Notes to the Consolidated Financial Statements

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.

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 16 April 2007.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1. Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). This basis of accounting differs in certain respects from that used in the preparation of the Group's statutory accounts in the PRC. The PRC statutory accounts of the Group have been prepared in accordance with accounting principles and financial regulations applicable to the Group in the PRC ("PRC GAAP"). Appropriate restatements have been made to the PRC statutory accounts to conform with HKFRS. Differences arising from the restatements are not incorporated in the Group's accounting records.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

i) Assessment and adoption of revised/new HKFRS, amendments and interpretations to published standards effective in 2006

The Group has adopted the following new standards, amendments to standards and interpretations which are mandatory for financial year ended 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 for the Group;

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

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

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

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

i) Assessment and adoption of revised/new HKFRS, amendments and interpretations to published standards effective in 2006 (continued)

- Amendments to HKAS 39 and HKFRS 4, Amendment 'Financial guarantee contracts', effective for annual periods beginning on or after 1 January 2006. These amendments require issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value and subsequently measured at the higher of: (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management considered that these amendments 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 for the Group;

- Amendments to HKFRS 1 and 6, 'First-time adoption of Hong Kong Financial Reporting Standards and Exploration for and evaluation of mineral resources', effective for annual periods beginning on or after 1 January 2006, these amendments are not relevant for 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 for 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 for the Group.

ii) Standards, amendments and interpretations to existing standards which are not yet effective

The following new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1 March 2006 or later periods and have not been early adopted by the Group:

- 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 for 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 for 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 for the Group;

- HK(IFRIC)-Int 10, 'Interim Financial Reporting and Impairment', effective for annual periods beginning on or after 1 November 2006. HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. This interpretation is applicable to the Group and the Group will apply it for the annual periods beginning 1 January 2007;

- HK(IFRIC)-Int 11, 'HKFRS 2–Group and Treasury Share Transactions', effective for annual periods beginning on or after 1 March 2007. Management do not expect the interpretation to be relevant for the Group;

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

ii) Standards, amendments and interpretations to existing standards which are not yet effective (continued)

- HK(IFRIC)-Int 12, 'Service Concession Arrangements', effective for annual periods beginning on or after 1 January 2008. Management do not expect the interpretation to be relevant for the Group;

- 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; and

- HKFRS 8, 'Operating Segment', effective for annual periods beginning on or after 1 January 2009. HKFRS 8 will replace HKAS 14, 'Segment Reporting'. HKFRS 8 requires identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resource to the segment and assess its performance. HKAS 14 requires identification of two sets of segments - one based on related products and services, and the other on geographical areas. This standard is applicable to the Group and the Group will apply it from the annual periods beginning 1 January 2009.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (Note 2.7). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.8). The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(b) Transactions with minority interest

The Group applies a policy of treating transactions with minority interest as transactions with parties external to the Group. Disposals to minority interest result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interest result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary. If the consideration paid is less than the carrying value of the interest in the subsidiary's net assets acquired and contingent liabilities assumed, the difference is recognised directly in the income statement.

2. Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss (Note 2.7).

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associates are recognised in the consolidated income statement.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.5 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

2. Summary of significant accounting policies (continued)

2.5 Property, plant and equipment (continued)

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

	Useful lives
Buildings	20 years
Plant and machinery	10 years
Motor vehicles	5 years
Office equipment and others	5 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within other (losses)/gains – net, in the income statement.

2.6 Investment properties

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

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

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

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

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

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

Changes in fair values are recognised in the income statement as part of "other gains".

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference between the carrying amount and the fair value of this item at the date of transfer is recognised in equity under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

2.7 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates and is tested annually for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Notes to the Consolidated Financial Statements *(continued)*

2. Summary of significant accounting policies (continued)

2.7 Goodwill (continued)

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

2.8 Impairment of assets

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

2.9 Properties under development

Properties under development are stated at the lower of cost and net realisable value. Cost comprises direct costs attributable to the development of the properties and borrowing costs capitalised during the period of development. Properties under development which are due for completion more than one year from the balance sheet date are shown as non-current assets while properties under development which are due for completion within one year from the balance sheet date are shown as current assets. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to complete and make the sale. On completion, the properties are transferred to completed properties held for sale.

2.10 Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost comprises costs attributable to the completion of the properties. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

2.11 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

During the year, the Group only holds financial assets in the category of loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for balances with maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

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

2. Summary of significant accounting policies (continued)

2.11 Financial assets (continued)

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

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

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Construction contracts

Contract costs are recognised when incurred. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Group uses the 'percentage of completion method' to determine the appropriate amount to recognise 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. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. Progress billings not yet paid by customers and retention are included within trade and other receivables.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

2.14 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, net of restricted bank deposits.

2.15 Share capital

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

2.16 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2. Summary of significant accounting policies (continued)

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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

2.18 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.19 Employee benefits

Pension obligation

The Group contributes to defined contributions retirement schemes organised and administered by the governmental authorities which are available to all employees in the PRC. Contributions to the schemes by the Group are calculated as a percentage of employees' basic salaries.

The Group's contributions to the defined contributions retirement scheme are expensed as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund. Details of the Group's retirement benefits are set out in Note 28(a).

2.20 Provision

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, business tax, returns, rebates and discounts and after eliminating sales within the Group.

2. Summary of significant accounting policies (continued)

2.21 Revenue recognition (continued)

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Provision of construction services

Provision of construction services is recognised in the accounting period in which the services are provided, by reference to the proportion of the contract costs incurred to date to the estimated total contract costs for the contract (See details in Note 2.13 above for accounting policy for construction contracts).

(b) Sales of building materials

Revenue from the sales of building materials is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(c) Sales of properties

Revenue from sales of completed properties held for sale is recognised upon execution of the sales agreements. When a developed property is sold in advance of completion, revenue is only recognised upon completion of the development. Deposits and installments received on properties sold prior to the date of revenue recognition are included in the balance sheet under receipts in advance.

(d) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(e) Lease income

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the assets.

Lease income is recognised over the term of the lease on a straight-line basis.

(f) Subsidy income

Subsidy income is recognised on a receipt basis or where there is a reasonable assurance that the subsidy will be received and the Group will comply with all attached conditions.

2.22 Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2.23 Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the income statement on a straight-line basis over the period of the lease.

2.24 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. Financial risk management

3.1 Financial risk factors

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

(a) Foreign exchange risk

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

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

Management monitors the Group's currency exposure on an ongoing basis and will enter into hedges when the need arises.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that provision of construction services and sale of building materials are made to customers with an appropriate credit history. Sales of completed properties to individuals are made in cash; any amount receivable would be pledged by properties.

(c) Liquidity risk

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

(d) Cash flow and fair value interest rate risk

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

The Group's interest-rate risk arises from borrowings, details of which have been disclosed in Note 24 to these consolidated financial statements.

3.2 Fair value estimation

The carrying amount less impairment provision of trade receivables and payables approximate their fair values.

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.

