



Baoye Group Company Limited

(A joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 2355)

THE LEADING

China's Operator Towards Urbanisation



Interim Report 2008

Our Mission

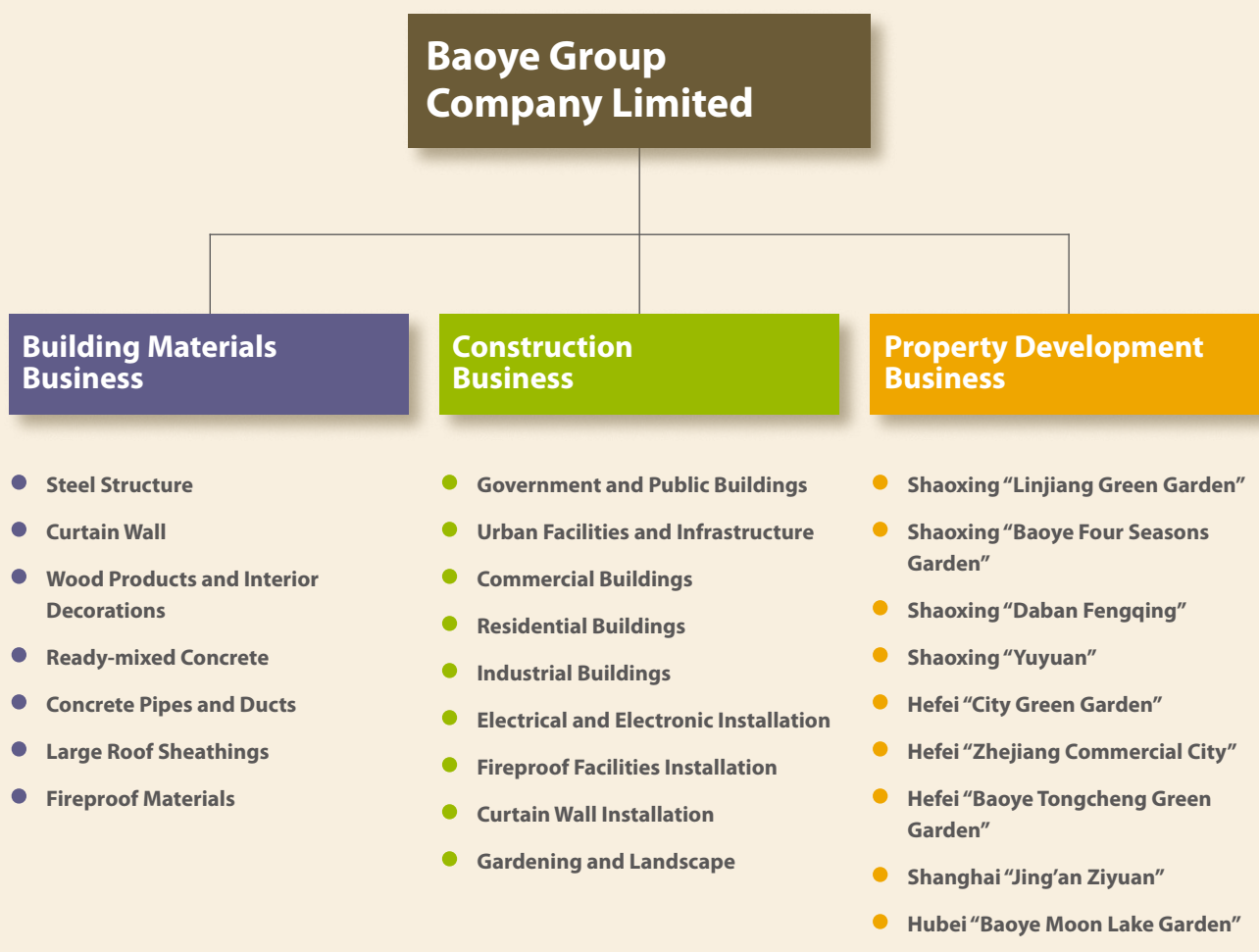
**“From construction to manufacturing”,
leads construction industry towards
industrialisation in China.**

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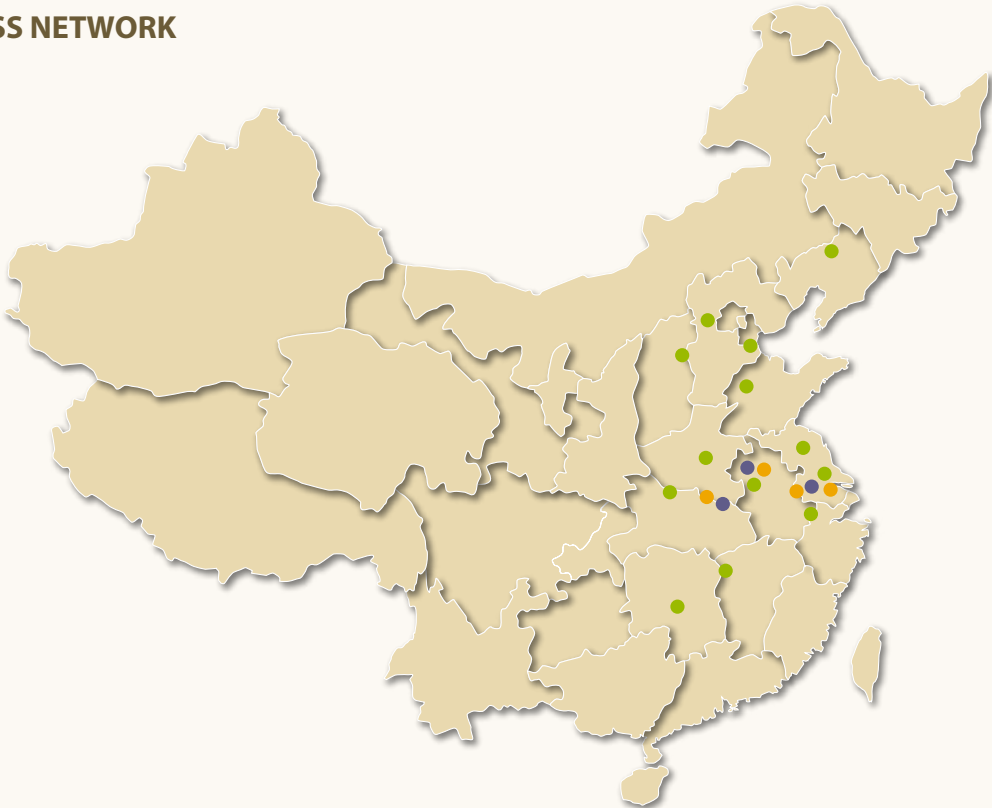
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Corporate Profile

BUSINESS STRUCTURE



BUSINESS NETWORK



Building Materials Business

- Shaoxing Building Materials Industrial Park
- Hefei Building Materials Industrial Park
- Wuhan Building Materials Industrial Park (under construction)

Construction Business

- Zhejiang
- Shanghai
- Jiangsu
- Anhui
- Hubei
- Hunan
- Jiangxi
- Beijing
- Tianjin
- Hebei
- Henan
- Shandong
- Liaoning
- Chongqing

Property Development Business

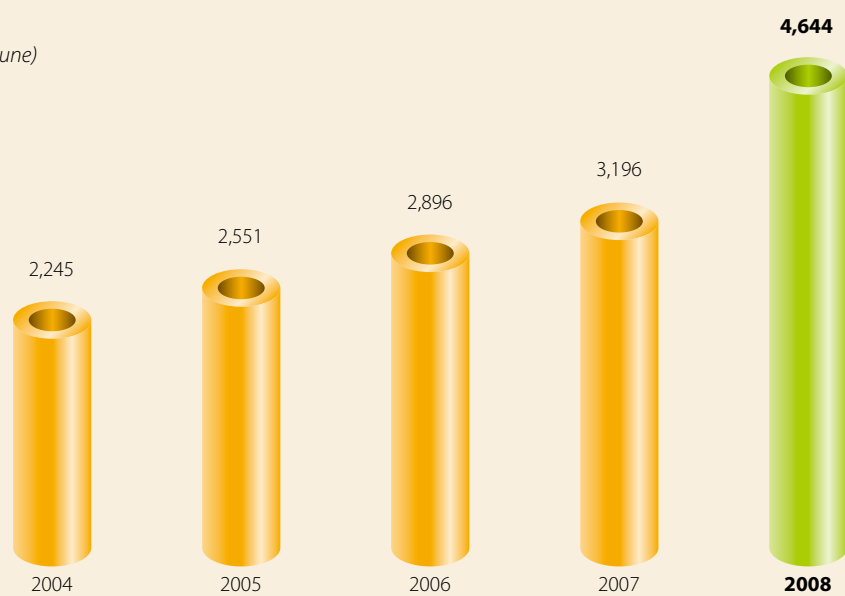
- Shaoxing
- Hefei
- Shanghai
- Hubei

Financial Highlights

Revenue

(in RMB million)

