	21	**(65,189)**	(70,305)
Profit for the period		**176,434**	153,300
Attributable to:			
Equity holders of the Company		**176,659**	151,170
Minority interests		**(225)**	2,130
		176,434	153,300
Earnings per share for profit attributable to the equity holders of the Company during the period			
– basic (expressed in RMB per share)	22	**0.31**	0.28

UNAUDITED INTERIM CONDENSED FINANCIAL INFORMATION

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2005

		Unaudited				
		Attributable to equity holders of the Company				
	Note	Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Minority interests RMB'000	Total RMB'000
Balance at 1 January 2004, as previously reported as equity		531,426	97,425	187,557	–	816,408
Balance at 1 January 2004, as previously separately reported as minority interests		–	–	–	72,606	72,606
Balance at 1 January 2004, as restated		531,426	97,425	187,557	72,606	889,014
Profit for the period		–	–	151,170	2,130	153,300
Dividend relating to 2003		–	–	(33,746)	–	(33,746)
Acquisition of minority interest by the Group		–	–	–	(1,894)	(1,894)
Balance at 30 June 2004		**531,426**	**97,425**	**304,981**	**72,842**	**1,006,674**
Balance at 1 January 2005, as previously reported as equity		531,426	134,827	387,811	–	1,054,064
Balance at 1 January 2005, as previously separately reported as minority interests		–	–	–	104,578	104,578
Opening adjustment of the adoption of HKAS 40	*3(a)*	–	(1,240)	1,240	–	–
Balance at 1 January 2005, as restated		531,426	133,587	389,051	104,578	1,158,642
Profit for the period		–	–	176,659	(225)	176,434
Issue of shares		36,137	112,363	–	–	148,500
Dividend relating to 2004		–	–	(81,502)	–	(81,502)
Minority interest arising from change of a jointly controlled entity into a subsidiary	*8*	–	–	–	9,082	9,082
Acquisition of minority interests by the Group	*19(a)*	–	–	–	(50,084)	(50,084)
Balance at 30 June 2005		**567,563**	**245,950**	**484,208**	**63,351**	**1,361,072**

UNAUDITED INTERIM CONDENSED FINANCIAL INFORMATION

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2005

	Unaudited Six months ended 30 June	
	2005	2004
	RMB'000	*RMB'000*
		(Restated)
Net cash generated from/(used in) operating activities	**78,349**	(143,416)
Net cash used in investing activities	**(55,298)**	(177,331)
Net cash generated from financing activities	**147,291**	269,050
Net increase/(decrease) in cash and cash equivalents	**170,342**	(51,697)
Cash and cash equivalents at 1 January	**531,095**	487,796
Cash and cash equivalents at 30 June	**701,437**	436,099

UNAUDITED INTERIM CONDENSED FINANCIAL INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 General information

Baoye Group Company Limited (the "Company") was established as a limited liability company in the People's Republic of China (the "PRC") and the H shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 30 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 Basis of preparation and accounting policies

This unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

This condensed consolidated financial information should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of this condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of new / revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (collectively "new HKFRS") which are effective for accounting periods commencing on or after 1 January 2005.

This interim financial information has been prepared in accordance with those HKFRS and interpretations issued and effective as at the time of preparing this information (August 2005). The HKFRS standards and interpretations that will be applicable at 31 December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial information.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 3 below.

UNAUDITED INTERIM CONDENSED FINANCIAL INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(Continued)*

3 Changes in accounting policies

(a) Effect of adopting new / revised HKFRS

In 2005, the Group adopted the new / revised standards of HKFRS below, which are relevant to its operations. The 2004 comparative figures have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS-Int 15	Operating Leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciated Assets
HKFRS 3	Business Combinations

The adoption of new / revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 32, 33, 39 and HKAS-Int 15 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.
- HKASs 2, 7, 8, 10, 16, 23, 27, 32, 33, 39 and HKAS-Int 15 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

UNAUDITED INTERIM CONDENSED FINANCIAL INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(Continued)*

3 Changes in accounting policies *(Continued)*

(a) Effect of adopting new / revised HKFRS (Continued)

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land payments and land use rights were accounted for at cost less accumulated depreciation and accumulated impairment.

The Group adopted the proportionate consolidation under HKAS 31 to account for its interests in jointly controlled entities. In prior years, the Group's interests in jointly controlled entities were accounted for by the equity method. The adoption of the proportionate consolidation approach under HKAS 31 represents a change in accounting policy.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values are recorded in the income statement as part of other income. In prior years, the increases in fair value were credited to the investment properties revaluation reserve and decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

- Amortised on a straight-line basis over a period of not exceeding 20 years; and
- Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3 (note 3.6):

- The Group ceased amortisation of goodwill from 1 January 2005;
- Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;
- From the year ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is an indication of impairment.

UNAUDITED INTERIM CONDENSED FINANCIAL INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(Continued)*

3 Changes in accounting policies *(Continued)*

(a) Effect of adopting new / revised HKFRS (Continued)

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- HKAS 40 - since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information, any adjustment should be made to the retained earnings as at 1 January 2005, including the reclassification of any amount held in revaluation surplus for investment property.

- HKFRS 3 - prospectively after the adoption date.

(i) The adoption of revised HKAS 17 resulted in:

	As at	
	30 June 2005	31 December 2004
	RMB'000	*RMB'000*
Decrease in property, plant and equipment	**102,087**	69,561
Increase in land use rights	**102,087**	69,561

(ii) The adoption of HKAS 31 resulted in:

	As at	
	30 June 2005	31 December 2004
	RMB'000	*RMB'000*
Decrease in interest in a jointly controlled entity	–	9,082
Decrease in loans to a jointly controlled entity	–	45,500
Decrease in amount due to a jointly controlled entity	–	12,807
Increase in properties under development	–	88,033
Increase in property, plant and equipment	–	411
Increase in cash and cash equivalents	–	12,782
Increase in other receivables	–	7,269
Increase in borrowings	–	65,000
Increase in other payables	–	1,720

UNAUDITED INTERIM CONDENSED FINANCIAL INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(Continued)*

3 Changes in accounting policies *(Continued)*

(a) Effect of adopting new / revised HKFRS (Continued)

(ii) The adoption of HKAS 31 resulted in: *(Continued)*

	For the year ended 31 December 2004 RMB'000	**For the six months ended 30 June 2005 RMB'000**	For the six months ended 30 June 2004 RMB'000
Decrease in share of loss of a jointly controlled entity	2,100	–	299
Increase in expenses	2,100	–	299

There were no impacts on basic earnings per share for the year ended 31 December 2004 and opening retained earnings at 1 January 2004 from the adoption of HKAS 17 and HKAS 31.

(b) New Accounting Policies

The accounting policies used for the condensed consolidated financial information for the six months ended 30 June 2005 are the same as those set out in note 2 to the 2004 annual financial statements except for the following:

3.1 Acquisition of subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

3.2 Joint ventures

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the jointly controlled entities' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the jointly controlled entities that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the jointly controlled entities that result from the Group's purchase of assets from the jointly controlled entities until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

UNAUDITED INTERIM CONDENSED FINANCIAL INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(Continued)*

3 Changes in accounting policies *(Continued)*

3.3 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency.

3.4 Property, plant and equipment

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

3.5 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the international Valuation Standards Committee. These valuations are reviewed regularly by external valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the income statement.

UNAUDITED INTERIM CONDENSED FINANCIAL INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(Continued)*

3 Changes in accounting policies *(Continued)*

3.6 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

3.7 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

3.8 Investments

From 1 January 2005 onwards, the Group classified its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sales financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

During the period, other than loans and receivables, the Group did not hold any investments in other categories.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in other receivables in the balance sheet (note 3.9).

Purchase and sales of investments are recognised on trade-date, the date on which the Group commits to purchase or sell the assets. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Loans and receivables are carried at amortised cost using the effective interest method.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

UNAUDITED INTERIM CONDENSED FINANCIAL INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(Continued)*

3 Changes in accounting policies *(Continued)*

3.9 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

3.10 Share capital

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

3.11 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3.12 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.

UNAUDITED INTERIM CONDENSED FINANCIAL INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(Continued)*

4 Financial risk management

4.1 Financial risk factors

The Group activities exposed it to a variety of financial risks: currency risk, fair value interest risk, credit risk, liquidity risk and cash flow interest-rate risk.

(a) *Foreign exchange risk*

The Group mainly operates in the PRC with most of the transactions settled in RMB. RMB is not freely convertible into other foreign currencies. The conversion of RMB denominated balances into foreign currencies is subject to the rates and regulations of foreign exchange control promulgated by the PRC government.

The proceeds derived from the initial public offering and new H shares placing are all denominated in Hong Kong Dollars ("HKD"). The Group also is required to pay dividends in HKD to its H shareholders in the future when dividends are declared.

On 21 July 2005, the PRC government announced that RMB started to be floated with a basket of certain selected currencies and not to be pegged with USD on or after that day. As a result, RMB appreciated by approximately 2% as compared to USD based on the exchange rate announced on that date.

(b) *Credit risk*

The Group has no significant concentrations of credit risk. It has policies in place to ensure that provision of construction service, sales of completed properties and building materials are made to customers with an appropriate credit history.