4.1 Critical accounting estimates and assumptions

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

(a) Construction contract revenue recognition

According to the accounting policies of construction contracts as stated in Note 2.13, 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.

4. Critical accounting estimates and judgements (continued)

4.1 Critical accounting estimates and assumptions (continued)

(a) Construction contract revenue recognition *(continued)*

In applying the percentage of completion method, the Group needs 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 any construction contract differs from the management's estimates, the construction contract revenue will need to be adjusted accordingly.

(b) Estimate of fair value of investment properties

The best evidence on fair value of investment properties is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences.

ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

As at 31 December 2006, the fair value of the investment properties of the Group were estimated at RMB40,515,000 (31 December 2005: RMB35,981,000) as reported by an independent professional valuer.

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

During the year, 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 37. In accordance with HKFRS 3, the identifiable assets acquired and liabilities and contingent liabilities assumed should be measured at fair value at the acquisition date 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.

For the purpose of the interim financial reporting for the six months ended 30 June 2006, the directors of the Company had principally made reference to the valuation results made by a valuer appointed by the original owner to determine the fair value of the net assets acquired at the acquisition date.

As at 31 December 2006, in the absence of an active market for the above acquisition transaction undertaken by the Group, the directors of the Company has made estimates from a variety of sources, in order to determine the fair value of identifiable assets and liabilities in the above acquisition transaction, as summarised below:

- 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.

- For the fair value of the land use rights, property, plant and equipment and investments in associates, the directors of the Company had made their estimates according to valuation results assessed by an external valuer, who was appointed by the Company.

- The directors of the Company had not identified significant intangible assets, which are subject to be recognised in the financial statements arising from the acquisition.

4. Critical accounting estimates and judgements (continued)

4.1 Critical accounting estimates and assumptions (continued)

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

As a result of the above assessments, the Group recognised the excess of the fair value of the net assets acquired over the acquisition costs amounting to approximately RMB288,358,000 in relation to the above acquisition transaction as other gains for the year ended 31 December 2006 (see Note 37 for details of this acquisition transaction).

4.2 Critical judgements in applying the Group's accounting policies

(a) Income taxes and deferred taxation

Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(b) Land appreciation taxes

PRC land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including sales charges, borrowing costs and all property development expenditures.

The Group is subject to land appreciation tax in the PRC which has been included in cost of sales of the Group. However, the implementation of these taxes varies amongst various PRC cities and the Group has not finalised its land appreciation tax returns with the relevant tax authorities. Accordingly, significant 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 impact the cost of sales and deferred income tax provisions in the period in which such determination is made.

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 revenue attributable from these three segments is approximately RMB6,166,234,000 and RMB4,690,914,000 for the years ended 31 December 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 and disposal gain. Neither of these constitutes a separately reportable segment.

Notes to the Consolidated Financial Statements *(continued)*

5. Segment information (continued)

The business segment results for the year ended 31 December 2006 are as follows:

	Year ended 31 December 2006				
	Construction RMB'000	Building materials RMB'000	Property development RMB'000	Others RMB'000	Group RMB'000
Total revenue	4,824,604	1,226,416	445,215	80,744	6,576,979
Inter-segment revenue	(180,025)	(149,976)	–	(19,125)	(349,126)
External revenue	4,644,579	1,076,440	445,215	61,619	6,227,853
Operating profit	468,845	50,610	126,463	3,227	649,145
Finance costs					(50,722)
Share of losses of associates					(21)
Profit before income tax					598,402
Income tax expense					(116,381)
Profit for the year					482,021
Other information					
Depreciation	24,661	27,498	2,047	2,666	56,872
Amortisation	7,381	1,114	–	–	8,495
Provision for doubtful debts, net	1,137	3,847	62	54	5,100

The business segment results for the year ended 31 December 2005 are as follows:

	Year ended 31 December 2005				
	Construction RMB'000	Building materials RMB'000	Property development RMB'000	Others RMB'000	Group RMB'000
Total revenue	3,650,687	781,746	545,995	86,040	5,064,468
Inter-segment revenue	(126,509)	(161,005)	–	(53,157)	(340,671)
External revenue	3,524,178	620,741	545,995	32,883	4,723,797
Operating profit	206,955	88,785	125,412	29,360	450,512
Finance costs					(29,885)
Profit before income tax					420,627
Income tax expense					(112,729)
Profit for the year					307,898
Other information					
Depreciation	13,015	22,883	1,778	985	38,661
Amortisation	3,036	72	–	–	3,108
Provision for doubtful debts, net	3,130	2,526	(593)	(12)	5,051

5. Segment information (continued)

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

The segment assets and liabilities as at 31 December 2006 and capital expenditure for the year then ended are as follows:

	As at 31 December 2006					
	Construction *RMB'000*	**Building materials** *RMB'000*	**Property development** *RMB'000*	**Others** *RMB'000*	**Unallocated** *RMB'000*	**Group** *RMB'000*
Assets	**3,245,158**	**1,102,301**	**1,162,918**	**172,530**	**56,011**	**5,738,918**
Associates	**–**	**–**	**32,401**	**–**	**–**	**32,401**
Total assets	**3,245,158**	**1,102,301**	**1,195,319**	**172,530**	**56,011**	**5,771,319**
Liabilities	**1,806,254**	**681,125**	**667,538**	**45,746**	**381,402**	**3,582,065**
Capital expenditure	**110,930**	**170,321**	**8,704**	**24,520**	**–**	**314,475**

The segment assets and liabilities as at 31 December 2005 and capital expenditure for the year then ended are as follows:

	As at 31 December 2005					
	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	40,425	58,824	4,556,918
Liabilities	1,623,717	380,078	616,198	22,998	85,896	2,728,887
Capital expenditure	45,271	93,059	1,472	3,430	–	143,232

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 and land use rights for construction of property and plant, including additions resulting from acquisitions through business combination.

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

6. 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:

Group

	2006		2005	
	Non-current	**Current**	Non-current	Current
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Opening net book amount	**460,110**	**286,350**	578,771	280,658
Additions from business combination *(Note 37)*	**358,807**	**–**	136,320	–
Other additions	**92,826**	**–**	10,010	–
Transfer to current portion	**(35,305)**	**35,305**	(255,020)	255,020
Disposals *(Note 26(a))*	**(16,086)**	**–**	(4,226)	–
Decrease upon disposal of a subsidiary *(Note 38)*	**(57,899)**	**–**	–	–
Amortisation				
– expensed in administrative expenses	**(8,495)**	**–**	(3,108)	–
– capitalised in properties under development	**(1,697)**	**(3,784)**	(2,637)	(6,080)
Transfer to cost of sales	**–**	**(48,735)**	–	(243,248)
End of the year	**792,261**	**269,136**	460,110	286,350

Company

	Non-current	
	2006	2005
	RMB'000	*RMB'000*
Opening net book amount	**291,028**	292,689
Transfer to subsidiaries	**(78,775)**	–
Amortisation		
– expensed in administrative expenses	**(1,148)**	(1,661)
End of the year	**211,105**	291,028

6. Land use rights (continued)

The Group and the Company's interests in land use rights at their net book values are analysed as follows:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Outside Hong Kong, held on:				
Leases of over 50 years	**498,681**	513,789	**200,000**	200,000
Leases of between 10 to 50 years	**562,716**	232,671	**11,105**	91,028
	1,061,397	746,460	**211,105**	291,028

Included in the Group's interests in land use rights at 31 December 2006 are certain land use rights amounting to RMB253,548,000 (2005: RMB200,000,000), for which the Group was in the process of applying for the relevant formal land use rights certificates.