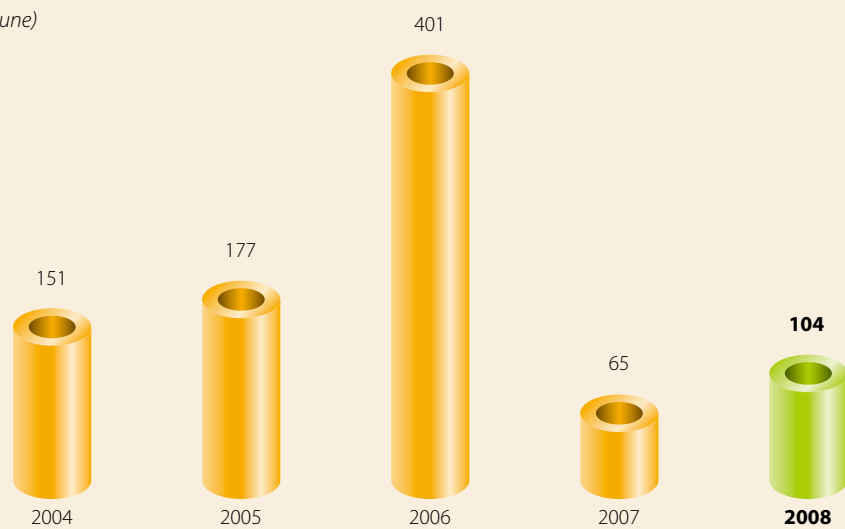
(for the six months ended 30 June)



Profit Attributable to the Equity Holders of the Company

(in RMB million)

(for the six months ended 30 June)



For the six months ended 30 June

	2008	2007	2006	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Results					
Revenue	4,644,051	3,196,367	2,895,757	2,550,957	2,245,116
Profit Attributable to the Equity Holders of the Company	103,634	65,015	401,068	176,659	151,170
Earnings per Share (RMB)	0.16	0.10	0.66	0.31	0.28
Assets and Liabilities					
Total Assets	8,731,041	6,847,775	5,726,478	3,751,911	3,128,874
Total Liabilities	5,788,333	4,076,292	3,588,157	2,390,839	2,122,200
Equity Holders' Funds	2,942,708	2,771,483	2,138,321	1,361,072	1,006,674

Key Financial Ratios

	As at 30 June	
	2008	2007
Return on Equity (%)	3.6%	2.4%
Net Assets Value per Share (RMB)	4.38	4.10
Net Gearing Ratio (%)	28.7%	4.5%
Current Ratio	1.01	1.24

Condensed Consolidated Interim Financial Information

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2008

	Note	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	822,133	760,593
Investment properties	5	43,533	43,533
Land use rights	6	1,899,397	2,008,189
Goodwill	5	16,534	16,534
Properties under development		215,283	135,541
Investment in associates		29,552	31,175
Deferred income tax assets		27,507	16,314
		3,053,939	3,011,879
Current assets			
Inventories		165,943	116,291
Land use rights	6	489,295	292,236
Properties under development		558,118	620,424
Completed properties held for sale		159,852	130,757
Due from customers on construction contracts	7	1,011,244	866,751
Trade receivables	8	643,150	656,635
Other receivables	9	1,037,341	931,352
Restricted bank deposits		336,750	248,067
Cash and cash equivalents		1,275,409	818,474
		5,677,102	4,680,987
Total assets		8,731,041	7,692,866
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital and premium	10	1,510,259	1,510,259
Reserves	11	134,676	146,746
Retained earnings			
– Proposed dividend		–	46,407
– Others		1,258,859	1,155,225
		2,903,794	2,858,637
Minority interests		38,914	37,771
Total equity		2,942,708	2,896,408

	<i>Note</i>	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	15	80,000	120,000
Deferred income tax liabilities		82,474	88,775
		162,474	208,775
Current liabilities			
Trade payables	12	674,842	706,462
Other payables	13	684,418	618,872
Receipts in advance		1,108,732	689,268
Current income tax liabilities		159,326	175,790
Due to customers on construction contracts	7	580,513	541,640
Dividend payable	21	46,407	–
Borrowings	15	2,366,921	1,851,151
Provision for warranty	14	4,700	4,500
		5,625,859	4,587,683
Total liabilities		5,788,333	4,796,458
Total equity and liabilities		8,731,041	7,692,866
Net current assets		51,243	93,304
Total assets less current liabilities		3,105,182	3,105,183

The notes on pages 11 to 25 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 2008

	Note	Unaudited	
		Six months ended 30 June	
		2008	2007
		RMB'000	RMB'000
Revenue	4	4,644,051	3,196,367
Cost of sales		(4,347,059)	(3,010,687)
Gross profit		296,992	185,680
Other gains – net	16	53,128	48,029
Selling and marketing costs		(10,080)	(9,768)
Administrative expenses		(123,085)	(116,633)
Operating profit		216,955	107,308
Finance costs	18	(60,208)	(24,563)
Share of losses of associates		(1,623)	(333)
Profit before income tax		155,124	82,412
Income tax expense	19	(50,347)	(11,499)
Profit for the period		104,777	70,913
Attributable to:			
Equity holders of the Company		103,634	65,015
Minority interests		1,143	5,898
		104,777	70,913
Earnings per share for profit attributable to the equity holders of the Company			
– basic and diluted			
(expressed in RMB per share)	20	RMB 0.16	RMB 0.10
Dividends	21	–	–

The notes on pages 11 to 25 form an integral part of this condensed interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	Unaudited					
	Attributable to the equity holders of the Company					
	Share capital and premium	Reserves	Retained earnings	Total	Minority interests	Total equity
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
Balance as 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	557,723	–	–	557,723	–	557,723
Dividends relating to 2006	–	–	(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
Balance at 1 January 2008	1,510,259	146,746	1,201,632	2,858,637	37,771	2,896,408
Profit for the period	–	–	103,634	103,634	1,143	104,777
Transfer of reserves to income statement arising from sale of completed properties held for sale	–	(12,070)	–	(12,070)	–	(12,070)
Dividends relating to 2007 (Note 21)	–	–	(46,407)	(46,407)	–	(46,407)
Balance at 30 June 2008	1,510,259	134,676	1,258,859	2,903,794	38,914	2,942,708

The notes on pages 11 to 25 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 2008

	Unaudited	
	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Cash flows from operating activities – net	36,505	(329,896)
Cash flows from investing activities – net	(55,340)	(61,567)
Cash flows from financing activities – net	475,770	653,561
Net increase in cash and cash equivalents	456,935	262,098
Cash and cash equivalents at start of period	818,474	782,699
Cash and cash equivalents at end of period	1,275,409	1,044,797
Analysis on balance of cash and cash equivalents:		
Cash at bank and in hand	1,243,409	1,024,797
Short-term bank deposits	32,000	20,000
	1,275,409	1,044,797

The notes on pages 11 to 25 form an integral part of this condensed interim financial information.

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 10 September 2008 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 2008 has been prepared in accordance with the Hong Kong Accounting Standard (“HKAS”) 34, ‘Interim financial reporting’. The condensed interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2007, which have been prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by Hong Kong Institute of Certified Public Accountants .

3. ACCOUNTING POLICIES

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2007, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rates that would be applicable to expected total annual earnings.

The following interpretations are mandatory for the first time for the financial year beginning 1 January 2008 but are not currently relevant for the Group.