(c) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

(d) *Cash flow and fair value interest rate risk*

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from borrowings, details of which have been disclosed in note 18, to the condensed interim financial information. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk.

4.2 Fair value estimation

The Group's financial assets include cash and cash equivalents, trade receivables, deposits, prepayments and other receivables; and financial liabilities include borrowings, trade payables, other payables and accruals.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

UNAUDITED INTERIM CONDENSED FINANCIAL INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(Continued)*

5 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

5.1 Construction contract revenue recognition

When the outcome of a construction contract can be estimated reliably, the Group recognised contract revenue by 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, the Group recognises revenue only to the extent of contract costs incurred that it is probable will be recoverable.

Upon applying the percentage of completion method, were the estimated gross profit margin of the construction contract, which was determined by estimated total construction contract cost and total construction contract sum, to differ by 10% from the management's estimates, the Group would need to increase or decrease construction contract revenue of approximately RMB10,600,000.

In addition, the directors of the Company are of the opinion that there was no expected losses, where the estimated total construction contract costs exceed the total construction contract revenue, need to be recognised in the income statement for the six months ended 30 June 2005.

5.2 Provision for warranty

The Group recognises a provision for repairs of construction work still under warranty at the balance sheet date. Significant judgment of the ratio of the repairs expenses compared to the warranty deposits for the construction work is required in determining the warranty provision. The Group estimates the ratio according to past history of the level of repairs. Were the estimated ratio of the repairs expenses compared to the warranty deposits for the construction work to differ by 10% from the management's estimates, the Group would need to increase or decrease the warranty provision of approximately RMB387,000.

6 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 Group previously reported and classified manufacture and sale of glass curtain wall and assembly furniture supplied by two subsidiaries of the Company, namely Zhejiang Baoye Curtail Wall Decoration Co., Ltd. and Zhejiang Guangyi Construction and Decoration Co., Ltd., within the construction business segment. The Directors believe that it is a more appropriate presentation of the Group's activities to classify those activities of the similar nature within the building materials business segment. Reclassification has been made to the comparative information for the six months ended 30 June 2004.

UNAUDITED INTERIM CONDENSED FINANCIAL INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(Continued)*

6 Segment information *(Continued)*

The business segment results for the six months ended 30 June 2005 is as follows:

	Six months ended 30 June 2005					
	Construction	Building materials	Property development	Other operations	Elimination	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
External turnover	1,686,585	286,220	528,178	49,974	–	2,550,957
Internal turnover	80,000	9,587	–	–	(89,587)	–
Total turnover	1,766,585	295,807	528,178	49,974	(89,587)	2,550,957
Segment results	74,688	14,167	116,991	(1,520)	–	204,326
Other gains - net						59,713
Operating profit						264,039
Finance costs						(22,416)
Profit before income tax						241,623
Income tax expense						(65,189)
Profit for the period						176,434
Other information						
Depreciation	6,432	10,548	903	459	–	18,342
Amortisation of land use rights	2,175	–	–	–	–	2,175
Provision for doubtful debts	150	1,225	–	172	–	1,547

UNAUDITED INTERIM CONDENSED FINANCIAL INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(Continued)*

6 Segment information *(Continued)*

	Six months ended 30 June 2004 (Restated)					
	Construction *RMB'000*	Building materials *RMB'000*	Property development *RMB'000*	Other operations *RMB'000*	Elimination *RMB'000*	Consolidated *RMB'000*
External turnover	1,757,049	221,309	265,190	1,568	–	2,245,116
Internal turnover	190,000	14,846	–	–	(204,846)	–
Total turnover	1,947,049	236,155	265,190	1,568	(204,846)	2,245,116
Segment results	84,533	17,521	115,004	1,469	–	218,527
Other gains – net						15,252
Operating profit						233,779
Finance costs						(10,174)
Profit before income tax						223,605
Income tax expense						(70,305)
Profit for the period						153,300
Other information						
Depreciation	1,214	14	8,317	498	–	10,043
Amortisation of land use rights	596	43	–	–	–	639
Provision for doubtful debts	1,289	415	–	–	–	1,704

UNAUDITED INTERIM CONDENSED FINANCIAL INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(Continued)*

6 Segment information *(Continued)*

	As at 30 June 2005					
	Construction	**Building materials**	**Property development**	**Other operations**	**Elimination**	**Consolidated**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Assets						
Segment assets	**2,291,144**	**1,117,146**	**302,776**	**47,119**	**(27,165)**	**3,731,020**
Unallocated assets						**20,891**
						3,751,911
Liabilities						
Segment liabilities	**1,266,434**	**532,558**	**320,599**	**28,741**	**(202,506)**	**1,945,826**
Unallocated liabilities						**445,013**
						2,390,839
Capital expenditure	**17,031**	**52,887**	**–**	**1,652**	**–**	**71,570**

	As at 31 December 2004 (Restated)					
	Construction	Building materials	Property development	Other operations	Elimination	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets						
Segment assets	1,944,606	758,289	949,776	34,521	(114,518)	3,572,674
Unallocated assets						28,776
						3,601,450
Liabilities						
Segment liabilities	945,414	431,045	626,764	16,788	(112,011)	1,908,000
Unallocated liabilities						534,808
						2,442,808
Capital expenditure	29,924	210,068	355	12,308	(4,439)	248,216

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

UNAUDITED INTERIM CONDENSED FINANCIAL INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(Continued)*

7 Capital expenditure

	Property, plant and equipment	**Investment properties**	**Land use rights**	**Goodwill**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Opening net book amount as at 1 January 2005	462,284	5,188	69,561	1,045
Addition arising from fully consolidation of a subsidiary *(note 8)*	411	–	–	–
Other additions	32,330	–	39,240	–
Disposals	(23,986)	–	(4,539)	–
Depreciation/amortisation charge *(note 20)*	(18,342)	–	(2,175)	–
Closing net book amount as at 30 June 2005	452,697	5,188	102,087	1,045
Opening net book amount as at 1 January 2004, as previously reported	324,147	–	–	–
Effect of adoption of HKAS 17	(70,839)	–	70,839	–
Effect of adoption of HKAS 31	565	–	–	–
Effect of adoption of HKAS 40	(5,188)	5,188	–	–
Opening net book amount as at 1 January 2004, as restated	248,685	5,188	70,839	–
Additions	145,317	–	–	–
Disposals	(379)	–	–	–
Depreciation/amortisation charge, as restated *(note 20)*	(10,043)	–	(639)	–
Closing net book amount as at 30 June 2004	383,580	5,188	70,200	–
Acquisition of subsidiaries	7,350	–	–	1,124
Other additions	95,549	–	–	–
Disposals	(4,590)	–	–	–
Depreciation/amortisation charge, as restated	(19,605)	–	(639)	(79)
Closing net book amount as at 31 December 2004	462,284	5,188	69,561	1,045

UNAUDITED INTERIM CONDENSED FINANCIAL INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(Continued)*

7 Capital expenditure *(Continued)*

The balance of goodwill as at 31 December 2004 represented the unamortised amount of the goodwill arising for the acquisitions of two subsidiaries and another additional equity interest of a subsidiary. As a change in accounting policy for the adoption of HKFRS 3, the Group ceased amortisation of goodwill from 1 January 2005 onwards and goodwill is tested annually for impairment, as well as when there is an indication of impairment. No impairment loss was recognised for the six months ended 30 June 2005.

8 Interest in a jointly controlled entity/subsidiary

As at 31 December 2004, the Group holds a 50% equity interest in a jointly controlled entity, Hefei Qingfangcheng Baoye Real Estate Co., Ltd. ("Hefei Qingfangcheng"), a limited liability company incorporated in the PRC and mainly engaged in development and sale of properties. As a change in accounting policy for the adoption of HKAS 31, the Group adopted proportionate consolidation approach to account for its interest in Hefei Qingfangcheng. The Group's 50% share of the assets and liabilities, and sales and results of Hefei Qingfangcheng as at 31 December 2004, as presented in note 3(a)(ii), has been consolidated to the Group's restated consolidated financial statements for the year ended 31 December 2004.

On 10 March 2005, pursuant to a shareholders' meeting of Hefei Qingfangcheng, the directors nominated by the other joint venture partner have resigned and their seats have been replaced by the directors nominated by the Company. The directors of the Company are of the opinion that the Company has the unilateral control on Hefei Qingfangcheng over its operating and financial activities thereafter. Therefore, Hefei Qingfangcheng is treated as a subsidiary of the Group and is fully consolidated from that day, on which control is transferred to the Group.

9 Properties under development/completed properties held for sale

As at 30 June 2005, properties under development and completed properties held for sales included land use rights of approximately RMB537,022,000 and RMB86,687,000 (31 December 2004: RMB751,792,000 and RMB3,875,000) respectively.

