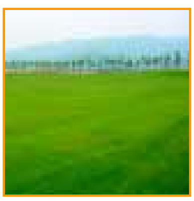
寶業集團股份有限公司

BAOYE GROUP COMPANY LIMITED

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

(Stock Code : 2355)




INTERIM REPORT 2006

Contents

02 Corporate Profile
04 Financial Highlights
Unaudited Condensed Consolidated Interim Financial Information
- 06 Condensed Consolidated Balance Sheet
- 08 Condensed Consolidated Income Statement
- 09 Condensed Consolidated Statement of Changes in Equity
- 10 Condensed Consolidated Cash Flow Statement
- 11 Notes to the Condensed Consolidated Financial Statements

Management Discussion and Analysis
- 32 Business Review
- 44 Financial Review

50 Corporate Governance
54 Investor Relations
56 Other Information
58 Information for Shareholders
59 Definition

Construction is an
everlasting business

Corporate Profile

Business Structure

Baoye Group Company Limited

- **Building Materials Business**
  - Steel Structure
  - Glass Curtain Wall
  - Wooden Products and Interior Decorations
  - Ready-mixed Concrete
  - Concrete Pipes and Ducts
  - Large Sheathings
  - Fireproof Materials
  - Bridge Beam
- **Construction Business**
  - Government and Public Buildings
  - Urban Facilities and Infrastructure
  - Commercial Buildings
  - Residential Buildings
  - Industrial Buildings
  - Exterior Decorations
  - Electrical Equipment Installation
  - Fireproof Facilities Installation
  - Curtain Wall Installation
  - Gardening and Landscape
- **Property Development Business**
  - Shaoxing "Linjiang Green Garden"
  - Hefei "City Green Garden"
  - Hefei "Zhejiang Commercial City"
  - Shanghai "Jing'an Ziyuan"
  - Shaoxing "Baoye Four Seasons Garden"

Business Network

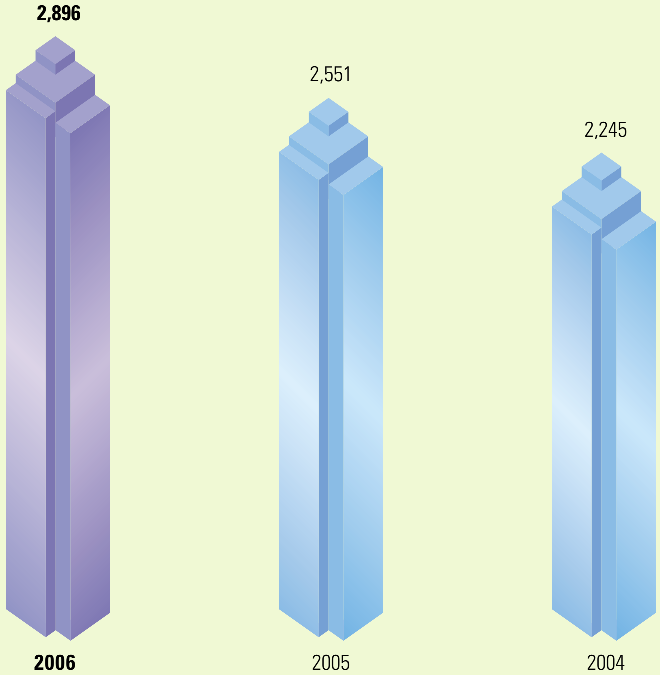
- **Baoye Group Company Limited**
  - **Building Materials Business**
    - Shaoxing Keqiao Industrial Park
    - Hefei Industrial Park (under construction)
    - Wuhan Industrial Park (proposed to construct)
  - **Construction Business**
    - Zhejiang
    - Shanghai
    - Jiangsu
    - Anhui
    - Hubei
    - Jiangxi
    - Beijing
    - Tianjin
    - Hebei
    - Shandong
    - Henan
    - Liaoning
    - Hunan
  - **Property Development Business**
    - Shaoxing
    - Hefei
    - Shanghai
    - Wuhan
    - Hangzhou

Financial Highlights

Growth in Turnover

For the six months ended 30 June

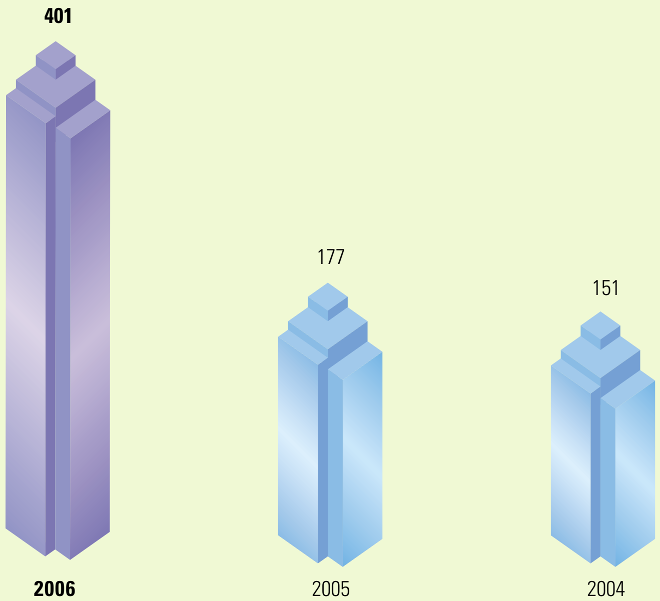
(in RMB million)



Growth in Profit Attributable to Equity Holders of the Company

For the six months ended 30 June

(in RMB million)



	Six months ended 30 June		
	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*
RESULTS			
Turnover	**2,895,757**	2,550,957	2,245,116
Profit attributable to equity holders of the Company	**401,068**	176,659	151,170
Earnings per share (RMB)	**0.66**	0.31	0.28

	Six months ended 30 June		
Financial Index	**2006**	2005	2004
Return on equity	**19.4%**	13.6%	16.2%
Net assets value per share (RMB)	**3.39**	2.40	1.90
Net gearing ratio	**15.7%**	17.1%	40%
Current ratio	**1.12**	1.17	1.03

Unaudited Condensed Consolidated Interim Financial Information

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2006

	Note	**30 June 2006 RMB'000 Unaudited**	31 December 2005 RMB'000 Audited
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	**727,077**	486,997
Investment properties	*6*	**39,813**	35,981
Land use rights	*7*	**794,629**	460,110
Goodwill	*6*	**17,043**	17,043
Properties under development		**204,033**	95,879
Investment in associates		**34,768**	–
Deferred income tax assets		**13,253**	22,844
		1,830,616	1,118,854
Current assets			
Inventories		**80,456**	54,233
Land use rights	*7*	**252,778**	286,350
Properties under development		**380,900**	606,348
Completed properties held for sale		**73,160**	72,276
Due from customers on construction contracts	*8*	**787,302**	517,919
Trade receivables	*9*	**541,643**	387,223
Other receivables	*10*	**893,840**	687,684
Restricted bank deposits		**149,822**	83,742
Cash and cash equivalents		**735,961**	742,289
		3,895,862	3,438,064
Total assets		**5,726,478**	4,556,918

The notes on pages 11 to 31 form an integral part of this condensed interim financial information.

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

As at 30 June 2006

	Note	30 June 2006 RMB'000 Unaudited	31 December 2005 RMB'000 Audited
EQUITY			
Capital and reserves attributable to the Company's equity shareholders			
Share capital	11	**953,735**	953,735
Reserves	12	**209,840**	235,884
Retained earnings		**905,677**	500,738
Proposed dividend		**–**	73,311
		2,069,252	1,763,668
Minority interest		**69,069**	64,363
Total equity		**2,138,321**	1,828,031
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**112,185**	134,970
Current liabilities			
Trade payables	13	**757,802**	374,380
Other payables	14	**777,644**	432,769
Receipts in advance		**91,645**	227,352
Current income tax liabilities		**112,355**	85,896
Due to customers on construction contracts	8	**447,565**	389,137
Dividend payable		**73,311**	–
Borrowings	16	**1,211,400**	1,080,513
Provision for warranty	15	**4,250**	3,870
		3,475,972	2,593,917
Total liabilities		**3,588,157**	2,728,887
Total equity and liabilities		**5,726,478**	4,556,918
Net current assets		**419,890**	844,147
Total assets less current liabilities		**2,250,506**	1,963,001

The notes on pages 11 to 31 form an integral part of this condensed interim financial information.

Pang Baogen
Director

Gao Jiming
Director

Unaudited Condensed Consolidated Interim Financial Information

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006

		Unaudited Six months ended 30 June	
	Note	**2006** **RMB'000**	2005 RMB'000
Turnover		**2,895,757**	2,550,957
Cost of sales		**(2,570,309)**	(2,293,871)
Gross profit		**325,448**	257,086
Other gains – net	17	**288,574**	59,713
Selling and marketing costs		**(6,291)**	(2,404)
Administrative expenses		**(78,959)**	(50,356)
Operating profit		**528,772**	264,039
Finance costs		**(26,524)**	(22,416)
Share of losses of associates		**(20)**	–
Profit before income tax		**502,228**	241,623
Income tax expense	19	**(97,351)**	(65,189)
Profit for the period		**404,877**	176,434
Attributable to:			
Equity holders of the Company		**401,068**	176,659
Minority interest		**3,809**	(225)
		404,877	176,434
Earnings per share for profit attributable to the equity holders of the Company			
– basic (expressed in RMB per share)	20	**0.66**	0.31

The notes on pages 11 to 31 form an integral part of this condensed interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

	Unaudited					
	Attributable to equity holders of the Company					
	Share capital RMB'000	Reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interest RMB'000	Total equity RMB'000
Balance at 1 January 2005	587,576	77,437	389,051	1,054,064	104,578	1,158,642
Profit for the period	–	–	176,659	176,659	(225)	176,434
Issue of shares	148,500	–	–	148,500	–	148,500
Dividend relating to 2004	–	–	(81,502)	(81,502)	–	(81,502)
Minority interest arising from change of a jointly controlled entity into a subsidiary	–	–	–	–	9,082	9,082
Acquisition of minority interest by the Group	–	–	–	–	(50,084)	(50,084)
Balance at 30 June 2005	**736,076**	**77,437**	**484,208**	**1,297,721**	**63,351**	**1,361,072**
Balance at 1 January 2006	953,735	235,884	574,049	1,763,668	64,363	1,828,031
Profit for the period	–	–	401,068	401,068	3,809	404,877
Dividend relating to 2005	–	–	(73,311)	(73,311)	–	(73,311)
Transfer of reserves to income statement arising from the sales of completed properties held for sale	–	(22,173)	–	(22,173)	–	(22,173)
Transfer of reserves to retained earnings upon disposals of property, plant and equipment	–	(3,871)	3,871	–	–	–
Reduction of minority interest resulting from additional investments made by the Group in a subsidiary	–	–	–	–	(572)	(572)
Acquisition of subsidiaries	–	–	–	–	1,469	1,469
Balance at 30 June 2006	**953,735**	**209,840**	**905,677**	**2,069,252**	**69,069**	**2,138,321**

The notes on pages 11 to 31 form an integral part of this condensed interim financial information.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006

	Unaudited Six months ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
Cash flows from operating activities – net	**(140,732)**	78,349
Cash flows from investing activities – net	**29,690**	(55,298)
Cash flows from financing activities – net	**104,714**	147,291
Net (decrease)/increase in cash and cash equivalents	**(6,328)**	170,342
Cash and cash equivalents at start of period	**742,289**	531,095
Cash and cash equivalents at end of period	**735,961**	701,437

The notes on pages 11 to 31 form an integral part of this condensed interim financial information.