- | | |
|-----------------------|--|
| • HK(IFRIC) – Int 11, | ‘HKFRS 2 – Group and treasury share transactions’ |
| • HK(IFRIC) – Int 12, | ‘Service concession arrangements’ |
| • HK(IFRIC) – Int 14, | ‘HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction’ |

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2008 and have not been earlier adopted:

- HKFRS 8, ‘Operating segments’, effective for annual periods beginning on or after 1 January 2009. HKFRS 8 replaces HKAS 14, ‘Segment reporting’, and requires a ‘management approach’ under which segment information is presented on the same basis as that used for internal reporting purposes. The expected impact is still being assessed in detail.
- HKAS 23 (revised), ‘Borrowing costs’, effective for annual periods beginning on or after 1 January 2009. This amendment is not relevant to the Group, as the Group currently applies a policy of capitalising borrowing costs.
- HKFRS 2 (amendment) ‘Share-based payment’, effective for annual periods beginning on or after 1 January 2009. Currently, the Group does not have any share-based payment.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (*continued*)

3. ACCOUNTING POLICIES (*continued*)

- HKFRS 3 (revised), 'Business combinations' and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates' and HKAS 31, 'Interests in joint ventures', effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Management is assessing the impact of the new requirements regarding acquisition accounting, consolidation, joint ventures and associates on the Group.
- HKAS 1 (revised), 'Presentation of financial statements', effective for annual periods beginning on or after 1 January 2009. Management is in the process of developing proforma accounts under the revised disclosure requirements of this standard.
- HKAS 32 (amendment), 'Financial instruments: presentation', and consequential amendments to HKAS 1, 'Presentation of financial statements', effective for annual periods beginning on or after 1 January 2009. This is not relevant to the Group as the Group does not have any puttable instruments.
- HK(IFRIC) – Int 13, 'Customer loyalty programmes', effective for annual periods beginning on or after 1 July 2008. This interpretation is not relevant to the Group as the Group has no customer loyalty programmes.

4. SEGMENT INFORMATION

(a) Business segments

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, net of inter-segment revenue, is approximately RMB4,603,197,000 for the six months ended 30 June 2008 (six months ended 30 June 2007: RMB3,179,619,000).

The Group's other operations mainly comprise the provision of architectural and interior design services, provision of construction equipment rental services. Neither of these constitutes a separate reportable segment.

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

The unaudited segment results for the six months ended 30 June 2008 are as follows:

	Six months ended 30 June 2008				
	Construction RMB'000	Building materials RMB'000	Property development RMB'000	Others RMB'000	Group RMB'000
Total segment revenue	3,858,486	633,659	299,311	42,795	4,834,251
Inter-segment revenue	(107,304)	(80,955)	–	(1,941)	(190,200)
Revenue	3,751,182	552,704	299,311	40,854	4,644,051
Operating profit/segment results	100,944	27,737	85,208	3,066	216,955
Finance costs					(60,208)
Share of losses of associates	–	–	(1,623)	–	(1,623)
Profit before income tax					155,124
Income tax expense					(50,347)
Profit for the period					104,777

The unaudited segment results for the six month ended 30 June 2007 are as follows:

	Six months ended 30 June 2007				
	Construction RMB'000	Building materials RMB'000	Property development RMB'000	Others RMB'000	Group RMB'000
Total segment revenue	2,808,411	512,664	48,527	23,975	3,393,577
Inter-segment revenue	(107,886)	(82,097)	–	(7,227)	(197,210)
Revenue	2,700,525	430,567	48,527	16,748	3,196,367
Operating profit/segment results	80,148	18,409	8,347	404	107,308
Finance costs					(24,563)
Share of losses of associates	–	–	(333)	–	(333)
Profit before income tax					82,412
Income tax expense					(11,499)
Profit for the period					70,913

Condensed Consolidated Interim Financial Information (continued)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Other unaudited segmental items including in the consolidated income statements are as follows:

	Six months ended 30 June 2008				
	Construction	Building	Property	Others	Group
	RMB'000	materials	development	RMB'000	RMB'000
Depreciation	18,087	16,795	607	965	36,454
Amortisation	2,741	2,044	112	283	5,180
Impairment of receivables – net	366	(54)	207	(209)	310

	Six months ended 30 June 2007				
	Construction	Building	Property	Others	Group
	RMB'000	materials	development	RMB'000	RMB'000
Depreciation	15,608	17,236	819	1,473	35,136
Amortisation	2,802	1,132	364	756	5,054
Impairment of receivables – net	3,507	5,293	–	108	8,908

Inter-segment transactions were entered into at terms and conditions agreed upon by the respective parties.

The unaudited segment assets and liabilities as at 30 June 2008 and capital expenditure for the six months then ended are as follows:

	Construction	Building	Property	Others	Unallocated	Total Group
	RMB'000	materials	development	RMB'000	RMB'000	RMB'000
Assets	4,155,078	1,184,780	2,939,445	351,146	71,040	8,701,489
Investment in associates	–	–	29,552	–	–	29,552
Total assets	4,155,078	1,184,780	2,968,997	351,146	71,040	8,731,041
Total liabilities	3,175,569	625,435	1,237,931	97,092	652,306	5,788,333
Capital expenditure	50,998	18,696	206	33,034	–	102,934

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

The audited segment assets and liabilities as at 31 December 2007 are as follows:

	Construction <i>RMB'000</i>	Building materials <i>RMB'000</i>	Property development <i>RMB'000</i>	Others <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Total Group <i>RMB'000</i>
Assets	3,398,731	1,141,889	2,794,231	266,993	59,847	7,661,691
Investment in associates	–	–	31,175	–	–	31,175
Total assets	3,398,731	1,141,889	2,825,406	266,993	59,847	7,692,866
Total liabilities	2,558,231	579,886	943,696	40,855	673,790	4,796,458

The unaudited capital expenditure for the six months ended 30 June 2007 is as follows:

Capital expenditure	18,254	18,425	1,642	64,873	–	103,194
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Segment assets consist primarily of land use rights, property, plant and equipment, properties under development, investment in associates, 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 certain borrowings and current and deferred income tax liabilities.

Capital expenditure represents the additions to property, plant and equipment.

(b) Geographical segments

The Group's business activities were mainly carried out in the PRC where the vast majority of the Group's assets are located. The Group had also undertaken construction business in three countries in Africa, namely The Republic of Djibouti ("Djibouti"), The Republic of Botswana ("Botswana") and The Republic of Seychelles ("Seychelles"), and had procured certain operating assets for use in these countries. However, no geographical segment information is required to be separately disclosed as these overseas business activities were less than 10% of the Group's consolidated revenue and results as well as the Group's total assets.

Condensed Consolidated Interim Financial Information (continued)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

5. PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES AND GOODWILL

	Property, plant and equipment <i>RMB'000</i>	Investment properties <i>RMB'000</i>	Goodwill <i>RMB'000</i>
Six months ended 30 June 2008			
Opening net book amount as at 1 January 2008 (audited)	760,593	43,533	16,534
Additions	102,934	–	–
Disposals	(4,940)	–	–
Depreciation	(36,454)	–	–
Closing net book amount as at 30 June 2008 (unaudited)	822,133	43,533	16,534
Six months ended 30 June 2007			
Opening net book amount as at 1 January 2007 (audited)	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 (unaudited)	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. There was no indication of impairment for non-financial assets with indefinite lives during the period.

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 2008, no impairment charge for non-financial assets subject to depreciation was recognised in the income statement.

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:

	Unaudited 30 June 2008 <i>RMB'000</i>	Audited 31 December 2007 <i>RMB'000</i>
Non-current land use rights	1,899,397	2,008,189
Current land use rights	489,295	292,236
	2,388,692	2,300,425

6. LAND USE RIGHTS (continued)

The movement of the land use rights during the six months ended 30 June 2008 and 2007 is as follows:

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Opening net book amount as at 1 January (audited)	2,300,425	1,061,397
Additions	180,017	–
Amortisation		
– expensed in administrative expenses	(5,180)	(5,054)
– capitalised in properties under development	(15,354)	(2,265)
Transfer to cost of sales	(71,216)	(7,882)
Closing net book amount as at 30 June (unaudited)	2,388,692	1,046,196

7. DUE FROM/(TO) CUSTOMERS ON CONSTRUCTION CONTRACTS

	Unaudited	Audited
	30 June	31 December
	2008	2007
	RMB'000	RMB'000
Contract costs incurred plus recognised profits (less recognised losses) to date	27,086,005	23,334,823
Less: progress billings to date	(26,655,274)	(23,009,712)
	430,731	325,111
Represented by:		
Due from customers on construction contracts	1,011,244	866,751
Due to customers on construction contracts	(580,513)	(541,640)
	430,731	325,111

