



THE LEADING

China's Operator Towards Urbanisation

INTERIM REPORT 2007

BAOYE GROUP COMPANY LIMITED

(A JOINT STOCK LIMITED COMPANY INCORPORATED IN THE PEOPLE'S REPUBLIC OF CHINA)

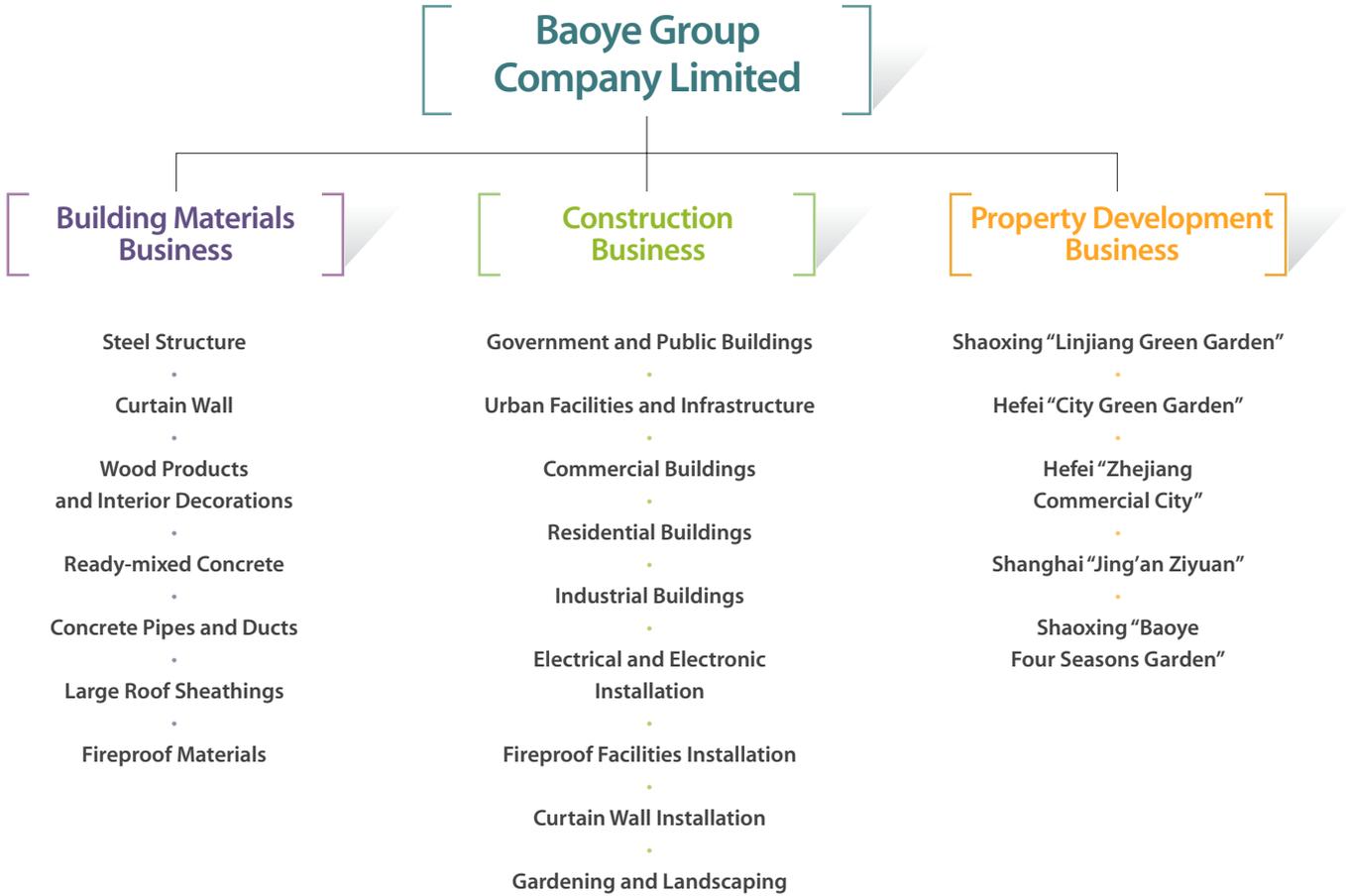
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Our Mission “From construction to manufacturing”, lead construction industry towards industrialisation in China.

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Corporate Profile

Business Structure



Corporate Profile *(continued)*

Business Network



Building Materials Business

- Shaoxing Housing Industrial Park
- Hefei Housing Industrial Park
- Wuhan Housing Industrial Park (Proposed)

Construction Business

- Zhejiang
- Shanghai
- Jiangsu
- Anhui
- Hubei
- Hunan
- Jiangxi

Property Development Business

- Shaoxing
- Hefei
- Shanghai
- Wuhan

Financial Highlights

	For the six months ended 30 June				
	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000	2003 RMB'000
RESULTS					
Turnover	3,196,367	2,895,757	2,550,957	2,245,116	1,227,998
Profit attributable to equity holders of the Company	65,015	401,068	176,659	151,170	81,302
Earnings per share (RMB)	0.10	0.66	0.31	0.28	0.23
ASSETS AND LIABILITIES					
Total Assets	6,847,775	5,726,478	3,751,911	3,128,874	2,106,452
Total Liabilities	4,076,292	3,588,157	2,390,839	2,122,200	1,258,961
Equity Holders' Funds	2,771,483	2,138,321	1,361,072	1,006,674	847,491

Key Financial Ratios

	For the six months ended 30 June	
	2007	2006
Return on equity	2.4%	19.4%
Net assets value per share (RMB)	4.10	3.39
Net gearing ratio	4.5%	15.7%
Current ratio	1.24	1.12

Condensed Consolidated Interim Financial Information

Condensed Consolidated Balance Sheet

As at 30 June 2007

	<i>Note</i>	30 June 2007 RMB'000 Unaudited	31 December 2006 RMB'000 Audited
ASSETS			
Non-current assets			
Property, plant and equipment	6	737,487	677,386
Investment properties	6	40,566	40,515
Land use rights	7	747,388	792,261
Goodwill	6	16,534	16,534
Properties under development		377,754	442,076
Investment in associates		32,068	32,401
Deferred income tax assets		11,940	15,496
		1,963,737	2,016,669
Current assets			
Inventories		111,597	79,802
Land use rights	7	298,808	269,136
Properties under development		431,109	292,283
Completed properties held for sale		50,492	61,604
Due from customers on construction contracts	8	904,945	738,909
Trade receivables	9	672,455	682,864
Other receivables	10	1,219,310	721,651
Restricted bank deposits		150,525	125,702
Cash and cash equivalents		1,044,797	782,699
		4,884,038	3,754,650
Total assets		6,847,775	5,771,319

The notes on pages 10 to 22 form an integral part of this condensed interim financial information.

Condensed Consolidated Interim Financial Information (continued)

Condensed Consolidated Balance Sheet (continued)

As at 30 June 2007

	Note	30 June 2007 RMB'000 Unaudited	31 December 2006 RMB'000 Audited
EQUITY			
Capital and reserves attributable to the Company's equity shareholders			
Share capital	11	1,511,458	953,735
Reserves	12	227,951	227,951
Retained earnings		980,985	915,970
Proposed dividend		–	46,407
		2,720,394	2,144,063
Minority interests		51,089	45,191
Total equity		2,771,483	2,189,254
LIABILITIES			
Non-current liabilities			
Borrowings	16	20,000	–
Deferred income tax liabilities		106,564	133,434
		126,564	133,434
Current liabilities			
Trade payables	13	862,837	791,212
Other payables	14	558,953	661,666
Receipts in advance		459,752	262,657
Current income tax liabilities		83,384	76,476
Due to customers on construction contracts	8	635,328	429,591
Dividend payable	21	46,407	–
Borrowings	16	1,298,617	1,222,779
Provision for warranty	15	4,450	4,250
		3,949,728	3,448,631
Total liabilities		4,076,292	3,582,065
Total equity and liabilities		6,847,775	5,771,319
Net current assets		934,310	306,019
Total assets less current liabilities		2,898,047	2,322,688

The notes on pages 10 to 22 form an integral part of this condensed interim financial information.