NOTES TO CONDENSED CONSOLIDATED INTERIM 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 address of the Company's registered office is Yangxunqiao Township, Shaoxing County, Zhejiang Province, the PRC.

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.

This condensed consolidated interim financial information is presented in Renminbi ("RMB"), unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 7 September 2006 by the board of directors of the Company.

2. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2006 has been prepared in accordance with HKAS 34, 'Interim financial reporting'. The interim condensed financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

3. Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2005, as described in the annual financial statements for the year ended 31 December 2005.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006.

- Amendment to HKAS 19, 'Actuarial gains and losses, group plans and disclosures', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant to the Group;

- Amendment to HKAS 39, Amendment 'The fair value option', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant to the Group;

- Amendment to HKAS 21, Amendment 'Net investment in a foreign operation', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant to the Group;

- Amendment to HKAS 39, Amendment 'Cash flow hedge accounting of forecast intragroup transactions', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant to the Group;

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

3. Accounting policies (continued)

- Amendment to HKAS 39 and HKFRS 4, Amendment 'Financial guarantee contracts', effective for annual periods beginning on or after 1 January 2006. This amendment had no material effect on the Group;

- HKFRS 6, 'Exploration for and evaluation of mineral resources', effective for annual periods beginning on or after 1 January 2006. This standard is not relevant to the Group;

- HKFRS-Int 4, 'Determining whether an arrangement contains a lease', effective for annual periods beginning on or after 1 January 2006. The Group has reviewed its contracts. None of them are required to be accounted for as leases in accordance with HKAS 17, 'Leases';

- HKFRS-Int 5, 'Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds', effective for annual periods beginning on or after 1 January 2006. This interpretation is not relevant to the Group; and

- HK(IFRIC)-Int 6, 'Liabilities arising from participating in a specific market – waste electrical and electronic equipment', effective for annual periods beginning on or after 1 December 2005. This interpretation is not relevant to the Group.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

- HK(IFRIC)-Int 7, 'Applying the restatement approach under HKAS 29', effective for annual periods beginning on or after 1 March 2006. Management do not expect the interpretation to be relevant to the Group;

- HK(IFRIC)-Int 8, 'Scope of HKFRS 2', effective for annual periods beginning on or after 1 May 2006. Management do not expect the interpretation to be relevant to the Group;

- HK(IFRIC)-Int 9, 'Reassessment of embedded derivatives', effective for annual periods beginning on or after 1 June 2006. Management do not expect the interpretation to be relevant to the Group; and

- HKFRS 7, 'Financial instruments: Disclosures', effective for annual periods beginning on or after 1 January 2007. HKAS 1, 'Amendments to capital disclosures', effective for annual periods beginning on or after 1 January 2007. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 January 2007.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

4. 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 areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the condensed consolidated interim financial information are disclosed in below.

(a) Construction contract revenue recognition

According to the Group's accounting policies of construction contracts, the Group uses the 'percentage of completion method' to determine the appropriate revenues to be recognised in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract.

Upon applying the percentage of completion method, the Croup need to estimate the gross profit margin of each construction contract, which was determined based on the estimated total construction contract costs and total construction contract sum. If the actual gross profit margin of each construction contract differs from the management's estimates, the construction contract revenue previously recognised will need to be adjusted in the subsequent periods accordingly.

In addition, the directors of the Company are of the opinion that there are no expected losses, where the estimated total construction contract costs exceed the total construction contract revenue, which need to be recognised in the condensed consolidated interim income statement for the six months ended 30 June 2006.

(b) 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.

(c) Estimate of the fair value of acquired assets and liabilities from business combination

During the period, the Group acquired the 100% equity interest of 12 companies located in Hubei province from Hubei Construction Engineering Holding Company ("Hubei Construction Holding") at an aggregate cash consideration of RMB132,855,000. Details of the acquisitions are set out in Note 22. In accordance with HKFRS 3, the identifiable assets acquired and liabilities and contingent liabilities assumed should be measured at fair value at the date of acquisition in order to determine the difference between the cost of acquisition and the fair value of the Group's share of net assets acquired, which should then be recognised as goodwill on the balance sheet or recognised in the income statement.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

4. Critical accounting estimates and judgements (continued)

(c) *Estimate of the fair value of acquired assets and liabilities from business combination* (continued)

In the absence of an active market for above acquisition transaction undertaken by the Group, in order to determine the fair values of assets acquired and liabilities assumed, the directors of the Company identified from a variety of sources, a range of reasonable fair value estimates in order to assist the fair value determination process as below.

In order to determine the fair value of identifiable assets and liabilities in the above acquisition transaction, the directors have adopted the following critical judgment and estimates:

- Fair value of all working capital items of the acquired companies are stated at their net book value as at the acquisition date, after making applicable adjustments according to the latest assessment made by management.

- Fair value of the land use rights, property, plant and equipment and investment in associates:

  The original shareholder/owner of the 12 acquired companies, Hubei Construction Holding, is a state-owned company in the PRC. According to the PRC laws, Hubei Construction Holding has appointed a PRC qualified valuers to assess the fair value of the net assets of the disposed companies and the related valuation report, the valuation date of which is 30 June 2005, has been issued. When initially assessing the fair value of the land use rights, property, plant and equipment and investment in associates at the acquisition date, management made reference to the valuation results of the above valuation report as management considered that no material changes have occurred from the above valuation date to the acquisition date.

  According to the PRC laws, the valuation results of the 12 companies made by the external valuers as appointed by Hubei Construction Holding are recognised by the local government and such valuation results can be recorded in the book accounts of these 12 companies. In addition, based on the initial communication with the local government and local tax bureau, management of the Group considered that no significant temporary differences were identified as a result of such valuation of assets arising from above acquisition and thus no deferred tax assets and liabilities were required to be recognised.

- The Group identified that the main intangible assets were construction certificates owned by certain acquired companies. However, these construction certificates could not meet the requirements of the identifiable intangible assets as management can not reasonably determine and separate the fair value of and the future benefits associated with these certificates. Moreover, no other material identifiable intangible assets were identified by management of the Group.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

4. Critical accounting estimates and judgements (continued)

(c) Estimate of the fair value of acquired assets and liabilities from business combination (continued)

The Group has yet to finalise the amount of the fair value of the net identifiable assets acquired and liabilities assumed. Based on the above initial analysis and assessment performed by the directors, the Group had used the provisional values and initially recognised the excess of the fair value of the net assets acquired over the acquisition costs amounting to approximately RMB212,547,000 in relation to the above acquisition transaction as other gains (Note 17) for the six months ended 30 June 2006 (see Note 22 for details of this acquisition transaction).

(d) Land appreciation tax

The Group is subject to land appreciation tax in the PRC which has been provided and included in cost of sales of the Group. The implementation of the tax varies amongst various PRC cities and the Group has not finalised its land appreciation tax returns with related tax authorities. Accordingly, judgement is required in determining the amount of land appreciation and related tax. Where the final tax outcome of these matters is different from the amounts that were initially determined and recorded, such differences will be recognised in the income statement in the period in which such tax is finalised.

5. 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 total revenue attributable from these three segments is approximately RMB2,870,471,000 and RMB2,500,983,000 for the six moths ended 30 June 2006 and 2005 respectively.

Other Group operations mainly comprise the provision of construction and decoration design services and provision of rental services. Other results also comprise the investment properties fair value gains. Neither of these constitutes a separately reportable segment.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

5. Segment information (continued)

The business segment results for the six months ended 30 June 2006 and 2005 are as follows, respectively.