As at 31 December 2006, total net book values of land use rights pledged as security for the Group's short-term bank loans amounted to RMB136,971,000 (2005: RMB306,230,000) (Note 24).

7. Property, plant and equipment

Group

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Office equipment and others *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
At 1 January 2005						
Cost	165,160	218,170	71,584	15,872	68,754	539,540
Accumulated depreciation	(20,890)	(57,423)	(33,880)	(7,709)	–	(119,902)
Net book amount	144,270	160,747	37,704	8,163	68,754	419,638
Year ended 31 December 2005						
Opening net book amount	144,270	160,747	37,704	8,163	68,754	419,638
Additions from business combination	–	–	307	364	–	671
Other additions	3,674	54,613	17,134	3,968	63,172	142,561
Transfer	55,961	601	–	–	(56,562)	–
Disposals	(15,539)	(8,079)	–	(3,594)	–	(27,212)
Transfer to investment properties	(10,000)	–	–	–	–	(10,000)
Depreciation charge	(7,374)	(21,445)	(7,536)	(2,306)	–	(38,661)
Closing net book amount	170,992	186,437	47,609	6,595	75,364	486,997
At 31 December 2005						
Cost	193,471	252,808	89,025	16,545	75,364	627,213
Accumulated depreciation	(22,479)	(66,371)	(41,416)	(9,950)	–	(140,216)
Net book amount	170,992	186,437	47,609	6,595	75,364	486,997

7. Property, plant and equipment (continued)

Group (continued)

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Office equipment and others *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Year ended 31 December 2006						
Opening net book amount	170,992	186,437	47,609	6,595	75,364	486,997
Additions from business combination *(Note 37)*	89,872	35,854	11,411	1,513	1,512	140,162
Other additions	26,931	25,554	14,799	5,111	74,501	146,896
Transfer	77,202	630	–	–	(77,832)	–
Disposals	(32,123)	(4,031)	(3,463)	(126)	–	(39,743)
Decrease upon disposal of a subsidiary *(Note 38)*	–	–	–	(54)	–	(54)
Depreciation charge	(16,237)	(26,752)	(11,008)	(2,875)	–	(56,872)
Closing net book amount	316,637	217,692	59,348	10,164	73,545	677,386
At 31 December 2006						
Cost	449,797	341,569	105,069	24,381	73,545	994,361
Accumulated depreciation	(133,160)	(123,877)	(45,721)	(14,217)	–	(316,975)
Net book amount	316,637	217,692	59,348	10,164	73,545	677,386

Depreciation expenses of RMB39,018,000 (2005: RMB27,281,000) has been expensed in cost of sales and RMB17,854,000 (2005: RMB11,380,000) in administrative expenses.

As at 31 December 2006, total net book values of property, plant and equipment pledged as security for the Group's short-term bank loans amounted to RMB32,524,000 (2005: nil) (Note 24).

Notes to the Consolidated Financial Statements *(continued)*

7. Property, plant and equipment (continued)

Company

	Buildings *RMB'000*	Motor vehicles *RMB'000*	Office equipment and others *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
At 1 January 2005					
Cost	388	5,003	889	17,486	23,766
Accumulated depreciation	(18)	(1,449)	(211)	–	(1,678)
Net book amount	370	3,554	678	17,486	22,088
Year ended 31 December 2005					
Opening net book amount	370	3,554	678	17,486	22,088
Additions	–	952	20	7,771	8,743
Depreciation charge	(18)	(989)	(183)	–	(1,190)
Closing net book amount	352	3,517	515	25,257	29,641
At 31 December 2005					
Cost	388	5,955	909	25,257	32,509
Accumulated depreciation	(36)	(2,438)	(394)	–	(2,868)
Net book amount	352	3,517	515	25,257	29,641
Year ended 31 December 2006					
Opening net book amount	**352**	**3,517**	**515**	**25,257**	**29,641**
Additions	**433**	**–**	**867**	**5,252**	**6,552**
Transfer	**30,509**	**–**	**–**	**(30,509)**	**–**
Depreciation charge	**(606)**	**(1,072)**	**(222)**	**–**	**(1,900)**
Closing net book amount	**30,688**	**2,445**	**1,160**	**–**	**34,293**
At 31 December 2006					
Cost	**31,330**	**5,955**	**1,776**	**–**	**39,061**
Accumulated depreciation	**(642)**	**(3,510)**	**(616)**	**–**	**(4,768)**
Net book amount	**30,688**	**2,445**	**1,160**	**–**	**34,293**

Notes to the Consolidated Financial Statements *(continued)*

8. Investment properties

	Group	
	2006	2005
	RMB'000	*RMB'000*
Opening net book amount	**35,981**	5,188
Transfer from property, plant and equipment	**–**	10,000
Fair value gains on the transfer date	**–**	912
Fair value gains (included in other gains – net)	**4,534**	25,069
Disposals	**–**	(5,188)
End of the year	**40,515**	35,981

The following amounts have been recognised in the consolidated income statement:

	2006	2005
	RMB'000	*RMB'000*
Rental income	**994**	918
Direct operating expenses arising from investment properties that generate rental income	**51**	47

The investment properties were revalued at 31 December 2006 by an independent, qualified valuer, Shaoxing Zhongxing Assets Valuation Company Limited.

The period of leases whereby the Group leases out its investment properties under operating leases is one year.

All the investment properties are held on leases of between 10 to 50 years.

9. Goodwill

Group

	Goodwill
	RMB'000
At 1 January 2005	
Cost	1,045
Accumulated impairment	–
Net book amount	1,045
Year ended 31 December 2005	
Opening net book amount	1,045
Addition from business combination	15,998
Closing net book amount	17,043
At 31 December 2005	
Cost	17,043
Accumulated impairment	-
Net book amount	17,043

9. Goodwill (continued)

Group (continued)

	Goodwill RMB'000
Year ended 31 December 2006	
Opening net book amount	17,043
Disposal of a subsidiary *(Note 38)*	(509)
Closing net book amount	16,534
At 31 December 2006	
Cost	16,534
Accumulated impairment	–
Net book amount	16,534

Impairment test for goodwill

Goodwill is allocated to the Group's cash generating units ("CGU") identified according to the operations of the company acquired.

