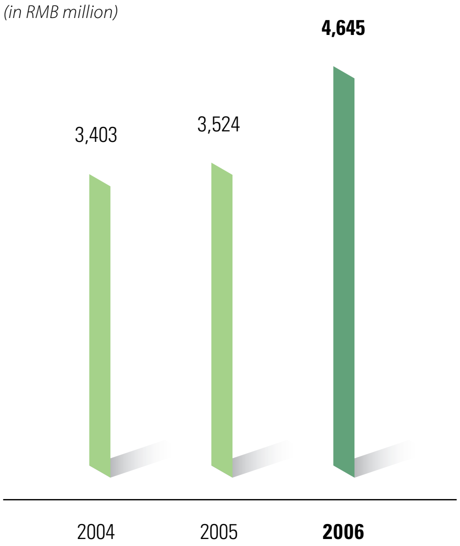

· BUILD UP ·
our nature & the prosperous
Total
contract value for
construction-in-progress of
Construction Business
reached
RMB17 billion,
representing a
growth of 42%
over last year.

Management Discussion and Analysis

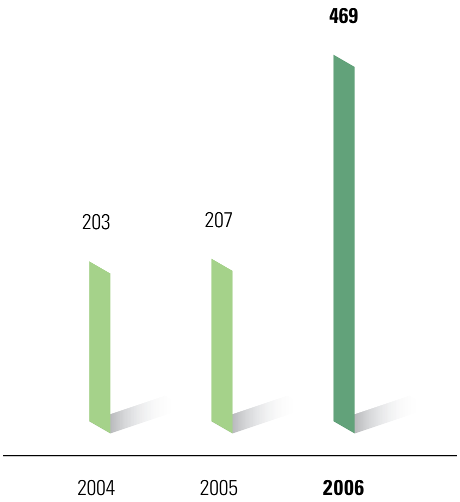
Revenue of Construction Business

(in RMB million)



Operating Profit of Construction Business

(in RMB million)



Business Review

For the year ended 31 December 2006, the Group achieved a consolidated revenue of RMB6,227,853,000 (2005: RMB4,723,797,000), representing an increase of 32% compared to the preceding year; operating profit reached RMB649,145,000 (2005: RMB450,512,000), up 44% over last year; profit attributable to equity holders of the Company amounted to RMB476,032,000 (2005: RMB304,226,000), an increase of 56% from last year; earnings per share was RMB0.779 (2005: RMB0.537), soared 45% from last year; and net assets value per share was RMB3.51 (2005: RMB2.89), up 22% over last year.

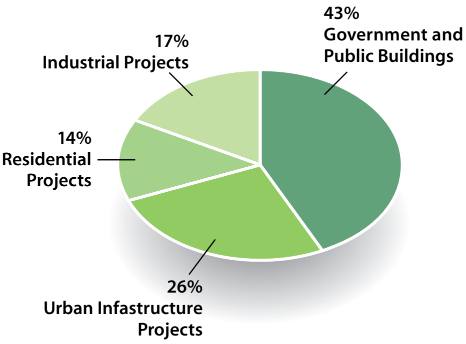
Construction Business

For the year ended 31 December 2006, the Group's construction business recorded a revenue of RMB4,644,579,000 (approximately 75% of the Group's consolidated revenue), up 32% over last year; and the operating profit amounted to RMB468,845,000 (approximately 72% of the Group's total operating profit), representing a growth of 127% over last year.

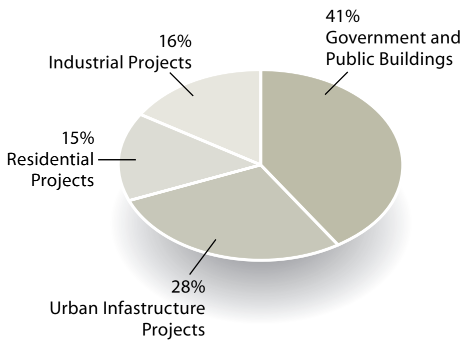
Management Discussion and Analysis *(continued)*

Total Contract Value for Construction-in-Progress – By Project Nature

2006



2005



For the year ended 31 December 2006, the total contract value for construction-in-progress of the Group's construction business was RMB17,066,745,000, representing an increase of approximately 42% over last year. Details of which are analysed below:

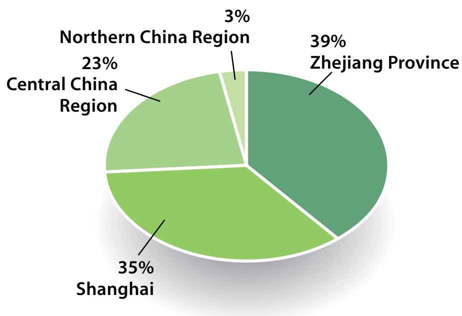
By project nature

	2006		2005		**Change**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Government and Public Buildings	**7,338,700**	**43%**	4,922,833	41%	+49%
Urban Infrastructure	**4,437,354**	**26%**	3,361,935	28%	+32%
Residential Projects	**2,389,344**	**14%**	1,801,037	15%	+33%
Industrial Projects	**2,901,347**	**17%**	1,921,105	16%	+51%
Total	**17,066,745**	**100%**	12,006,910	100%	+42%

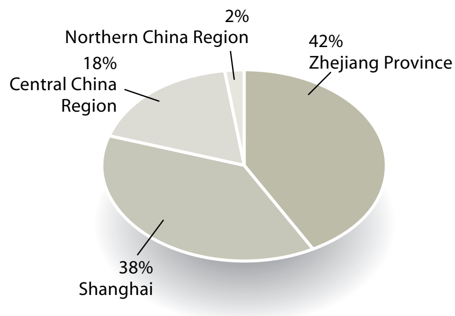
Management Discussion and Analysis *(continued)*

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

2006



2005



By region

	2006		2005		**Change**
	RMB'000	*% of total*	*RMB'000*	*% of total*	
Zhejiang Province	**6,656,901**	**39%**	4,990,754	42%	+33%
Shanghai	**5,972,911**	**35%**	4,536,214	38%	+32%
Central China Region	**3,924,941**	**23%**	2,159,032	18%	+82%
Northern China Region	**511,992**	**3%**	320,910	2%	+60%
Total	**17,066,745**	**100%**	12,006,910	100%	+42%

Management Discussion and Analysis *(continued)*

Approximately RMB1 billion in the above contract value of construction-in-progress was derived from the newly acquired Hubei Construction Group.

In 2006, the Group's construction business continued its expansion strategy and has successfully entered into new markets in Henan, Shandong and Jiangxi. At present, it has extended out of Zhejiang Province to Shanghai, Beijing, Tianjin, Jiangsu, Hubei, Anhui, Hebei, Henan, Shandong, and Jiangxi areas. These construction businesses outside Zhejiang Province contributed approximately 61% of the Group's total construction business (2005: 58%).

On 21 February 2006, the Group acquired the entire equity interests of the Hubei Construction Group at an aggregate consideration of RMB132,855,000. This acquisition was another major strategic step, following the acquisition of Hefei Baoye, which fits into our nation-wide expansion drive. The 12 entities under the Hubei Construction Group were engaged in construction and related business. The Group took advantage of the abundant resources both of the Hubei Construction Group and of Hubei Province and rapidly expanded the markets in Hubei and Central China.

The acquisition does not only fit into the PRC Government's policy of "Nation retreats, people proceed", but also provides feasible exit for the local government in dealing with the inherited problems brought by a local state-owned enterprise. At the same time, the Group is also going to establish a housing industrial park for production and sale of modernised building materials, as well as to start the property development business in Wuhan. These new business inroads would definitely help to enhance local economic growth and productivity improvement. Therefore, the Group has received tremendous and strong 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 RMB288,358,000, 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 the 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.

Management Discussion and Analysis *(continued)*

After the acquisition, the Hubei Construction Group contributed RMB580,288,000 to the Group's revenue and suffered a net loss of RMB28,262,000 during the period from acquisition date to 31 December 2006. During the year, following the acquisition by the Group, the Hubei Construction Group underwent and completed various post-acquisition corporate and business restructuring and reorganisation as well as rationalisation of human resources. It is expected that the Hubei Construction Group would start to contribute to the Group's profit next 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 "three-in-one" 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 Zhejiang and the Yangtze River Delta region.