	Six months ended 30 June 2006				
	Construction *RMB'000*	**Building materials** *RMB'000*	**Property development** *RMB'000*	**Others** *RMB'000*	**Group** *RMB'000*
Total turnover	**2,107,437**	**483,803**	**391,007**	**37,895**	**3,020,142**
Inter-segment turnover	**(76,541)**	**(35,235)**	**–**	**(12,609)**	**(124,385)**
External turnover	**2,030,896**	**448,568**	**391,007**	**25,286**	**2,895,757**
Operating profit	**315,707**	**41,578**	**168,147**	**3,340**	**528,772**
Finance costs					**(26,524)**
Share of losses of associates					**(20)**
Profit before income tax					**502,228**
Income tax expense					**(97,351)**
Profit for the period					**404,877**
Other information					
Depreciation	**10,096**	**12,378**	**601**	**1,073**	**24,148**
Amortisation	**1,442**	**36**	**322**	**–**	**1,800**
Impairment of receivables	**1,047**	**1,290**	**–**	**–**	**2,337**

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

5. Segment information (continued)

	Six months ended 30 June 2005				
	Construction	Building materials	Property development	Others	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total turnover	1,766,585	295,807	528,178	49,974	2,640,544
Inter-segment turnover	(80,000)	(9,587)	–	–	(89,587)
External turnover	1,686,585	286,220	528,178	49,974	2,550,957
Operating profit	95,000	51,403	117,390	246	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	2,175	–	–	–	2,175
Impairment of receivables	150	1,225	–	172	1,547

Inter-segment transactions were entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

5. Segment information (continued)

The segment assets and liabilities as at 30 June 2006 and capital expenditure for the six months then ended are as follows:

	Construction *RMB'000*	**Building materials** *RMB'000*	**Property development** *RMB'000*	**Others** *RMB'000*	**Unallocated** *RMB'000*	**Group** *RMB'000*
Assets	**3,772,707**	**764,682**	**973,519**	**127,736**	**53,066**	**5,691,710**
Associates	**–**	**–**	**34,768**	**–**	**–**	**34,768**
Assets	**3,772,707**	**764,682**	**1,008,287**	**127,736**	**53,066**	**5,726,478**
Liabilities	**2,113,757**	**483,961**	**479,374**	**42,879**	**468,186**	**3,588,157**
Capital expenditure	**239,615**	**42,767**	**106**	**52**	**–**	**282,540**

The segment assets and liabilities as at 31 December 2005 and capital expenditure for the six months ended 30 June 2005 are as follows:

	Construction *RMB'000*	Building materials *RMB'000*	Property development *RMB'000*	Others *RMB'000*	Unallocated *RMB'000*	Group *RMB'000*
Assets	2,508,681	715,629	1,233,359	40,424	58,825	4,556,918
Liabilities	1,623,717	380,078	616,198	22,998	85,896	2,728,887
Capital expenditure	16,585	52,887	–	1,652	–	71,124

Segment assets consist primarily of land use rights, property, plant and equipment, properties under development, completed properties held for sale, inventories, amounts due from customers on construction contracts, receivables and operating cash. They exclude items such as deferred tax assets and investment properties.

Segment liabilities comprise operating liabilities including amounts due to customers on construction contracts. They exclude items such as certain borrowings and income tax liabilities.

Capital expenditure comprises additions to property, plant and equipment, including additions resulting from acquisitions through business combination.

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

6. Capital expenditure

	Property, plant and equipment *RMB'000*	Investment properties *RMB'000*	Goodwill *RMB'000*
Six months ended 30 June 2006			
Opening net book amount as at 1 January 2006	486,997	35,981	17,043
Addition arising from business combination *(Note 22)*	233,806	–	–
Other additions	48,734	–	–
Fair value appreciation credited to other gains	–	3,832	–
Disposals	(18,312)	–	–
Depreciation	(24,148)	–	–
Closing net book amount as at 30 June 2006	727,077	39,813	17,043
Six months ended 30 June 2005			
Opening net book amount as at 1 January 2005	419,638	5,188	1,045
Additions	71,124	–	–
Disposals	(23,986)	–	–
Depreciation	(18,342)	–	–
Closing net book amount as at 30 June 2005	448,434	5,188	1,045

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

6. **Capital expenditure** (continued)

Non-financial assets that have an indefinite life are not subject to depreciation/amortisation but are tested for impairment annually at year-end (31 December) or whenever there is any indication of impairment. At 30 June 2006, there was no indication of impairment for non-financial assets with indefinite lives.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. For the six months ended 30 June 2006, no impairment charge for non-financial assets subject to depreciation was recognised in the income statement.

The Group also reviewed the non-financial assets that previously suffered an impairment but concluded that no reversal of impairment should be recognised.

7. **Land use rights**

The Group's interests in land use rights represented the prepaid operating lease payments. The net book value of the land use rights are analysed as follows:

	30 June 2006 ***RMB'000***	31 December 2005 *RMB'000*
Non-current land use rights	**794,629**	460,110
Current land use rights	**252,778**	286,350
	1,047,407	746,460

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

7. Land use rights (continued)

The movements of the land use rights during the six months ended 30 June 2006 and 2005 are as follows:

	Six months ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
Opening net book amount as at 1 January	**746,460**	859,429
Additions	**38,110**	–
Additions from business combination *(Note 22)*	**304,449**	–
Disposals	**–**	(3,682)
Amortisation		
– expensed in administrative expenses	**(1,800)**	(2,175)
– capitalised in properties under development	**(4,097)**	(4,825)
Transfer to cost of sales	**(35,715)**	(235,310)
Closing net book amount as at 30 June	**1,047,407**	613,437

All the land use rights of the Group are located in the PRC with the remaining lease periods of between 10 to 70 years.

As included in the Group's interests in land use rights at 30 June 2006, there are certain land use rights amounting to RMB200,000,000 (31 December 2005: RMB200,000,000), for which the Group was in the process of applying for the relevant formal land use rights certificates.

As at 30 June 2006, the total net book values of land use rights secured as security for the Group's short-term bank loans of RMB263,014,000 (31 December 2005: RMB197,513,000) amounted to RMB418,433,000 (31 December 2005: RMB306,230,000) (Note 16).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

8. Due from/(to) customers on construction contracts

	30 June 2006 ***RMB'000***	31 December 2005 *RMB'000*
Contract costs incurred plus recognised profits (less recognised losses) to date	**14,037,806**	12,006,910
Less: progress billings to date	**(13,698,069)**	(11,878,128)
	339,737	128,782
Represented by:		
Due from customers on construction contracts	**787,302**	517,919
Due to customers on construction contracts	**(447,565)**	(389,137)
	339,737	128,782

9. Trade receivables

	30 June 2006 ***RMB'000***	31 December 2005 *RMB'000*
Trade receivables	**697,542**	399,470
Less: provision for doubtful debts	**(155,899)**	(12,247)
	541,643	387,223

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

9. Trade receivables (continued)

At 30 June 2006, the ageing analysis of the trade receivables is as follows:

	30 June 2006 *RMB'000*	31 December 2005 *RMB'000*
Within 3 months	**221,358**	214,652
3 months to 1 year	**286,991**	138,534
1 to 2 years	**102,833**	36,352
2 to 3 years	**37,219**	9,552
Over 3 years	**49,141**	380
	697,542	399,470

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.

10. Other receivables

	30 June 2006 *RMB'000*	31 December 2005 *RMB'000*
Retention money receivables and project deposits	**530,734**	471,577
Prepayments and other deposits	**169,491**	28,765
Deposits for a real estate development project	**–**	50,000
Deposits for acquisitions	**–**	43,000
Others	**193,615**	94,342
	893,840	687,684

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

11. Share capital

	Number of shares *(thousands)*	Ordinary shares *RMB'000*	Share premium *RMB'000*	Total *RMB'000*
At 1 January 2005	**531,426**	**531,426**	**56,150**	**587,576**
Issue of new H shares in January 2005	36,137	36,137	112,363	148,500
At 30 June 2005	**567,563**	**567,563**	**168,513**	**736,076**
Issue of new H shares in December 2005	43,364	43,364	174,295	217,659
As at 31 December 2005 and 30 June 2006	**610,927**	**610,927**	**342,808**	**953,735**

12. Reserves

	Assets revaluation reserve *RMB'000*	Statutory surplus reserve *RMB'000*	Statutory public welfare fund *RMB'000*	Total *RMB'000*
At 1 January 2005 and 30 June 2005	**3,871**	**49,044**	**24,522**	**77,437**
Revaluation of buildings – gross	912	–	–	912
Revaluation of buildings – tax	(301)	–	–	(301)
Acquisition of equity interest in a jointly controlled entity from another joint venturer	120,110	–	–	120,110
Appropriation from retained earnings	–	25,151	12,575	37,726
At 31 December 2005	**124,592**	**74,195**	**37,097**	**235,884**
Transfer of reserves to income statement arising from the sales of completed properties held for sale	(22,173)	–	–	(22,173)
Transfer of reserves to retained earnings upon disposals of property, plant and equipment	(3,871)	–	–	(3,871)
At 30 June 2006	**98,548**	**74,195**	**37,097**	**209,840**

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

13. Trade payables

At 30 June 2006, the ageing analysis of the trade payables is as follows:

	30 June 2006 RMB'000	31 December 2005 RMB'000
Within 3 months	**398,874**	231,944
3 months to 1 year	**190,510**	104,404
1 to 2 years	**75,270**	29,436
2 to 3 years	**36,742**	2,938
Over 3 years	**56,406**	5,658
	757,802	374,380

14. Other payables

	30 June 2006 RMB'000	31 December 2005 RMB'000
Deposits from project managers	**207,223**	113,601
Other taxes payables	**100,394**	76,730
Accruals	**7,217**	3,235
Amounts due to shareholders	**–**	6,660
Amounts due to minority shareholders	**–**	1,916
Others	**462,810**	230,627
	777,644	432,769

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

15. Provision for warranty

	RMB'000
Six months ended 30 June 2005	
Opening net book amount at 1 January 2005	2,620
Additional provisions	3,200
Utilised during the period	(1,950)
Closing net book amount at 30 June 2005	3,870
Six months ended 30 June 2006	
Opening net book amount at 1 January 2006	3,870
Additional provisions	380
Utilised during the period	–
Closing net book amount at 30 June 2006	4,250

The Group gives warranty on construction services and undertakes to repair 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 (Note 4(b)).

16. Borrowings

	30 June 2006 RMB'000	31 December 2005 RMB'000
Bank borrowings		
– Unsecured	**948,386**	883,000
– Secured	**263,014**	197,513
	1,211,400	1,080,513

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

16. Borrowings (continued)

(a) As at 30 June 2006, the secured short-term bank borrowings of RMB263,014,000 (31 December 2005: RMB197,513,000) were secured by the land use rights, buildings and properties under development of the Group with a total net book value amounting to RMB512,303,000 (31 December 2005: RMB306,230,000).

(b) Interest rates of these bank borrowings were 5% to 7% (for the year ended 31 December 2005: 5% to 7%) per annum for the six months ended 30 June 2006.