The goodwill as at 31 December 2006 are mainly arsing from the acquisition of the equity interest in a previously jointly controlled entity, Hefei Qingfangcheng Baoye Real Estate Co., Ltd. ("Hefei Baoye Real Estate"), in 2005. Hefei Baoye Real Estate was treated as a CGU as it has its own real estate projects. The recoverable amount of Hefei Baoye Real Estate is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are projected based on estimates made by management. Management determined the budgeted operating results based on past performance and its expectations for the market development. The discount rate used is pre-tax and reflects specific risks relating to the real estate projects developed by Hefei Baoye Real Estate. Based on the impairment test on the goodwill associated with Hefei Baoye Real Estate performed on 31 December 2006, no impairment provision is required.

10. Properties under development

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Development costs	**663,925**	640,151	**95,469**	44,932
Finance costs capitalised	**70,434**	62,076	**27,040**	21,884
	734,359	702,227	**122,509**	66,816

Notes to the Consolidated Financial Statements *(continued)*

10. Properties under development *(continued)*

The net book value of the properties under development are analysed as follows:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Completion within one year	**292,283**	606,348	**–**	–
Completion in more than one year	**442,076**	95,879	**122,509**	66,816
	734,359	702,227	**122,509**	66,816

As at 31 December 2006, total book values of properties under development pledged as security for the Group's short-term bank loans amounted to RMB149,914,000 (2005: nil) (Note 24).

11. Interests in and balances with subsidiaries

	Company	
	2006	2005
	RMB'000	*RMB'000*
Investments at cost, unlisted	**558,760**	729,875
Amounts due from subsidiaries	**581,584**	215,828
	1,140,344	945,703

The amounts due from subsidiaries are unsecured, interest free and are repayable on demand.

The following is a list of the principal subsidiaries as at 31 December 2006:

Name	**Place of incorporation and kind of legal entity**	**Attributable equity interest held**		**Registered capital**	**Principal activities and place of operation**
		Directly	*Indirectly*		
Zhejiang Baoye Construction Group Co., Ltd.	PRC, limited liability company	99%	–	RMB300,000,000	Construction and interior decoration in the PRC
Zhejiang Baoye Curtain Wall Decoration Co., Ltd.	PRC, limited liability company	83.1%	–	RMB10,800,000	Installation of curtain wall and steel framework in the PRC
Zhejiang Baoye Infrastructure Construction Co., Ltd.	PRC, limited liability company	87.5%	12.4%	RMB30,000,000	Construction of highway, bridge and other municipal infrastructure in the PRC
Zhejiang Guangyi Construction and Decoration Co., Ltd.	PRC, limited liability company	93.3%	6.6%	RMB15,000,000	Decoration and replenishment in the PRC

11. Interests in and balances with subsidiaries (continued)

Name	Place of incorporation and kind of legal entity	Attributable equity interest held		Registered capital	Principal activities and place of operation
		Directly	*Indirectly*		
Zhejiang Baoye Real Estate Group Co., Ltd.	PRC, limited liability company	90%	9.9%	RMB50,000,000	Development and sales of properties in the PRC
Zhejiang Baoye Building Materials Industrialisation Company Limited	PRC, joint stock limited company	19%	79.9%	RMB60,600,000	Production and sales of concrete and construction materials in the PRC
Shaoxing Baoye Fireproof Materials Co., Ltd.	PRC, limited liability company	88.3%	11.6%	RMB3,000,000	Production and sales of steel, wood fireproof doors in the PRC
Shaoxing Baoye New Building Materials Co., Ltd.	PRC, limited liability company	–	98.9%	RMB2,000,000	Production and sales of construction materials in the PRC
Shanghai Zibao Real Estate Development Co., Ltd.	PRC, limited liability company	–	69.9%	RMB18,000,000	Real estate development in the PRC
Shaoxing Baogang Woodwork Co., Ltd.	PRC, foreign invested enterprise	70%	–	USD2,720,000	Production and sales of wooden door and other wooden products in the PRC
Shaoxing Huaxin Pre-mix Commodity Concrete Co., Ltd.	PRC, limited liability company	51.5%	–	RMB20,000,000	Production and sales of concrete and construction materials in the PRC
Zhejiang Baoye Steel Structure Co., Ltd.	PRC, limited liability company	95%	5.0%	RMB20,000,000	Production, design and sales of steel structure products in the PRC
Hefei Baoye Concrete Co., Ltd.	PRC, limited liability company	90%	9.9%	RMB10,000,000	Production and sales of concrete and construction materials in the PRC
Hefei Qingfangcheng Baoye Real Estate Co., Ltd.	PRC, limited liability company	90%	9.9%	RMB30,000,000	Development and sales of properties in the PRC
Anhui Huateng Investment Company Limited	PRC, limited liability company	–	75.0%	RMB20,000,000	Development and sales of properties in the PRC
Baoye Group Hubei Company Limited	PRC, limited liability company	90%	10%	RMB60,000,000	Investment holdings in the PRC

Notes to the Consolidated Financial Statements *(continued)*

11. Interests in and balances with subsidiaries (continued)

Name	Place of incorporation and kind of legal entity	Attributable equity interest held		Registered capital	Principal activities and place of operation
		Directly	*Indirectly*		
Hubei Construction Engineering Group Co., Ltd.	PRC, limited liability company	–	100%	RMB61,980,000	Construction and interior decoration in the PRC
Hubei Construction Engineering No.3 Co., Ltd.	PRC, limited liability company	–	100%	RMB50,800,000	Construction and interior decoration in the PRC
Hubei Construction Engineering No.5 Co., Ltd.	PRC, limited liability company	–	100%	RMB58,000,000	Construction and interior decoration in the PRC
Hubei Industrial Equipment Installation Co., Ltd.	PRC, limited liability company	–	100%	RMB50,190,000	Installation of industrial equipment in the PRC
Hubei Engineering Machinery Construction Co., Ltd.	PRC, limited liability company	–	100%	RMB20,000,000	Provision of construction services in the PRC
Hubei Construction Engineering Concrete Products Co., Ltd.	PRC, limited liability company	–	100%	RMB20,080,000	Production and sales of concrete and construction materials in the PRC
Hubei Construction Engineering Real Estate Development Co., Ltd.	PRC, limited liability company	–	100%	RMB20,000,000	Real estate development in the PRC
Hubei Construction Engineering Material Trading Co., Ltd.	PRC, limited liability company	–	100%	RMB18,300,000	Provision of leasing services in the PRC

Note:

a) During the year, the Company liquidated a subsidiary, Shaoxing Commodity Concrete Co., Ltd.

12. Investments in associates

	Group 2006 RMB'000	2005 RMB'000
Beginning of the year	**–**	–
Additions from business combination *(Note 37)*	**32,422**	–
Share of losses	**(21)**	–
End of the year	**32,401**	–

As at 31 December 2006, no goodwill is included in investments in associates.