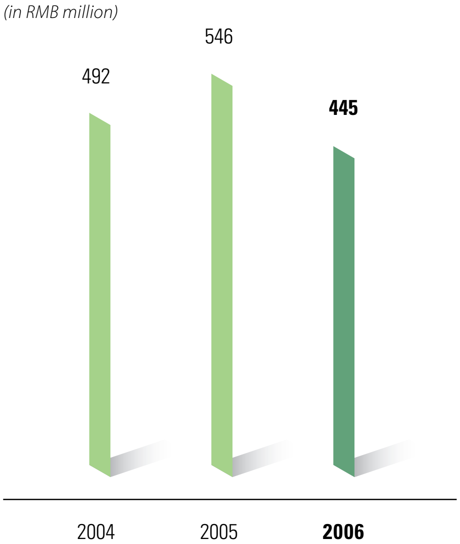
Property Development Business

Property Sales Results

For the year ended 31 December 2006, the revenue of the Group's property development business amounted to RMB445,215,000 (approximately 7% of the Group's consolidated revenue), representing a decrease of 18% from last year; and the operating profit amounted to RMB126,463,000 (approximately 19% of the Group's total operating profit), representing a growth of 1% from last year. The Group adopts the completion method in recognising revenue of its property development business.

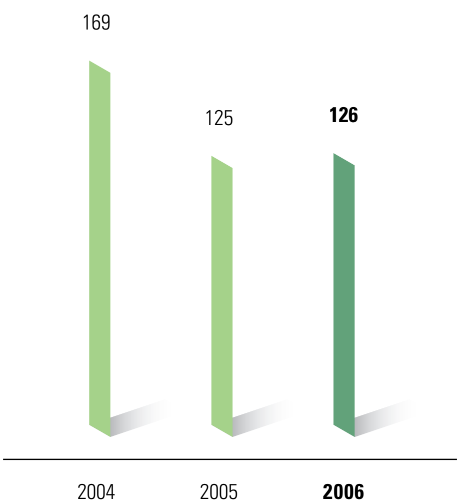
Revenue of Property Development Business

(in RMB million)



Operating Profit of Property Development Business

(in RMB million)



Management Discussion and Analysis *(continued)*

City Green Garden

Linjiang Green Garden

Jing'an Ziyuan

During the year, the revenue of the Group's property development business was mainly derived from City Green Garden in Hefei, Anhui. The total gross floor area of City Green Garden sold was approximately 103,000 square metres, achieving a revenue 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. In addition, approximately 8,743 square metres of the service apartment of Zhejiang Commercial City has been sold, registering a revenue of RMB24,490,000. The average selling price per square metre was RMB2,800.

Projects under development

As at 31 December 2006, the projects under development of the Group are tabulated below:

Project Name	Location	Gross Floor Area (square metres)	Equity Interest of the Group
Linjiang Green Garden	Shaoxing	56,000	100%
Jing'an Ziyuan	Shanghai	51,000	70%
City Green Garden Phase I	Hefei	50,000	100%
City Green Garden Phase II	Hefei	170,000	100%
Zhejiang Commercial City	Hefei	100,000	75%
Baoye Four Seasons Garden	Shaoxing	525,000	100%

Linjiang Green Garden is located in Yang Xunqiao, Shaoxing. The total gross floor area is 56,000 square metres, of which 25% are green areas. It is a pure residential property development alongside of Xixiao River, comprising multi-storey buildings, low rise buildings, detached houses and a club house. Pre-sale was started in October 2006 and a total of 50% of the units were sold. It is expected that all the remaining units will be sold in 2007 and revenue and profit can be realised accordingly.

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 area of approximately 51,344 square metres, which will be developed into luxurious service apartments. The top floors of the construction project were completed at the end of 2006, it is therefore expected that pre-sale of Jing'an Ziyuan can begin shortly.

Management Discussion and Analysis *(continued)*

Zhejiang Commercial City

Baoye Four Seasons Garden

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 Commercial City has a gross area of approximately 100,000 square metres, which is mainly developed as upscale service apartments and shopping malls. The pre-sale of the project has begun in the second half of 2006 and 30% of the units were sold. It is expected that the vast majority of the remaining units will be sold in 2007.

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 civilisation 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, away from the dust yet close to the 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 for the development of luxurious condominiums, town houses and detached houses. The project also consists of development of a golf club with four 18 holes capacity, of which construction has been completed; and the Kualijishan Hotel of which construction has been commenced. Construction of the Baoye Four Seasons Garden project will be started in 2007.