10 Due from/(to) customers on construction contracts

	30 June 2005 *RMB'000*	31 December 2004 *RMB'000*
Contract costs incurred plus attributable profits less foreseeable losses to date	**10,099,565**	8,242,626
Less: progress billings to date	**(10,022,881)**	(8,160,564)
	76,684	82,062
Represented by:		
Due from customers on construction contracts	**514,576**	412,580
Due to customers on construction contracts	**(437,892)**	(330,518)
	76,684	82,062

UNAUDITED INTERIM CONDENSED FINANCIAL INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(Continued)*

11 Trade receivables

	30 June 2005 *RMB'000*	31 December 2004 *RMB'000*
Trade receivables	**402,478**	329,693
Less: provision for doubtful debts	**(9,938)**	(9,141)
	392,540	320,552

At 30 June 2005, the ageing analysis of the trade receivables is as follows:

	30 June 2005 *RMB'000*	31 December 2004 *RMB'000*
0 to 3 months	**211,796**	244,138
3 months to 1 year	**144,841**	52,182
1 to 2 years	**35,040**	26,635
2 to 3 years	**10,326**	6,037
Over 3 years	**475**	701
	402,478	329,693

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.

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers, nationally dispersed.

12 Other receivables

	30 June 2005 *RMB'000*	31 December 2004 *RMB'000*
Prepayments and deposits	**40,911**	25,160
Other receivables	**145,492**	63,916
Prepayment for a property development project	**50,000**	50,000
Retention money receivables and project deposits	**440,090**	451,302
	676,493	590,378

The carrying value of other receivables approximates their fair value.

UNAUDITED INTERIM CONDENSED FINANCIAL INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(Continued)*

13 Share capital

The movements of share capital are as follows:

	Number of shares *(in thousands)*	Share capital *RMB'000*
Balance as at 1 January, 30 June and 31 December 2004	531,426	531,426
Issue of new H shares *(note (a))*	36,137	36,137
Balance as at 30 June 2005	567,563	567,563

(a) The Company issued 36,136,800 new H shares with a par value of RMB1.00 each at HK$4.05 (equivalent to approximate RMB4.30) each, which were fully paid up in form of cash, resulting in an increase in capital reserve of RMB112,363,000 after deducting the cost directly attributable to the issue.

14 Other reserves

	Capital reserve *RMB'000*	Investment properties revaluation reserve *RMB'000*	Other assets revaluation reserve *RMB'000*	Statutory surplus reserve *RMB'000*	Statutory public welfare fund *RMB'000*	Total *RMB'000*
Balance at 1 January 2004 and at 30 June 2004	**56,150**	**1,240**	**7,551**	**21,656**	**10,828**	**97,425**
Transfer to income statement upon the sale of completed properties	–	–	(3,680)	–	–	(3,680)
Appropriation to statutory surplus reserve and public welfare fund	–	–	–	27,388	13,694	41,082
Balance at 31 December 2004	**56,150**	**1,240**	**3,871**	**49,044**	**24,522**	**134,827**
Opening adjustment for the adoption of HKAS 40 *(note 3(a))*	–	(1,240)	–	–	–	(1,240)
Balance at 1 January 2005, as restated	**56,150**	**–**	**3,871**	**49,044**	**24,522**	**133,587**
Issue of new H shares	112,363	–	–	–	–	112,363
Balance at 30 June 2005	**168,513**	**–**	**3,871**	**49,044**	**24,522**	**245,950**

UNAUDITED INTERIM CONDENSED FINANCIAL INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(Continued)*

15 Trade payables

At 30 June 2005, the ageing analysis of the trade payables is as follows:

	30 June 2005 *RMB'000*	31 December 2004 *RMB'000*
1 to 3 months	**220,006**	117,956
3 months to 1 year	**143,186**	140,881
1 to 2 years	**28,050**	17,999
2 to 3 years	**2,665**	4,356
Over 3 years	**1,527**	2,307
	395,434	283,499

16 Other payables

	30 June 2005 *RMB'000*	31 December 2004 *RMB'000*
Other payables	**152,230**	126,712
Other taxes payables	**65,447**	90,429
Deposits from project managers	**98,144**	79,763
Accruals	**2,445**	2,205
	318,266	299,109

17 Provision for warranty

	RMB'000
At 1 January 2005	2,620
Additional provision charged to income statement	1,250
At 30 June 2005	3,870

The Group gives warranty on construction work and undertakes to repair construction work that is not satisfactory for periods which range from 6 months to 5 years. Provision has been recognised for expected warranty claims based on the past experience of the level of repairs.

UNAUDITED INTERIM CONDENSED FINANCIAL INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(Continued)*

18 Borrowings

	30 June 2005 *RMB'000*	31 December 2004 RMB'000
Bank borrowings		
Unsecured	**844,000**	866,000
Secured	**108,000**	111,000
	952,000	977,000

(a) As at 30 June 2005, land use rights and buildings with an aggregate value of RMB58,461,000 (31 December 2004: RMB69,372,000) were pledged by the Group as the securities of short-term bank loans.

(b) Interest of these loans was charged on the outstanding loan balances at 5% to 6% (2004: 5% to 6%) per annum for the six months ended 30 June 2005.

(c) All the carrying amounts of the borrowings are denominated in RMB and approximate their fair value.

19 Other gains – net

	Six months ended 30 June	
	2005 *RMB'000*	2004 *RMB'000*
Excess of interest in the acquired net assets over cost recognised in the income statement *(note a)*	**26,436**	–
Interest income	**20,424**	13,789
Losses on disposals of property, plant and equipment and land use rights *(note b)*	**(27,468)**	–
Government compensation *(note b)*	**36,804**	–
Others	**3,517**	1,463
	59,713	15,252

UNAUDITED INTERIM CONDENSED FINANCIAL INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(Continued)*

19 Other gains – net *(Continued)*

(a) On 26 February 2005, the Company entered into an acquisition agreement with Mr. Pang Baogen ("Mr. Pang"), the chairman of the board of directors and shareholder of the Company, to acquire his 19% equity interest in Zhejiang Baoye Building Materials Industrialization Company Limited ("Baoye Building Materials"), a subsidiary of the Company, at a consideration of RMB11,514,000.

In addition, in April 2005, two subsidiaries of the Company, namely Zhejiang Baoye Real Estate Group Co., Ltd. and Zhejiang Baoye Steel Structure Co., Ltd., also entered into another two acquisition agreements with another two minority shareholders of Baoye Building Materials, to acquire additional 15% and 1% equity interests in Baoye Building Materials at a consideration of RMB11,327,000 and RMB808,000 respectively. The 19%, 15% and 1% equity interests of Baoye Building Materials at the acquisition date is approximately RMB27,189,000, RMB21,465,000 and RMB1,431,000, respectively.

The difference of totalling RMB26,436,000 between the above considerations and the fair value of equity interests acquired was recognised directly in the income statement. As a result of these acquisitions, the Company directly and indirectly holds 98.9% equity interest in Baoye Building Materials.

(b) The losses on disposals of property, plant and equipment and land use rights were mainly caused by relocation of certain production plants at the request of the local government authorities according to its town planning.

Government compensation represents the amount receivable from the local government authorities for the losses on disposals of the property, plant and equipment and land use rights and the losses due to suspension of operation arising from relocation of production plants as mentioned above.

20 Expenses by nature

Expenses included in cost of sales, selling and marketing costs and administrative expenses are analysed as follows:

	Six months ended 30 June	
	2005	2004
	RMB'000	*RMB'000*
Depreciation of property, plant and equipment *(note 7)*	**18,342**	10,043
Amortisation of land use rights *(note 7)*	**2,175**	639
Employee benefit expenses	**364,264**	345,055
Cost of inventories sold	**1,923,213**	1,635,988
Operating leases of buildings	**1,169**	1,443
Others	**37,468**	33,421
	2,346,631	2,026,589

UNAUDITED INTERIM CONDENSED FINANCIAL INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(Continued)*

21 Income tax expense

The Company and its subsidiaries are subject to PRC Enterprise Income Tax ("EIT") at a rate of 33% (2004: 33%).

The amounts of income tax expenses charged to the income statement represent:

	Six months ended 30 June	
	2005	2004
	RMB'000	*RMB'000*
PRC current income tax	**63,242**	70,511
Deferred income tax	**1,947**	(206)
	65,189	70,305

22 Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2005 is based on the Group's profit attributable to equity holders of the Company of RMB176,659,000 (2004: RMB151,170,000) and the weighted average number of 564,541,339 (2004: 531,426,053 shares) ordinary shares in issue during the six months ended 30 June 2005.

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

23 Dividends

The board of directors has resolved not to declare an interim dividend in respect of the six months ended 30 June 2005 (2004: nil).

24 Contingent liabilities

	30 June 2005	31 December 2004
	RMB'000	*RMB'000*
Guarantee given to banks in respect of mortgage facilities granted to third parties	**41,500**	58,690

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 Group. The bank will release such guarantee upon the building ownership certificates of such properties are delivered to the banks as security.

UNAUDITED INTERIM CONDENSED FINANCIAL INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(Continued)*

25 Capital commitments

As at 30 June 2005, the Group had no significant capital commitments.

26 Related party transactions

Save as disclosed in note 19(a), the Group had the following significant related party transaction during the six months ended 30 June 2005:

	Six months ended 30 June	
	2005	2004
	RMB'000	*RMB'000*
Sales of concrete to		
Zhejiang Huanyu Construction Group Co., Ltd.	**703**	8,002

Zhejiang Huanyu Construction Group Co., Ltd. is a minority shareholder of a subsidiary of the Company.