Condensed Consolidated Interim Financial Information *(continued)***Condensed Consolidated Income Statement**

For the six months ended 30 June 2007

	Note	Unaudited Six months ended 30 June	
		2007 RMB'000	2006 RMB'000
Turnover		3,196,367	2,895,757
Cost of sales	18	(3,010,687)	(2,570,309)
Gross profit		185,680	325,448
Other gains – net	17	48,029	288,574
Selling and marketing costs	18	(9,768)	(6,291)
Administrative expenses	18	(116,633)	(78,959)
Operating profit		107,308	528,772
Finance costs		(24,563)	(26,524)
Share of losses of associates		(333)	(20)
Profit before income tax		82,412	502,228
Income tax expense	19	(11,499)	(97,351)
Profit for the period		70,913	404,877
Attributable to:			
Equity holders of the Company		65,015	401,068
Minority interests		5,898	3,809
		70,913	404,877
Earnings per share for profit attributable to the equity holders of the Company			
– basic and diluted (expressed in RMB per share)	20	RMB 0.10	RMB 0.66

The notes on pages 10 to 22 form an integral part of this condensed interim financial information.

Condensed Consolidated Interim Financial Information (continued)

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2007

Unaudited						
Attributable to equity holders of the Company						
	Share capital	Reserves	Retained earnings	Total	Minority interests	Total equity
Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2006	953,735	235,884	574,049	1,763,668	64,363	1,828,031
Profit for the period	–	–	401,068	401,068	3,809	404,877
Dividend relating to 2005	–	–	(73,311)	(73,311)	–	(73,311)
Reserve transfer to income statement arising from the sales of completed properties held for sale	–	(22,173)	–	(22,173)	–	(22,173)
Reserve transfer to retained earnings upon disposals of properties, plant and equipment	–	(3,871)	3,871	–	–	–
Reduction of minority interest resulting from the further investments made by the Group in a subsidiary	–	–	–	–	(572)	(572)
Acquisition of subsidiary	–	–	–	–	1,469	1,469
Balance at 30 June 2006	953,735	209,840	905,677	2,069,252	69,069	2,138,321
Balance at 1 January 2007	953,735	227,951	962,377	2,144,063	45,191	2,189,254
Profit for the period	–	–	65,015	65,015	5,898	70,913
Issue of shares	11	557,723	–	557,723	–	557,723
Dividend relating to 2006	21	–	(46,407)	(46,407)	–	(46,407)
Balance at 30 June 2007	1,511,458	227,951	980,985	2,720,394	51,089	2,771,483

The notes on pages 10 to 22 form an integral part of this condensed interim financial information.

Condensed Consolidated Interim Financial Information *(continued)***Condensed Consolidated Cash Flow Statement**

For the six months ended 30 June 2007

	Unaudited	
	Six months ended 30 June	
	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Cash flow from operating activities – net	(329,896)	(140,732)
Cash flow from investing activities – net	(61,567)	29,690
Cash flow from financing activities – net	653,561	104,714
Net increase/(decrease) in cash and cash equivalents	262,098	(6,328)
Cash and cash equivalents at start of period	782,699	742,289
Cash and cash equivalents at end of period	1,044,797	735,961
Analysis on balance of cash and cash equivalents:		
Cash at bank and in hand	1,024,797	685,961
Short-term bank deposits	20,000	50,000
	1,044,797	735,961

The notes on pages 10 to 22 form an integral part of this condensed interim financial information.

Condensed Consolidated Interim Financial Information *(continued)***Notes to the Condensed Consolidated Interim Financial Information****1. General information**

Baoye Group Company Limited (the "Company") was established as a limited liability company in the People's Republic of China (the "PRC") and the H shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 30 June 2003.

The address of the Company's registered office is Yangxunqiao Township, Shaoxing County, Zhejiang Province, the PRC.

The principal activities of the Company and its subsidiaries (collectively the "Group") are the provision of construction services, manufacture and distribution of building materials and development and sale of properties in the PRC.

This condensed consolidated interim financial information is presented in Renminbi ("RMB"), unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 14 September 2007 by the board of directors of the Company.

2. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2007 has been prepared in accordance with HKAS 34, 'Interim financial reporting'. The interim condensed financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2006.

3. Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2006, as described in the annual financial statements for the year ended 31 December 2006.

(a) The adoption of new/revised HKFRS and interpretations

In 2007, the Group adopted the new standard, amendment and interpretations of Hong Kong Financial Reporting Standards ("HKFRS") below, which are relevant to its operations.

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosure
HK (IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK (IFRIC) – Int 10	Interim Reporting and Impairment
HKFRS 7	Financial Instruments: Disclosure

The Group has assessed the impact of the adoption of these new standards, amendments and interpretations and considered that there was no significant impact on the Group's results and financial position nor any substantial changes in the Group's accounting policies, whereas the adoption of HKAS 1 (Amendment) and HKFRS 7 requires additional disclosures to be made in annual consolidated financial statements.

(b) Standards and interpretations which are not yet effective and have not been adopted by the Group

The following new/revised standards and interpretations have been published and are mandatory for the Group's accounting periods beginning on or after 1 March 2007 or later periods:

HKFRS 8	Operating Segment
HKAS 23 (Revised)	Borrowing Costs
HK (IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK (IFRIC) – Int 12	Service Concession Arrangements

The Group has not yet early adopted any of the above standards or interpretations. Management is in the process of making an assessment of their impact and is not yet in a position to state what impact they would have on the Group's results of operations and financial position.

Condensed Consolidated Interim Financial Information *(continued)***Notes to the Condensed Consolidated Interim Financial Information** *(continued)***4. Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results.

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

(a) Construction contract revenue recognition

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

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 30 June 2007, the fair value of the investment properties of the Group were estimated at RMB40,566,000 (31 December 2006: 40,515,000).

(c) 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.

(d) 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.

Condensed Consolidated Interim Financial Information (continued)

Notes to the Condensed Consolidated Interim Financial Information (continued)**5. Segment information**

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

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

The total revenue attributable from these three segments is approximately RMB3,179,619,000 and RMB2,870,471,000 for the six months ended 30 June 2007 and 2006 respectively.

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

The business segment results for the six months ended 30 June 2007 and 2006 are as follows, respectively.

	Six months ended 30 June 2007				
	Construction RMB'000	Building materials RMB'000	Property development RMB'000	Other RMB'000	Group RMB'000
Total turnover	2,808,411	512,664	48,527	23,975	3,393,577
Inter-segment turnover	(107,886)	(82,097)	–	(7,227)	(197,210)
External turnover	2,700,525	430,567	48,527	16,748	3,196,367
Operating profit	80,148	18,409	8,347	404	107,308
Finance costs					(24,563)
Share of losses of associates					(333)
Profit before income tax					82,412
Income tax expense					(11,499)
Profit for the period					70,913
Other information					
Depreciation	15,608	17,236	819	1,473	35,136
Amortisation	2,802	1,132	364	756	5,054
Impairment of receivables	3,507	5,293	–	108	8,908

Condensed Consolidated Interim Financial Information *(continued)***Notes to the Condensed Consolidated Interim Financial Information** *(continued)***5. Segment information** *(continued)*

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

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

Condensed Consolidated Interim Financial Information (continued)

Notes to the Condensed Consolidated Interim Financial Information (continued)**5. Segment information** (continued)

The segment assets and liabilities as at 30 June 2007 and capital expenditure for the six months then ended are as follows:

	Construction RMB'000	Building materials RMB'000	Property development RMB'000	Other RMB'000	Unallocated RMB'000	Group RMB'000
Assets	4,237,280	1,087,932	1,193,145	244,844	52,506	6,815,707
Associates	–	–	32,068	–	–	32,068
Total assets	4,237,280	1,087,932	1,225,213	244,844	52,506	6,847,775
Liabilities	2,308,140	661,290	695,171	41,152	370,539	4,076,292
Capital expenditure	18,254	18,425	1,642	64,873	–	103,194

The segment assets and liabilities as at 31 December 2006 and capital expenditure for the six months ended 30 June 2006 are as follows:

	Construction RMB'000	Building materials RMB'000	Property development RMB'000	Other 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	239,615	42,767	106	52	–	282,540

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 represents the additions to property, plant and equipment.

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

Condensed Consolidated Interim Financial Information *(continued)***Notes to the Condensed Consolidated Interim Financial Information** *(continued)***6. Capital expenditure**

	Property, plant and equipment <i>RMB'000</i>	Investment properties <i>RMB'000</i>	Goodwill <i>RMB'000</i>
Six months ended 30 June 2006			
Opening net book amount as at 1 January 2006	486,997	35,981	17,043
Addition arising from business combination	233,806	–	–
Other additions	48,734	–	–
Fair value appreciation credited into other gains	–	3,832	–
Disposals	(18,312)	–	–
Depreciation	(24,148)	–	–
Closing net book amount as at 30 June 2006	727,077	39,813	17,043
Six months ended 30 June 2007			
Opening net book amount as at 1 January 2007	677,386	40,515	16,534
Additions	103,194	–	–
Fair value appreciation credited into other gains	–	51	–
Disposals	(7,957)	–	–
Depreciation	(35,136)	–	–
Closing net book amount as at 30 June 2007	737,487	40,566	16,534

Non-financial assets that have an indefinite life are not subject to depreciation/amortisation but are tested for impairment annually at year-end (31 December) or whenever there is any indication of impairment. At 30 June 2007, there was no indication of impairment for non-financial assets with indefinite lives.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. For the six months ended 30 June 2007, no impairment charge for non-financial assets subject to depreciation was recognised in the income statement.