Baoye Four Seasons Garden is the Group's only property development project tailor made for high income level individuals and is the most upscale residential area in Shaoxing. The Group will endeavour to build a "state-of-the-art" resort district combining natural environments with cultural heritages, making it a forefront property development project. The project will not only contribute significant profit to the Group, but more importantly, up bring the brand value of Baoye and its core competencies in the property development business.

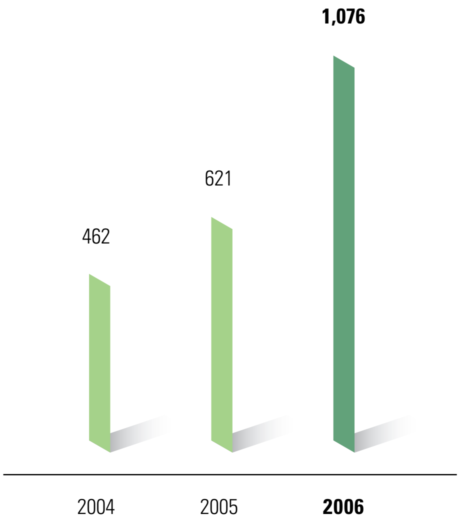
Building Materials Business

For the year ended 31 December 2006, the revenue of the Group's building materials business was RMB1,076,440,000 (approximately 17% of the Group's consolidated revenue), up 73% over last year; and the operating profit was RMB50,610,000 (approximately 8% of the Group's total operating profit), representing a decrease of 43% from last year.

Management Discussion and Analysis *(continued)*

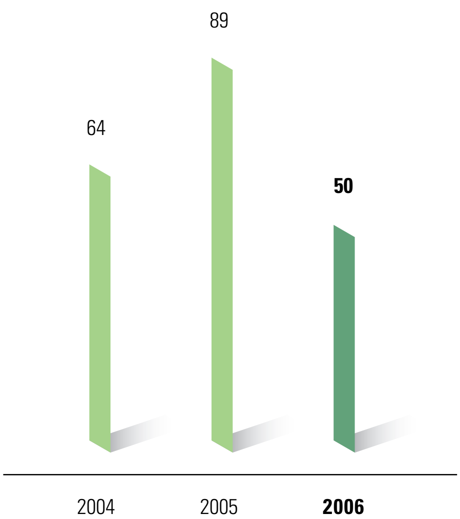
Revenue of Building Materials Business

(in RMB million)



Operating Profit of Building Materials Business

(in RMB million)



During the year, the Group's building materials business achieved a considerable growth in revenue. This marked achievement was largely attributable to increased market acceptance of our newly developed building materials. Decline in operating profit contribution in 2006 was primarily because of the absence of a local government subsidy in the amount of RMB29,952,000 for removal of production facilities to Shaoxing Housing Industrial Park that was accounted for in 2005's operating profit contribution. The up surge in raw materials costs and the keen competition from traditional building materials suppliers has also impacted our gross profit margin. Despite all these negative impacts, the Group will improve its profit margin by leveraging on its manufacturing technology advancement, mass scale of production and centralised procurement.

During the year ended 31 December 2006, the revenue breakdown of the Group's building materials is as follows:

Building Materials Products	**2006 RMB '000**	2005 RMB '000	Change
Ready-mixed concrete	**258,685**	175,162	+48%
Glass curtain wall	**323,124**	194,241	+66%
Wood products and interior decoration	**265,137**	94,233	+181%
Steel structure	**149,230**	72,200	+107%
Concrete pipes	**39,944**	38,151	+5%
Concrete ducts	**3,570**	11,893	–70%
Large roof sheathings	**7,898**	18,921	–58%
Fireproof materials	**24,102**	9,852	+145%
Others	**4,750**	6,088	–22%
Total	**1,076,440**	620,741	+73%

Management Discussion and Analysis *(continued)*



On 8 March 2006, the Group signed a co-operative agreement with Daiwa Japan, pursuant to which both parties formed a strategic alliance in the co-development of technological advancement skills for the manufacture of industrialised residential units. This will help the Group to capture the leading position in the manufacture of industrialised housing. Since then, Daiwa Japan has already deployed a team of engineering experts from Japan to station at the Group's Shaoxing Housing Industrial Park, and the Group has also sent a team of engineers to Japan in exchange of ideas and experiences a number of times. The results of the co-operation have been encouraging and progressing steadily. Nine laboratories and test centres for structural, earthquake, fireproof, soundproof, durability, interior environment, window and glass curtain wall, mock up, and conserve heat and energy have been established; and construction of the experimental building designed according to standardisation, industrialisation and modulisation requests has been completed. Two of the technologies have already been applied for patent rights. The technology for industrialisation of residential housing has been adopted for use in the construction of Linjiang Green Garden project and has been proven to be successful in application and use.