Condensed Consolidated Interim Financial Information (continued)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

8. TRADE RECEIVABLES

	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
Trade receivables	667,010	680,185
Less: provision for doubtful debts	(23,860)	(23,550)
	643,150	656,635

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. The ageing analysis of the trade receivables is as follows:

	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
Within 3 months	251,393	347,340
3 months to 1 year	273,829	241,457
1 to 2 years	85,920	39,710
2 to 3 years	23,636	26,988
Over 3 years	32,232	24,690
	667,010	680,185

9. OTHER RECEIVABLES

	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
Retention money receivables and project deposits	729,780	711,333
Prepayments and other deposits	133,005	101,264
Others	174,556	118,755
	1,037,341	931,352

10. SHARE CAPITAL AND PREMIUM

	Number of shares <i>(thousands)</i>	Ordinary shares <i>RMB'000</i>	Share premium <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended 30 June 2008				
Balance as at 1 January 2008 (audited) and 30 June 2008 (unaudited)	662,964	662,964	847,295	1,510,259
Six months ended 30 June 2007				
Opening balance as at 1 January 2007 (audited)	610,927	610,927	342,808	953,735
Issue of H shares	52,037	52,037	505,686	557,723
Closing balance as at 30 June 2007 (unaudited)	662,964	662,964	848,494	1,511,458

As at 30 June 2008 and 31 December 2007, the total authorised number of ordinary shares is 662,964,005 shares with a par value of RMB1.00 per share. All issued shares are fully paid.

11. RESERVES

	Assets revaluation reserve <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended 30 June 2008			
Opening balance as at 1 January 2008 (audited)	79,766	66,980	146,746
Transfer of reserves to income statement arising from sale of completed properties held for sale	(12,070)	–	(12,070)
Closing balance as at 30 June 2008 (unaudited)	67,696	66,980	134,676
Six months ended 30 June 2007			
Balance as at 1 January 2007 (audited) and 30 June 2007 (unaudited)	101,104	126,847	227,951

Condensed Consolidated Interim Financial Information (continued)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

12. TRADE PAYABLES

The ageing analysis of the trade payables is as follows:

	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
Within 3 months	225,841	298,742
3 months to 1 year	281,236	256,086
1 to 2 years	98,702	99,053
2 to 3 years	29,395	17,747
Over 3 years	39,668	34,834
	674,842	706,462

13. OTHER PAYABLES

	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
Deposits from project managers	271,336	208,676
Other taxes payables	59,717	104,729
Accruals	11,919	11,385
Salary and welfare payable	40,177	40,503
Amounts due to shareholders	–	4,107
Others	301,269	249,472
	684,418	618,872

14. PROVISION FOR WARRANTY

	<i>RMB'000</i>
Six months ended 30 June 2008	
Opening net book amount at 1 January 2008 (audited)	4,500
Additional provisions	800
Utilised during the period	(600)
Closing net book amount at 30 June 2008 (unaudited)	4,700
Six months ended 30 June 2007	
Opening net book amount at 1 January 2007 (audited)	4,250
Additional provisions	200
Closing net book amount at 30 June 2007 (unaudited)	4,450

The Group gives warranty on construction services to its customers and undertakes to make up defects 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.

15. BORROWINGS

	Unaudited 30 June 2008 <i>RMB'000</i>	Audited 31 December 2007 <i>RMB'000</i>
Borrowing included in non-current liabilities		
Long-term bank loans		
– Secured (<i>Note (a)</i>)	80,000	50,000
– Unsecured	–	70,000
	80,000	120,000
Borrowing included in current liabilities		
Short-term bank loans		
– Secured (<i>Note (a)</i>)	44,000	128,000
– Guaranteed (<i>Note (b)</i>)	477,000	452,000
– Unsecured	1,845,921	1,271,151
	2,366,921	1,851,151
	2,446,921	1,971,151

Condensed Consolidated Interim Financial Information (continued)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

15. BORROWINGS (continued)

The movements in borrowings is analysed as follows:

	<i>RMB'000</i>
Six months ended 30 June 2008	
Opening balance as at 1 January 2008 (audited)	1,971,151
Addition of borrowings	1,678,321
Repayments of borrowings	(1,202,551)
Closing balance as at 30 June 2008 (unaudited)	2,446,921
Six months ended 30 June 2007	
Opening balance as at 1 January 2007 (audited)	1,222,779
Addition of borrowings	1,281,791
Repayments of borrowings	(1,185,953)
Closing balance as at 30 June 2007 (unaudited)	1,318,617

- (a) As at 30 June 2008, the secured bank loans were secured by the respective land use rights, buildings and properties under development of the Group with a total net book value amounting to RMB180,842,000 (31 December 2007: RMB392,140,000).
- (b) As at 30 June 2008, the guaranteed short-term bank loans of the Group were guaranteed by Mr. Pang Baogen, the chairman of the board of directors of the Company.

The weighted average effective annual interest rates at balance sheet dates are as follows:

	Unaudited 30 June 2008 <i>RMB'000</i>	Audited 31 December 2007 <i>RMB'000</i>
Bank loans	8.01%	6.07%

All the carrying amounts of the bank borrowings are denominated in RMB.

The fair values of current borrowings approximate their carrying amounts as the impact of discounting is not significant.

15. BORROWINGS (continued)

The carrying amounts and fair values of the non-current borrowings are as follows:

	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
Carrying amounts	80,000	120,000
Fair values	61,200	116,606

16. OTHER GAINS – NET

	Unaudited Six months ended 30 June 2008 RMB'000	2007 RMB'000
Interest income	42,419	31,093
Gains on debts restructuring	2,147	4,720
Government compensation	283	3,679
Gains on disposals of property, plant and equipment	235	2,577
Fair value gains on investment properties	–	51
Others	8,044	5,909
	53,128	48,029

17. EXPENSES BY NATURE

	Unaudited Six months ended 30 June 2008 RMB'000	2007 RMB'000
Depreciation of property, plant and equipment	36,454	35,136
Amortisation of land use rights charged into income statement	5,180	5,054
Employee compensation and benefit expenses	609,687	421,060
Cost of completed properties sold	226,964	45,945
Raw materials and consumables used	3,543,308	2,591,713
Operating leases of buildings	2,972	1,746

Condensed Consolidated Interim Financial Information (continued)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

18. FINANCE COSTS

The finance costs for the six months ended 30 June 2008 and 2007 represented the interest expenses on borrowings.

19. 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 earned in or derived from Hong Kong for the six months ended 30 June 2008 (six months ended 30 June 2007 : Nil).

(ii) PRC Enterprise Income Tax ("EIT")

EIT is provided on the assessable income of the Group's entities incorporated in the PRC, calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances.

The Company, its subsidiaries and a jointly controlled entity are subject to EIT at a rate of 25% (2007: 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% effective from 1 January 2008. As a result, the enterprise income tax rate of the Company and its subsidiaries incorporated in the PRC has been changed from 33% to 25% effective from 1 January 2008.

(iii) PRC land appreciation tax

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 cost of land use rights and all property development expenditures.

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

	Unaudited	
	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Current income tax		
– PRC EIT	53,621	34,813
– PRC land appreciation tax	14,220	–
Deferred income tax	(17,494)	(23,314)
	50,347	11,499

20. EARNINGS PER SHARE

Basic

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

	Unaudited Six months ended 30 June	
	2008	2007
Profit attributable to the equity holders of the Company (RMB)	103,634,000	65,015,000
Weighted average number of ordinary shares in issue during the period	662,964,005	653,476,598
Basic earnings per share (RMB)	0.16	0.10

Diluted

The Company had no potential dilutive effect in shares, thus the diluted earnings per share is the same as the basic earnings per share.

21. DIVIDENDS

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2008 (30 June 2007: Nil). A final dividend of RMB0.07 per ordinary share for 2007, amounting to total dividend of RMB46,407,000, was approved at the annual general meeting of the Company on 15 June 2008, which has been paid on 8 July 2008.

22. CONTINGENT LIABILITIES

	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
Guarantees given to banks in respect of mortgage facilities granted to third parties	149,304	56,657

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 were being delivered to the banks as security.

23. CAPITAL COMMITMENTS

As at 30 June 2008, the Group had no significant capital commitments.