The Group's interests in its principal associates, all of which are unlisted, and its share of the net assets are as follows:

Name	Country of incorporation	Assets RMB'000	Liabilities RMB'000	Revenue RMB'000	Losses RMB'000	% interest held
2006						
Hubei Construction Real Estate Co., Ltd.	PRC	102,547	(80,315)	896	(6)	34%
Wuhan Modern Real Estate Development Co., Ltd.	PRC	273,075	(262,906)	–	(15)	30%
		375,622	**(343,221)**	**896**	**(21)**	

13. Inventories

	Group 2006 RMB'000	2005 RMB'000
Raw materials	**43,063**	21,620
Work in progress	**17,508**	9,172
Finished goods	**19,231**	23,441
	79,802	54,233

As at 31 December 2006, no inventories is carried at net realisable value (2005: Nil).

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

The aggregate amount of costs incurred plus recognised profits (less recognised losses) and progress billings for all contracts in progress at the balance sheet date are as follows:

	Group	
	2006	2005
	RMB'000	*RMB'000*
Contract costs incurred plus recognised profits (less recognised losses) to date	**17,066,745**	12,006,910
Less: progress billings to date	**(16,757,427)**	(11,878,128)
	309,318	128,782
Represented by:		
Due from customers on construction contracts	**738,909**	517,919
Due to customers on construction contracts	**(429,591)**	(389,137)
	309,318	128,782

As at 31 December 2006, retentions and project deposits held by customers for contract work included in other receivables of the Group amounted to RMB511,032,000 (2005: RMB471,577,000) (Note 16).

15. Trade receivables

	Group	
	2006	2005
	RMB'000	*RMB'000*
Trade receivables	**698,041**	399,470
Less: provision for doubtful debts	**(15,177)**	(12,247)
	682,864	387,223

The provision for doubtful debts has been included in administrative expenses in the income statement.

As at 31 December 2006, the ageing analysis of the trade receivables is as follows:

	2006	2005
	RMB'000	*RMB'000*
Within 3 months	**321,703**	214,652
3 months to 1 year	**231,379**	138,534
1 to 2 years	**89,397**	36,352
2 to 3 years	**29,776**	9,552
Over 3 years	**25,786**	380
	698,041	399,470

15. Trade receivables (continued)

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.

16. Other receivables

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Retention money receivables and project deposits *(Note 14)*	**511,032**	471,577	**–**	–
Prepayments and other deposits	**30,327**	28,765	**–**	–
Deposits for a real estate development project	**50,000**	50,000	**50,000**	50,000
Deposits for acquisition	**–**	43,000	**–**	43,000
Others	**130,292**	94,342	**4,886**	19,785
	721,651	687,684	**54,886**	112,785

The net book value of other receivables approximates their fair value.

17. Restricted bank deposits

The restricted bank deposits represented the deposits confined to be used for tender bidding or to guarantee the performance of certain construction contracts work and notes payable.

18. Cash and cash equivalents

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at bank and in hand	**740,267**	614,207	**48,539**	50,200
Short-term bank deposits	**42,432**	128,082	**33,800**	125,550
	782,699	742,289	**82,339**	175,750

The effective interest rates for the year of the short–term bank deposits of the Group and the Company are 1.87% (2005: 1.96%) and 1.87% (2005: 1.95%) respectively, and these deposits have original maturities of three months or less.

As at 31 December 2006, approximately RMB773,064,000 (2005: RMB737,421,000), RMB4,129,000 (2005: RMB4,868,000) and RMB5,506,000 (2005: Nil) of the cash and cash equivalents of the Group were denominated in RMB, HKD and USD respectively.

Notes to the Consolidated Financial Statements *(continued)*

19. 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
Issuance of new H shares	79,501	79,501	286,658	366,159
31 December 2005 and 31 December 2006	**610,927**	**610,927**	**342,808**	**953,735**

The total authorised number of ordinary shares is 610,927,013 shares (2005: 610,927,013 shares) with a par value of RMB1.00 per share (2005: RMB1.00 per share). All issued shares are fully paid.

On 13 December 2006, the Company entered into a placing agreement with Tiger Global, L. P. in relation to the placing of an aggregate of 52,036,992 new H shares of the Company at HKD10.88 per placing share. The placing was completed in February 2007.

20. Other reserves

Group

	Other assets revaluation reserve *RMB'000*	Statutory surplus reserve *RMB'000* *(Note (a))*	Statutory public welfare fund *RMB'000* *(Note (b))*	Total *RMB'000*
Balance at 1 January 2005	3,871	49,044	24,522	77,437
Revaluation of buildings – gross	912	–	–	912
Revaluation of buildings – tax	(301)	–	–	(301)
Additions from business combination	120,110	–	-	120,110
Appropriation from retained earnings	–	25,151	12,575	37,726
Balance at 31 December 2005	124,592	74,195	37,097	235,884
Balance at 1 January 2006	**124,592**	**74,195**	**37,097**	**235,884**
Transfer of reserves to income statement arising from sale of completed properties held for sale	**(19,617)**	**–**	**–**	**(19,617)**
Transfer of reserves to retained earnings upon disposal of property, plant and equipment	**(3,871)**	**–**	**–**	**(3,871)**
Reclassification of reserve fund *(Note (b))*	**–**	**37,097**	**(37,097)**	**–**
Appropriation from retained earnings	**–**	**18,264**	**–**	**18,264**
Liquidation of a subsidiary	**–**	**(2,709)**	**–**	**(2,709)**
Balance at 31 December 2006	**101,104**	**126,847**	**–**	**227,951**

20. Other reserves (continued)

Company

	Statutory surplus reserve RMB'000 (Note (a))	Statutory public welfare fund RMB'000 (Note (b))	Total RMB'000
Balance at 1 January 2005	49,044	24,522	73,566
Appropriation from retained earnings	25,151	12,575	37,726
Balance at 31 December 2005	74,195	37,097	111,292
Balance at 1 January 2006	**74,195**	**37,097**	**111,292**
Reclassification of reserve fund *(Note (b))*	**37,097**	**(37,097)**	**–**
Appropriation from retained earnings	**18,264**	**–**	**18,264**
Balance at 31 December 2006	**129,556**	**–**	**129,556**

(a) Statutory surplus reserve
All PRC incorporated companies within the Group are required each year to transfer 10% of the profit after tax as reported in the PRC statutory accounts to the statutory surplus reserve until the balance reaches 50% of the registered share capital. This reserve can be used to reduce any losses incurred or to increase ordinary shares. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.

(b) Statutory public welfare fund
According to the relevant PRC regulations, the Company is not required to provide statutory public welfare fund for profit appropriation effective 1 January 2006, and any balance of statutory public welfare fund as at 31 December 2005 was transferred to the statutory surplus reserve.