Management Discussion and Analysis *(continued)*

Business Prospect

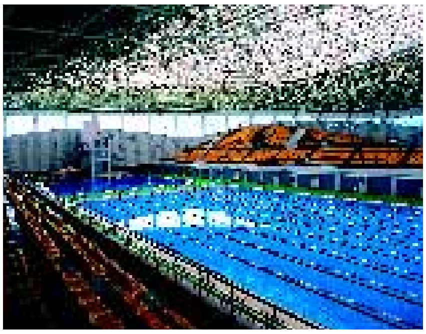
Construction Business

- In 2006, the PRC Government implemented a series of upscale macroeconomic control policies and measures to deepen the regulatory aspects against the construction, property development, and building materials industry sectors. These policies and measures would eliminate some of the smaller enterprises in the industry sectors in the near term. However, in the longer term perspective, these policies and measures would pave a healthy, continuing and stable development in the industry sectors where we operate. Though the Group's construction projects' progress has also been slowed down due to these policies and measures thus affecting our growth momentum, the quality and quantity of new construction projects that the Group has contracted for have been improved significantly. The financial strength of the owners of new construction projects becomes stronger, leading to better payment terms and less delinquent payments.

- After the acquisition of Hubei Construction Group in 2006, various post-acquisition corporate and business restructuring and reorganisation have been completed. In addition, effective management control systems and measures including incentive mechanism have been gradually built up and put into place. Simultaneously, reaping upon the solid foundation built by the Hubei Construction Group, our available resources and technologies, as well as government policies in developing the Central and Western China regions, will see the Group's construction business to attain promising growth. The Group will position Hubei as its base to capture the growing demand in the Central China region.

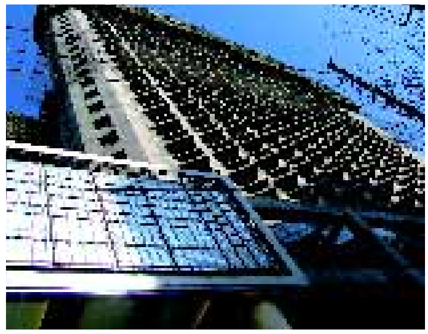
- The high economic growth rate and increasing urbanisation rate have provided unprecedented development opportunities for the Group's businesses. During the year, the Group has successfully solicited new business in Central and Western China, Northern and Southern China, and has extended into major cities of 13 provinces, realising its corporate strategy of "embarking Zhejiang and Yangtze River Delta and covering the whole nation". In future, the Group will continue to consolidate its position in developed markets and at appropriate timing continue to exploit new and emerging markets in other provinces.

- Using the "three-in-one" business model, the Group will continue to develop business in new markets in construction business as a start, reaping from the government policies on increased urbanisation and "Nation retreats, people proceed". On one hand, the Group will increase its efforts in developing new markets in major cities. On the other hand, it will enhance its market share in high value added infrastructural construction projects including railways, water supplies and facilities, highways and transports, bridges through merger and acquisition, this will enhance the Group's operating margin steadily.



Management Discussion and Analysis *(continued)*





Property Development Business

- City Green Garden Phase I, located in Hefei, had 50,000 square metres residential units pre-sold in 2006, due to the late handover of the sale units to owners before the end of 2006, all of the revenue and profit derived from the sales would be accounted for in the operating results for 2007. In addition, similar to City Green Garden Phase I, Zhejiang Commercial City in Hefei also had a total pre-sold area of 30,000 square metres in 2006, all of the revenue and profit derived from the sale would also be accounted for in the operating results for 2007. These, coupled with City Green Garden Phase II, Zhejiang Commercial City, and part of Jing'an Ziyuan that are to be sold in 2007, would contribute significant increase in both revenue and profitability for the Group's property development business.