27 Comparative

As mentioned in note 3(a)(i)&(ii), the comparative figures of 2004 have been restated as a result of the adoption of HKAS 17 and HKAS 31. In addition, certain segments comparative figures have been also reclassified to conform to the current period's presentation as mentioned in note 6.

28 Approval of condensed consolidated financial information

This condensed consolidated financial information was approved by the board of directors on 26 August 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS REVIEW

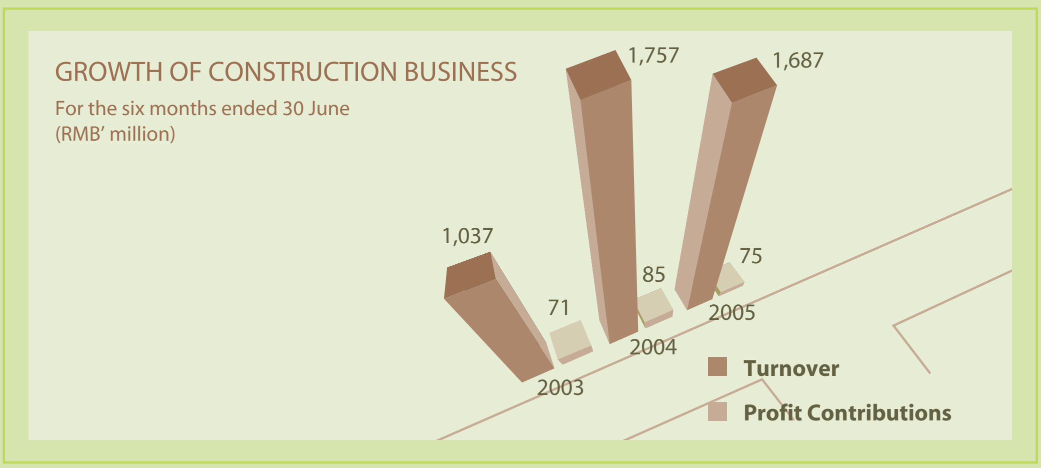
The macroeconomic control measures of the Chinese government have further regulated the construction, building materials and real estate industry sectors and have provided a clear policy guidance to market driven economy to facilitate optimization of resources allocation, eliminating weaker players, and encouraging corporate acquisitions, merger and restructuring in these industry sectors. For enterprises with abundant capital, advanced technology and reputable brand name, these measures undoubtedly offer excellent growth and development opportunity.

Despite these macroeconomic control measures, the Group still managed to capture business opportunities generated from increases in urbanization in China to strengthen its three core businesses, leveraging on its well-established foundation in the construction industry. The Group continued to achieve favorable growth during the period under review. For the six months ended 30 June 2005, the Group's turnover was RMB2,550,957,000, representing an increase of 14% over the same period last year; profit attributable to shareholders was RMB176,659,000, up 17% over the corresponding period last year; earnings per share was RMB0.31, representing an increase of approximately 11% when compared with the same period a year ago; net assets value per share amounted to RMB2.4, surged 27% over the same period in preceding year.

BUSINESS REVIEW

1. Construction Business

During the period under review, the Group's construction business achieved a turnover of RMB1,686,585,000 (representing 66% of the Group's turnover), profit contribution of RMB74,688,000 (representing 37% of the Group's profit), a decrease of approximately 4% and 12% respectively over the corresponding period in the previous year. The Group adopts the percentage of completion method to account for revenue of its construction business.



MANAGEMENT DISCUSSION AND ANALYSIS

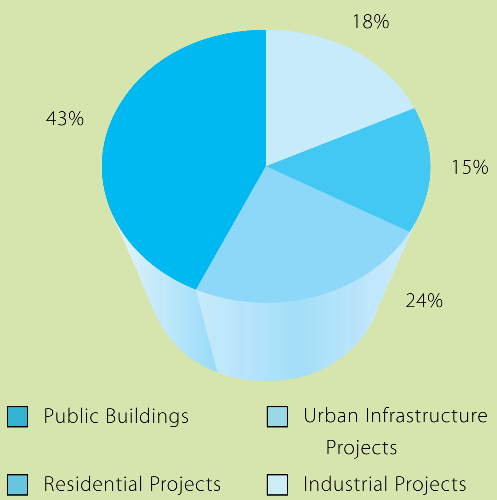
Although the turnover and profit contribution from the construction business decreased slightly from the same period in the previous year, the Group's total construction projects in progress reached RMB10.1 billion, up 53% from the same period in the previous year. Moreover, the Group managed to solicit 170 new construction contract orders in the sum of RMB2.97 billion, up 6% over the same period last year. The abundant construction orders on hand and increase in new contract orders has ensured the sustained growth of the Group's construction business in the future.

Details of the Group's contracts under construction can be analysed as follows:

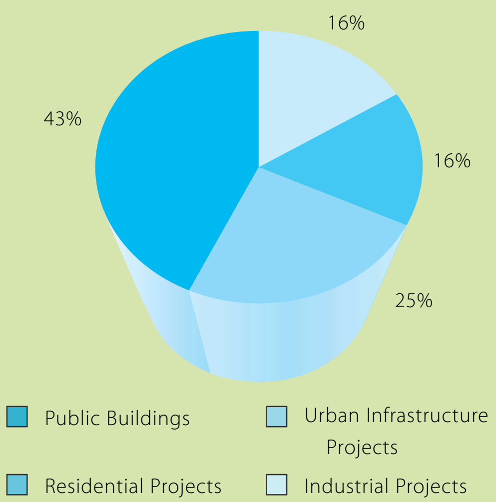
By category

	First half year of 2005		First half year of 2004		Change
	RMB million	***% of total***	*RMB million*	*% of total*	
Public Buildings	**4,343**	**43%**	2,842	43%	53%
Urban Infrastructure Projects	**2,424**	**24%**	1,653	25%	47%
Residential Projects	**1,515**	**15%**	1,058	16%	43%
Industrial Projects	**1,818**	**18%**	1,058	16%	72%
Total	**10,100**	**100%**	6,611	100%	53%

First half year of 2005



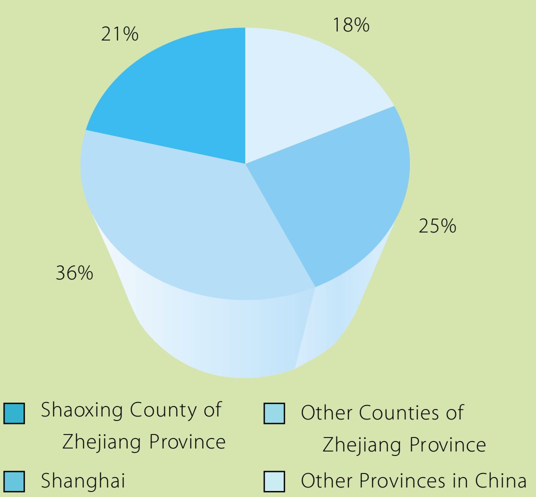
First half year of 2004



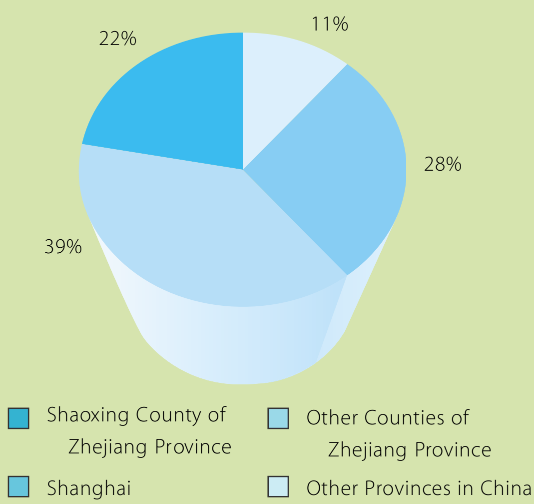
By location

	First half year of 2005		First half year of 2004		Change
	RMB million	***% of total***	*RMB million*	*% of total*	
Shaoxing County of Zhejiang Province	**2,121**	**21%**	1,454	22%	46%
Other Counties of Zhejiang Province	**3,636**	**36%**	2,578	39%	41%
Shanghai	**2,525**	**25%**	1,851	28%	36%
Other Provinces in China	**1,818**	**18%**	727	11%	150%
Total	**10,100**	**100%**	6,611	100%	53%

First half year of 2005



First half year of 2004



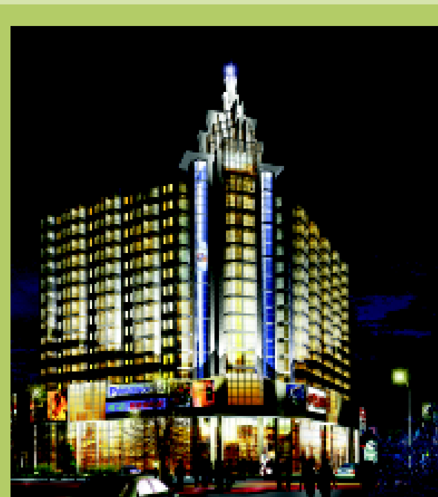
MANAGEMENT DISCUSSION AND ANALYSIS

Leveraging on its technological advancement and excellent reputation, the Group has received numerous industry awards during the period under review:

Projects	**Awards**
Zhejiang Mobile Communication Building	Qianjiang Cup Zhejiang Outstanding Quality of Building
Shaoxing State Tax Bureau Building	Qianjiang Cup Outstanding Decoration Award of Zhejiang Building Project Zhejiang Outstanding Quality of Building
Shaoxing Construction Bureau Building	Qianjiang Cup Outstanding Decoration Award of Zhejiang Building Project Zhejiang Outstanding Quality of Building
The Main Stadium of Taizhou Gymnasium Centre	Qianjiang Cup
Hangzhou Green Garden Project Phase I, II and III	Qianjiang Cup
550KV Xiaoshan (Yongchao) Power Transmission Project	Qianjiang Cup



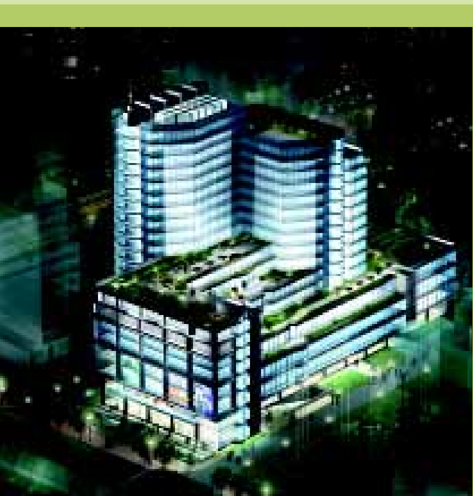


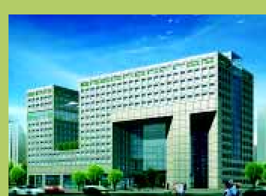


MANAGEMENT DISCUSSION AND ANALYSIS

Projects	**Awards**
Shaoxing Yangxunqiao Entertainment Centre	Outstanding Decoration Award of Zhejiang Building Project
Taizhou Regional Tax Bureau Jiaojiang Branch	Outstanding Decoration Award of Zhejiang Building Project
Zhejiang Hualian Sanxin Petrochemical Office Building	Outstanding Decoration Award of Zhejiang Building Project
Wenzhou Cangnian Administrative Centre	Sample Project of Zhejiang Building Project
Huzhou Electrical Power Building	Customer Satisfied Project of National Building Industry
Shanghai Songjiang State Tax Bureau Building	Bai Yulan Cup
Gulong Village Nine-year School	Bai Yulan Cup
Shanghai Gaohang Town Government Office Building	Bai Yulan Cup
Shanghai Normal University Preparatory High School Apartment	Bai Yulan Cup Shen'an Cup
INTELPD3-GBP Project	Outstanding Construction Quality of Zhejiang Enterprises in Shanghai

Note: "Qianjiang Cup" and "Bai Yulan Cup" are the most prestigious awards for construction industry in Zhejiang Province and Shanghai respectively.



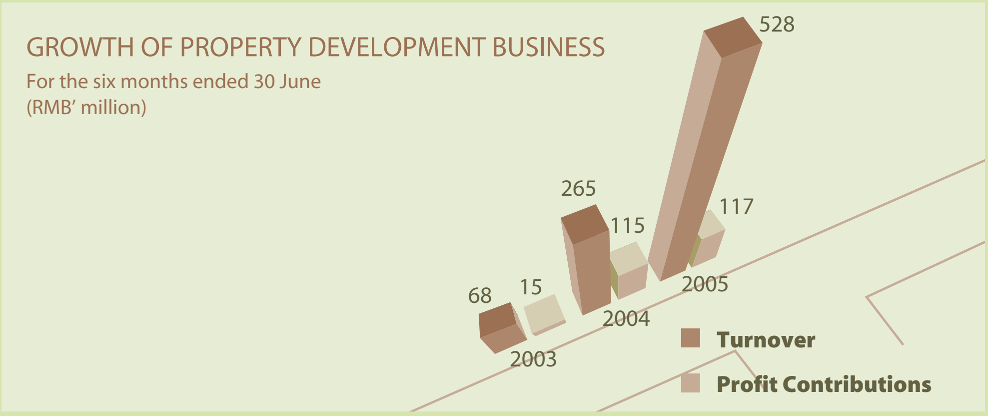




MANAGEMENT DISCUSSION AND ANALYSIS

2. **Property Development Business**

Property Sales

During the period under review, the turnover of the Group's property development was RMB528,178,000 (representing 21% of the Group's turnover), an increase of approximately 99% over the same period last year and contributed profit of RMB116,991,000 (representing 57% of the Group's profit), a slight increase of approximately 2% over the same period last year. The Group adopts the completion method to recognize the revenue of its property development business.



MANAGEMENT DISCUSSION AND ANALYSIS

During the period under review, the achievement of the Group's property development business was primarily attributable to the City Garden Phase III project and Yulan Huating project, both situated in Shaoxing. Approximately 43,459 square metres of floor area of City Garden Phase III were sold, achieving a turnover of RMB140,941,000; and an average selling price of approximately RMB3,243 per square metre was registered. As regards Yulan Huating, 64,576 square metres of floor area were sold, giving a turnover of RMB369,830,000 and registering an average selling price of approximately RMB5,727 per square metre.

Most of the Group's property development projects are located at the second tier cities in PRC's economic developed regions. The upsurge of real estate prices in these cities were not substantial, hence the Group's property business in these cities is not significantly affected by the Chinese government's macroeconomic control measures. During the first half of this year, the construction progress and sales of the Group's property projects remained strong.

MANAGEMENT DISCUSSION AND ANALYSIS

Projects under Development
As at 30 June 2005, the Group's projects under development can be summarized as follows:

Name of Project	Location	Saleable Area *(square meters)*	Equity Interest of the Group
City Green Garden Phase I	Hefei	142,559	50%
Jing'an Ziyuan	Shanghai	51,344	70%

City Green Garden project is located on the south end of Heping Road, Hefei's Yaohai District, one of Hefei's Special Development Zones with convenient transportation. The project mainly comprises high-end residential properties, retail shops and offices. City Green Garden has a total planned floor area of approximately 275,000 square metres and a total planned gross floor area of approximately 480,000 square metres, in which Phase I of the project has a planned floor area of approximately 68,000 square metres and a planned gross floor area of approximately 142,559 square metres. Construction of Phase I began in October 2004. During the period under review, all low rise buildings have already completed its capping. The high rise and multi-storey buildings are expected to be completed by the end of this year and the middle of next year respectively. A total of 348 residential units were pre-sold in Phase I. The pre-sale received overwhelming market response attracting a group of high networth individuals, ranging from civil servants to sole proprietors. To date, all units offered have principally been sold out, at an average selling price of RMB3,300 per square metre.

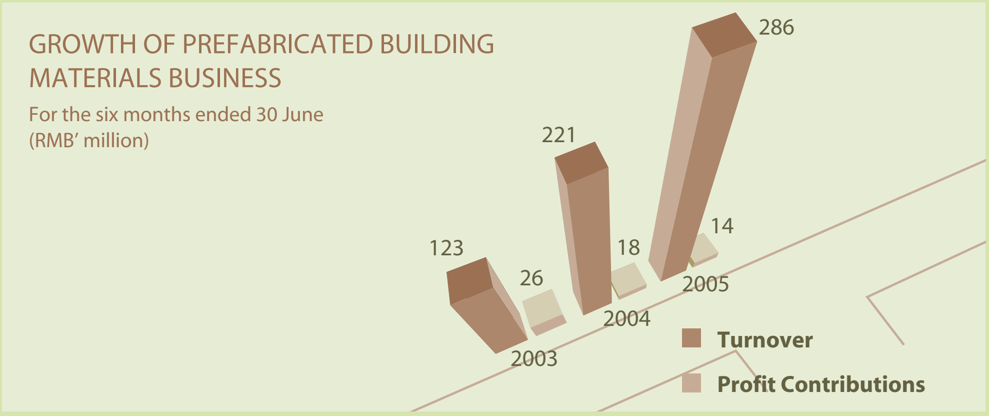
Jing'an Ziyuan is located on Jiangning Road in Shanghai's Jing'an District, 500 metres from the downtown prominent area of Nanjing West Road, which is a truly prime location. This project, with a floor area of 8,341 square metres and a planned gross floor area of approximately 51,344 square metres, will be developed into luxurious service apartments. Construction of the project began in November 2004 and underground works are currently in progress, which is expected to be completed by the end of this year. The whole project is expected to complete capping by the end of 2006.

In addition to the above, the Group still has certain retail shops and parking spaces that are planned to be sold in the second half of the year, of which approximately 5,700 square metres are from City Garden Phase III and 6,000 square metres are from Yulan Huating.