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

Condensed Consolidated Interim Financial Information (continued)

Notes to the Condensed Consolidated Interim Financial Information (continued)**7. Land use rights**

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

	30 June 2007 RMB'000	31 December 2006 RMB'000
Non-current land use rights	747,388	792,261
Current land use rights	298,808	269,136
	1,046,196	1,061,397

The movements of the land use rights during the six months ended 30 June 2007 and 2006 are as follows:

	Six months ended 30 June	
	2007 RMB'000	2006 RMB'000
Opening net book amount as at 1 January	1,061,397	746,460
Additions	–	38,110
Additions from business combination	–	304,449
Amortisation		
– expensed in administrative expenses	(5,054)	(1,800)
– capitalised in properties under development	(2,265)	(4,097)
Transfer to cost of sales	(7,882)	(35,715)
Closing net book amount as at 30 June	1,046,196	1,047,407

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

As included in the Group's interests in land use rights at 30 June 2007, there are certain land use rights amounting to RMB253,548,000 (31 December 2006: RMB253,548,000), for which the Group was in the process of applying for the relevant formal land use rights certificates.

As at 30 June 2007, the total net book values of land use rights pledged as security for the Group's short-term bank loans amounted to RMB70,726,384 (31 December 2006: RMB136,971,000)(Note 16).

Condensed Consolidated Interim Financial Information *(continued)***Notes to the Condensed Consolidated Interim Financial Information** *(continued)***8. Due from/(to) customers on construction contracts**

	30 June 2007 RMB'000	31 December 2006 RMB'000
Contract costs incurred plus recognised profits (less recognised losses) to date	19,767,270	17,066,745
Less: progress billings to date	(19,497,653)	(16,757,427)
	269,617	309,318
Represented by:		
Due from customers on construction contracts	904,945	738,909
Due to customers on construction contracts	(635,328)	(429,591)
	269,617	309,318

9. Trade receivables

	30 June 2007 RMB'000	31 December 2006 RMB'000
Trade receivables	694,130	698,041
Less: provision for doubtful debts	(21,675)	(15,177)
	672,455	682,864

At 30 June 2007, the ageing analysis of the trade receivables is as follows:

	30 June 2007 RMB'000	31 December 2006 RMB'000
Within 3 months	234,400	321,703
3 months to 1 year	267,694	231,379
1 to 2 years	80,841	89,397
2 to 3 years	64,093	29,776
Over 3 years	47,102	25,786
	694,130	698,041

Customers are generally granted credit terms of 1 to 3 months for construction business, 1 to 12 months for building materials business and no credit terms for property development business.

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

Condensed Consolidated Interim Financial Information (continued)

Notes to the Condensed Consolidated Interim Financial Information (continued)**10. Other receivables**

	30 June 2007 RMB'000	31 December 2006 RMB'000
Retention money receivables and project deposits	590,893	511,032
Deposits for acquisition of land use rights and real estate development projects	370,159	50,000
Prepayments and other deposits	105,515	30,327
Others	152,743	130,292
	1,219,310	721,651

11. Share capital

	Number of shares thousands	Ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
At 1 January 2006 and 31 December 2006	610,927	610,927	342,808	953,735
Issue of H shares	52,037	52,037	505,686	557,723
At 30 June 2007	662,964	662,964	848,494	1,511,458

12. Reserves

	Assets revaluation reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Total RMB'000
Six months ended 30 June 2006				
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	(22,173)	–	–	(22,173)
Transfer of reserves to retained earnings upon disposal of property, plant and equipment	(3,871)	–	–	(3,871)
At 30 June 2006	98,548	74,195	37,097	209,840
Six months ended 30 June 2007				
At 1 January 2007 and 30 June 2007	101,104	126,847	–	227,951

Condensed Consolidated Interim Financial Information *(continued)***Notes to the Condensed Consolidated Interim Financial Information** *(continued)***13. Trade payables**

At 30 June 2007, the ageing analysis of the trade payables is as follows:

	30 June 2007 RMB'000	31 December 2006 RMB'000
Within 3 months	370,108	427,430
3 months to 1 year	275,645	196,935
1 to 2 years	99,981	58,220
2 to 3 years	34,500	22,829
Over 3 years	82,603	85,798
	862,837	791,212

14. Other payables

	30 June 2007 RMB'000	31 December 2006 RMB'000
Deposits from project managers	212,416	145,334
Other taxes payables	65,890	113,286
Accruals	5,984	7,585
Amounts due to shareholders <i>(Note (a))</i>	1,355	8,513
Amounts due to minority shareholders <i>(Note (a))</i>	8,903	6,300
Others	264,405	380,648
	558,953	661,666

(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.

Condensed Consolidated Interim Financial Information (continued)

Notes to the Condensed Consolidated Interim Financial Information (continued)**15. Provision for warranty**

	<i>RMB'000</i>
Six months ended 30 June 2006	
Opening net book amount at 1 January 2006	3,870
Additional provisions	380
Utilised during the period	–
Closing net book amount at 30 June 2006	4,250
Six months ended 30 June 2007	
Opening net book amount at 1 January 2007	4,250
Additional provisions	200
Utilised during the period	–
Closing net book amount at 30 June 2007	4,450

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

16. Borrowings

	30 June 2007 <i>RMB'000</i>	31 December 2006 <i>RMB'000</i>
Current bank borrowing		
– Secured	84,000	206,000
– Guaranteed	160,000	260,000
– Others	1,054,617	756,779
	1,298,617	1,222,779
Non-current bank borrowing		
– Secured	20,000	–
	20,000	–

- (a) As at 30 June 2007, the secured 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 RMB85,726,384 (31 December 2006: RMB319,409,000).
- (b) As at 30 June 2007, 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 bank borrowings were 6% to 8% (for the year ended 31 December 2006: 5% to 7%) per annum for the six months ended 30 June 2007.
- (d) All the carrying amounts of the bank borrowings are denominated in RMB and approximate their fair value.

Condensed Consolidated Interim Financial Information (continued)

Notes to the Condensed Consolidated Interim Financial Information (continued)**17. Other gains – net**

	Six months ended 30 June	
	2007 RMB'000	2006 RMB'000
Excess of the fair value of the net assets of subsidiaries acquired over the acquisition cost	–	212,547
Interest income	31,093	34,925
Gains on debts restructuring	4,720	–
Government compensation	3,679	–
Gains on disposals of property, plant and equipment	2,577	32,870
Fair value gains on investment properties	51	3,832
Others	5,909	4,400
	48,029	288,574

18. Expenses by nature

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

	Six months ended 30 June	
	2007 RMB'000	2006 RMB'000
Depreciation of property, plant and equipment	35,136	24,148
Amortisation of land use rights charged into income statement	5,054	1,800
Employee benefit expenses	421,060	409,103
Cost of inventories and completed properties held for sale	2,637,658	2,166,490
Operating leases of buildings	1,746	1,480
Others	36,434	52,538
	3,137,088	2,655,559

19. Income tax expense

No provision for Hong Kong profits tax has been made as the Group has no assessable profit earned in or derived from Hong Kong for the six months ended 30 June 2007.

The Company and its subsidiaries are subject to PRC Enterprise Income Tax ("EIT") at a rate of 33% (2006: 33%).

Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25%, which will be effective from 1 January 2008. As a result, the enterprise income tax rate of the Company and its subsidiaries incorporated in the PRC will change from 33% to 25% with effective from 1 January 2008. The change in the carrying amount of the deferred tax assets and liabilities, as a result of the change in tax rate, has been reflected in the financial information of the Group for the six months ended 30 June 2007.

Condensed Consolidated Interim Financial Information (continued)

Notes to the Condensed Consolidated Interim Financial Information (continued)**19. Income tax expense** (continued)

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

	Six months ended 30 June	
	2007 RMB'000	2006 RMB'000
PRC current income tax	34,813	110,545
Deferred income tax	(23,314)	(13,194)
	11,499	97,351

20. Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2007 is based on the Group's profit attributable to equity holders of the Company of RMB65,015,000 (six months ended 30 June 2006: RMB401,068,000) and the weighted average number of ordinary shares in issue of 653,476,598 shares (six months ended 30 June 2006: the ordinary shares in issue of 610,927,013 shares) during the six months ended 30 June 2007.