- Approximately 500,000 square metres of industrial use land was obtained from the acquisition of Hubei Construction Group, in which a parcel of land area approximating to 37,000 square metres has already obtained the land use right certificate for residential development purposes, with the plot ratio of 1.8 times and having a build-up area of approximately 67,000 square metres. Another six applications for change of use pertaining to six parcels of land areas, having an aggregate land area of approximately 200,000 square metres, have been submitted to relevant government authorities for approval, four of which will be designated for residential use and the balance will be designated for commercial use. The applications are under processing. It is expected that these approvals and the respective land use right certificates will be obtained in the year of 2007.

- At present, the Group has started a feasibility study in acquiring a land area of approximately 2,000,000 square metres for resort residential use, which is located in a lakeshore designated by the local government as a tour site and is about 15 minutes drive from the city centre of Hefei, Anhui. The site will have great potential to be developed as a deluxe resort area. In addition, the Group will endeavour to search for and identify appropriate site areas in Tianjin Economic Development Zone and Shaoxing, to be included in its land bank reserve catering for longer term development.

- The Group will maintain its prudent development strategy and will selectively acquire high quality and inexpensive land as reserves, though it has adequate land reserves in meeting demand for the next five years.

Management Discussion and Analysis *(continued)*

Building Materials Business

- The Group has benefited from various research results it has attained through the co-operation and strategic alliance with Daiwa Japan, and has successfully applied these achieved research results into practical use. As an extension of the co-operative agreement and strategic alliance, the Group is in collaboration with Daiwa Japan to establish a joint-venture company, which will be mutually beneficial to both parties in terms of economics and technologies.

- The Group has been focusing on developing cost effective, environmental friendly and modernised building materials to ease out traditional building materials. During the year, the Group established the Zhejiang Baoye Group Construction Research Institute, a "province-rank" high technology development centre for scientific research. Our targets are to set standard for pre-fabricated building materials and to lead the construction industry into a new era of industrialisation of pre-fabricated building materials.

- The Group's building materials business has been diligently developing overseas markets and has received purchase orders from Algeria and Australia for our wood products and glass curtain wall. The Group is planning to establish an overseas sales office in Dubai to exploit export of building materials to the Middle East oil producing countries. Our products have reached international quality standard, still, our prices are within affordable and low ranges. For this reason, the competitive edges of our products remain strong in international market, providing impetus for the development of emerging markets, in particular the Middle East.

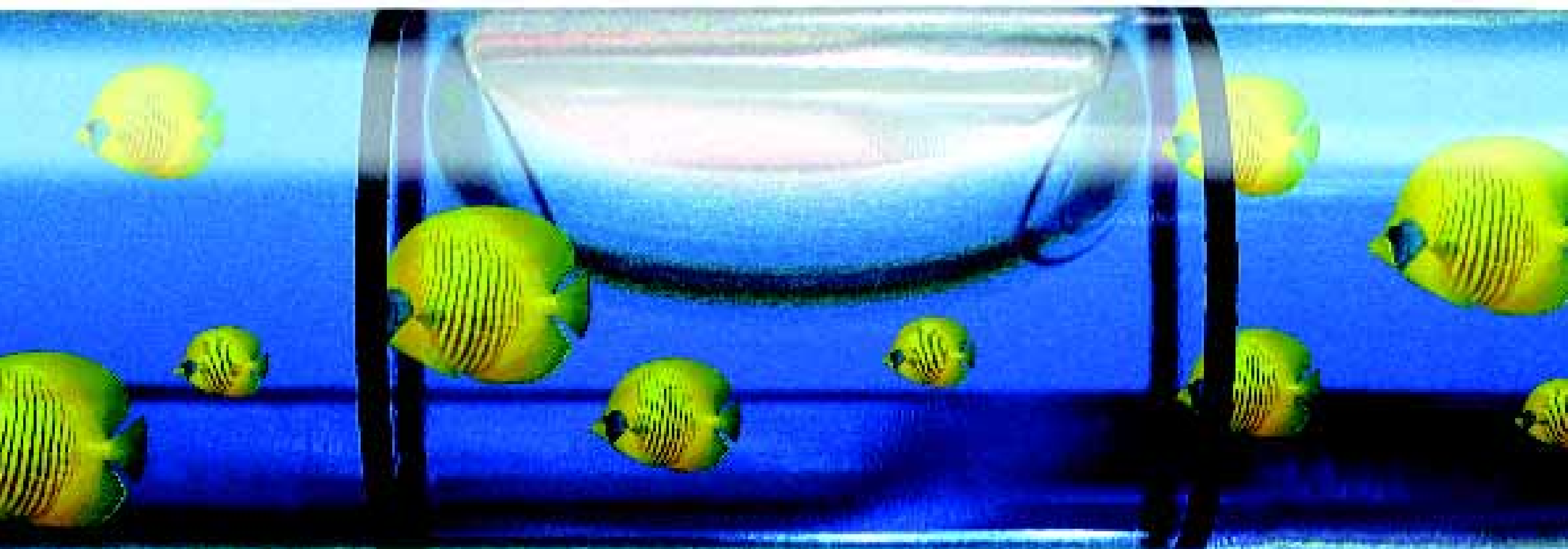
- The Group will continue to centralise its procurement function, aiming to lower the cost of raw materials. The demand for building materials from inter-companies is increasing in a rapid rate and has called for regular demand in sizable quantum, which will afford the Group to enter into longer term supply contracts with vendors, upon which will stabilise the supply and pricing of raw materials to lower cost of production and improve profit margin.