MANAGEMENT DISCUSSION AND ANALYSIS

3. Prefabricated Building Materials Business

During the period under review, the Group's prefabricated building materials business achieved a turnover of RMB286,220,000 (amounting to 11% of the Group's turnover), representing a growth of approximately 29% over the same period last year, and a profit contribution of RMB14,167,000 (amounting to 7% of the Group's total profit), representing a decrease of approximately 19% over the same period last year.



Although the large number of construction contracts of the Group have called for a high demand of inter-company prefabricated building materials, ensuring the stable growth of the Group's building materials business, the macroeconomic control measures imposed by the PRC government still have some impacts on the performance of the Group's prefabricated building materials business, leading to the decrease in gross profit margin. In addition, the slowdown in government fixed asset investment had, to a certain extent, impacted the growth rate of the Group's prefabricated building materials business.

Yet taking advantage of its environmental friendly and energy saving products, the Group's strengths and capability in building materials production and internal integration are beginning to pay off. The Group received a number of significant contract orders during the period, including a RMB130,000,000 order of curtain wall for Zhejiang Electric Power Building (浙江省電力大廈), and a RMB100,000,000 order of decoration and wood-based products and a RMB42,000,000 order of curtain wall for Ningbo Chamber of Commerce Building (寧波商會大廈). In addition, a RMB72,000,000 order of steel structures for Shanghai Development Building (上海發展大廈) is under active negotiation.



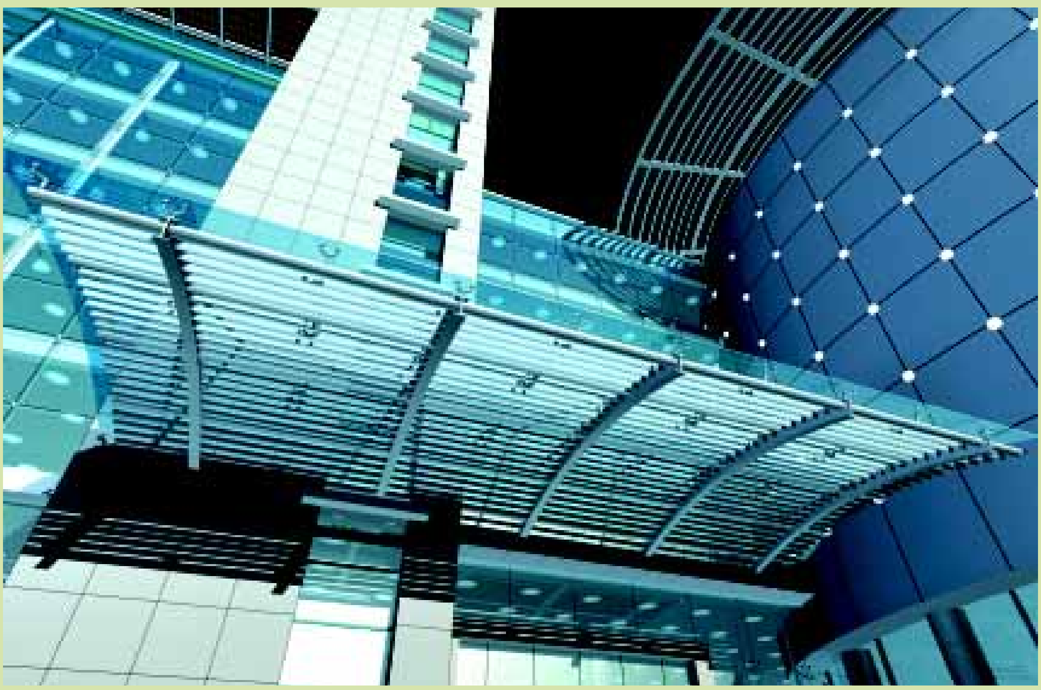


MANAGEMENT DISCUSSION AND ANALYSIS

The macroeconomic control measures imposed by the PRC government will gradually phase out inefficient, pollutive and low technology building materials manufacturers and further enhance market mechanism. These measures will facilitate the rapid development of the Group's building materials business in the long run. In the meantime, the Group will further enhance the level of synergies in its prefabricated buildings materials, construction and property development businesses and draw on its research and development capability to strengthen its core competencies and competitive edges.

During the period under review, turnover of the Group's building materials business can be analyzed as follows:

Building Materials Products	**Turnover for the Period** *(RMB'000)*	**% of the Turnover of Building Materials Business**
Ready-mixed Concrete	75,569	26%
Glass Curtain Wall	71,454	25%
Assembly Furniture	55,883	20%
Steel Structures	29,863	10%
Concrete Piles	26,215	9%
Concrete Ducts	14,868	5%
Large Roof Sheathings	6,695	3%
Fireproof Materials	5,673	2%
Total	286,220	100%



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS PROSPECTS

The stable growth of the PRC economy and government fixed asset investment created a favorable macroeconomic environment for the healthy development of the Group's three core businesses, whilst the continuous urbanization fuels the rapid development of the construction, building materials and real estate markets. From the macroeconomic control measures imposed in the PRC since April 2004, the Group observed that the Chinese government policy strives to encourage enterprises to produce environmental friendly and energy saving products; upgrade the entry barriers for the construction, building materials and real estate industries, thus creating a favorable environment for corporate acquisitions, merger and restructuring in these industries. The Board believes that the Group, being a leading industry player capable of responding quickly to the market demand and equipped with resourceful management experiences, will benefit from the macroeconomic control measures undertaken by the Chinese government in fostering the Group's leading position in these industries and facilitating relevant acquisition plans, while at the same time enhancing the Group's confidence of producing building materials that meet the national standards of energy savings and environmental protections and the industry requirements.

1. **Construction Business**

During the first half of the year, the rapid development of the construction industry was hindered to some extent by the slowdown in government fixed asset investment, which recorded a year-on-year growth of 25.4%, but growth rate was down by 3.2% compared to the corresponding period last year. Nevertheless, as the continuous and rapid urbanization in the PRC drives the development of construction markets relating to infrastructure, energy, industrial, environmental, sports stadium and residential property, the PRC's construction industry would still retain its growth momentum.

Construction business will remain as the focus of the Group's future development. The Group has further positioned its market presence in Zhejiang and Shanghai, and has extended its market reach in Central and Northern China, with historical breakthrough of business development in the construction markets in Shandong, Jiangxi and Tianjin. In particular, the aggregate contract sum of the three development projects in Tianjin (Hongqi Road, Yicheng (億城紅旗路), residential area in a duty-free zone (保稅區生活區) and International Trade Center (國際商貿城)) amounts to RMB170,000,000. Judging from these achievements in the first half, it appears that the impact of the Chinese government macroeconomic control measures on the Group's construction business is minimal. The Group will continue to strengthen its presence in existing markets, and to increase its market share in Central and Northern China by actively pursuing co-operation in other regions and mergers and acquisitions opportunities. The Company at present has identified a state-owned construction group in Wuhan as its acquisition target. Negotiation is in progress and no agreement has been reached as at the date of this report. In the future, the market competition in the construction industry will be drawn on brand name, reputation and technology. With its solid experiences in the construction industry and increasing core competencies and competitive edges, the Board believes that the construction business will continue to be the major profit contributor for the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

2. **Property Development Business**

The impact of the Chinese government macroeconomic control measures on the real estate market segment is relatively more severe. In the first half of the year, property development investment in the PRC increased by 23.5%, the growth rate decreased 5.2% compared with the corresponding period last year. It should be noteworthy that the primary objective of these measures is to slow down overheated property market and to stabilize property prices, though painful and irresistible, it paves a healthy development in the long run. At present, the annual supply of real estate properties only amounts to 300,000,000 square metres, which is still fallen short of actual demand. The demand for residential units will continue to grow due to increases in urbanization in the PRC and per capita income. It is anticipated that the real estate market will remain buoyant for the next 15 to 20 years.

Going forward, the Group will remain prudent on the development of its property development business and will focus on the development of its existing land bank. Nevertheless, the Group will continue to acquire high quality land at low cost for future development when opportunities arise.

MANAGEMENT DISCUSSION AND ANALYSIS

3. Prefabricated Building Materials Business

Although the growth in government fixed asset investment in the PRC has slowed down, the economic growth and increase in investment in urbanization nationwide remain strong, with enormous amount of total government investment, and rapid growth of construction and property development industries which have laid a solid foundation for stable and continuous development for the domestic building materials industry.

In July this year, the National State Council promulgated an important memorandum regarding the construction of resources-saving societies "關於做好建設節約型社會近期重點工作的通知", in which it requires the construction industry to set up resources-saving platform and mechanism as soon as possible so as to lay down an uniform resources-saving model and spending pattern, through effective re-use or recycling of wastes or resources, to ensure that continuous development of economy and societies can be attained.

The rapid development of the prefabricated building materials industry is the key for transforming China's construction industry from "construction to manufacturing". As a pioneer in the "industrialization of China's building materials", the Group has been dedicated to developing cost-effective and environmental friendly high quality semi-finished building materials. It will also set up a research centre to foster its research and development capability in building materials products. In light of the enormous business opportunities generated from "industrialization of building materials", the Board believes that innovative, environmental friendly and energy-saving building materials will be the focus of the industry's development, and hence the future growth momentum of the Group. The Group will continue to expand its building materials business in the next few years. It will actively pursue feasible opportunities to co-operate with leading international manufacturers in the "industrialization of building materials" in order to enhance its core competencies and competitive edges as and when opportunities arise.