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

17. Other gains – net

	Six months ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
Excess of the fair value of the net assets of subsidiaries acquired over the acquisition costs *(Note 22)*	**212,547**	26,436
Interest income	**34,925**	20,424
Fair value gains on investment properties	**3,832**	–
Gains/(losses) on disposals of property, plant and equipment *(Note (a))*	**32,870**	(27,468)
Government compensation	**–**	36,804
Others	**4,400**	3,517
	288,574	59,713

(a) The gains on disposals of property, plant and equipment for the six months ended 30 June 2006 were mainly arising from the disposal of a building previously occupied by the Group as office premise located in Shaoxing of Zhejiang province in the PRC.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

18. 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	
	2006	2005
	RMB'000	*RMB'000*
Depreciation of property, plant and equipment	**24,148**	18,342
Amortisation of land use rights charged into income statement	**1,800**	2,175
Employee benefit expenses	**409,103**	364,264
Cost of inventories and completed properties held for sale	**2,166,490**	1,923,213
Operating leases of buildings	**1,480**	1,169
Others	**52,538**	37,468
	2,655,559	2,346,631

19. Income tax expense

No provision for Hong Kong profits tax has been made as the Group has no assessable profit earned in or derived from Hong Kong for the six months ended 30 June 2006.

The Company and its subsidiaries are subject to PRC Enterprise Income Tax ("EIT") at a rate of 33% (2005: 33%).

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

	Six months ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
PRC current income tax	**110,545**	63,242
Deferred income tax	**(13,194)**	1,947
	97,351	65,189

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

20. Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2006 is based on the Group's profit attributable to equity holders of the Company of RMB401,068,000 (six months ended 30 June 2005: RMB176,659,000) and the ordinary shares in issue of 610,927,013 shares (six months ended 30 June 2005: weighted average number of 564,541,339 shares) during the six months ended 30 June 2006.

No fully diluted earnings per share is presented as the Company has no potential dilutive shares for both 2006 and 2005 interim periods.

21. Dividends

The board of directors does not recommend the payment of an interim dividend for the six months ended 30 June 2006. A final dividend of RMB0.12 per ordinary share for 2005, amounting to total dividend of RMB73,311,000 was approved at the Annual General Meeting on 1 June 2006, which has been paid on 12 July 2006.

22. Business combination

On 21 February 2006, the Group entered into a agreement to acquire the 100% equity interest of 12 companies located in Hubei province from Hubei Construction Holding at an aggregate cash consideration of RMB132,855,000.

The acquired business contributed revenues of RMB162,828,000 and net losses of RMB11,444,000 to the Group for the period from acquisition date to 30 June 2006. If the acquisition had occurred on 1 January 2006, consolidated revenues and consolidated net losses for the six months ended 30 June 2006 would have been RMB307,330,000 and RMB29,297,000 respectively.

Details of net assets and liabilities and excess of the fair value of net assets acquired over the acquisition costs are as follows:

	RMB'000
Purchase consideration:	
– Cash paid	132,855
Fair value of net assets acquired – show as below	(345,402)
Excess of the fair value of the net assets acquired over the acquisition costs	(212,547)

The excess of the fair value of the net assets acquired over the acquisition costs was recorded as other gains in the condensed consolidated interim income statement for the six months ended 30 June 20006 (Note 17).

The Group has yet to finalise the amount of the fair value of the net identifiable assets acquired and accounted for the business combination using the provisional values.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

22. Business combination (continued)

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount *RMB'000*	**Provisional fair value** *RMB'000*
Cash and cash equivalents	133,376	133,376
Property, plant and equipment	233,806	233,806
Land use rights	304,449	304,449
Investment in associates	34,788	34,788
Inventories	11,945	11,945
Completed properties held for sale	9,319	9,319
Due from customers on construction contracts	136,569	136,569
Receivables	220,401	220,401
Payables	(711,609)	(711,609)
Borrowings	(26,173)	(26,173)
Minority interest	(1,469)	(1,469)
Net identifiable assets acquired	345,402	345,402
Inflow of cash to acquired business, net of cash acquired:		
– Cash consideration		(132,855)
– Cash and cash equivalents in subsidiaries acquired		133,376
Cash inflow on acquisition		521

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

23. Contingent liabilities

	30 June 2006 ***RMB'000***	31 December 2005 *RMB'000*
Guarantee given to banks in respect of mortgage facilities granted to third parties	**14,426**	67,500

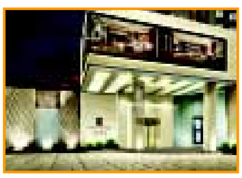
The Group had issued performance guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of property projects developed by the Group. The banks will release such guarantees upon the building ownership certificates of such properties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

24. Capital commitments

As at 30 June 2006, the Group had no significant capital commitments.

25. Related-party transactions

The Group had no significant related party transaction during the six months ended 30 June 2006.



Management Discussion & Analysis

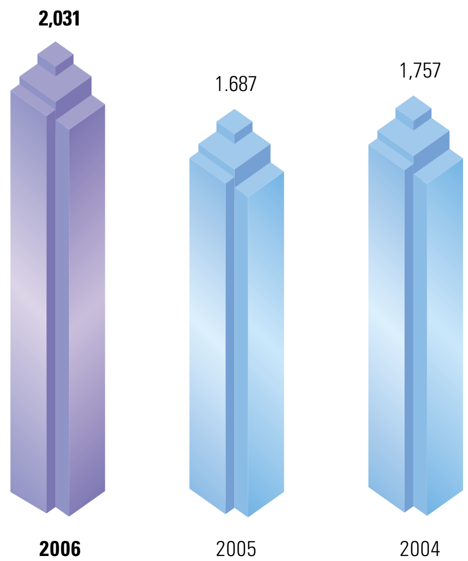
Business Review

Management Discussion and Analysis

Turnover of Construction Business

For the six months ended 30 June

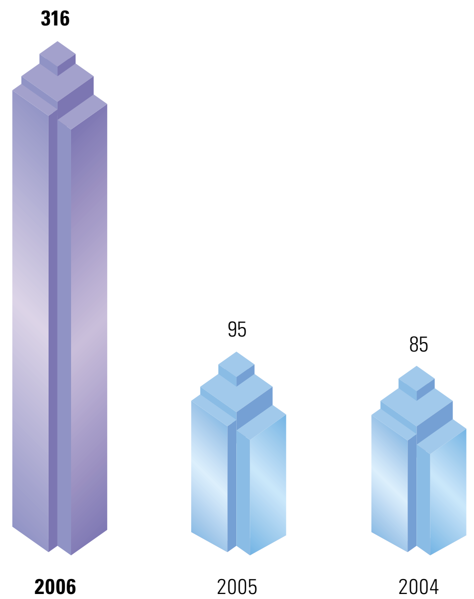
(in RMB million)



Operating Profit of Construction Business

For the six months ended 30 June

(in RMB million)



Results Review

Following the implementation of the macroeconomic control measures in 2005, the PRC Government continued to launch a series of macroeconomic control measures in the first half of the year 2006. The implementation of the macroeconomic control measures demonstrates the determination of the PRC Government to ensure a healthy economic growth and to prevent the economy from becoming overheated. The macroeconomic control policies will remain unchanged aiming to eliminate market concerns with respect to changes and instability in PRC Government policies. The policies include tightening credit, controlling land supply and regulating taxation, which will further regularise the development of construction, building materials and property business. The policies will provide positive impact on the market environment and help optimising resources allocation, creating good environment and opportunity for merger and acquisition for enterprises within the industries. To Baoye Group, which is a good corporate citizen with solid financial strength and is responsible for the society and the Government, this undoubtedly presents a great opportunity for growth and expansion.

During the first half of the year 2006, the Group grasped the above opportunity and acquired the Hubei Construction Group successfully. It also achieved the best operating results ever, marching towards a new milestone. For the six months ended 30 June 2006, the Group's turnover was RMB2,895,757,000, representing an increase of 14% over the same period last year. Operating profit reached RMB528,772,000, representing an increase of 100% from the corresponding period last year. Profit attributable to equity holders of the Company amounted to RMB401,068,000, soared 127% as compared to same period in 2005. Earnings per share was RMB0.66, representing an increase of 113% compared with the corresponding period of the previous year; and net assets per share reached RMB3.39, representing an increase of 42% over the same period last year.

1. **Construction Business**

   During the period, the Group's construction business achieved a turnover of RMB2,030,896,000 (representing approximately 70% of the Group's total turnover). It also contributed an operating profit of RMB315,707,000 (representing approximately 60% of the Group's total operating profit), representing an increase of

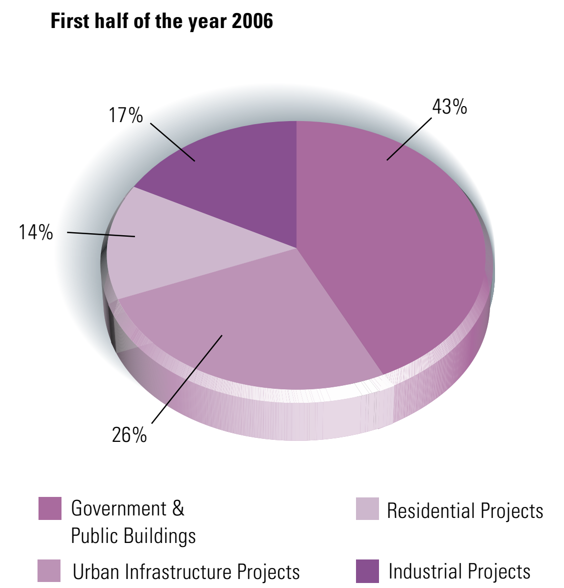
approximately 20% and 232% over the same period last year respectively.

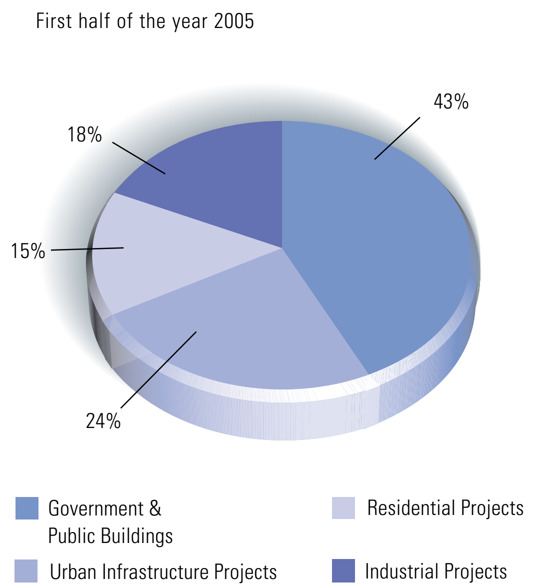
On 21 February 2006, the Group acquired the entire interest of the Hubei Construction Group for an aggregate consideration of RMB132,855,000, which was another critical step for the Group in its nation-wide strategic planning after the acquisition of Hefei Baoye. The 12 operating units under the Hubei Construction Group were engaged in construction and related business. After the integration, the Group can take advantage of the abundant resources both of the Hubei Construction Group and of Hubei Province to rapidly expand the markets in Hubei and Central China.