24. RELATED PARTY TRANSACTION

Apart from the related party transaction disclosed in Note 15(b), the Group had the following related party transaction during the six months ended 30 June 2008 and 2007:

Key management compensation

	Unaudited Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
Salaries and other short-term employee benefits	2,177	1,549



Management Discussion and Analysis



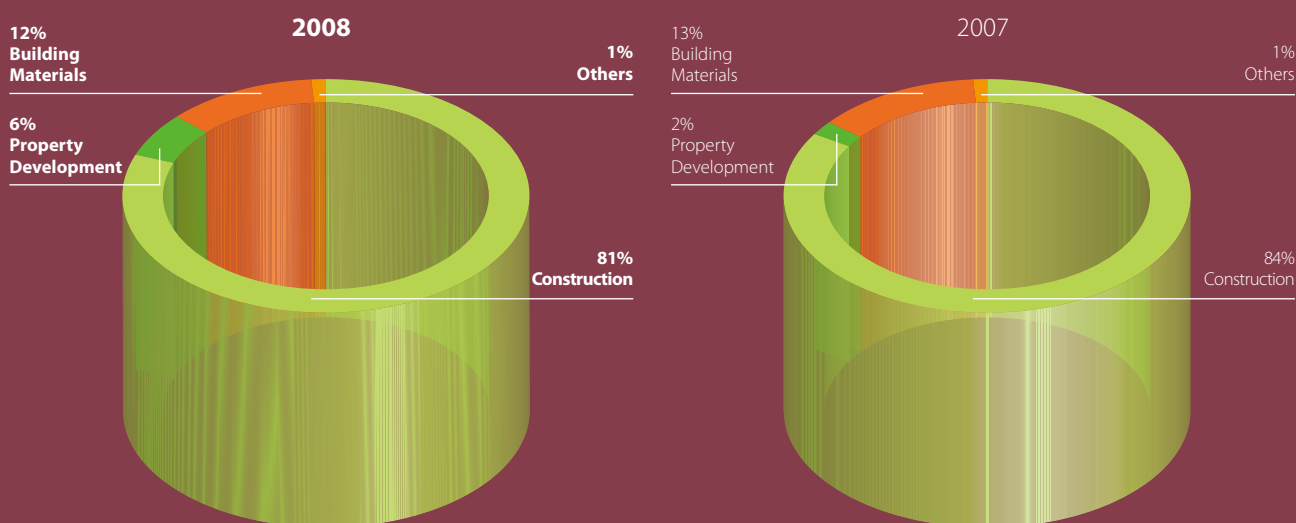
RESULTS AND DIVIDEND

For the six months ended 30 June 2008, the Group's revenue was RMB4,644,051,000, representing an increase of approximately 45% from the corresponding period last year. Operating profit was RMB216,955,000, representing an increase of approximately 102% from the corresponding period last year. Profit attributable to equity holders of the Company amounted to RMB103,634,000, representing an increase of approximately 59% compared to the same period last year. Earnings per share was RMB0.16, representing an increase of approximately 60% compared to the same period last year. The Board does not recommend the payment of interim dividend for the six months ended 30 June 2008.

Management Discussion and Analysis (continued)

Turnover

(for the six months ended 30 June)

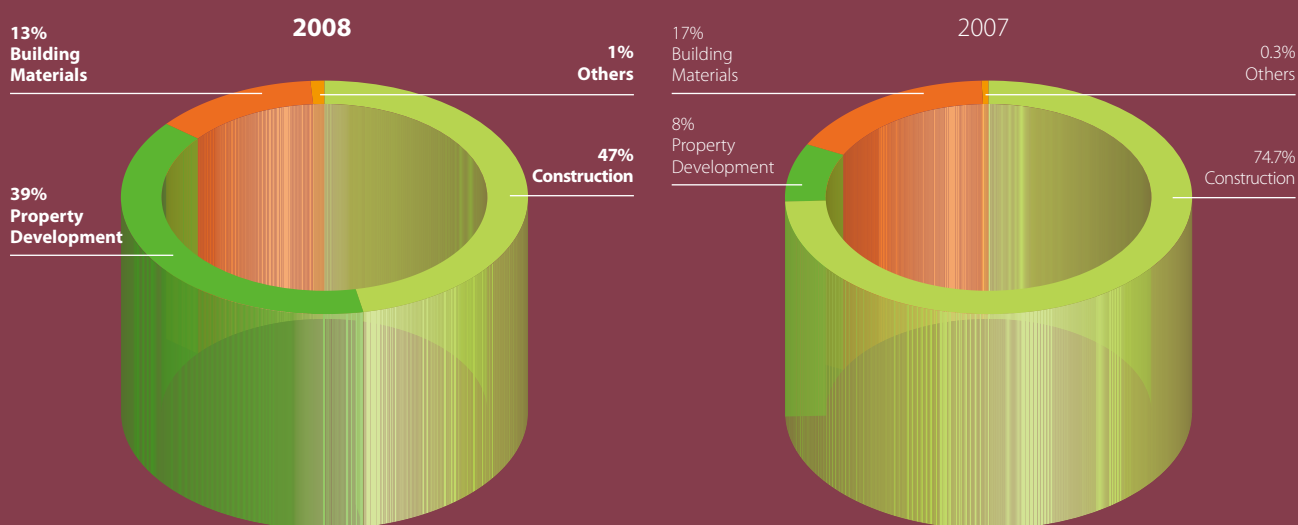


Turnover

	For the six months ended 30 June				Change
	2008		2007		
	RMB'000	% of total	RMB'000	% of total	
Construction	3,751,182	81%	2,700,525	84%	+39%
Property Development	299,311	6%	48,527	2%	+517%
Building Materials	552,704	12%	430,567	13%	+28%
Others	40,854	1%	16,748	1%	+144%
Total	4,644,051	100%	3,196,367	100%	+45%

Operating Profit

(for the six months ended 30 June)



Operating Profit

	For the six months ended 30 June				Change
	2008		2007		
	RMB'000	% of total	RMB'000	% of total	
Construction	100,944	47%	80,148	74.7%	+26%
Property Development	85,208	39%	8,347	8%	+921%
Building Materials	27,737	13%	18,409	17%	+51%
Others	3,066	1%	404	0.3%	+659%
Total	216,955	100%	107,308	100%	+102%

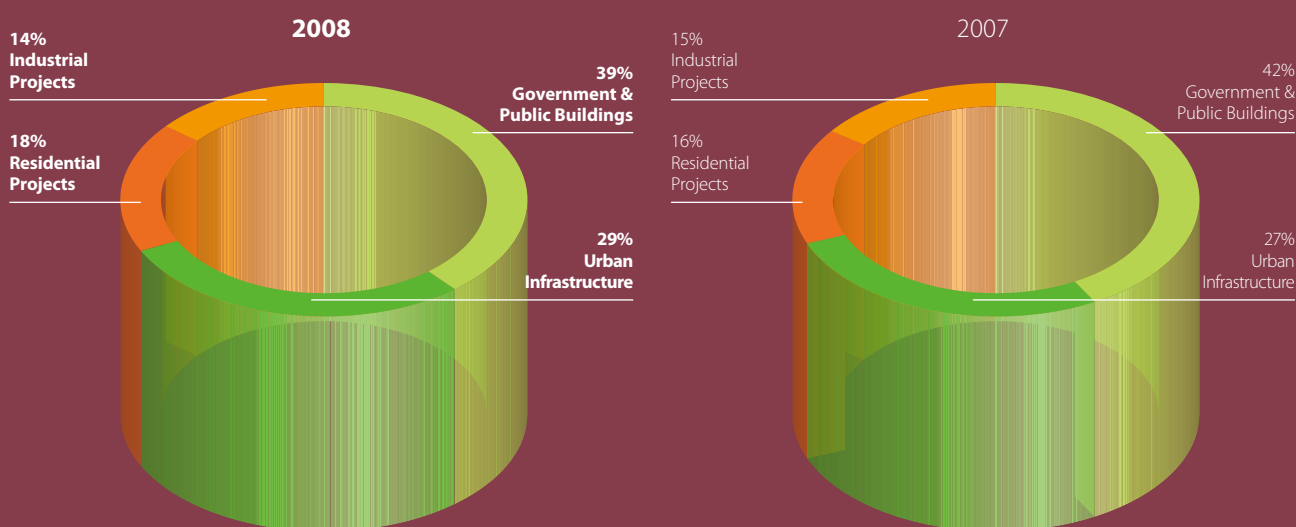
RESULTS REVIEW

Construction Business

For the six months ended 30 June 2008, the Group's construction business achieved a revenue of RMB3,751,182,000, representing a growth of approximately 39% over the same period last year. Operating profit amounted to RMB100,944,000, representing an increase of approximately 26% compared to the same period last year.