The basic and diluted earnings per share are the same since there are no dilutive shares.

21. Dividends

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 June 2007. A final dividend of RMB0.07 per ordinary share for 2006, amounting to total dividend of RMB46,407,000 was approved at the Annual General Meeting on 25 June 2007, which has been paid on 18 July 2007.

22. Contingent liabilities

	30 June 2007 RMB'000	31 December 2006 RMB'000
Guarantees given to banks in respect of mortgage facilities granted to third parties	35,302	19,800
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.

23. Capital commitments

As at 30 June 2007, the Group had no significant capital commitments.



Management Discussion and Analysis

Results Review

For the six months ended 30 June 2007, the Group's turnover was RMB3,196,367,000, representing an increase of approximately 10% from the corresponding period last year. Operating profit was RMB107,308,000, representing a decrease of approximately 80% from the corresponding period last year. Profit attributable to equity holders of the Company amounted to RMB65,015,000, representing a decrease of approximately 84%, compared with the same period last year. Earnings per share was RMB0.10, representing a decrease of approximately 85% compared with the corresponding period last year; and net assets per share was RMB4.10, representing an increase of approximately 21% over the same period last year.

Turnover

	For the six months ended 30 June				
	2007		2006		Change
	RMB'000	% of total	RMB'000	% of total	
Construction	2,700,525	84%	2,030,896	70%	+33%
Building Materials	430,567	13%	448,568	15%	-4%
Property Development	48,527	2%	391,007	14%	-88%
Others	16,748	1%	25,286	1%	-34%
Total	3,196,367	100%	2,895,757	100%	10%

Operating Profit

	For the six months ended 30 June				
	2007		2006		Change
	RMB'000	% of total	RMB'000	% of total	
Construction	80,148	74.6%	315,707	60%	-75%
Building Materials	18,409	17%	41,578	8%	-56%
Property Development	8,347	8%	168,147	31%	-95%
Others	404	0.4%	3,340	1%	-88%
Total	107,308	100%	528,772	100%	-80%

Construction Business

For the six months ended 30 June 2007, the Group's construction business achieved a turnover of RMB2,700,525,000, representing a growth of approximately 33% over the same period last year. Operating profit amounted to RMB80,148,000, representing a decline of approximately 75% compared to the same period last year. The reduction in operating profit for the six months ended 30 June 2007 was primarily attributable to the exclusion of a one-off gain of RMB212,547,000 resulting from the acquisition of the Hubei Construction Group by the Group last year. Without taking into account of such one-off gain, the operating profit for the six months ended 30 June 2007 decreased by 22% from the corresponding period last year.

According to the Group's expansion strategy, our business has been extended to major cities in China. The pre-operating and start-up expenses incurred in expanding into new markets have led to significant increase in general and administrative expenses. In addition, due to the increase in staff cost and operating losses contributed by the Hubei Construction Group, which the Group acquired in 2006, the growth in operating profit was thwarted even when the turnover of the construction business has registered an increase.

Management Discussion and Analysis *(continued)*

Since the acquisition of the entire interest of the Hubei Construction Group in February 2006, the post-acquisition re-organisation, business restructuring, and discharging of manpower of the Hubei Construction Group had been completed recently. As at 30 June 2007, Hubei Baoye was still at the start-up phase after such re-organisation and has not yet turned into full scale operations, leading to an operating loss of RMB19,120,000. At present, part of the industrial use land held by the former Hubei Construction Group was in the process of being converted into commercial and residential use (details of which are set out in the section headed "Property Development Business" under the section headed "Business Prospect"), whereas the property development business in Wuhan has begun. Besides, the design and construction of the Wuhan Housing Industrial Park is underway. Building on the foundation of the construction business of the Group, by rapidly developing the building materials and property development business in Hubei using the "three-in-one" business model of the Group, it is expected that Hubei Baoye would become the base of the Group in central China and grow to a similar scale of business comparable to what the Group has attained in the Yangtze Delta region in the coming three to five years.

As at 30 June 2007, the Group's total contract value of construction-in-progress amounted to RMB19,767,270,000, surpassing the same period last year by approximately 41%, details of which are analyzed below:

By project nature:

	As at 30 June		2006		Change
	2007				
	RMB million	% of total	RMB million	% of total	
Government & Public Buildings	8,302	42%	6,036	43%	+38%
Urban Infrastructure	5,337	27%	3,650	26%	+46%
Residential Projects	3,163	16%	1,965	14%	+61%
Industrial Projects	2,965	15%	2,387	17%	+24%
Total	19,767	100%	14,038	100%	+41%

As depicted from the above analysis, the Group's construction business is largely drawn from customers with good reputation and credit standing in the areas of governmental organizations; this has minimized our collection risk in receivables and finance.

By region:

	As at 30 June		2006		Change
	2007				
	RMB million	% of total	RMB million	% of total	
Zhejiang Province	7,511	38%	5,476	39%	+37%
Shanghai	7,314	37%	4,913	35%	+49%
Central China Region	4,151	21%	3,228	23%	+29%
Northern China Region	791	4%	421	3%	+88%
Total	19,767	100%	14,038	100%	+41%

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

Management Discussion and Analysis *(continued)***Property Development Business**

For the six months ended 30 June 2007, the turnover of the Group's property development business amounted to RMB48,527,000, representing a decrease of approximately 88% from the same period last year. The Group's property development business contributed an operating profit of RMB8,347,000, representing a decline of approximately 95% from the same period last year. The Group adopts the completion method in accounting for revenue recognition for its property development business.

During the period under review, the turnover of the Group's property development business was mainly derived from Zhejiang Commercial City located in Hefei City, Anhui. The total gross floor area of Zhejiang Commercial City sold was approximately 8,000 square metres, with an average selling price of approximately RMB6,400 per square metres, contributing to a turnover of RMB51,200,000 (turnover was RMB48,527,000 after deduction of sales tax). During the period under review, approximately 50,000 square metres of the Group's City Green Garden Phase I in Hefei City were pre-sold. However, as certain inspection procedures have not been completed prior to the delivery of sales units, these sales have not been recognized in the six months ended 30 June 2007.

Projects under development

As at 30 June 2007, the Group's projects under development are summarized below:

Project Name	Location	Saleable Area (square metres)	Equity Interest of the Group
Linjiang Green Garden	Shaoxing	56,000	100%
Jing'an Ziyuan	Shanghai	51,000	70%
City Green Garden Phase I	Hefei	50,000	100%
City Green Garden Phase II	Hefei	170,000	100%
Zhejiang Commercial City	Hefei	92,000	75%
Baoye Four Seasons Garden	Shaoxing	525,000	100%

The Linjiang Green Garden project is located in Yangxunqiao, Shaoxing County. The total gross floor area is 56,000 square metres. It is a pure residential development next to the Xixiao River with a superb nice looking green environment. The construction of key structure of the Linjiang Green Garden project has been completed. Pre-sale has been commenced and approximately 80% of sale units has been sold.



City Green Garden



Jing'an Ziyuan



Linjiang Green Garden

Management Discussion and Analysis *(continued)*



Baoye Four Seasons Garden



Zhejiang Commercial City

Jing'an Ziyuan is located on Jiangning Road in Jing'an District of Shanghai, only 500 metres from the downtown prominent area, "Golden Delta", of Nanjing Road West, which is truly a prime location. The project has a gross floor area of approximately 51,344 square metres, which will be developed into luxurious service apartments. It is expected that pre-sale of Jing'an Ziyuan can begin at the second half of 2007.

Zhejiang Commercial City is situated at a prime location east of Hefei Railway Station. Buzzing with intense commercial activity, the area is one of the most prominent commercial districts in Hefei City. Zhejiang Commercial City has a gross floor area of approximately 100,000 square metres, which is mainly developed into up-scale service apartments and retail shops. At present, approximately 40% has been pre-sold and 8,000 square metres has been recognized in the first half of 2007.

City Green Garden is located in Yaohai District, a prime developing zone in Hefei City, Anhui, with convenient transportation. It comprises mainly high-end residential properties with a portion of retail shops and offices. City Green Garden Phase I has a gross floor area of approximately 50,000 square metres, all of which has been pre-sold. City Green Garden Phase II has a gross floor area of approximately 170,000 square metres, and approximately 50% of which has been pre-sold at present.