The acquisition of the Hubei Construction Group did not only go with the policy of "nation retreats, people proceed", but also solved the problem about state-owned enterprises for the local government. The Group is also going to build a housing industrial park in Wuhan for production and sale of new building materials as well as to carry out its property development business. This will contribute much to the local economy and employment. Therefore, the Group has received tremendous support from the local government. The excess of the fair value of the net assets acquired from the Hubei Construction Group exceeds our cost of acquisition, amounting to approximately RMB212,547,000, which was recognised in the income statement (included in the operating profit of the construction business). The resulting excess of the fair value mainly arose from that of the Hubei Construction Group, which underwent debt restructuring exercise during the acquisition process, by using RMB43,000,000 in cash to discharge the entire bank loans' principal plus the then accrued interest of RMB222,707,000, leading to an increase of its net assets value by RMB179,707,000 accordingly.

After the acquisition, the Hubei Construction Group contributed RMB162,828,000 to the Group's turnover and suffered a net loss of RMB11,444,000 during the period from 22 February 2006 to 30 June 2006. In the first half of the year 2006, following the acquisition by the Group, the Hubei Construction Group underwent various post-acquisition corporate and business restructuring and re-

Total Contract Value for Construction-in-Progess of Construction Business – By Project Nature





organisation as well as rationalisation of human resources, the progress of which was very good and has exceeded performance targets. It is expected that the Hubei Construction Group would be able to contribute to the Group's profit in the coming year. In the coming three to five years, the Group will base on its construction business to start its building materials and property development business in Hubei. It will follow its "3-in-1" business model in Hubei, developing "Hubei Baoye" to the Group's base in Central China with its scale comparable to that of the current Group's base in the Yangtze Delta region.

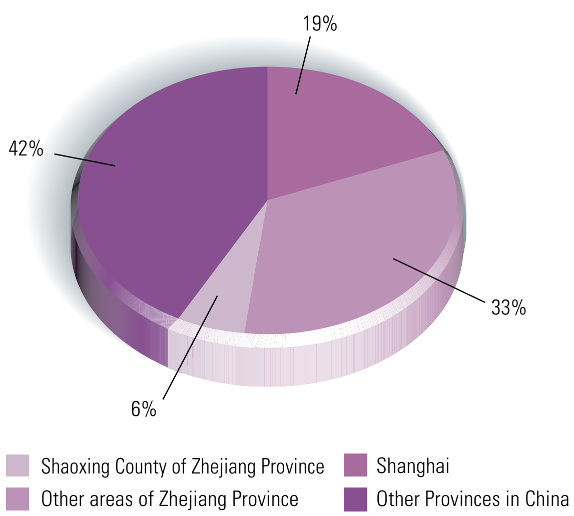
Breakdown of the Group's total contract value of construction-in-progress are as follows:

By project nature

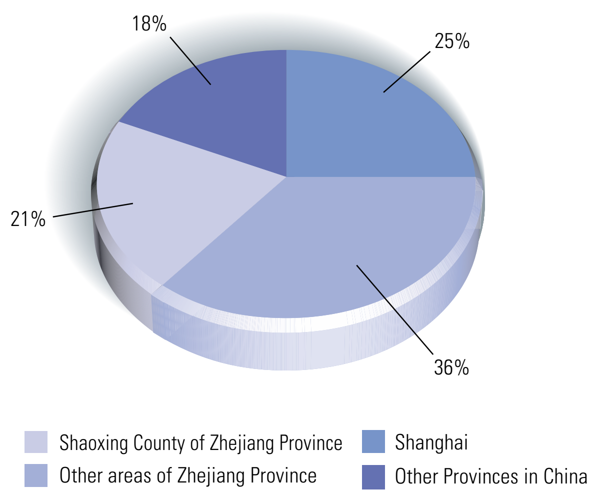
	For the six months ended 30 June				
	2006		2005		**Change**
	RMB million	***% of total***	*RMB million*	*% of total*	
Government & Public buildings	**6,036**	**43%**	4,343	43%	+39%
Urban Infrastructure	**3,650**	**26%**	2,424	24%	+51%
Residential Projects	**1,965**	**14%**	1,515	15%	+30%
Industrial Projects	**2,387**	**17%**	1,818	18%	+31%
Total	**14,038**	**100%**	10,100	100%	+39%

Total Contract Value for Construction-in-Progress of Construction Business – By Region

First half of the year 2006



First half of the year 2005



By region

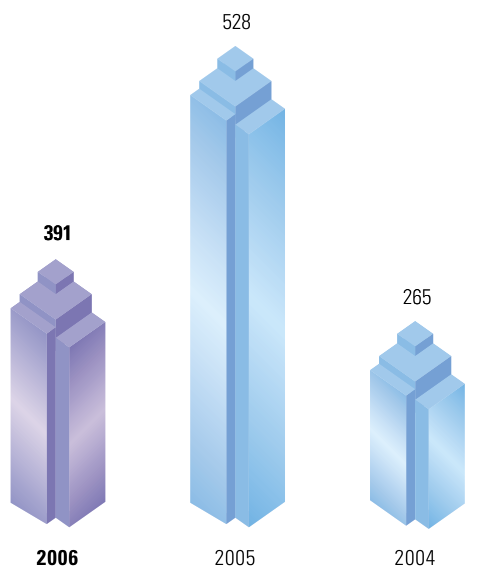
	For the six months ended 30 June				
	2006		2005		**Change**
	RMB million	***% of total***	*RMB million*	*% of total*	
Shaoxing County of Zhejiang Province	**842**	**6%**	2,121	21%	-60%
Other areas of Zhejiang Province	**4,633**	**33%**	3,636	36%	+27%
Shanghai	**2,667**	**19%**	2,525	25%	+6%
Other provinces in China	**5,896**	**42%**	1,818	18%	+224%
Total	**14,038**	**100%**	10,100	100%	+39%

Approximately RMB700,000,000 in the above contract value of construction-in-progress came from the newly acquired Hubei Construction Group.

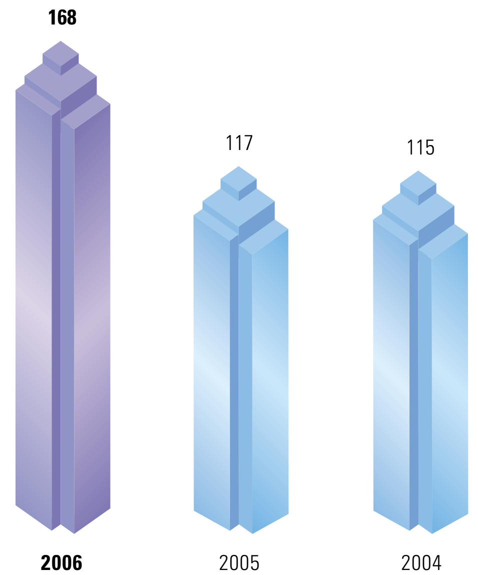
As noted from the above analysis by region, construction business of our Group has been outbreaked successfully from Zhejiang Province as substantiated by the significant increase in percentage of business in other provinces. This demonstrates the effectiveness of our business expansion strategy and speeds up the pace in transforming our Group from a regional enterprise to a nation-wide enterprise.

Management Discussion and Analysis

Turnover of Property Development Business
For the six months ended 30 June
(in RMB million)



Operating Profit of Property Development Business
For the six months ended 30 June
(in RMB million)



2. **Property Development Business**

Property Sales

During the period under review, the turnover of the Group's property development business amounted to RMB391,007,000 (representing approximately 14% of the Group's total turnover), representing a decrease of 26% over the same period last year. The Group's property development business contributed an operating profit of RMB168,147,000 (representing approximately 32% of the Group's total operating profit), representing a growth of 43% from the same period in 2005.

During the period under review, the revenue of the Group's property development business was mainly derived from City Green Garden in Hefei, Anhui. The total floor space of City Green Garden sold was approximately 103,000 square metres, achieving a turnover of approximately RMB356,000,000. The average selling price per square metre was approximately RMB3,500, up 6% over the target selling price per square metre of RMB3,300. As the selling prices fall within the affordable income level of local buyers, sales of City Green Garden has remained massive since its opening. The Group purchased the land at an appropriate time, the "3-in-1" business model enjoys cost savings and offers superior quality of properties for sales, therefore, even the selling prices were set at affordable level, these properties offered for sales still managed to attain 43% of operating profit margin.

Hefei "City Green Garden"

Hefei "Zhejiang Commercial City"

Projects under Development

Project Name	Location	Saleable Area (square metres)	Equity Interest of the Group
City Green Garden Phase II	Hefei	170,000	100%
Zhejiang Commercial City	Hefei	100,000	75%
Jing'an Ziyuan	Shanghai	51,000	70%
Linjiang Green Garden	Shaoxing	56,000	100%
Baoye Four Seasons Garden	Shaoxing	525,000	100%

City Green Garden is located south of Heping Road, Yaohai District, a prime developing zone in Hefei City, Anhui, with convenient transportation. It comprises mainly high-end residential properties with a portion of retail shops and offices. City Green Garden has a gross floor area of approximately 520,000 square metres. Phase I of the project has a gross floor area of approximately 140,000 square metres, in which an area of approximately 103,000 square metres has been sold and was recognised in the income statement in the first half of 2006 upon buyers taking possession of the sales units. Construction of Phase II is now underway, with a planned gross floor area of approximately 170,000 square metres. Pre-sale of Phase II will be commenced in the second half of the year.