As at 30 June 2008, the Group's total contract value of construction-in-progress amounted to RMB27,086,005,000, surpassing the same period last year by approximately 37%, details of which are analysed below:

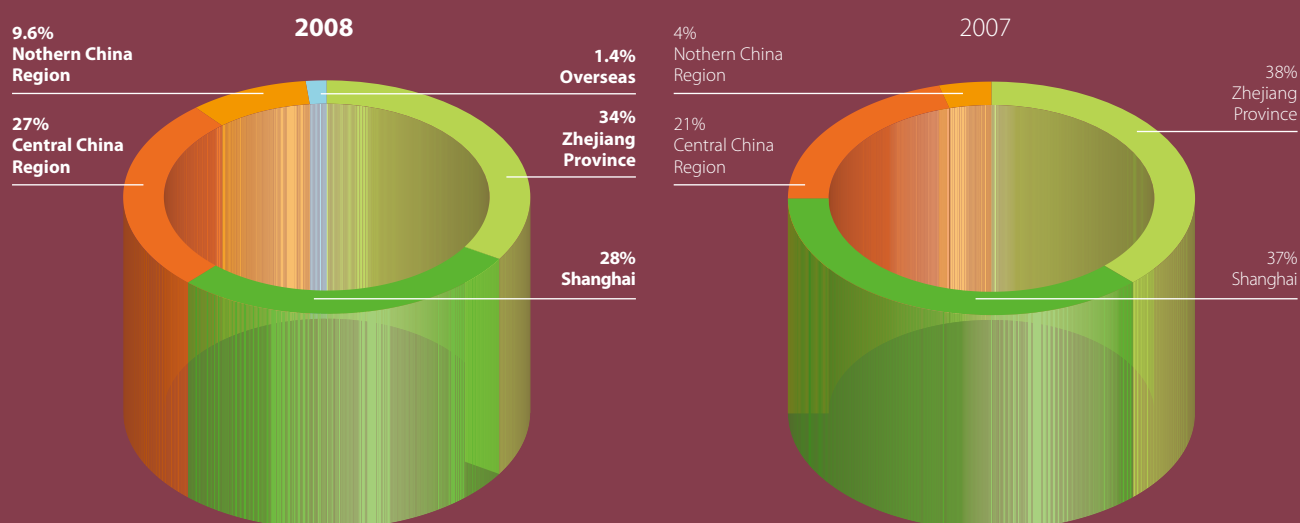
Total Contract Value for Construction-in-Progress – By Project Nature



By project nature:

	2008		2007		Change
	RMB'000	% of total	RMB'000	% of total	
Government & Public Buildings	10,563,542	39%	8,302,253	42%	+27%
Urban Infrastructure	7,854,941	29%	5,337,163	27%	+47%
Residential Projects	4,875,481	18%	3,162,763	16%	+54%
Industrial Projects	3,792,041	14%	2,965,091	15%	+28%
Total	27,086,005	100%	19,767,270	100%	+37%

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



By region:

	As at 30 June				Change
	2008		2007		
	RMB'000	% of total	RMB'000	% of total	
Zhejiang Province	9,209,242	34%	7,511,563	38%	+23%
Shanghai	7,584,081	28%	7,313,890	37%	+4%
Central China Region	7,313,221	27%	4,151,127	21%	+76%
Northern China Region	2,600,257	9.6%	790,690	4%	+229%
Overseas*	379,204	1.4%	-	-	N/A
Total	27,086,005	100%	19,767,270	100%	+37%

* Overseas construction business was principally carried out in three African countries including Djibouti, Botswana and Seychelles.

Management Discussion and Analysis (continued)

The Group endeavors to adopt the mission of “brand building and technology enhancement” in fostering new construction projects with emphasis on quality. For the six months ended 30 June 2008, the Group has contracted for new construction projects in the amount of approximately RMB5.05 billion, which comprises a number of high-end construction projects including the New Terminal Building of Hangzhou International Airport, Wenzhou Luchen Plaza and the highest building in Anhui, Dongyi Financial Center, enhancing the Group’s position in the high-end construction market.

During the period under review, the Group’s business in Djibouti, Botswana and Seychelles has registered considerable growth as new construction projects contracted for approximated to RMB370 million. These construction contracts comprise primarily the residential building projects invested by the Arab Foundation and the extension project for the President’s Residence in Djibouti and a number of other landmark construction projects.

Property Development Business

For the six months ended 30 June 2008, the revenue of the Group’s property development business amounted to RMB299,311,000 (before deduction of business tax and surcharges amounting to RMB314,715,000), representing an increase of approximately 517% from the same period last year. The Group’s property development business contributed an operating profit of RMB85,208,000, representing an increase of approximately 921% compared to the same period last year.

During the period under review, the Group’s property development business was primarily derived from the sale of units in Hefei City Green Garden Phase II, Zhejiang Commercial City and Shaoxing Linjiang Green Garden. Hefei City Green Garden Phase II has sold units in equivalent of approximately 49,582 square metres, registering a total revenue of approximately RMB169,433,000 with an average selling price per square metre of RMB3,417. Zhejiang Commercial City has sold approximately 1,079 square metres, registering a total revenue of approximately RMB3,376,000 with an average selling price per square metre of RMB3,129. Linjiang Green Garden had completed delivery of sale units of approximately 42,088 square metre to purchasers in May 2008, registering a total revenue of approximately RMB127,255,000 with an average selling price per square metre of RMB3,024. In addition, the sale of the remaining commercial and retail units left-over from prior years has recorded revenue of approximately RMB14,651,000.

Jing’an Ziyuan in Shanghai has begun pre-sale in April 2008. The pre-sale has received good response from the market and approximately 70% of the total number of units has been sold up to now, with an average selling price per square metre for service apartments and office units of RMB39,875 and RMB30,000 respectively.



Landscape of Shaoxing "Linjiang Green Garden"



Villa at Shaoxing "Linjiang Green Garden"

Projects under development

As at 30 June 2008, the Group's projects under development are summarised below:

Project Name	Location	Estimated Gross Floor Area <i>(square metres)</i>	Equity Interest of the Group
Baoye Four Seasons Garden	Shaoxing	525,000	100%
Daban Fengqing	Shaoxing	250,000	100%
Yuyuan	Shaoxing	180,000	49%
Jing'an Ziyuan	Shanghai	48,239	70%
City Green Garden Phase II	Hefei	120,000	100%
Zhejiang Commercial City	Hefei	66,000	75%
Baoye Tongcheng Green Garden	Hefei	164,000	100%
Baoye Moon Lake Garden	Jingmen Hubei	82,000	100%



Hefei "City Green Garden"



Shaoxing "Linjiang Green Garden"

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 City, it is known as the "natural treasure in the heart of a city". Baoye Four Seasons Garden has a site area of approximately 1,050,000 square metres with 0.5 time plot ratio 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. The construction of about 100,000 square metres of Baoye Four Seasons Garden Phase I has been started in June 2008. The pre-sale is expected to start in 2009.

Daban Fengqing is located in Keqiao, Shaoxing County, having a total site area of approximately 100,000 square metres with 2.5 times plot ratio for development of residential area of 250,000 square metres. The land is in the development zone of the future central

business district of Keqiao, alongside the "dual lake" 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. The ground breaking of Daban Fengqing project has been commenced in March 2008. The pre-sale is expected to start in 2009.

Yuyuan is located at No.1 Yangming Road, Shaoxing City, having a total site 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. The Group and the Greentown China Holdings Limited, a listed company on HKEx (stock code: 3900), jointly and successfully bid for the land in which the Group is interested in 49%. The land area is of close proximity to the resort district of Kuaijishan where the Group's golf club and Baoye Four Seasons Gardens project are located, 8 kilometres from the central business district, and will be developed as low rise premium residential properties and deluxe service apartments. At present, the construction has been started and it is expected that the pre-sale will begin at the end of 2008.



Shanghai "Jing'an Ziyuan"



Hefei "Zhejiang Commercial City"

Jing'an Ziyuan is located on Jiangning Road in Jing'an District of Shanghai, close to 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 48,239 square metres, which has been developed as luxurious service apartments. The construction has been completed and the finishing decoration work is in progress. The pre-sale has been started since April 2008 and good response is received from the market. At present, approximately 70% of the total number of units has been pre-sold.