Baoye Four Seasons Garden is located in Kuaijishan Tourist Resort Zone, a "province-rank" resort district in Zhejiang Province. With historical culture and spectacular scenery, the area is where ancient civilization flourished. Other than its profound cultural tradition and being the origin of many myths and folklores, the area also has a large number of historical heritages. Being only 10 minutes drive from downtown of Shaoxing County, it is known as the "natural treasure in the heart of a city". Baoye Four Seasons Garden has a site area of approximately 1,050,000 square metres and a planned gross floor area of approximately 525,000 square metres for the development of deluxe condominiums, town houses, and detached houses. It also consists of a golf club and hotel facilities. Baoye Four Seasons Garden is designed and built to cater for the highest income level individuals in Shaoxing County. The Group will endeavour to build a "state-of-the-art" resort district combining natural environments with cultural heritages, making it a forefront property development project. The project will not only contribute significant profit to the Group, but more importantly, enhance the brand value of Baoye and its core competencies in the property development business.

Increase in Land Reserve

In April 2007, the Group acquired the land use right of a piece of land located in Keqiao, Shaoxing County, a total area of approximately 100,000 square metres with 2.5 times plot ratio for development of residential area of 250,000 square metres, from public tendering at a total consideration of RMB750,000,000. The land is in the development zone of the future central business district of Keqiao, alongside the "dual lakes" district, east of Dabanhu, with adequate and well-developed community facilities. The project will be positioned as a premier residential property in Keqiao, Shaoxing County.

Management Discussion and Analysis *(continued)*

In May 2007, the Group entered into a contract to acquire a residential land use right of 58,570 square meters with a plot ratio of 2.8 times for development of area of 164,000 square meters residential units, at a total consideration of RMB172,000,000. The land is located at city centre of Hefei with adequate and well-developed community facilities and will be developed for commercial and residential use properties.

In August 2007, the Group and Greentown China Holdings Limited, a listed company on HKEx (stock code: 3900), jointly and successfully secured a residential land area at No.1, Yang Ming Road, Shaoxing County, of a total area of approximately 180,000 square metres with a plot ratio of 1 time for development of 180,000 square metres up-scale residential properties, at a total consideration of RMB1,095,000,000. The Group is interested in 49% of the project. The land area is of close proximity to the resort district of Kuaijishan where the Group's golf club and Baoye Four Seasons Garden projects are located, 8 kilometres from the central business district, and will be developed as low rise premium residential properties and deluxe service apartments.

Building Materials Business

For the six months ended 30 June 2007, the turnover of the Group's building materials business was RMB430,567,000, representing a decrease of approximately 4% over the same period last year. The Group's building materials business contributed an operating profit of RMB18,409,000, representing a decrease of approximately 56% over the same period last year.

As production for steel structure and wood products are in their start-up phase, utilization rate of the plant capacity has not reached a satisfactory level. Depreciation and other fixed costs attributed by plant buildings and machineries have caused pressure on the overall profit margin of the building materials business. Simultaneously, building materials is in a fierce competition market. The high end products which the Group is focusing on would require more product promotion and marketing before the turnover is expected to increase significantly.

For the six months ended 30 June 2007, the turnover breakdown of the Group's building materials business is as follows:

	For the six months ended 30 June		Change
	2007 Turnover RMB'000	2006 Turnover RMB'000	
Ready-mixed Concrete	124,864	136,439	-8%
Curtain Wall	103,336	96,514	+7%
Wood Products & Interior Decoration	86,113	78,441	+10%
Steel Structure	73,196	68,598	+7%
Concrete Pipes	21,528	32,541	-34%
Concrete Ducts	12,917	18,698	-31%
Large Roof Sheathings	4,306	8,821	-51%
Fire Proof Materials	4,307	8,516	-49%
Total	430,567	448,568	-4%

On 8 March 2006, the Group signed a co-operative agreement with Daiwa Japan, pursuant to which both parties formed a strategic alliance for 10 years in the co-development of technological advancement skills for the manufacture of industrialized residential units. Two of the technologies developed by joint efforts have already been applied for patent rights with the relevant government authorities. At the same time, the technology for industrialization of residential housing has been adopted for use in various construction projects including Linjiang Green Garden, Suzhou Aster Hotel (five star), and detached houses in Anhui. During the period under review, the Group has joined forces with Daiwa Japan to participate in "The Third International Exposition for New Intelligent, Environmentally Friendly, and Energy Saving Building Technologies and Products", captured enormous attention in the market.

Management Discussion and Analysis *(continued)*

Business Prospect

With effect from 1 January 2008, "Income Tax Law of the People's Republic of China for enterprises with Foreign Investment and Foreign Enterprises" and "Interim Provision Concerning Imposition of Income Tax Law of People's Republic of China for Foreign Enterprises" will be merged into a single rules and regulation. The Group's enterprise income tax rate will then be reduced from the current level of 33% to 25%, the 8% reduction in enterprise income tax rate will enhance the Group's profitability significantly.

Construction Business

China's rapid economic development and increasing urbanization have provided unprecedented growth opportunity for the Group. At present, the Group has extended its business networks successfully into the mid west China region, northern China region, and southern China region covering the major cities in 13 provinces. The Group has basically laid down the foundation by adopting the strategy of "Expanding into areas beyond Zhejiang Province and Yangtze Delta and covering the whole of China". In future, the Group will endeavour to maintain this growth and expansion strategy, consolidating its market share in the existing markets and, at appropriate times, to explore new emerging markets on a nationwide basis by setting up regional management centres.

Using the "three-in-one" business model, the Group will continue to develop its construction business in new markets in light of the government policies on increased urbanization and "Nation retreats, people proceeds". On one hand, the Group will increase its efforts in developing new markets in major cities. On the other hand, it will enhance its market share in high end infrastructural construction projects including railways, water supplies and facilities, transportation, bridges through merger and acquisition. The profit margin of the Group's construction business will steadily increase as its share of high end business increases.

Resulting from the continuous Group's expansion into major cities, start-up and administrative costs have increased substantially. In order to maintain competitiveness in securing new construction projects in new markets, the Group's operating profit margin saw a decline. The Group believes that this trend is inevitable in the short term. However, in the mid and longer term, followed by an increased market share, together with a better understanding of the new markets, our established reputation and brand building, it is expected that healthy profit returns will be generated by the Group.

Property Development Business

During the period under review, the Group has acquired a total of three parcels of land, having an aggregate of 340,000 square metres of land areas as reserve, which would provide a gross floor area of 600,000 square metres for development. Based on our internal estimate, using the prevailing market prices, these projects are expected to generate satisfactory returns and, in anticipation of the surging properties prices in the near future, and have seeded a solid earning growth for the Group in the years to come.

Approximately 500,000 square metres of industrial use land was obtained from the acquisition of Hubei Construction Group, of which 37,000 square metres can be used for residential development purposes according to the land use right certificate, with a plot ratio of 1.8 times and a gross floor area of approximately 67,000 square metres. Another six applications for change of use pertaining to six parcels of land, having an aggregate area of approximately 200,000 square metres, have been submitted to the relevant government authorities for approval, four of which will be designated for residential use and the remaining will be designated for commercial use. It is expected that these approvals and the respective land use right certificates will be obtained in the year of 2007.

The Group will accelerate the development of existing land reserves, taking advantage of the competitive cost and quality advantages that are set by the "three-in-one" business model. The land reserves the Group has acquired are of low cost base and high quality, which will contribute significant profitability to the Group when they are being developed in the next few years.



Management Discussion and Analysis *(continued)*

Building Materials Business

The applications for two international technology patent rights by the Group and Daiwa Japan are now being processed by the relevant government authorities. The Group will, on this basis, increase its allocation of resources to research and development aiming to develop and acquire proprietary and core technologies and more patent rights. The Group believes that only leading edge technologies will facilitate increase in market share. At the same time, the Group will focus on developing environmental friendly construction and building materials to promote the nation's policy on "Four Savings and One Environmental Friendly" in industrialization of construction and building materials market.

During the period under review, construction of Hubei Baoye Housing Industrial Park has been commenced, which has rallied high level support and attention from the Hubei Provincial Government. The Group will speed up the construction progress of the Hubei Baoye Housing Industrial Park. At the same time, the production facilities of the Anhui Baoye Housing Industrial Park have begun to build scale and momentum, of which production lines of curtain wall, modernized building materials, heat and energy conserve materials, and building equipment have been completed and put into production.

The Group is committed to promote the nation's conserving energy and minimizing waste, and "Four Savings and One Environmental Friendly" policies by investing and developing industrialization of construction and building materials. Investment in construction and building materials is different from consumable products, and would require a much longer investment and return cycle. However, the Group believes that this is the development trend of industry and sees an enormous development potential. Leveraging on our strengths and support in construction and property development business, and co-operation with Daiwa Japan on technology development for industrialisation of building materials and construction, the Group is one of the leading companies in pre-fabricated building materials and construction in China. At present, apart from the Shaoxing Housing Industrial Park, our production base has been extended to strategic locations, such as Hefei and Wuhan, all of which have provided a solid foundation for the Group to maintain its leading position in industrialization of building materials and construction in China.