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Treasury Policies

The Group continues to adopt prudent financial policies and exercise tight risk management control over its investment, financing and treasury. Its capital structure has always remained sound and solid. The Group will adjust its investment, financing and capital structure from time to time according to its future development and internal resources available, with a view to optimize the capital structure of the Group.

The Group has established a Financial Settlement Center, which centralizes funding for all its subsidiaries at group level. The Board believes that such policy can achieve better control of the treasury operations, minimize financing risks and lower average cost of funding.

Financial Resources and Liabilities

With the support of steady growth in cash flow, sound credit record and excellent reputation in the industry, the Group was awarded an AAA credit rating in 2005 by a credit rating institution recognized by the People's Bank of China. Such excellent credit rating will benefit the Company's financing activities and allows the Group to continue to enjoy the prime rate under the interest rate policy of the People's Bank of China. During the period, the Group maintained most of its borrowings on an unsecured basis. The amount of unsecured debt accounted for 89% of the total borrowings. Leveraging on its excellent credit rating, the Group continues to obtain its borrowings on an unsecured basis, which will be complemented by secured project loans when necessary.

As at 30 June 2005, the Group's bank borrowings, net of restricted bank deposits and cash and cash equivalents amounted to RMB222,483,000 (30 June 2004: RMB370,823,000). The Group's net gearing ratio (calculated on the basis of net bank borrowings over total shareholders' equity) is 17% (30 June 2004: 40%). The Group will continue to adopt prudent policy to maintain its gearing ratio at low level.

MANAGEMENT DISCUSSION AND ANALYSIS

Key Financial Ratios

	As at 30 June	
	2005	2004
Return on equity (%)	**13.6%**	16.2%
Net assets value per share (RMB)	**2.4**	1.9
Net gearing ratio (%)	**17%**	40%
Current ratio	**1.17**	1.03

Return on equity	=	earnings attributable to shareholders/total shareholders' equity
Net assets value per share	=	net assets/shares in issue at the end of the period
Net gearing ratio	=	net bank borrowings/total shareholders' equity
Current ratio	=	current assets/current liabilities

The key financial ratios of the Group were healthy and in its increasing improvement trend, largely attributable to the management's continued efforts in improving operating and financial performance of the Group. The return on equity decreased from 16.2% last period to 13.6% in the current period, which was primarily due to the fact that a significant amount of revenue from property development business was recognized according to completion method in the first half year of 2004. Although the Company conducted a placement exercise by issuing 36,136,800 new H shares during the period, the Company expects that the return on equity ratio will be further improved for the whole year, in anticipation of increased earnings in the balance of the year.

Cash Flow Analysis

		For the six months ended 30 June		
		2005	2004	**% Change**
	Notes	***RMB'000***	*RMB'000*	
Net cash inflow/(outflow) from operating activities	*1*	**78,349**	(143,416)	154.6%
Net cash outflow from investing activities	*2*	**(55,298)**	(177,331)	68.8%
Net cash inflow from financing activities	*3*	**147,291**	269,050	(45.3%)
Net increase/(decrease) in cash and cash equivalents		**170,342**	(51,697)	N/A
Cash and cash equivalents at 1 January		**531,095**	487,796	8.8%
Cash and cash equivalents at 30 June	*4*	**701,437**	436,099	60.8%

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

1. Cash flow from operating activities has changed from a net outflow of RMB143,416,000 in the corresponding period last year to a net inflow of RMB78,349,000 of 2005, which has greatly improved the cash flow position of the Group. This was primarily attributed to the increase in operating revenue during the period, and management's effort to collect outstanding debts.

2. Cash outflow from investing activities was mainly used in acquiring an additional 35% equity interests in Zhejiang Baoye Building Materials Industrialization Company Limited.

3. Cash inflow from financing activities was mainly attributable to the placing of new H Shares, which raised net proceeds of approximately RMB148,499,000.

4. Cash and cash equivalents increased 60.8% to RMB701,437,000 in 2005 from RMB436,099,000 in 2004. The increase was primarily attributed to the net proceeds raised from the placing of new H shares, which has not been put to use; and the Group's prudent financial policies and tight risk management control over its investment, financing and treasury activities.

Details of the charges on the Group's assets

As at 30 June 2005, land use rights and buildings with an aggregate value of approximately RMB58,461,000 (31 December 2004: RMB69,372,000) were pledged by the Group as securities of short-term loans.

External Guarantee and Fulfillment

	At 30 June 2005 *RMB'000*	At 31 December 2004 *RMB'000*
Guarantee given to banks in respect of mortgage facilities granted to third parties	**41,500**	58,690

The Group has 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.

Adjustment of RMB Exchange Rate and Foreign Exchange Risks

The Group's business activities and bank borrowings are all denominated and accounted for in RMB, and therefore do not have any direct exposures to foreign exchange fluctuation. The Board does not expect the adjustment of RMB exchange rate and other foreign exchange fluctuations will have any direct impact on the business operations of the Group.

Use of Proceeds

The total amount raised by the IPO of H Share by the Group in 2003 was approximately RMB236,830,000. In 2004, the Company has fully utilised the proceeds according to the proposed usage specified in the prospectus of the Company dated 17 June 2003.

In January 2005, the Company issued 36,136,800 new H shares, raising a net proceeds of approximately RMB148,499,000. Such proceeds will be used for business expansion outside Zhejiang Province and as general working capital.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

In accordance with relevant requirements of the China Securities Regulatory Commission and the Listing Rules of the HKEx., the Group has been actively and conscientiously improving the corporate governance structure, enhancing its transparency, bringing in professional talents, and learning from the experience of the outstanding corporations in corporate rules, financial management and system.

CODE OF CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2005, except that the chief executive officer of the Company is temporally assumed by Mr. Pang Baogen, the chairman of the Board.

In order to pursue his own personal career, Mr. Wei Falin tendered his resignation as chief executive officer to the Board. After serious consideration and respecting to Mr. Wei Falin's decision, the Board approved Mr. Wei's resignation as chief executive officer of the Company at the Board meeting held on 17 June 2005, while Mr. Wei agreed to act as the chief economist of the Company on a part time basis. The Board would like to express its appreciation to Mr. Wei for the invaluable achievements and contributions during his tenure. As the Company has not yet identified any suitable candidate, Mr. Pang Baogen, the chairman of the Board, will act as the chief executive officer on a temporary basis, while the Board will actively seek appropriate candidate to fulfill the vacancy.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as the Code for Securities Transactions by Directors of the Company. Having made specific enquiries by the Company, the Directors have confirmed compliance with required standards set out in the Code for Securities Transactions by Directors of the Company throughout the six months ended 30 June 2005.

REMUNERATION COMMITTEE

The Company has established a remuneration committee on 1 April 2005 in accordance with the requirements of the Code of Corporate Governance Practices. The remuneration committee comprises two independent non-executive Directors, namely Mr. Dennis Yin Ming Chan and Mr. Yi Deqing and one executive Director, namely Mr. Pang Baogen. Mr. Dennis Yin Ming Chan is the chairman of the remuneration committee.

AUDIT COMMITTEE

The audit committee of the Company comprises three independent non-executive Directors, namely Mr. Wang Youwei, Mr. Yi Deqing and Mr. Dennis Yin Ming Chan, whereas Mr. Wang Youwei is the chairman of the audit committee, and Mr. Dennis Yin Ming Chan is a qualified Hong Kong accountant with extensive experience in financial management. The primary duties of audit committee is to review and supervise the Group's financial reporting process and internal control systems, as well as to provide relevant recommendations and advices to the Board. The interim results of the Group for the six months ended 30 June 2005 had been reviewed by the audit committee of the Company.

Going forward, the Group will strive to achieve the highest standards of corporate governance and transparency in its operations and development whilst at the same time participate in activities that will help to promote corporate governance on a wider perspective.

INVESTOR RELATIONS

INVESTOR RELATIONS

INVESTOR RELATIONS

We always put great effort to investor relations, participating or organizing various investor relations' activities, strengthening corporate governance, showing full disclosure of the business information, enhancing corporate transparency, strengthening communication with investors and potential investors. This helps to reinforce the Company's relations with investors, improve the investors' understanding and confidence towards the Company, and also acts as an external control over the Company's operation while maximize shareholders' value and protect investors' interests.

During the period, the Company participated the following large-scale international investor relations activities and "one-to-one" meetings:

Date	Activities	Organizer	Venue
24-26 Jan 2005	UBS Greater China Conference 2005	UBS	Shanghai
21-22 Feb 2005	China Corporate Road Show	BNP	Hong Kong/ Singapore
4 Apr 2005	Baoye Group: Post Result Road Show	CLSA	Hong Kong
13 April 2005	Baoye Management Road Show	CLSA	Singapore
2-6 May 2005	China Value & Growth Conference	HSBC	New York/ London
16-19 May 2005	China Investment Forum 2005	CLSA	Beijing
18-20 May 2005	China Investment Frontier 2005	Goldman Sachs	Kunming
27 May 2005	China Stock Forum 2005	HSBC	Singapore
27-29 June 2005	China Corporate Conference	BNP	London/ Amsterdam/ Milan

Our active participation in roadshows has strengthed communication between the Company and institutional investors, fund managers and analysts. Moreover, during the period, a lot of investors paid visits to our headquarters at Shaoxing to learn more about our business and operations. Institutional investors like CLSA, UOB Kay Hian, IRIS Asia limited and Asia IR of Japan had accompanied their respective clients to visit our company during the period.