21. Trade payables

As at 31 December 2006, the ageing analysis of the trade payables is as follows:

	Group		Company	
	2006 RMB'000	2005 *RMB'000*	**2006 RMB'000**	2005 *RMB'000*
Within 3 months	**427,430**	231,944	**790**	594
3 months to 1 year	**196,935**	104,404	**11,623**	–
1 to 2 years	**58,220**	29,436	**–**	–
2 to 3 years	**22,829**	2,938	**–**	–
Over 3 years	**85,798**	5,658	**–**	–
	791,212	374,380	**12,413**	594

Notes to the Consolidated Financial Statements *(continued)*

22. Other payables

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deposits from project managers	**145,334**	113,601	**–**	–
Land appreciation tax payables	**52,667**	14,110	**–**	–
Other taxes payables	**60,619**	62,620	**–**	–
Accruals	**7,585**	3,235	**3,200**	1,500
Amounts due to shareholders *(Note (a))*	**8,513**	6,660	**–**	–
Amounts due to minority shareholders *(Note (a))*	**6,300**	1,916	**–**	–
Others	**380,648**	230,627	**14,369**	86,894
	661,666	432,769	**17,569**	88,394

(a) The balances with shareholders and minority shareholders were unsecured, interest free and repayable on demand.

The amounts due to shareholders and due to minority shareholders mainly represented the deposits received from shareholders and minority shareholders in relation to their management and execution of construction contracts of the Group as sub-contractors.

23. Provision for warranty

	Group	
	2006	2005
	RMB'000	*RMB'000*
At 1 January	**3,870**	2,620
Charged to the income statement		
– Additional provisions	**2,000**	3,200
Used during the year	**(1,620)**	(1,950)
At 31 December	**4,250**	3,870
Analysis of total provisions:		
Non-current	**1,420**	670
Current	**2,830**	3,200
	4,250	3,870

The Group gives warranty on construction work and undertakes to repair construction work that is not satisfactory for periods which range from 6 months to 5 years. Provision has been recognised for expected warranty claims based on the past experience of the level of repairs. The provision to the extent of RMB2,830,000 and RMB1,420,000 is expected to be used during the year of 2007 and during the year of 2008 respectively.

24. Borrowings

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Short-term bank loans				
– Secured	**206,000**	146,513	**46,000**	46,000
– Guaranteed	**260,000**	160,000	**260,000**	310,000
– Others	**756,779**	774,000	**–**	–
	1,222,779	1,080,513	**306,000**	356,000

(a) As at 31 December 2006, the secured short-term bank loans were secured by the land use rights, buildings and properties under development of the Group with a total net book value amounting to RMB319,409,000 (2005: RMB306,230,000).

(b) As at 31 December 2006, the guaranteed short-term bank loans of the Group were guaranteed by Mr. Pang Baogen, chairman of the Board of Directors of the Company.

(c) Interest rates of these loans were 5% to 8% (2005: 5% to 7%) per annum for the year ended 31 December 2006.

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

25. Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The amounts shown in balance sheet include the following:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred tax assets:				
– Deferred tax assets to be recovered after more than 12 months	**8,674**	12,178	**–**	–
– Deferred tax assets to be recovered within 12 months	**6,822**	10,666	**–**	–
	15,496	22,844	**–**	–
Deferred tax liabilities:				
– Deferred tax liabilities to be settled after more than 12 months	**(113,110)**	(95,532)	**(679)**	(679)
– Deferred tax liabilities to be settled within 12 months	**(20,324)**	(39,438)	**–**	–
	(133,434)	(134,970)	**(679)**	(679)
	(117,938)	(112,126)	**(679)**	(679)

25. Deferred income tax (continued)

The gross movement on deferred income tax account is as follows:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Opening net book amount	**(112,126)**	7,510	**(679)**	(679)
Business combination *(Note 37)*	**(17,938)**	(118,480)	**–**	–
Recognised in the income statement *(Note 30)*	**12,126**	(855)	**–**	–
Tax charged to equity	**–**	(301)	**–**	–
End of the year	**(117,938)**	(112,126)	**(679)**	(679)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets

Group

	Provision for doubtful receivables	**Tax losses**	**Unrealised profit resulting from intragroup transactions**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
At 1 January 2005	5,381	2,223	5,405	13,009
Recognised in the income statement	1,668	4,090	1,068	6,826
Business combination	–	3,009	–	3,009
At 31 December 2005	7,049	9,322	6,473	22,844
Recognised in the income statement	**1,861**	**(9,322)**	**113**	**(7,348)**
At 31 December 2006	**8,910**	**–**	**6,586**	**15,496**

Notes to the Consolidated Financial Statements *(continued)*

25. Deferred income tax (continued)

Deferred tax liabilities

	Group				Company
	Accelerated tax depreciation	**Revaluation of assets**	**Interest expense capitalised**	**Total**	**Interest expense capitalised**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
At 1 January 2005	(677)	(2,525)	(2,297)	(5,499)	(679)
Charged to equity	–	(301)	–	(301)	–
Recognised in the income statement	246	(7,567)	(360)	(7,681)	–
Business combinations	–	(121,489)	–	(121,489)	–
At 31 December 2005	**(431)**	**(131,882)**	**(2,657)**	**(134,970)**	**(679)**
Recognised in the income statement	**246**	**20,016**	**(788)**	**19,474**	**–**
Business combination *(Note 37)*	**–**	**(17,938)**	**–**	**(17,938)**	**–**
At 31 December 2006	**(185)**	**(129,804)**	**(3,445)**	**(133,434)**	**(679)**

Deferred income tax assets are recognised for tax loss carried forward to the extent that the realisation of the related tax benefits through future taxable profits is probable.

26. Other gains – net

	2006	2005
	RMB'000	*RMB'000*
Interest income	**47,406**	34,925
Rental income	**6,657**	918
Excess of interest in the acquired net assets from minority shareholders over cost	**575**	26,435
Excess of the fair value of the net assets of subsidiaries acquired over cost *(Note 37)*	**288,358**	3,549
Fair value gains on investment properties *(Note 8)*	**4,534**	25,069
Gain on disposal of investment property	**–**	2,990
Gain on disposal of a subsidiary *(Note 38)*	**15,259**	–
Losses on disposals of property, plant and equipment and land use rights due to relocation of certain production plants	**–**	(28,698)
Gains on disposals of other property, plant and equipment and land use rights *(Note (a))*	**31,178**	9,835
Government grants	**9,254**	58,650
Gains on debts restructuring	**7,950**	–
Others	**4,867**	2,718
	416,038	136,391

(a) The gains on disposals of property, plant and equipment and land use rights for the year ended 31 December 2006 were mainly arising from the disposal of a building previously occupied by the Group as office premise located in Shaoxing city of Zhejiang province in the PRC, and disposals of certain land use rights located in Wuhan city of Hubei province and Hefei city of Anhui province.