Financial Review

Treasury Policies

The Group adopts a prudent approach on financial policies and takes stringent risk management control over its investment, financing and cash as well as maintaining a sound capital structure. The Group will adjust its investment, financing and capital structure from time to time according to its sustainable development and internal resources available, with a view to optimizing the capital structure of the Group.

The Group has established a financial settlement center, which centralizes funding for all its subsidiaries at Group level. The Board believes that such policy will enable the Group to achieve better controls on the treasury operations, minimize financing risks and lower the average cost of capital.

Financial Resources and Liabilities

With its steady growth in cash flow, sound credit record and excellent reputation in the industry, the Group renewed an AAA credit rating by a credit rating institution recognized by the People's Bank of China in 2007. Such excellent credit rating will benefit the Company's financing activities and allows the Group to continue to enjoy the prime rate offered by the People's Bank of China. At present, the bank borrowings of the Group bear an interest rate between 6% to 8% per annum. During the period, 92% of the Group's borrowings were on an unsecured basis. The Group will take advantage of its good credit to continue to take borrowings on an unsecured basis, which will be complemented by secured project loans when necessary.

As at 30 June 2007, the Group's net bank borrowings, after deduction of cash, cash equivalent and bank deposits, amounted to RMB123,295,000 (30 June 2006: RMB325,617,000). The Group's net gearing ratio (net bank borrowings/the total shareholders' equity) was 4.5% (30 June 2006: 15.7%). During the period under review, the Group acquired land use rights in respect of 3 parcels of land and as a result, it is expected that a total of RMB1,500,000,000 would be required to discharge its relevant obligations in the second half of 2007. In this connection, the Group would require additional bank borrowings of approximately RMB800,000,000, in addition to the proceeds received from placing of new H shares in February 2007 and bank deposit balances, to settle these obligations. Thus, bank borrowings and the net gearing ratio of the Group are expected to increase. However, the Group is confident that it will continue to adopt a prudent policy on gearing ratio.

Management Discussion and Analysis *(continued)***Use of Proceeds**

In February 2007, through placing of new H shares to Tiger Global, the Group had raised proceeds of approximately RMB557,723,000 (after deduction of issuance expense). The proceeds received have been applied as follows:

		<i>RMB</i>
Deposit Payment for Acquisition of a land use right in Shaoxing	<i>(i)</i>	226,500,000
Deposit Payment for Acquisition of a land use right in Hefei	<i>(ii)</i>	50,000,000
General Working Capital		121,223,000
Repayment of Bank Borrowings		160,000,000
Total:		557,723,000

- (i) During the period under review, the Group has acquired land use right in respect of a parcel of land near Dabanhu, Shaoxing County at a total consideration of RMB755,000,000 and as at 30 June 2007, the Group has paid a cash deposit of RMB226,500,000 equivalent to 30% of the total consideration.
- (ii) The Group has entered into a contract to acquire a residential land use right in Hefei at a total consideration of RMB172,000,000. As at 30 June 2007, the Group had already paid a deposit of RMB50,000,000.

Key Financial Ratios

	As at 30 June	
	2007	2006
Return on equity	2.4%	19.4%
Net assets value per share (RMB)	4.10	3.39
Net gearing ratio	4.5%	15.7%
Current ratio	1.24	1.12

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

The proceeds raised from the placing of new H shares in February 2007 of RMB557,723,000 were immediately being applied for use in acquisition projects. As a result, the new assets value per share increased significantly. Besides, the net gearing ratio was further reduced. However, on the other hand, the contrast of return on equity between the six months ended 2007 and 2006 was due to a one-off gain from the acquisition of Hubei Construction Group by the Group being recorded last year, no gain of a similar scale was recorded during the six months ended 30 June 2007.

Management Discussion and Analysis (continued)

Cash Flow Analysis

		For the six months ended 30 June	
		2007	2006
		RMB'000	RMB'000
Net cash outflow from operating activities	(1)	(329,896)	(140,732)
Net cash (outflow)/inflow from investing activities	(2)	(61,567)	29,690
Net cash inflow from financing activities	(3)	653,561	104,714
Increase/(decrease) in cash and cash equivalents		262,098	(6,328)

- (1) The net cash outflow from operating activities during the period was RMB329,896,000, representing an increase of net cash outflow compared to the same period last year. The increase was primarily the result of deposit payment of RMB226,500,000 made in respect of 30% of total consideration of Dabanhu's land use right in Shaoxing County, and deposit payment of RMB50,000,000 for the acquisition of a land use right in Hefei.
- (2) The cash outflow from investing activities during the period was mainly due to the increased spending on the construction of infrastructure of Baoye Four Seasons Garden and Hefei Housing Industrial Park.
- (3) The cash inflow from financial activities during the period was mainly attributable to the proceeds of RMB557,723,000 received through the placing of new H shares to Tiger Global in February 2007.

Land Appreciation Tax

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

Administrative Expenses

The Group's administrative expenses grew from RMB78,959,000 in the same period of 2006 to RMB116,633,000 for the six months ended 30 June 2007, registering an increase of approximately 48% or RMB37,674,000. The increase was primarily attributable to various re-organization and restructuring expenses amounting to approximately RMB40,919,000, an increase of approximately 111% or RMB21,496,000 over the same period last year, incurred by the Hubei Construction Group; and the establishment of regional management centers by Baoye Construction Group to explore other provincial markets, the administrative expenses amounted to approximately RMB45,882,000 in the period under review, an increase of approximately 82% or RMB20,663,000 over the same period last year. The Group believes that these start-up and re-organization expenses will contribute to the profit growth of the Group in the long run.

External Guarantee and Fulfillment

	30 June	31 December
	2007	2006
	RMB'000	RMB'000
Guarantees given to banks in respect of mortgage facilities granted to third parties	35,302	19,800
Guarantees given to banks in respect of bank loans of third parties	–	20,000

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

Management Discussion and Analysis *(continued)*

Details of the Charges on the Group's Assets

As at 30 June 2007, land use rights, buildings and properties under development at a total value of approximately RMB85,726,000 (31 December 2006: RMB319,409,000) were pledged to banks as security in securing short-term bank loans.

Capital Expenditure Plan

It is expected that the Group's capital expenditure in 2007 will amount to RMB100,000,000, of which RMB60,101,000 has been applied for use in investment properties, factory buildings, and machineries for Baoye Four Seasons Garden and Hefei Housing Industrial Park projects in the period under review. It is expected that the balance will be incurred in the second half of the year for construction spending for the said two projects and for purchasing research and testing equipment for Zhejiang Baoye Group Construction Research Institute at a total expenditure of approximately RMB40,000,000.

Adjustment of RMB Exchange Rate and Foreign Exchange Risks

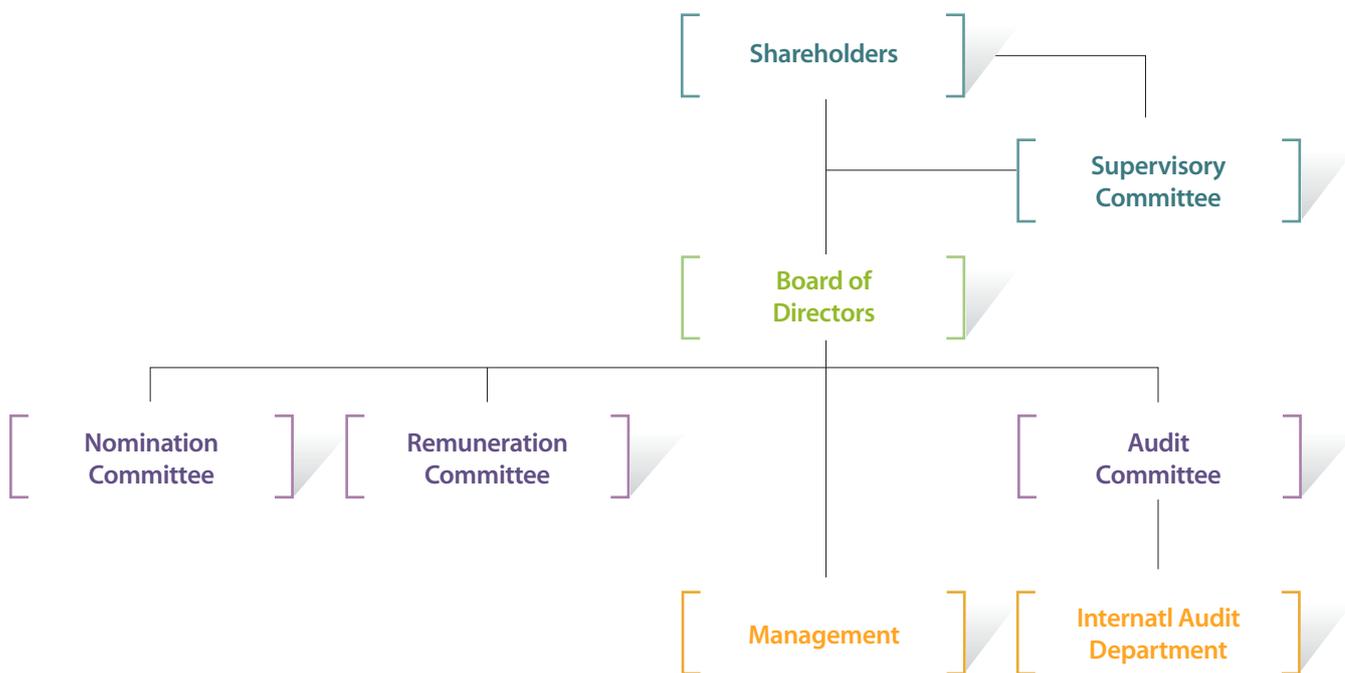
The majority of the Group's business and all bank borrowings are denominated and accounted for in RMB, and therefore do not have any direct exposure to foreign exchange fluctuation. The Board does not expect the adjustment of RMB exchange rate and other foreign exchange fluctuations will have any direct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