- In 2005, the Group commenced the construction of housing industrial park in Anhui. At present, the production facilities of glass curtain wall, heat and energy conserve materials, and building equipment have been completed and are now on trial production. It is expected that these new productions would start to contribute in the Group's results of 2007. In Wuhan, the Group has started discussions with the local government with respect to the selection of sites for the construction of housing industrial park. It is expected that the construction of factory buildings would begin in 2008.

Leveraging on the expected continued economic growth and development opportunities that are brought by the 11th Five-year-plan of the PRC Government, and as one of the leading enterprises in the industry, the Group is confident and has the belief to renew its historical growth in business by developing new markets, completion of nation-wide positioning, adopting flexible business strategies and enhancing business model. The Group will take advantage of the synergies created by the "three-in-one" business model, with construction as the base, industrialisation of construction (pre-fabricated building materials) as the centre of development and property development as the supplementary business, to maintain its leading position in the industry and foster commendable operating results.

• BALANCE •

our living & environment



won 9 "Luban Awards",

the nation's highest honour in construction industry. The number of "Luban Awards" received leads other construction companies in China.

Financial Review

Treasury Policies

The Group has adopted prudent financial policies and exercise tight risk management control over its investment, financing and use of cash. 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 the sustainable development needs and internal resources available, with a view to optimising the capital structure of the Group.

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

Financial Resources and Liabilities

With the support of steady increase in cash flow, sound credit record and excellent reputation in the industry, the Group preserved the AAA credit rating by a credit rating institution 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. During the year, the Group maintained most of its borrowings on an unsecured basis. The amount of unsecured debt accounted for 62% of the total borrowings. Leveraging on its excellent credit rating, the Group will continue to obtain its borrowings on an unsecured basis, which will be supplemented by project financing when necessary.

As at 31 December 2006, the Group's net bank borrowings, after deducting cash and bank deposits, amounted to RMB314,378,000 (31 December 2005: RMB254,482,000). The Group's gearing ratio (calculated on the basis of net bank borrowings over the total shareholders' equity) is 15% (31 December 2005: 14%). The Group will continue to adopt prudent policy to maintain low gearing ratio.

On 13 December 2006, the Company entered into the subscription agreement with Tiger Global in relation to the subscription by Tiger Global for 52,036,992 new H shares of the Company at HK$10.88 per share. The net proceeds were approximately HK$563,000,000. All the conditions precedent to the subscription agreement have been fulfilled on 2 February 2007 and all the placing proceeds were received on that day. This placement of new H shares has strengthened the financial position of the Group, thus turning the financial position of the Group from low gearing ratio to net cash position.

Management Discussion and Analysis *(continued)*

Use Plan of Proceeds

The net proceeds raised by the Company's placing of new H shares to Tiger Global was approximately HK$563,000,000, which will be allocated and utilised as follows:

	HK$'000
Acquisition of properties and annexation of any business related to the Group's business	281,500
Development of energy-saving and environmental-friendly building materials	112,600
General working capital	168,900
Total:	563,000

The Group is now discussing merger and acquisition opportunity with two state-owned enterprises. We are working out a feasibility study report on establishing a modernised building materials industrial park in Tianjin. At the same time, the Group has started a study and research for the plan of purchasing a parcel of land over one million square meters in Hefei for building deluxe resorts. The above plans are still under planning and preliminary discussion. We will disclose the details of which according to the Listing Rules when the conditions become mature.