27. Expenses by nature

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

	2006 ***RMB'000***	2005 *RMB'000*
Depreciation of property, plant and equipment *(Note 7)*	**56,872**	38,661
Amortisation of land use rights charged into income statement *(Note 6)*	**8,495**	3,108
Employee benefit expenses *(Note 28)*	**875,497**	790,849
Cost of inventories and completed properties held for sale	**4,908,270**	3,506,969
Operating leases of buildings	**4,713**	4,507
Auditor's remuneration	**2,900**	1,800
Others	**137,999**	63,782
	5,994,746	4,409,676

28. Employee benefit expenses

	2006 ***RMB'000***	2005 *RMB'000*
Wages and salaries	**854,994**	781,219
Welfare, medical and other expenses	**13,803**	6,706
Retirement benefit costs – defined contribution plans *(Note (a))*	**6,700**	2,924
	875,497	790,849

(a) Retirement benefit costs

As stipulated by the Government regulations in the PRC, the Company and its subsidiaries are required to contribute to the state-sponsored retirement scheme for all of its employees in the PRC at 18% to 19% (2005: 19% to 20%) of the eligible salary of its employees on a monthly basis. The state-sponsored retirement scheme is responsible for the entire pension obligations payable to all retired employees and the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the monthly contributions.

(b) Directors' emoluments

The remuneration of each director for the year ended 31 December 2006 is set out below.

Name of directors	**Fees** ***RMB'000***	**Salaries, bonuses and allowances** ***RMB'000***	**Retirement benefits** ***RMB'000***	**Total** ***RMB'000***
Mr. Pang Baogen	**–**	**600**	**3**	**603**
Mr. Gao Jiming	**–**	**450**	**3**	**453**
Mr. Zhou Hanwan	**–**	**450**	**3**	**453**
Mr. Gao Lin	**–**	**450**	**3**	**453**
Mr. Hu Shaozeng	**38**	**–**	**–**	**38**
Mr. Wang Youwei	**38**	**–**	**–**	**38**
Mr. Yi Deqing	**38**	**–**	**–**	**38**
Mr. Dennis Yin Ming Chan	**180**	**–**	**–**	**180**
Mr. Wu Weimin *(Note (i))*	**–**	**–**	**–**	**–**
	294	**1,950**	**12**	**2,256**

28. Employee benefit expenses (continued)

(b) Directors' emoluments (continued)

The remuneration of each director for the year ended 31 December 2005 is set out below:

Name of directors	Fees	Salaries, bonuses and allowances	Retirement benefits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Mr. Pang Baogen	–	600	3	603
Mr. Gao Jiming	–	450	3	453
Mr. Zhou Hanwan	–	450	3	453
Mr. Gao Lin	–	450	3	453
Mr. Wu Weimin *(Note (i))*	38	–	–	38
Mr. Hu Shaozeng	38	–	–	38
Mr. Wang Youwei	38	–	–	38
Mr. Yi Deqing	38	–	–	38
Mr. Dennis Yin Ming Chan	187	–	–	187
	339	1,950	12	2,301

During the years ended 31 December 2006 and 2005, no director waived any emoluments. Neither incentive payment for joining the Group nor compensation for loss of office was paid or payable to any directors during the years ended 31 December 2006 and 2005.

(i) Mr. Wu Weimin resigned as a director on 25 January 2006.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2005: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2005: one) individual during the year are as follows:

	2006	2005
	RMB'000	RMB'000
Basic salaries and allowances	**420**	960
Bonuses	**–**	–
Retirement benefits	**–**	–
	420	960

The emoluments for the above senior management fell within the band of HKD nil (equivalent to RMB nil) to HKD1,000,000 (equivalent to RMB1,004,700) during the years ended 31 December 2006 and 2005.

29. Finance costs

	2006 *RMB'000*	2005 *RMB'000*
Interest on bank loans	**66,242**	48,030
Less: interest capitalised in construction in progress	**(2,389)**	(1,094)
Less: interest capitalised in properties under development	**(13,131)**	(17,051)
	50,722	29,885

The capitalisation rates applied to funds borrowed generally and used for the development of properties and construction in progress were approximately 6% (2005: 4.9%) per annum.

30. Income tax expense

(i) Hong Kong Profits Tax

No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the year (2005: Nil).

(ii) PRC Enterprise Income Tax

The Company and its subsidiaries are subject to PRC Enterprise Income Tax at a rate of 33% (2005: 33%). The amount of income tax expenses charged to the consolidated income statement represents:

	2006 *RMB'000*	2005 *RMB'000*
Current income tax		
– PRC enterprise income tax	**128,507**	111,874
Deferred income tax *(Note 25)*	**(12,126)**	855
	116,381	112,729

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

	2006 *RMB'000*	2005 *RMB'000*
Profit before income tax	**598,402**	420,627
Calculated at a tax rate of 33% (2005: 33%)	**197,473**	138,806
Effect of partial income tax exemption	**–**	(16,444)
Income not subject to tax	**(101,760)**	(9,890)
Expenses not deductible for tax purposes	**1,097**	257
Unrecognised tax losses	**22,225**	–
Utilisation of previously unrecognised tax losses	**(2,654)**	–
Income tax expense	**116,381**	112,729

31. Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB206,070,000 (2005: RMB136,472,000).

Notes to the Consolidated Financial Statements *(continued)*

32. Earnings per share

Basic

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2006	2005
Profit attributable to equity holders of the Company (RMB'000)	**476,032**	304,226
Weighted average number of ordinary shares in issue (thousands shares)	**610,927**	566,965
Basic earnings per share (RMB)	**RMB0.779**	RMB0.537

Diluted

The Company had no potential dilutive shares in both 2005 and 2006. Therefore the diluted earnings per share is the same as basic earnings per share.

33. Dividends

	2006 ***RMB'000***	2005 *RMB'000*
Proposed final dividend of RMB0.07 (2005: RMB0.12) per ordinary share	**46,407**	73,311

The dividends paid during the years ended 31 December 2006 and 2005 were RMB73,311,000 (RMB0.12 per share) and RMB81,502,000 (RMB0.1436 per share) respectively. A dividend in respect of the year 2006 of RMB0.07 per share, amounting to a total dividend of RMB46,407,000 is to be proposed at the annual general meeting of the Company to be held on 25 June 2007 and will be payable thereafter upon shareholders' approval at the meeting. These financial statements do not reflect this dividend payable in the relevant accounts.

34. Cash generated from operations

	2006 ***RMB'000***	2005 *RMB'000*
Profit for the year	**482,021**	307,898
Adjustments for:		
Income tax expenses *(Note 30)*	**116,381**	112,729
Depreciation *(Note 7)*	**56,872**	38,661
Amortisation of land use rights *(Note 6)*	**8,495**	3,108
(Gains)/losses on sale of property, plant and equipment and land use rights (see below)	**(31,178)**	18,863
Gain on sale of investment property	**–**	(2,990)
Excess of interest in the acquired net assets from minority shareholders over cost	**(575)**	(26,435)
Excess of the fair value of the net assets of subsidiaries acquired over cost *(Note 37)*	**(288,358)**	(3,549)
Gain on disposal of a subsidiary *(Note 38)*	**(15,259)**	–
Reserves transfer to income statement arising from sales of completed properties held for sale	**(19,617)**	–
Fair value gains on investment properties	**(4,534)**	(25,069)
Interest income *(Note 26)*	**(47,406)**	(34,925)
Interest expenses *(Note 29)*	**50,722**	29,885
Share of losses from associates *(Note 12)*	**21**	–