Corporate Governance Report

The Group is committed to establishing an orderly, efficient and transparent corporate governance mechanism, which can benefit corporate development and shareholders' returns. Since its listing, the Company has been complying with the Code on Corporate Governance Practices, Listing Rules and other relevant laws and regulations and will regularly review the corporate management policies to enhance corporate value so as to ensure sustainable long term development of the Company and to maximize shareholders' returns.

Corporate Governance Structure



Corporate Governance Report *(continued)*

Board of Directors

In order to enhance the corporate governance level and to intensify the Board's role on decision making process for the integration of development strategy and substantial investment, nominated by the nomination committee meeting held on 14 April 2007, recommended by the board of directors meeting held on 16 April 2007 and approved by the annual general meeting held on 25 June 2007, Mr. Wang Rongfu and Mr. Sun Chuanlin were appointed as executive director and independent non-executive director respectively of the second term of the Board. As at 25 June 2007, the board of directors consists of ten directors of which Mr. Pang Baogen, Mr. Gao Jiming, Mr. Gao Lin, Mr. Zhou Hanwan and Mr. Wang Rongfu are executive directors, Mr. Hu Shaozeng is non-executive director and Mr. Wang Youwei, Mr. Yi Deqing, Mr. Dennis Yin Ming Chan and Mr. Sun Chuanlin are independent non-executive directors.

Supervisory Committee

The supervisory committee is the standing supervisory organization of the Company, which is responsible for supervising the functions of the Board and its members and the management such as the general manager and deputy general manager. Mr. Xie Qisheng resigned from his position as supervisor on his own accord on 16 April 2007. Mr. Sun Guofan resigned from his position as supervisor on his own accord on 16 April 2007. Mr. Sun Guofan's resignation has been approved in the annual general meeting held on 25 June 2007. Recommended by the labour union and nominated by the nomination committee, Mr. Kong Xiangquan and Mr. Qian Yongjiang were appointed as supervisors on 16 April 2007.

Nomination Committee

The nomination committee comprises of two independent non-executive directors, Mr. Wang Youwei (Chairman) and Mr. Yi Deqing, and one executive director, Mr. Gao Jiming. The nomination committee of the Company held one meeting during the period under review and all three members attended the meeting.

The nomination committee held a meeting on 16 April 2007, to transact the following business:

- reviewing the structure, number of members and composition of the Board and providing the Board with recommendations on any intended change;
- identifying appropriate candidates for the post of directors and nominating such persons to be directors; and
- assessing the independence of the independent non-executive directors.

After due consideration to the candidates' background and experience, it was resolved that Mr. Wang Rongfu and Mr. Sun Chuanlin be nominated as an executive director and an independent non-executive director of the Company respectively during the meeting.

Remuneration Committee

The remuneration committee is responsible for formulating the remuneration policy in respect of directors and senior management, assessing the performance of the executive directors and approving the terms of their service contracts. The remuneration committee comprises two independent non-executive directors, Mr. Dennis Yin Ming Chan (Chairman) and Mr. Yi Deqing, and one executive director, Mr. Pang Baogen. The remuneration committee of the Company held one meeting during the period under review. All three members attended the meeting in which the new remuneration policy of the Group for 2007 was discussed.

Corporate Governance Report *(continued)*

Audit Committee

The audit committee of the Company consists of three independent non-executive directors, Mr. Wang Youwei (Chairman), Mr. Yi Deqing and Mr. Dennis Yin Ming Chan. The audit committee held one meeting during the period under review, and all three members attended the meeting. The audit committee has discussed the accounting policies as well as critical accounting estimates and assumptions with the management, discussed with the auditors on the audit plan and key audit areas. The audit objectives and the scope of the internal audit department of the Group were also discussed. The interim results of the Group for the six months ended 30 June 2007 had been reviewed by the audit committee.

Code on Corporate Governance Practices

In the opinion of the directors, the Company has complied with the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2007, except that the role of the chief executive officer of the Company has been assumed by Mr. Pang Baogen, the chairman of the Board, since the former chief executive officer of the Company resigned. Three general managers have been appointed to oversee and manage the three main business activities (construction, property development and building materials) of the Group respectively, each of whom has partly shared the duty of the chief executive officer to which they manage. The Board believes that the current arrangement has installed a proper segregation of duties mechanism and adequately streamlined the responsibility well and a simple management structure can enhance the communication amongst staff at different levels as well as enabling execution of new policies efficient. Therefore, the Board endorsed the position of chief executive officer to be assumed by the chairman of the Board. Nevertheless, the Board will regularly review the management structure to ensure that it meets the business development requirements of the Group.

Model Code for Securities Transactions by Directors

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in Appendix 10 of the Listing Rules as its own code of conduct regarding the securities transactions by the directors. Specific enquiries have been made by the Company, all directors have confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2007.

Investor Relations

Through active interactions between investors and the Company, and continuous improvement in corporate transparency and corporate governance, the Group aims to enhance investors' and potential investors' faith in the Company, and builds recognition from the equity market. With our unwavering efforts to enhance shareholders value, the Group attempts to build a win-win situation for both its investors as well as the corporation.

During the period under review and up until the date of this report, in addition to receiving many investors and analysts to visit the Company and attending "one-on-one" meetings, the Company also attended the following investor conferences:

Date	Activity	Organizer	Venue
29-31 January 2007	UBS Great China Conference	UBS	Shanghai
25-27 April 2007	JP Morgan China Conference	JP Morgan	Beijing
11 May 2007	CLSA Hangzhou Conference	CLSA	Hangzhou
14-16 May 2007	CLSA 12th China Forum	CLSA	Shanghai
16-18 July 2007	HSBC China Corporate Day	HSBC	The United States

Other Information

Interests of Directors, Supervisors and Senior Management

As at 30 June 2007, the interests and short positions of each director, supervisor and senior management of the Company in the shares, underlying shares or debentures of the Company or any associated corporation within the meaning of Part XV of the Securities and SFO which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the HKEx, were as follows:

Director/Supervisor/ Senior management	Relevant entity	Capacity	No. of domestic shares held (Long positions)	Approximate percentage of the total registered capital of the relevant entity
Directors				
Mr. Pang Baogen	The Company	Beneficial Owner	198,753,054	29.98%
Mr. Gao Jiming	The Company	Beneficial Owner	13,024,647	1.97%
Mr. Gao Lin	The Company	Beneficial Owner	9,544,775	1.44%
Mr. Zhou Hanwan	The Company	Beneficial Owner	8,233,510	1.24%
Mr. Wang Rongfu	The Company	Beneficial Owner	7,147,039	1.08%
Senior Management				
Mr. Sun Guofan	The Company	Beneficial Owner	11,705,283	1.77%
Mr. Xu Jianbiao	The Company	Beneficial Owner	7,524,884	1.14%
Mr. Gao Jun	The Company	Beneficial Owner	5,794,259	0.87%
Mr. Lou Zhonghua	The Company	Beneficial Owner	5,633,172	0.85%
Mr. Wang Rongbiao	The Company	Beneficial Owner	2,647,911	0.40%
Mr. Jin Jixiang	The Company	Beneficial Owner	2,440,527	0.37%