Zhejiang Commercial City is situated at a prime location east of Hefei Railway Station. Buzzing with intense commercial activity, the area is one of the most prominent commercial districts in Hefei City. Zhejiang

Shanghai "Jing'an Ziyuan"

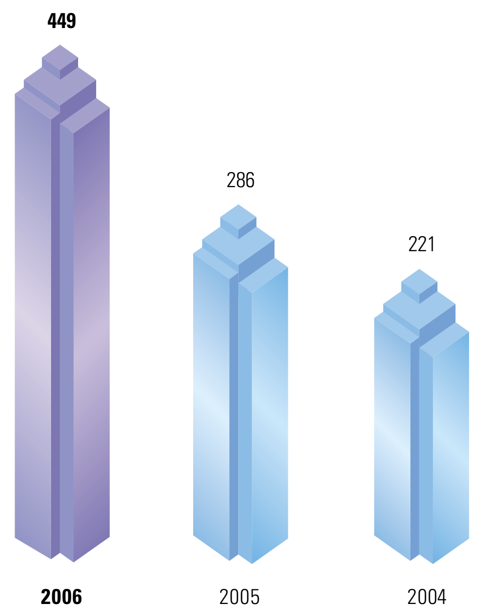
Shaoxing "Baoye Four Seasons Garden"

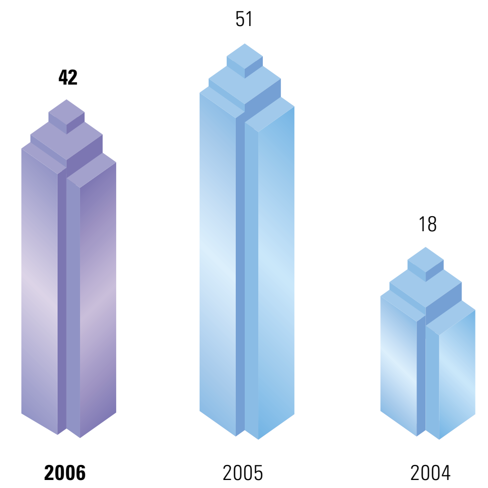
Commercial City has a gross floor area of approximately 100,000 square metres, which is mainly developed into up-scale service apartments, retail shops and low rise building complex. Construction of the project started at the end of 2005, and pre-sale of the up-scale service apartments has been commenced.

Jing'an Ziyuan is located on Jiangning Road in Jing'an District of Shanghai, only 500 metres from the downtown prominent area, "Golden Delta", of Nanjing Road West, which is truly a prime location. The project has a gross floor area of approximately 51,000 square metres, which will be developed into luxurious service apartments. Currently the project is under construction. If the construction progresses smoothly, it is expected that pre-sale of Jing'an Ziyuan can begin at the end of 2006.

The Linjiang Green Garden project is located at south of Xixiao River, east of South parallel line of National Highway 104 in Yangxunqiao, Shaoxing Province. The total gross floor area is 56,000 square metres. It is a pure residential property development next to the Xixiao River with a superb nice looking green environment. The construction of Linjiang Green Garden project has been started in August and it is expected that pre-sale can be started next year.

Baoye Four Seasons Garden is located in Kuaijishan Tourist Resort Zone, a "province-rank" resort district in Zhejiang Province. With historical culture and spectacular scenery, the area is where ancient civilization flourished. Other than its profound cultural tradition and being the origin of many myths and folklores, the area also has a large number of historical heritages. Being only 10 minutes drive from downtown Shaoxing City, it is known as the "natural treasure in the heart of a city". Baoye Four Seasons Garden has a site area of approximately 1,050,000 square metres and gross floor area of approximately 525,000 square metres. According to the current development progress, it is expected that the construction of the project can be started in the second half of the year 2006.





3. Building Materials Business

During the period under review, the turnover of the Group's building materials business was RMB448,568,000 (representing approximately 15% of the Group's total turnover), representing an increase of 57% over the same period last year. The Group's building materials business contributed an operating profit of RMB41,578,000. The Group has been devoted to implementing industrialisation of construction in China. The pre-fabricated building materials developed by the Group have received accreditation from the construction industry. Together with increased efforts in market development, the Group achieved a considerable growth in turnover and profit.

During the period under review, the turnover breakdown of the Group's building material is as follows:

Building materials	**For the six months ended 30 June** **2006 (RMB'000)**	2005 (RMB'000)	Change
Ready-mixed concrete	**136,439**	75,570	+81%
Glass curtain wall	**96,514**	71,454	+35%
Wood products	**78,441**	55,882	+40%
Steel structure	**68,598**	29,863	+130%
Concrete pipes	**32,541**	26,215	+24%
Concrete ducts	**18,698**	14,868	+26%
Large roof sheathings	**8,821**	6,695	+32%
Fireproof materials	**8,516**	5,673	+50%
Total	**448,568**	286,220	+57%

On 8 March 2006, the Company signed a co-operative agreement with the Daiwa House (Japan), pursuant to which the two parties formed a strategic alliance for 10 years in the co-development of technology advancement skills for the manufacture of industrialised residential units. At present, Daiwa House has already deployed a team of engineers from Japan to station at the Group's Shaoxing Housing Industrial Park. They are working with our research and development staff to co-develop the construction technologies and skills for the manufacture of pre-fabricated building materials and industrialised residential units that are fit and appropriate for the China market. It is expected that as our technology for pre-fabricated building materials advances, and with the economic advantage in mass production, the profit margin of the building materials business will steadily increase.

Business Prospect

The Group, after more than 31 years of accumulated industry experience, being the only company listed in Hong Kong engaged in construction business in PRC, and adopting the "3-in-1" business mode, that is, the upstream in manufacture of building materials, midstream in construction, and downstream in property development, which helps to create its core competitive edge in the marketplace, will be able to capture the high growth and expansion drive in the coming three to five years against the effect of macroeconomic control measures. Facing the anticipated high growth and rapid development phases, the Board has earmarked the following plans and road maps:

1. **Construction Business**

   Construction industry is the fundamental industry of China. As the urbanisation process in China keeps evolving and the government investment in fixed assets keeps increasing, the construction industry will grow rapidly in the years to come vis-a-vis the market capacity.

   At present, impacted by the macroeconomic austerity measures, the construction industry market in China is in a revolutionary stage and restructuring phase under regulatory development and correction for growth. "Nation retreats, people proceed" becomes the core melody of development. As the best non-state owned construction enterprise in the Mainland, and leveraging on healthy financial and human resources, sound management model as well as its prestigious brand name, the Group will continue to consolidate its current market share to which the Group operates and extend its market reach on a nation-wide basis when suitable opportunity arises.

   - The Group is going to consolidate the construction market in the Yangtze Delta region. With its base in Hefei and Wuhan, the Group will further expand the market in Central China, and effectively increase the Group's current market share in these regions.

   - The Group will seize the historic opportunity that Tianjin is to be made the Northern economic centre and the 2008 Beijing Olympic Games to exploit the construction market in the Northern China.

   - At this critical point of time when "nation retreats, people proceed" and through merger and acquisition, the Group will enter the high-end construction market by biding for high-return construction projects such as ports and highways, further enhancing the Group's core competitiveness.

2. **Property Development Business**

   The macroeconomic control measures are in its third year of implementation since 2004 and had basically obtained positive results. Based on the latest macroeconomic control measures being announced and implemented, the future prospects for property development industry become clearer and remain reasonably bright.

   The property development business is an important part for the Group to become a nation-wide sizable construction conglomerate. At present, the Group focuses on five major projects, namely Baoye Four Seasons Garden in Shaoxing City, Linjiang Green Garden in Shaoxing County, Jing'an Ziyuan in Shanghai, City Green Garden and Zhejiang Commercial City in Hefei. Besides, the quality land bank in Wuhan of approximately 500,000 square metres, which was obtained from the acquisition of the Hubei Construction Group, will be gradually developed within the next three years. The above projects will suffice the requirements for development and construction in the coming five years, and will generate huge profit for the Group. Most of the Group's land bank was secured in previous few years at extremely low cost base and will warrant good profitability when property price rises. Even when the property price decreases, it can still generate reasonable profit margin that is above the average in the industry, which enables the Group to be positioned in the forefront and competitive position.

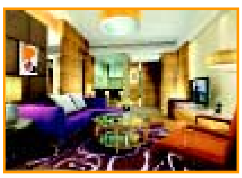
The Group will maintain its prudent development strategy, relying on the development of existing land reserves, devoting to developing high-quality properties and enhancing the reputation of Baoye brand in this area. At the same time, the Group will fully utilise the standardisation of industry and the resources integration brought about by the macroeconomic control measures. In cities located in Central China where there exists high potential in economic development and rapid increase in income per capita, the Group will selectively acquire quality and inexpensive land as reserves.

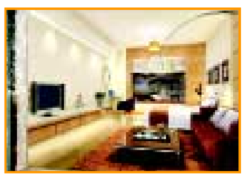
3. Building Materials Business

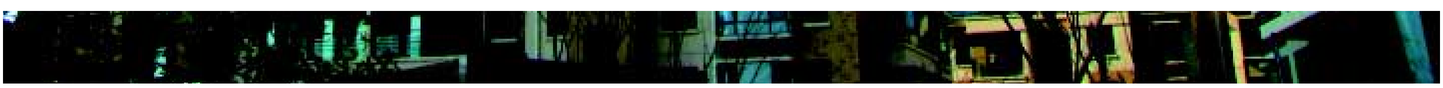
In the 11th Five-year-plan, the PRC government emphasises the concept of conserving energy consumption and creating energy-saving societies. This enlarges the room for development for the Group as it has long been developing and producing energy-saving and environmental friendly building materials. Since its recognition to be the only experimental enterprise in Zhejiang Province of housing industrialisation by the Ministry of Construction in 1997, the Group has been devoting to research and development of new building materials. The Group has also entered into an agreement with the Daiwa House, pursuant to which the two parties have agreed to form a strategic alliance in the co-development of technology advancement skills for the manufacture of industrialised residential units. This is going to strengthen the Group's technical know-how in the manufacture of industrialised residential units and will thus strengthen one of the Group's principal business lines, namely the research, development, production and sale of prefabricated building materials. Simultaneously, this has set a foundation for any possible future co-operation, joint venture or otherwise with Daiwa House in the construction and/or sale of real estate units.