Key Financial Ratios

	As at 31 December	
	2006	2005
Return on equity	**22.2%**	17.3%
Net assets value per share (RMB)	**3.51**	2.89
Net gearing ratio	**15%**	14%
Current ratio	**1.09**	1.33

Return on equity	=	profit attributable to equity holders of the Company/total equity attributed to the shareholders of the Company
Net assets value per share	=	net assets/shares in issue at the end of the year
Net gearing ratio	=	net bank borrowings/total equity attributed to the shareholders of the Company
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 assets value per share during the year have experienced enormous improvement compared to that of last year. Besides, the gearing ratio was maintained at a low level. As the Group's profit continues to grow, it is expected that there is still room for improvement on the return on equity in future.

Management Discussion and Analysis *(continued)*

Cash Flow Analysis

		For the year ended 31 December	
	Note	**2006** **RMB'000**	2005 RMB'000
Net cash (outflow)/inflow from operating activities	(i)	**(47,877)**	11,398
Net cash inflow /(outflow) from investing activities	(ii)	**30,213**	(176,156)
Net cash inflow from financing activities	(iii)	**58,074**	363,170
Increase in cash and cash equivalents		**40,410**	198,412

Notes:

(i) The Group's cash generated from operation for the year 2006 amounted to RMB156,292,000, but interest expenses of RMB66,242,000 and income tax expenses of RMB137,927,000 resulted in a net cash outflow from operating activities. It is expected that as the business grows steadily, the cash flow from operating activities will increase in future.

(ii) 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.

(iii) During the year, the cash inflow from financing activities was mainly attributable to increased bank borrowings.

Land Appreciation Tax

On 28 December 2006, the State Administration of Taxation pronounced a circular in respect of the rules and regulations pertaining to land appreciation tax applicable to real estate and property development enterprise in clearing their pending tax assessment. The land appreciation tax came into effect in 1993. The Group has consistently complied with the tax rules and regulations in the PRC and conformed to the Hong Kong Financial and Accounting Reporting Standards in accounting for such tax provision. Besides, the Group is a construction enterprise with construction as its core business, while building materials and property development as its supporting businesses. Therefore, the financial impact resulting from the tax pronouncement towards the Group's operating results would be minimal.

Administrative Expenses

The administrative expenses of the Group has increased from RMB112,370,000 in 2005 to RMB218,069,000 in 2006, representing an increase of RMB105,699,000 or 94% over last year. The increase was primarily attributable to the inclusion of the newly acquired Hubei Construction Group of RMB65,852,000 and the establishment of four regional branches by the Baoye Construction Group to exploit other provincial markets. We believe that this new acquisition and start-up expenses will contribute to the profit growth of the Group in the long run.

Management Discussion and Analysis *(continued)*

External Guarantee and Fulfilment

	2006 RMB'000	2005 RMB'000
Guarantee given to banks in respect of mortgage facilities granted to third parties	**19,800**	67,500
Guarantee given to banks in respect of bank loans of third parties	**20,000**	–
	39,800	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 bank will release such guarantee only upon the building ownership certificates of such properties are delivered to the banks as securities.

Details of the Charges on the Group's Assets

As at 31 December 2006, land use rights, buildings and properties under development at a total value of approximately RMB319,409,000 (31 December 2005: RMB306,230,000) were pledged to banks as security in securing short-term bank loans.

Capital Expenditure Plan

It is expected that the Group's capital expenditure in 2007 will amount to RMB100,000,000, of which approximately RMB60,000,000 is for purchasing research and testing equipment for Zhejiang Baoye Group Construction Research Institute to conduct research and development on prefabricated building materials; and approximately RMB40,000,000 is for purchasing plants and machineries, for building materials business in which RMB25,000,000 will be used for the Hefei Housing Industrial Park.

Adjustment of RMB Exchange Rate and Foreign Exchange Risks

The majority of the Group's business and all bank borrowings are denominated and accounted for in RMB, and therefore do not have any direct exposure 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 or results of the Group.