City Green Garden Phase II, a total gross floor area of 170,000 square metres in a prime developing zone in Hefei City, Anhui, is located in Yaohai District with convenient transportation. It comprises mainly high-end properties with retail shops and offices. The pre-sale went

on well. It is expected that approximately 120,000 square metres will be recognised in 2008. In the first half of 2008, 49,582 square metres have been recognised and approximately 80% of the remaining units has been pre-sold up to now.

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. It is mainly developed into up-scale service apartments, retail shops and low rise building complex. As at 30 June 2008, a total of approximately 26,369 square metres has been sold and recognised. Approximately 80% of the remaining 66,000 square meters have been pre-sold.

Management Discussion and Analysis (continued)

Baoye Tongcheng Green Garden is located in Baohe District of Hefei, with a land area of 58,570 square metres and 2.8 times plot ratio for development of residential area of 164,000 square metres. This property comprises nine high-rise buildings and will be developed for commercial and residential properties. The land is located at the city center of Hefei with adequate and well-developed community facilities. It is next to the University of Science and Technology of China. At present, the construction has begun and pre-sale is expected to start at the end of 2008.

Baoye Moon Lake Garden is located in Dongcheng District, Jingmen, Hubei, with well-developed community facilities and convenient transportation, having 1.8 times plot ratio for commercial and residential properties development and a total gross floor area of 82,000 square metres. The project comprises 22 buildings, 13 of which are high-rise building, 9 of which are low-rise building. The buildings alongside Yuelianghu Road will be developed as commercial units. At present, the planning phase has been finished. It is expected the pre-sale will start in 2009.

The revenue breakdown of the Group's building materials is as follows:

Our current level of land bank is sufficient for properties development in the next three to five years, therefore the Group had not procured new land bank during the period. Given unpredictable circumstances that prevail in the local and international markets, though prices of lands during the period under review slipped moderately, with adequate available financial resources backing, the Group chose to acquire land carefully. However, having said that, the Group will adopt a prudent investment approach in pursuing acquisition targets that will offer higher earnings prospect and will pitch on "the boat" and opportunity given rise by the current downturn.

BUILDING MATERIALS BUSINESS

For the six months ended 30 June 2008, the revenue of the Group's building materials business was RMB552,704,000, up approximately 28% over the same period last year; operating profit was RMB27,737,000, an increase of approximately 51% over the same period last year.

	For the six months ended 30 June		Change
	2008 RMB'000	2007 RMB'000	
Ready-mixed concrete	127,122	124,864	+2%
Curtain wall	165,811	103,336	+60%
Wood products and interior decoration	143,703	86,113	+67%
Steel structure	71,852	73,196	-2%
Concrete pipes	27,635	21,528	+28%
Concrete ducts	5,527	12,917	-57%
Large roof sheathings	2,764	4,306	-36%
Fireproof materials	8,290	4,307	+92%
Total	552,704	430,567	+28%

As depicted from above, leveraging on our continued investment in manufacturing technologies and process engineering, our products gradually received market and industry recognition, curtain wall, wood products and interior decoration all registered remarkable growth during the period. However, traditional building materials segments such as the concrete ducts and large roof sheathings saw a decline. On the brighter side, the upsurge of raw materials costs in steel, cement and lumber, the increased labor costs and increased competition from traditional building materials were largely offset by improvement in manufacturing technologies and process engineering, overall operating profit margin was then increased from 4.3% of the same period last year to 5% in the period under review.

The Group has achieved commendable results after two and half years' unwavering efforts with the Daiwa Japan to co-develop pre-fabricated building materials for residential properties in China. Various industrialisation of pre-fabricated building materials' technologies and research and development results have been put into application in various construction projects. These technologies and research and development results will also be applied in the Daban Fengging and Baoye Four Seasons Garden projects. At the same time, the Group will also collaborate with the China Institute of Architecture to research and co-develop the know-how in the areas of energy-saving, and environment-friendly residential units in anticipation of the huge "New-village" re-development and construction market.

BUSINESS PROSPECT

During the period under review, almost every industry sector in China was impacted by the austerity macroeconomic control measure. In particular, the real estate and construction industries had undergone another round of correction. Properties prices have adjusted downward and volume of market demand has contracted in certain regions; purchasers are prudent in buying properties. The Group believes that these are primarily the results of the austerity macroeconomic measures implemented by the PRC Government from 2007. However, the adverse effects in these industries in China revealed fundamental differences when compared to the critical situation that were brought by the subprime mortgage in the USA. The adverse effects were primarily driven by the significant upsurge in properties prices from 2007, now being corrected or adjusted to rationalise in the industries. These adjustments or corrections in the near term are considered healthy and will pave a long-term steady growth for the industries. Any short-term adjustments, either way, are not the single factor in determining future prospect of the industries, but the fundamental growth prospects. The growth prospects in the China market include economic growth, increased urbanisation rate, population movement, mode of living, changes in composition and mix of families and so on. Though the slow down in global market has created a number of challenges to the China economy, its steady growth momentum remains. According to the report issued by the National Bureau of Statistics of China, the urbanisation rate remains at 45%, which is much lower than highly developed countries, resulting from large influx of agricultural population moving from villages to cities. At present, there is abundant demand calling for comfortable and modernised residential units from the replacement market.

The Group is facing short-term economic adjustment or correction. Realising that operating costs such as raw materials, salaries and wages, and interest continue to rise, the Group will nevertheless have to absorb these adverse effect in our profit margins for the construction and building materials businesses. However, these negative impacts were largely offset by the improved operating margin registered in the property development business, attributed by the sale of units in the city centres of Shanghai and Hefei, which have enhanced the overall profit margin for the Group in the year of 2008.

Due to our effective strategic position and expansion strategy, construction business has successfully extended its foothold outside Zhejiang Province, following the acquisition of Hubei Construction Group, and has registered year-on-year growth. After years of accumulative experience, the Group is able to articulate appropriate sales plans to ensure steady growth and contribution for the property development business; building materials will see an increase in revenue after the Hefei Industrial Park is put into commercial production.

The Group believes that short-term market correction and adjustment will benefit the long-term development of our businesses. This correction and adjustment is not only a challenge but also an opportunity for us. With our prudent financial management and business expansion model, low gearing ratio, which have not only enabled us to pass through this difficult and down-turn period and, more importantly, provided us with sufficient capital to pursue acquisition initiatives during this consolidation phase in our industries to set a solid foundation for the future prosperity of the Group.



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 optimising the capital structure of the Group.

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

Financial Resources and Liabilities

With its steady growth in cash flow, sound credit record and excellent reputation in the industry, the Group preserved an AAA credit rating by a credit rating institution recognised by the People's Bank of China in 2008. 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 7% to 8% per annum (30 June 2007: 6% to 8% per annum). During the period, 75% of the Group's borrowings were on an unsecured basis (30 June 2007: 92%). 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 2008, the Group's net bank borrowings, after deduction of cash and cash equivalents and restricted bank deposits, amounted to RMB834,762,000 (30 June 2007: RMB123,295,000). The Group's net gearing ratio (net bank borrowings/equity attributable to the equity holders of the Company) was 28.7% (30 June 2007: 4.5%). Acquisition of the land use rights has been paid off during the period. The Group is confident that it will keep the gearing ratio at such healthy level in the future.

The proposed issuance of short-term commercial paper approved in the extraordinary general meeting of the Company on 19 November 2007 has not received favorable borrowing terms from the relevant financial institutions as a result of the PRC Government's tightened monetary policy. As the Group is financially sufficient, the Company does not need to call for immediate issue of such short-term commercial paper. The Group will continue to maintain close contact with the concerned financial institutions to arrange the issuance of short-term commercial paper when required.

Key Financial Ratios

		As at 30 June	
		2008	2007
Return on equity (%)		3.6%	2.4%
Net assets value per share (RMB)		4.38	4.10
Net gearing ratio (%)		28.7%	4.5%
Current ratio		1.01	1.24

Return on equity = profits attributable to the equity holders of the Company/equity attributable to the equity holders of the Company

Net assets value per share = equity attributable to the equity holders of the Company/number of issued shares at the end of the period under review

Net gearing ratio = net bank borrowings/equity attributable to the equity holders of the Company

Current ratio = current assets/current liabilities

During the period under review, profit attributable to equity holders of the Company amounted to RMB103,634,000 registering a growth of 59% compared to the same period last year. Return on equity and net assets value per share both saw a commendable growth. Net bank borrowings increased by 5.7 times to RMB834,762,000 in 2008 from the corresponding period last year. The increase in net bank borrowings has pushed up the gearing ratio and thus lowering the current ratio, which, of course, is a short-term phenomenon. The increased spending in high quality land reserve will contribute significant profits to the Group in future.