At present, various kinds of the Group's building materials are being produced in the Housing Industrial Park in Shaoxing, including steel structure, glass curtain wall and wood products, with an annual production scale of capability of RMB2 billion. At the same time, construction of the housing industrial park in Hefei and Wuhan has commenced and is under planning respectively. It is expected that the Group will become a sizable building materials manufacturer with a production capability of RMB10 billion before 2010. The market capacity of "industrialisation of building materials" can be as large as several thousands billion in RMB. Therefore, it is believed that the new form of building materials produced by the Group will have great demand within the coming few years, and thus becoming the highest profit enhancement contributor to the Group's profit.

The Group will continue to focus on developing its three main businesses and expand its markets in other regions in China to complete a nation-wide positioning plan. It is expected that the Group's operating results will experience rapid growth in the coming years. At the same time, follow by the turnover increases, new form of building materials and property development businesses, which have attained higher profit margins, will gradually increase over time in proportions of the Group's profitability. This will help increasing the overall gross profit margin and net profit margin of the Group in the coming years.







Management Discussion & Analysis

Financial Review

Financial Analysis

Treasury Policies

The Group takes a prudent approach on financial policies, adopting stringent risk management measures for its investment, financing and use of cash as well as maintaining a sound capital structure. We will adjust our investment, financing and capital structure from time to time according to the future sustainable development needs and the internal resources available, with a view to optimising the capital structure of the Group.

The Group has established a financial settlement centre which centralises funding for all its subsidiaries at Group level. The Board believes that such policy can achieve better controls on treasury operations, minimise financing risks and lower the average cost of capital.

Financial Resources and Liabilities

With its steady growth in cash flow, sound credit record and excellent reputation in the industry, the Group preserved the AAA credit rating by a credit rating agency recognised by the People's Bank of China in 2006. Such excellent credit rating will benefit the Company's financing activities and allows the Group to continue to enjoy the prime rate offered by the People's Bank of China. At present, the bank borrowings of the Group bear an interest of a rate between 5% and 7%. During the period, 78% of the Group's borrowings were on an unsecured basis. The Group will take advantage of its good credit to continue to take unsecured borrowings, which will be complemented by secured project loans when necessary.

As at 30 June 2006, the Group's net bank borrowings, after deducting cash and bank deposits, amounted to RMB325,617,000 (30 June 2005: RMB222,483,000). The Group's gearing ratio (net bank borrowings/total shareholders' funds) was 15.7% (30 June 2005: 17.1%). The Group will continue to adopt prudent policy to maintain low gearing ratio.

Use of Proceeds

In 2005, through two issues of new H shares, the Group had raised proceeds of approximately RMB366,159,000 in total (after deducting issuance expenses). The proceeds received were all utilised strictly in accordance with the proposed application plan as stated in the announcements of issue of new H shares.

	RMB'000
Acquisition of 50% equity interests in Hefei Baoye	145,000,000
Acquisition of the entire equity interests in the Hubei Construction Group	132,855,000
General working capital	88,304,000
Total	366,159,000

Key Financial Ratios

	As at 30 June	
	2006	2005
Return on equity (%)	**19.4%**	13.6%
Net assets value per share (RMB)	**3.39**	2.40
Net gearing ratio (%)	**15.7%**	17.1%
Current ratio	**1.12**	1.17

Return on equity = profits attributable to equity holders/total shareholders' funds
Net asset value per share = net assets/number of issued shares at the end of the period
Net gearing ratio = net bank borrowings/total shareholders' funds
Current ratio = current assets/current liabilities

The proceeds raised from the two issues of new H shares last year were immediately being applied for use in acquisition projects, generating hefty returns for the Group within a short period of time. As a result, both the return on equity and net asset value per share during the period have experienced enormous improvement compared to that of last year. Besides, the gearing ratio was further reduced. When the Group's profit continues to grow, it is expected that there is still room for improvement of the return on equity for the year 2006.

Cash Flow Analysis

		As at 30 June	
		2006	2005
	Note	***RMB'000***	*RMB'000*
Net cash (outflow)/inflow from operating activities	*a*	**(140,732)**	78,349
Net cash inflow/(outflow) from investing activities	*b*	**29,690**	(55,298)
Net cash inflow from financing activities	*c*	**104,714**	147,291
(Decrease)/increase in cash and cash equivalents		**(6,328)**	170,342

Notes:

a. Net cash outflow from operating activities during the period was primarily due to proceeds from property sales for the period had already been received in the previous financial year. It is expected that as the business grows steadily, the cash flow from operating activities towards the end of this year will increase.

b. The cash inflow from investing activities was mainly derived from the disposal of a building previously occupied by the Group as office premises in Shaoxing, Zhejiang Province.

c. During the period, cash inflow from financing activities was mainly attributable to increased bank borrowings.

External Guarantee and Fulfillment

	30 June	31 December
	2006	2005
	RMB'000	*RMB'000*
Guarantee given to banks in respect of mortgage facilities granted to third parties	**14,426**	67,500

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

Details of the charges on the Group's assets

As at 30 June 2006, the Group pledged its land use rights and buildings with aggregate value of approximately RMB512,303,000 (31 December 2005: RMB306,230,000) to secure short-term bank loans.

Capital Expenditure and Commitments

In the first half of the year 2006, the Group's major capital expenditure amounting to RMB132,855,000 was used for acquisition of the Hubei Construction Group and a total of RMB42,767,000 for the construction and purchase of factory plants and machines for the building materials business, in which approximately RMB20,000,000 was used for building the residential housing industrial park in Hefei. The Group had no other major capital commitments as at 30 June 2006.

Adjustment in 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 material impact on the business operations and financial results of the Group.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BAOYE GROUP COMPANY LIMITED

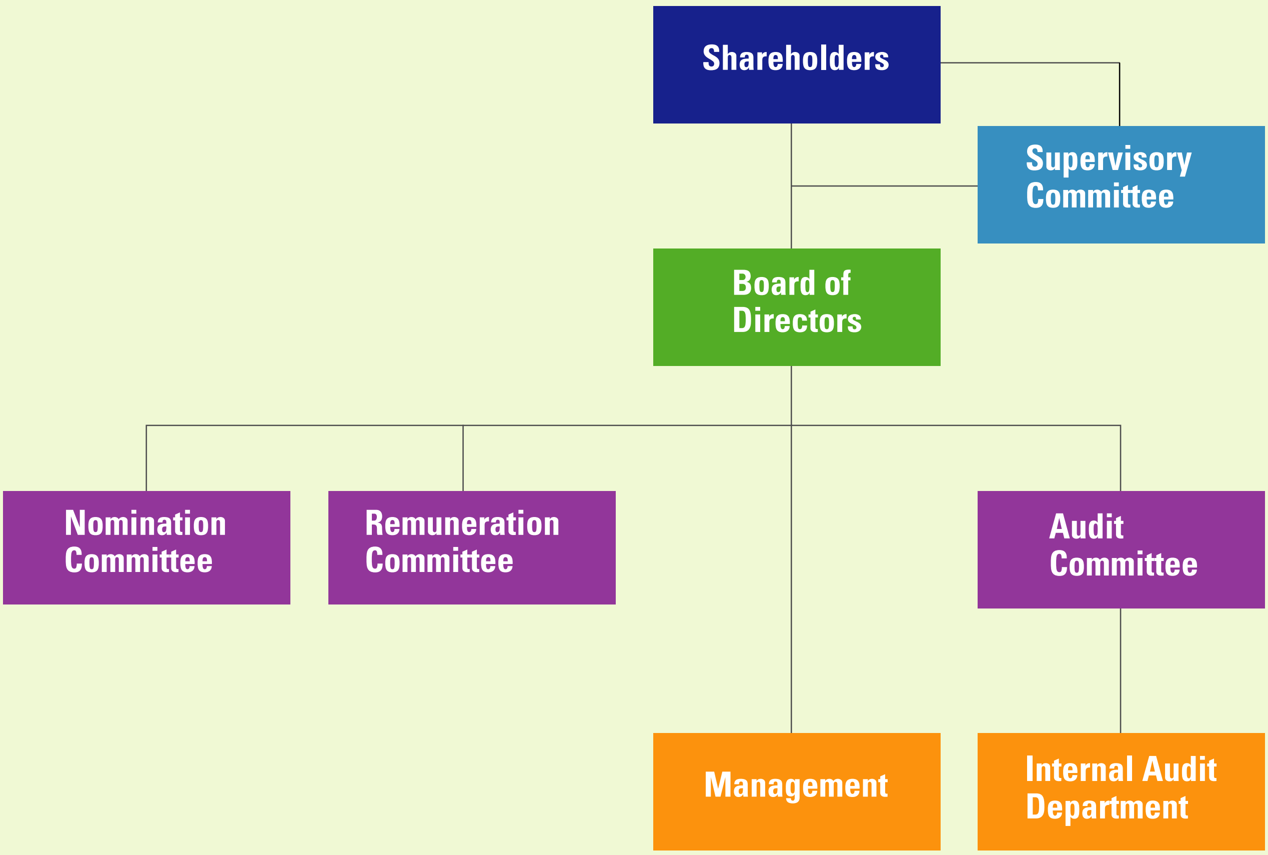


Corporate Governance

Corporate Governance

The Company is committed to establishing an efficient, orderly and transparent corporate governance mechanism, so as to benefit the corporate, shareholders and the society. Since its listing, the Company has been complying with the Code on Corporate Governance Practices, the Listing Rules and other relevant laws and regulations. It has implemented effective corporate governance policy and has strived to improve the corporate value, in order to ensure a sustainable development of the Company as well as to maximise shareholders' returns.

Corporate Structure



Code on Corporate Governance Practices

In the opinion of the directors, the Company has complied with the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2006, except that the role of the chief executive officer of the Company has been assumed by Mr. Pang Baogen, the chairman of the Board, since the ex-chief executive officer of the Company resigned last year. Three general managers have been appointed to overseeing and managing the three main business activities (construction, property development and building materials) of the Group respectively, each of whom has partly shared the duty of the chief executive officer to which they manage. The Board believes that the current arrangement has installed a proper segregation of duties mechanism and adequately streamlined the responsibility well and a simple management structure can enhance the communication amongst staff at different levels as well as enable execution of new policies efficient. Therefore, the Board endorsed the position of chief executive officer to be assumed by the chairman of the Board. Nevertheless, the Board will regularly review the management structure to ensure that it meets the business development requirements of the Group.