OTHER INFORMATION

INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As at 30 June 2005, the interests and short positions of each director, supervisor and senior management of the Company in the shares, underlying shares or debentures of the Company or any associated corporation 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 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 were as follows:

Director/Supervisor/ Senior Management	Associated corporation	Type of interests	Number of domestic shares held (long position)	Approximate percentage of the total registered capital
Mr. Pang Baogen	The Company	Individual	198,753,054	35.02%
Mr. Gao Jiming	The Company	Individual	13,024,647	2.29%
Mr. Sun Guofan	The Company	Individual	11,705,283	2.06%
Mr. Gao Lin	The Company	Individual	9,544,775	1.68%
Mr. Zhou Hanwan	The Company	Individual	8,233,510	1.45%
Mr. Xu Jianbiao	The Company	Individual	7,524,884	1.33%
Mr. Gao Jun	The Company	Individual	5,794,259	1.02%
Mr. Lou Zhonghua	The Company	Individual	5,633,172	0.99%
Mr. Wang Rongbiao	The Company	Individual	2,647,911	0.47%

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2005, so far as was known to the Directors, the following persons, 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	Associated corporation	Number of H share held (Long position)	Approximate percentage of the total issued H shares capital
Atlantis Investment Management Ltd	The Company	17,500,000	8.07% *(Note 1)*
Mr. Cheah Cheng Hye	The Company	17,114,000	7.89% *(Note 2)*
Value Partners Limited	The Company	17,114,000	7.89% *(Note 2)*
Gartmore Investment Management Plc	The Company	11,349,700	5.24% *(Note 3)*

Note:

1. The 17,500,000 H shares are held by Atlantis Investment Management Ltd. as investment manager.

2. The 17,114,000 H shares are held by Value Partners Limited as investment manager. Mr. Cheah Cheng Hye is interested in 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.

3. The 11,349,700 H shares are held by Gartmore Investment Management Plc. as investment manager.

OTHER INFORMATION

PLACING OF NEW H SHARES

On 13 January 2005, the Company entered into a share placing agreement with UBS, pursuant to which, UBS being the sole placing agent, agreed to procure independent investors to subscribe placing shares on a fully underwritten basis. The placing involved 36,136,800 new H shares, representing approximately 20.0% and 6.8% of H share in issue and the share capital of the Company prior to the placing respectively and approximately 16.7% and 6.4% of the H shares in issue and the share capital of the Company as enlarged by the placing respectively. The net proceeds from the placing, after deducting the commission and related expenses thereof, amounted to approximately RMB148,499,000.

Set out below is a breakdown of holding in the share capital of the Company immediately before and after the completion of the placing:

	Immediately before the Placing		Immediately after the Placing	
Name of shareholders	**Number of shares held**	**Percentage of shareholding**	**Number of shares held**	**Percentage of shareholding**
Domestic Shares				
Mr. Pang Baogen	198,753,054	37.40%	198,753,054	35.02%
Mr. Gao Jiming	13,024,647	2.45%	13,024,647	2.29%
Mr. Sun Guofan	11,705,283	2.20%	11,705,283	2.06%
Mr. Gao Lin	9,544,775	1.80%	9,544,775	1.68%
Mr. Zhou Hanwan	8,233,510	1.55%	8,233,510	1.45%
Mr. Xu Jianbiao	7,524,884	1.42%	7,524,884	1.33%
Mr. Gao Jun	5,794,259	1.09%	5,794,259	1.02%
Mr. Lou Zhonghua	5,633,172	1.06%	5,633,172	0.99%
Mr. Wang Rongbiao	2,647,911	0.50%	2,647,911	0.47%
Other promoters of the Company	87,880,558	16.53%	87,880,558	15.49%
H Share holders	180,684,000	34.00%	216,820,800	38.20%
Total	531,426,053	100.00%	567,562,853	100.00%

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRED SHARES OR DEBENTURES

Apart from those disclosed in the paragraph headed "Interests of Directors, Supervisors and Senior Management", at no time during the period 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 share in, or debentures of, the Company or any other legal entities.

OTHER INFORMATION

HUMAN RESOURCES

As at 30 June 2005, the Group had 1,148 full time administrative staff (30 June 2004: 1,101) being permanent employees of the Group. There are approximately 42,000 construction site workers (30 June 2004: approximately 39,000) who are not permanent employees of the Group. Total staff costs amounted to RMB364,264,000 (2004: RMB345,055,000) for the six months ended 30 June 2005. Remuneration is determined by reference to market terms and the performance, qualifications and experience of individual employee. Employee benefits provided by the Group includes provident fund schemes.

SIGNIFICANT RELATED PARTY TRANSACTION

The significant related party transactions undertaken by the Group during the period are set out in note 19(a) and 26 of the condensed financial information.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the period from 1 January 2005 to 30 June 2005, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities

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
26 August 2005

INFORMATION FOR SHAREHOLDERS

Directors

Executive Directors
Mr. Pang Baogen, *Chairman*
Mr. Gao Jiming
Mr. Gao Lin
Mr. Zhou Hanwan

Non-executive Directors
Mr. Wu Weimin
Mr. Hu Shaozeng

Independent Non-executive Directors
Mr. Wang Youwei
Mr. Yi Deqing
Mr. Dennis Yin Ming Chan

Supervisors

Supervisors
Mr. Sun Guofan, *Chairman of Supervisory Committee*
Mr. Xie Qisheng

Independent Supervisors
Mr. Chen Xingquan
Mr. Li Yongsheng
Mr. Zhang Xindao

Audit Committee

Mr. Wang Youwei, *Chairman of Audit Committee*
Mr. Yi Deqing
Mr. Dennis Yin Ming Chan

Remuneration Committee

Mr. Dennis Yin Ming Chan, *Chairman of Remuneration Committee*
Mr. Pang Baogen
Mr. Yi Deqing

Company Secretary

Ms. NGAN Lin Chun, Esther *FCIS, FCS*

Auditors

International Auditors
PricewaterhouseCoopers
22nd Floor
Prince's Building
Central, Hong Kong

Statutory Auditors
Shine Wing CPAs
Fuhua Tower
No. 8 Beidajie
Zhaoyangmen
Dongcheng District
Beijing 100027 PRC

Legal Advisers

As to Hong Kong law
Mallesons Stephen Jaques
37th Floor, Two International Finance Centre
8 Finance Street
Central, Hong Kong

As to PRC law
Jingtian & Gongcheng
15th Floor
The Union Plaza
20 Chaoyang Menwaidajie
Beijing 100020, PRC

Hong Kong Share Registrar

Tengis Limited
Ground Floor
Bank of East Asia
Harbor View Centre
56 Gloucester Road
Wanchai, Hong Kong

Investor Relations Consultant

Strategic Financial Relations (China) Limited
Unit A, 29/F., Admiralty Centre I
18 Harcourt Road, Hong Kong

Corporate Registered Address

Yangxunqiao Township
Shaoxing County
Zhejiang Province
The PRC, 312028
Tel: 86-575-4069420

Place of Business in Hong Kong

1902, Mass Mutual Tower
38 Gloucester Road
Wanchai
Hong Kong

Authorized Representatives

Mr. Pang Baogen
Mr. Gao Jiming

Stock information

HKEx 2355

Contact

Investor Relations Department
Baoye Group Company Limited
Tel: 86-575-4135837
Fax: 86-575-4118792
E-mail: baoye@baoyegroup.com

Website

www.baoyegroup.com

DEFINITION

In this interim report, unless the context otherwise requires, the following expressions have the meanings:

The period	For the six months ended 30 June 2005
The Company/Baoye	Baoye Group Company Limited
The Group/Baoye Group	Baoye Group Company Limited and its subsidiaries
Baoye Construction	Zhejiang Baoye Construction Group Company Limited, a subsidiary of the Group
Baoye Real Estate	Zhejiang Baoye Real Estate Group Company Limited, a subsidiary of the Group
Baoye Industrialization	Zhejiang Baoye Building Materials Industrialization Company, a subsidiary of the Group
construction business	The activities of undertaking and implementation of construction projects conducted by the Group
real estate business	The activities of development of real estate conducted by the Group
building materials business	The activities of research and development, production and sale of building materials conducted by the Group
Listing Rules	The rules governing the listing of securities on the Hong Kong Stock Exchange
H share	Oversea listed Foreign Shares of nominal value RMB1.00 each in the registered capital of the Company, which are listed on the Stock Exchange, and subscribed for in HK dollars
HKEx	The Stock Exchange of Hong Kong Limited
Board	The Board of Directors of Baoye Group Company Limited

DEFINITION

Supervisory Committee	The Supervisory Committee of Baoye Group Company Limited
Prospectus	The prospectus of the Company dated 17 June 2003