Substantial Shareholders

As at 30 June 2007, so far as was known to the directors, the following people, other than directors, supervisors and senior management of the Company, has an interest in the shares of the Company as recorded in the register required to be kept under the section 336 of the SFO, and would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO:

Name	Number of H shares of the Company held (Long positions)	Capacity	Approximate percentage of the total issued H shares	Approximate percentage of the total registered capital
Coleman Charles P.III (Note 1)	52,036,992	Interest of controlled corporation	16.67%	7.85%
The Goldman Sachs Group, Inc. (Note 2)	43,364,160	Interest of controlled corporation	13.89%	6.54%
Atlantis Investment Management Ltd	37,000,000	Investment manager	11.85%	5.58%
Tiger Global Performance L.L.C. (Note 3)	35,379,951	Interest of controlled corporation	11.33%	5.34%
Tiger Global, L.P.	34,521,341	Beneficial owner	11.06%	5.21%
Tiger Global Management L.L.C. (Note 4)	16,657,041	Interest of controlled corporation	5.33%	2.51%
Tiger Global, Ltd.	16,657,041	Beneficial owner	5.33%	2.51%
JP Morgan Chase & Co. (Note 5)	15,932,000	Investment manager (in respect of 4,632,000 H shares), Custodian (in respect of 11,300,000 H shares)	5.10%	2.40%

Other Information *(continued)*

Notes:

1. The interests are held by Coleman Charles P.III through its controlled corporations namely, Tiger Global Performance L.L.C., Tiger Global L.P., Tiger Global II, L.P., Tiger Global, Ltd., and Tiger Global Management L.L.C.
2. The interests are held by The Goldman Sachs Group, Inc., through its controlled corporations, namely, Goldman Sachs (Asia) Finance, Goldman Sachs (Asia) Finance Holdings L.L.C., Goldman Sachs & Co, Goldman Sachs International, Goldman Sachs Holdings (U.K.), Goldman Sachs Group Holdings (U.K.) and Goldman Sachs (U.K.) L.L.C.
3. The interests are held by Tiger Global Performance L.L.C., through its controlled corporations, namely, Tiger Global L.P. and Tiger Global II, L.P.
4. The interests are held by Tiger Global Management L.L.C. through its controlled corporation, namely Tiger Global, Ltd.
5. The interests are held by JP Morgan Chase & Co. through its controlled corporations, namely, JP Morgan Chase Bank, N.A., JF Asset Management Limited, JP Morgan Asset Management (Asia) Inc. and JP Morgan Asset Management Holdings Inc.

Directors' and Supervisors' Rights to Acquire Shares or Debentures

At no time during the period under review did the Company or any of its subsidiaries make any arrangement to enable directors, supervisors and their respective spouses or children under the age of 18, to benefit from acquisition of the shares or debentures of the Company or any other corporation.

Human Resources and Remuneration Policies

As at 30 June 2007, the Group had a total of approximately 2,100 permanent employees (the same period in 2006: 1,987), and approximately 52,000 construction workers (the same period in 2006: approximately 51,000) who are not permanent employees of the Group. For the six months ended 30 June 2007, total staff costs amounted to RMB421,060,000 (the same period in 2006: RMB409,103,000). Remuneration is determined by reference to market terms as well as the performance, qualification and experience of the individual. Other benefits provided by the Group include pension and medical insurance. The Group highly values human resources management, and devotes to establishing a high quality team to support its long term business development. The Board intends to implement a more effective employee incentive plan.

Connected Transactions

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

Purchase, Sale or Redemption of Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period under review.

Appreciation

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

By order of the Board
Baoye Group Company Limited
Pang Baogen
Chairman

Zhejiang, the PRC
 14 September 2007

Definitions

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

The Company/Baoye	Baoye Group Company Limited, a joint stock limited company incorporated in the PRC and listed on the Main Board of HKEx.
The Group/Baoye Group	Baoye Group Company Limited and its subsidiaries
The period	The six months ended 30 June 2007
Baoye Construction	Zhejiang Baoye Construction Group Company Limited, a subsidiary of the Group
Baoye Real Estate	Zhejiang Baoye Real Estate Group Company Limited, a subsidiary of the Group
Baoye Industrialization	Zhejiang Baoye Building Materials Industrialization Company, a subsidiary of the Group
Anhui Baoye	Baoye Group Anhui Company Limited, a subsidiary of the Group
Hubei Baoye	Baoye Group Hubei Company Limited, a subsidiary of the Group
Tiger Global	Tiger Global, L.P.
Construction business	The activities of undertaking and implementation of construction projects conducted by the Group
Property development business	The activities of development of real estate conducted by the Group
Building materials business	The activities of research and development, production and sale of building materials conducted by the Group
Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
SFO	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
H share	Overseas listed Foreign Share of nominal value RMB1.00 each in the registered capital of the Company, which are listed on The Stock Exchange of Hong Kong Limited
HKEx	The Stock Exchange of Hong Kong Limited
Board	The Board of Directors of Baoye Group Company Limited
Supervisory Committee	The Supervisory Committee of Baoye Group Company Limited
Daiwa Japan	Daiwa House Industry Company Limited in Japan

Definitions *(continued)*

Hubei Construction Group

12 state-owned corporate units namely (1) Hubei Construction and Engineering Group Company Limited; (2) Hubei Construction and Engineering Holding Company First Construction Company; (3) Hubei Construction and Engineering Holding Company Second Construction Company; (4) Hubei Construction and Engineering Holding Company Third Construction Company; (5) Hubei Construction and Engineering Holding Company Fifth Construction Company; (6) Hubei Construction and Concrete Production Company Limited; (7) Hubei Property Development Holding Company; (8) Hubei Construction and Engineering Holding Company Mechanical Construction Company; (9) Hubei Construction Material Trading Company Limited; (10) Hubei Construction and Engineering Holding Company Industrial Equipment Assembling Company; (11) Hubei Construction and Engineering Holding Company Technical College; and (12) Hubei Construction and Engineering Holding Company Guest House

Information for Shareholders

Directors

Executive Directors

Mr. Pang Baogen, *Chairman of the Board*

Mr. Gao Jiming

Mr. Gao Lin

Mr. Zhou Hanwan

Mr. Wang Rongfu

Non-executive Director

Mr. Hu Shaozeng

Independent Non-executive Directors

Mr. Wang Youwei

Mr. Yi Deqing

Mr. Dennis Yin Ming Chan

Mr. Sun Chuanlin

Supervisors

Supervisors

Mr. Kong Xiangquan,

Chairman of the Supervisory Committee

(Appointed on 16 April 2007)

Mr. Qian Yongjiang

(Appointed on 16 April 2007)

Independent Supervisors

Mr. Chen Xingquan

Mr. Li Yongsheng

Mr. Zhang Xindao

Audit Committee

Mr. Wang Youwei,

Chairman of the Audit Committee

Mr. Yi Deqing

Mr. Dennis Yin Ming Chan

Remuneration Committee

Mr. Dennis Yin Ming Chan,

Chairman of the Remuneration Committee

Mr. Pang Baogen

Mr. Yi Deqing

Nomination Committee

Mr. Wang Youwei,

Chairman of the Nomination Committee

Mr. Yi Deqing

Mr. Gao Jiming

Company Secretary

Ms. Ngan Lin Chun, Esther FCIS, FCS

Auditors

International Auditor

PricewaterhouseCoopers

22nd Floor Prince's Building

Central, Hong Kong

Statutory Auditor

Shine Wing CPAs

9th Floor, Block A Fuhua Mansion

No.8 Beidajie

Chaoyangmen

Beijing, PRC

Post Code: 100027

Legal Advisers

As to Hong Kong law

Mallesons Stephen Jaques

37th Floor, Two International Finance Centre

8 Finance Street

Central, Hong Kong

As to PRC law

Jingtian & Gongcheng

15th Floor

The Union Plaza

No. 20 Chaoyangmen Waidajie

Beijing, PRC

Post Code: 100020

Hong Kong Share Registrar

Tricor Tengis Limited

26th Floor, Tesbury Center

28 Queen's Road East

Wanchai, Hong Kong

Investor Relations Consultant

Strategic Financial Relations (China) Limited

Unit A, 29th Floor, Admiralty Centre I

18 Harcourt Road, Hong Kong

Registered Address

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Zhejiang Province, PRC

Tel: 86-575-84069420

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Place of Business in Hong Kong

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38 Gloucester Road, Wanchai

Hong Kong

Authorized Representatives

Mr. Pang Baogen

Mr. Gao Jiming

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Contact

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