Notes to the Consolidated Financial Statements *(continued)*

34. Cash generated from operations (continued)

	2006 **RMB'000**	2005 RMB'000
Changes in working capital (excluding the effects of acquisition and disposal):		
(Increase)/decrease in properties under development, completed properties held for sale and land use rights for properties development	**(34,200)**	255,577
Increase in restricted bank deposits	**(41,960)**	(61,691)
Increase in inventories	**(13,624)**	(16,919)
Increase in balances with customers on construction contracts	**(169,656)**	(46,720)
Decrease/(increase) in trade and other receivables	**4,789**	(92,949)
Increase/(decrease) in trade and other payables, receipts in advances and provision for warranty	**103,358**	(235,314)
Cash generated from operations	**156,292**	220,160

In the cash flow statement, proceeds from sale of property, plant and equipment and land use rights comprise:

	2006 **RMB'000**	2005 RMB'000
Net book amount (Note 6 and Note 7)	**55,829**	31,438
Gains/(losses) on sale of property, plant and equipment and land use rights	**31,178**	(18,863)
Proceeds from sale of property, plant and equipment and land use rights	**87,007**	12,575

35. Contingencies

	Group		**Company**	
	2006 **RMB'000**	2005 RMB'000	**2006** **RMB'000**	2005 RMB'000
Guarantees given to banks in respect of mortgage facilities granted to third parties	**19,800**	67,500	**–**	–
Guarantees given to banks in respect of bank loans granted to subsidiaries	**–**	–	**560,000**	500,000
Guarantees given to banks in respect of bank loans of third parties	**20,000**	–	**–**	–

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

The Company has executed guarantees amounting to approximately RMB1,095,000,000 (2005: RMB690,000,000) with respect to banking facilities made available to subsidiaries. As at 31 December 2006, the borrowings outstanding against the facilities amounted to RMB560,000,000 (2005: RMB500,000,000).

36. Commitments

(a) Capital commitments for properties under development

	2006	2005
	RMB'000	*RMB'000*
Contracted but not provided for	**34,153**	14,094

(b) Operating lease commitments – where the Group is the lessee

As at 31 December 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2006	2005
	RMB'000	*RMB'000*
Not later than one year	**626**	844
Later than one year and not later than five years	**1,453**	165
	2,079	1,009

(c) Operating lease commitments – where the Group is the lessor

As at 31 December 2006, the Group had future aggregate minimum rentals receivables under non-cancellable operating leases in respect of land and buildings as follows:

	2006	2005
	RMB'000	*RMB'000*
Not later than one year	**695**	811

37. Business combination

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

The acquired business contributed revenue of RMB580,288,000 and net losses of RMB28,262,000 to the Group for the period from acquisition date to 31 December 2006. If the acquisition had occurred on 1 January 2006, the Group's consolidated revenue and consolidated profit for the year ended 31 December 2006 would have been RMB6,372,355,000 and RMB464,168,000 respectively. These amounts have been calculated based on the Group's accounting policies and by adjusting the results of the acquired subsidiaries to reflect the additional amortisation that would have been charged assuming the fair value adjustments made to the identifiable assets applied from 1 January 2006, together with the consequential tax effects.

Details of net assets acquired 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	(421,213)
Excess of the fair value of the net assets acquired over the acquisition costs	(288,358)

37. Business combination (continued)

The excess of the fair value of the net assets acquired over the acquisition costs was recorded as other gains in the consolidated income statement for the year ended 31 December 2006 (Note 26).

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

	Fair value *RMB'000*	**Acquiree's carrying amount** *RMB'000*
Cash and cash equivalents	123,997	123,997
Property, plant and equipment	140,162	140,162
Land use rights	358,807	304,449
Investments in associates	32,422	32,422
Inventories	11,945	11,945
Completed properties held for sale	9,319	9,319
Due from customers on construction contracts	10,880	10,880
Receivables	314,793	317,058
Payables	(552,984)	(552,984)
Borrowings	(8,600)	(8,600)
Deferred income tax liabilities	(17,938)	–
Net assets	422,803	388,648
Minority interest	(1,590)	
Net identifiable assets acquired	421,213	
Outflow of cash to acquired business, net of cash acquired:		
– Cash consideration		132,855
– Cash and cash equivalents in subsidiaries acquired		(123,997)
Cash outflow on acquisition		8,858

During the year of 2005, the Group acquired an additional 50% equity interest in a jointly controlled entity from another joint venturer and acquired 75% equity interest in Anhui Huateng Investment Company Limited.

38. Disposal of a subsidiary

During the year, the Company entered into an agreement with Hangzhou International Airport Co., Ltd. ("Hangzhou Airport"), a minority shareholder of a subsidiary, Hangzhou International Airport Mansion Development Co., Ltd. ("Airport Mansion"), to sell 90% equity interest of Airport Mansion to Hangzhou Airport at a consideration of RMB98,253,000.

Details of the net assets of the disposed subsidiary and the relevant gain on disposal were as follows:

	RMB'000
Cash received	87,176
Settled by amount due to Hangzhou Airport	11,077
Total consideration	98,253
Net assets disposed of	(82,994)
Gain on disposal *(Note 26)*	15,259

The assets and liabilities in respect of the disposal were as follows:

	RMB'000
Cash and cash equivalents	9,554
Property, plant and equipment	54
Land use rights	57,899
Goodwill	509
Properties under development	23,997
Receivables	230
Payables	(17)
Net assets	92,226
Minority interest	(9,232)
Net assets disposed of	82,994
Inflow of cash from disposal of a subsidiary, net of cash disposed of:	
– Cash consideration received	87,176
– Cash and cash equivalents in disposed subsidiary	(9,554)
Cash inflow on disposal	77,622

39. Related-party transactions

Apart from the related party balances already disclosed in Note 22(a), the Group had the following significant related party transactions during the year ended 31 December 2006.

Key management compensation

	2006 *RMB'000*	2005 *RMB'000*
Salaries and other short-term employee benefits	**2,059**	2,550

40. Events after the balance sheet date

(a) Issuance of ordinary shares

According to the placing agreement reached with Tiger Global L.P. on 13 December 2006 (Note 19), the Company issued 52,036,992 new H shares with a par value of RMB1.00 per share at HKD10.88 per placing share in February 2007. The net proceeds of the placing amounted to approximately HKD563,000,000.

(b) New enterprise income tax law

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "CIT Law"). The new CIT Law reduces (increases) the corporate income tax rate for domestic enterprises (foreign invested enterprises) from 33% (15% or 24%) to 25% with effect from 1 January 2008. The new CIT Law also provides for preferential tax rates, tax incentives for prescribed industries and activities, grandfathering provisions as well as determination of taxable profit. As at the date that these financial statements are approved for issue, detailed measures concerning these items has yet to be issued by the State Council. Consequently, the Group is not in a position to assess the impact, if any, to the carrying value of deferred tax assets and liabilities as at 31 December 2006. The Group will continue to evaluate the impact as more detailed regulations are announced.