Model Code for Securities Transactions by Directors

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in Appendix 10 of the Listing Rules as its own code of conduct regarding the securities transactions by the directors. Specific enquiry has been made by the Company, all directors have confirmed that they have compiled with the required standards set out in the Model Code throughout the six months ended 30 June 2006.

Nomination Committee

The Company has established a nomination committee at the board meeting held on 7 April 2006 in accordance with the provisions of the Code on Corporate Governance Practices. The nomination committee consists of two independent non-executive directors, Mr. Wang Youwei (Chairman) and Mr. Yi Deqing, and an executive director, Mr. Gao Jiming.

Remuneration Committee

The remuneration committee of the Company is responsible for determining the remuneration policy for the directors and senior management, assessing the performance of executive directors and approving the terms of executive directors' service contracts. The remuneration committee comprises two independent non-executive directors, Mr. Dennis Yin Ming Chan (Chairman) and Mr. Yi Deqing, and an executive director, Mr. Pang Baogen. The remuneration committee of the Company held one meeting during the period under review. All three members attended the meeting.

Audit Committee

The audit committee of the Company consists of three independent non-executive directors, Mr. Wang Youwei, Mr. Yi Deqing and Mr. Dennis Yin Ming Chan. Mr. Dennis Yin Ming Chan possesses professional accounting qualifications with extensive experience in financial management. The audit committee held two meetings during the period. All three members attended the two meetings. The audit committee has discussed the accounting policies as well as critical accounting estimates and assumptions with management, discussed with the auditors on the audit plan and key audit areas. The audit objectives and the scope of the internal audit department of the Group were also discussed. The interim results of the Group for the six months ended 30 June 2006 had been reviewed by the audit committee.

Investor Relations

During the period, major investor relations activities were as follows:

Date	**Activity**	**Organizer**	**Venue**
11-12 January 2006	China Property "Return To Utopia" Investment Event	ABN AMRO	Hong Kong
16-18 January 2006	UBS Greater China Conference	UBS	Shanghai
14-15 February 2006	HSBC China Corporate Day	HSBC Securities	Hong Kong and Singapore
28-31 March 2006	Credit Suisse Asian Investment Conference	Credit Suisse	Hong Kong
10 April 2006	2005 Post Results Announcement Roadshow	CLSA	Hong Kong
11 April 2006	2005 Post Results Announcement Roadshow	UOB	Hong Kong
8 May 2006	Singapore Roadshow	Nomura	Singapore
15-17 May 2006	CLSA China Investment Forum 2006	CLSA	Shanghai
18-23 June 2006	US Roadshow	Nomura	The United States
19-21 July 2006	Japan Roadshow	Nomura	Japan

Through active participation in investor relations activities, the Company has improved communication with its investors, analysts and the mass media. Moreover, the Company has received many fund managers and analysts at the Group's facilities and brought them up-to-date the Company's latest business operations and development. The Company will continue to organize and participate in various investor relations activities to further enhance the level of corporate transparency.

Other Information

Interests of Directors, Supervisors and Senior Management

As at 30 June 2006, 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 of its associated corporations which were required to be notified to the Company and the HKEx pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required to be entered in the register referred to therein under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers, to be notified to the Company and the HKEx, were as follows:

Director/Supervisor/ Senior Management	Associated corporation	Type of interests	Number of domestic shares held (long positions)	Approximate percentage of the total registered capital
Mr. Pang Baogen	The Company	Personal	198,753,054	32.53%
Mr. Gao Jiming	The Company	Personal	13,024,647	2.13%
Mr. Sun Guofan	The Company	Personal	11,705,283	1.92%
Mr. Gao Lin	The Company	Personal	9,544,775	1.56%
Mr. Zhou Hanwan	The Company	Personal	8,233,510	1.35%
Mr. Xu Jianbiao	The Company	Personal	7,524,884	1.23%
Mr. Wang Rongfu	The Company	Personal	7,147,039	1.17%
Mr. Gao Jun	The Company	Personal	5,794,259	0.95%
Mr. Lou Zhonghua	The Company	Personal	5,633,172	0.92%
Mr. Wang Rongbiao	The Company	Personal	2,647,911	0.43%

Substantial Shareholders

As at 30 June 2006, so far as is known to the directors, the following people, other than directors, supervisors and senior management of the Company, who had interests in the shares of the Company were required to be recorded in the register required to be kept under Section 336 of the SFO, and would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Number of H shares of the Company held (Long positions)	Approximate percentage of the total issued H shares	Approximate percentage of the total registered capital
Goldman Sachs (Asia) Finance *(Note 1)*	43,364,160	16.67%	7.10%
Atlantis Investment Management Ltd *(Note 2)*	20,980,000	8.06%	3.43%
Value Partners Limited *(Note 3)*	15,436,000	5.93%	2.53%
Mr. Cheah Cheng Hye *(Note 3)*	15,436,000	5.93%	2.53%

Notes:

1. The 43,364,160 H shares are held by Goldman Sachs (Asia) Finance. Goldman Sachs (Asia) Finance is held as to 1% by Goldman Sachs Global Holdings (L.L.C) and 99% by Goldman Sachs (Asia) Finance Holdings L.L.C.
2. Atlantis Investment Management Limited, as the investment manager, held 20,980,000 shares.
3. Value Partners Limited, as the investment manager, held 15,436,000 shares. 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.

Directors' and Supervisors' Rights to Acquire Shares or Debentures

Save as disclosed in the paragraph headed "Interests of Directors, Supervisors and Senior Management", at no time during the period did the Company or any of its subsidiaries make any arrangement to enable directors, supervisors and their respective spouses or children under the age of 18, to benefit from acquisition of the shares or debentures of the Company or any other corporation.

Human Resources and Remuneration Policies

As at 30 June 2006, the Group had a total of approximately 3,524 permanent employees, including approximately 2,000 employees from the newly acquired Hubei Construction Group (the same period in 2005: approximately 1,148), and approximately 51,000 construction workers (the same period in 2005: approximately 42,000) who are not permanent employees of the Group. For the six months ended 30 June 2006, total staff costs amounted to RMB409,103,000 (the same period in 2005: RMB364,264,000). Remuneration is determined by reference to market terms as well as the performance, qualification and experience of the individual. Other benefits provided by the Group include pension and medical insurance. The Group highly values human resources management, and devotes to establishing a high quality team to support its long term business development. The Board intends to implement a more effective employee incentive plan.

Connected Transactions

During the period under review, Group did not constitute any connected transaction that requires disclosure under the Listing Rules.

Purchase, Sale or Redemption of Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2006.

Appreciation

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

By order of the Board
Pang Baogen
Chairman

Zhejiang, the PRC
7 September 2006

Information for Shareholders

The Board

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

Non-executive Director
Mr. Hu Shaozeng

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

Supervisory Committee

Supervisors
Mr. Sun Guofan, *Chairman*
Mr. Xie Qisheng

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

Audit Committee

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

Remuneration Committee

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

Nomination Committee

Mr. Wang Youwei, *Chairman*
Mr. Yi Deqing
Mr. Gao Jiming

Company Secretary

Ms. Ngan Lin Chun, Esther, FCIS, FCS

Auditors

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

Statutory Auditors
ShineWing Certified Public Accountants
9th Floor, Block A, Fu Hua Mansion
No.8 Chaoyang Men Beidajie
Dongcheng District, Beijing, PRC
Postal Code: 100027

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 Chaoyangmenwai Dajie
Beijing, PRC
Postal Code: 100020

Hong Kong Share Registrar and Transfer Office

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26th Floor, Tesbury Center
28 Queen's Road East
Wanchai, Hong Kong

Investor Relations Consultant

Strategic Financial Relations (China) Limited
Unit A, 29th Floor, Admiralty Centre I
18 Harcourt Road, Hong Kong

Registered Address

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Shaoxing Country, Zhejiang Province
The PRC
Postal Code: 312028

Place of Business in Hong Kong

Room 1902, Mass Mutual Tower
38 Gloucester Road
Wanchai, Hong Kong

Authorized Representatives

Mr. Pang Baogen
Mr. Gao Jiming

Stock Code

HKEx 2355

Contact

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

Website

www.baoyegroup.com

Definition

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

The Company/Baoye	Baoye Group Company Limited, a joint stock limited company incorporated in the PRC and listed in the Main Board of HKEx
The Group/Baoye Group	Baoye Group Company Limited and its subsidiaries
The period	The six months ended 30 June 2006
Baoye Construction Group	Zhejiang Baoye Construction Group Company Limited, a subsidiary of the Group
Baoye Real Estate Group	Zhejiang Baoye Real Estate Group Company Limited, a subsidiary of the Group
Baoye Industrialization Group	Zhejiang Baoye Building Materials Industrialization Company Limited, a subsidiary of the Group
Hefei Baoye	Hefei Qingfangcheng Baoye Real Estate Company Limited
Construction business	The activities of undertaking and implementation of construction projects conducted by the Group
Property development business	The activities of development of real estate conducted by the Group
Building materials business	The activities of research and development, production and sales of building materials conducted by the Group
Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
SFO	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
H share	Oversea listed Foreign Share of nominal value RMB1.00 each in the registered capital of the Company, which are listed on the Stock Exchange of Hong Kong Limited, and subscribed for in Hong Kong dollars
HKEx	The Stock Exchange of Hong Kong Limited
The Board	The Board of Directors of Baoye Group Company Limited

Definition

Supervisory Committee	The Supervisory Committee of Baoye Group Company Limited
Daiwa House	Japan's Daiwa House Industry Company Limited
Hubei Construction Group	Twelve state-owned units, namely, (1) Hubei Construction and Engineering Group Company Limited; (2) Hubei Construction and Engineering Holding Company First Construction Company; (3) Hubei Construction and Engineering Holding Company Second Construction Company; (4) Hubei Construction and Engineering Holding Company Third Construction Company; (5) Hubei Construction and Engineering Holding Company Fifth Construction Company; (6) Hubei Construction and Concrete Production Company Limited; (7) Hubei Property Development Holding Company; (8) Hubei Construction and Engineering Holding Company Mechanical Construction Company; (9) Hubei Construction Material Trading Company Limited; (10) Hubei Construction and Engineering Holding Company Industrial Equipment Assembling Company; (11) Hubei Construction and Engineering Holding Company Technical College; and (12) Hubei Construction and Engineering Holding Company Guest House