Cash Flow Analysis

		As at 30 June	
		2008	2007
		RMB'000	RMB'000
	Note		
Net cash inflow/(outflow) from operating activities	(i)	36,505	(329,896)
Net cash outflow from investing activities	(ii)	(55,340)	(61,567)
Net cash inflow from financing activities	(iii)	475,770	653,561
Increase in cash and cash equivalents		456,935	262,098

Management Discussion and Analysis (continued)

Note:

- (i) The net cash inflow from operating activities was RMB36,505,000, compared to net cash outflow of RMB329,896,000 of the same period in 2007, representing an increase of RMB366,401,000 from the same period in 2007. This was primarily attributable to the pre-sale of Shanghai Jing'an Ziyuan project, which has received a total of purchase deposits amounting to RMB494,719,000. All other operating subsidiaries have also registered healthy cash inflow position, thus leading to a net cash inflow position for the Group.
- (ii) The net cash outflow from investing activities of RMB55,340,000 was primarily attributable to the increased investment in fixed assets and construction-in-progress for Kuaijishan Golf Club and Hotel, and building materials industrial parks.
- (iii) The net cash inflow from financing activities of RMB475,770,000 was a reduction of RMB177,791,000 from the same period last year. There were no issue of new shares in 2008 versus new shares issued to Tiger Global in the amount of RMB559,650,000 in February 2007, all cash inflow from financing activities during the period was from increase in bank borrowings.

Land Appreciation Tax

On 28 December 2006, the State Administration of Taxation pronounced a circular in respect of the rules and regulations pertaining to land appreciation tax applicable to real estate and property development enterprise in clearing their pending tax assessment. The 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 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 not be significant.

Administrative Expenses

The Group's administrative expenses increased from RMB116,633,000 in the six months ended 30 June 2007 to RMB123,085,000 in the six months ended 30 June 2008, a moderate increase of 5.5%, in which the vast majority of the expenses were attributable to salaries and wages. Due to the new labor law and inflation factors, salaries and wages grouped under administrative expenses increased to RMB28,512,000 in the six months ended 30 June 2008 from RMB19,663,000 in the same period last year, representing an increase of 45%. Other administrative expenses are within manageable level primarily resulting from cost and energy saving, and increased in efficiency.

Finance Costs

Finance costs represent interest expenses derived from bank borrowings amounting to RMB60,208,000 for the six months ended 30 June 2008, which is a significant increase of 1.45 times compared to RMB24,563,000 of the same period last year. The increase was primarily attributable to two-fold: bank borrowings increased from RMB1,318,617,000 as at 30 June 2007 to RMB2,446,921,000 as at 30 June 2008; bank borrowing rates increased by about 1% by comparing 2008 versus 2007 for the same period. The increase in bank borrowings was primarily used to finance the purchase of three parcels of land as well as its development and construction costs.

External Guarantee and Fulfillment

	30 June 2008 RMB'000	31 December 2007 RMB'000
Guarantees given to banks in respect of mortgage facilities granted to third parties	149,304	56,657

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.

Details of the Charges on the Group's Assets

As at 30 June 2008, land use rights, buildings and properties under development at a total value of approximately RMB180,842,000 (31 December 2007: RMB392,140,000) were pledged to banks as security in securing short-term bank borrowings.

Capital Expenditure

The Group's capital expenditure in the first half of 2008 approximated to RMB102,934,000, in which approximately RMB50,000,000 was used for the construction of Kuaijishan Golf Club and Hotel project; approximately RMB30,000,000 was used for the construction of the Institute of Construction Research; and approximately RMB18,000,000 was used for the construction of building materials industrial parks' new production facilities in Shaoxing and Hefei. It is expected that approximately RMB20,000,000 will be allocated for the construction of building materials industrial parks' new production facilities in Hefei and Wuhan in the second half of 2008.

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 significant impact on the business operations or results of the Group.

Dividends

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil). A final dividend of RMB0.07 per ordinary share for 2007, amounting to total dividend of RMB46,407,000, was approved at the annual general meeting of the Company on 15 June 2008, which was paid on 8 July 2008.



Corporate Social Responsibilities



Apart from creating value for its shareholders, the Group also endeavours to attain a high degree of social responsibility in the areas of community activities, environment protection and education for the villagers. The Group reckons that a good and successful corporate enterprise needs the support of the local communities. When the country and communities are facing difficulties, corporate must share these social responsibilities.

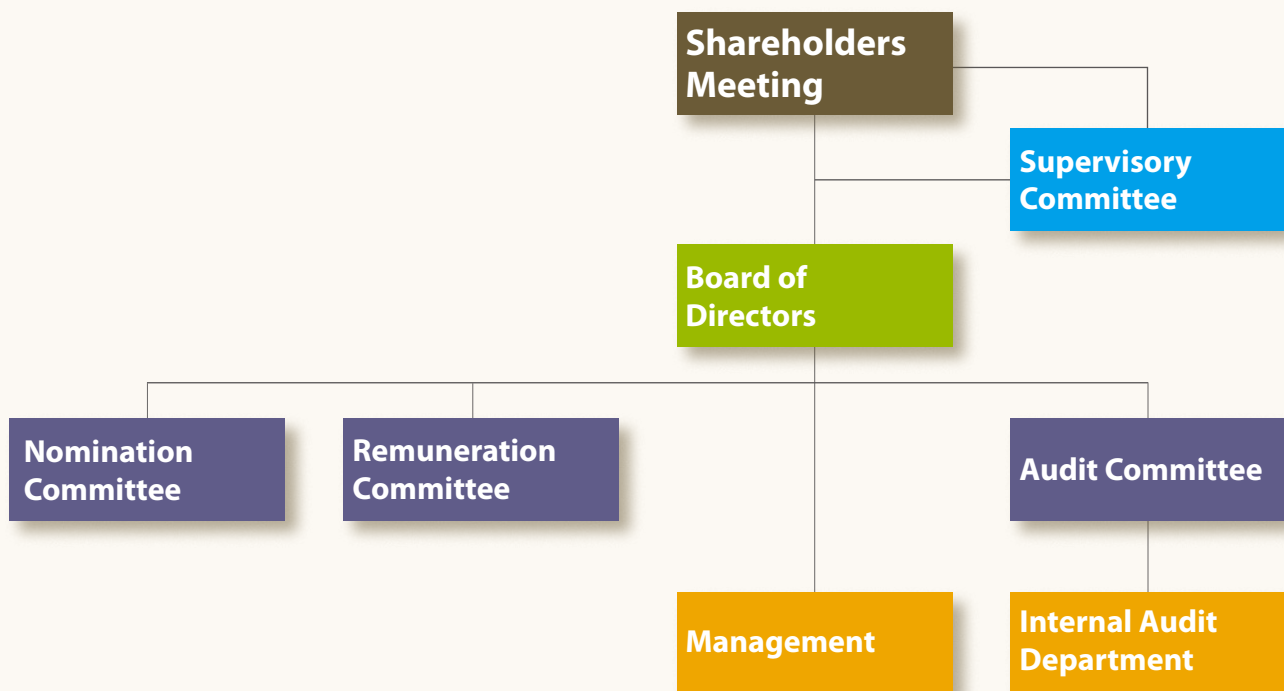
Subsequent to the earthquake in Sichuan Province on 12 May 2008, the Board resolved to donate approximately RMB5,000,000 for the construction of an earthquake-proof, energy saving and environment-friendly primary school in Qingchuan County, Sichuan Province. The Group has also organised various voluntary activities, including cash donation, blood donation, and clothes donations for those who are suffering from this natural disaster. Up to now, the Group has collected, amongst its employees, approximately RMB2,500,000 donation, of which approximately RMB1,700,000 had been directed through charitable organisations to Sichuan Province, and the balance will be used for purchasing digital teaching materials and facilities for the primary school that is being built in Qingchuan County, Sichuan Province.

The Group is a construction-oriented enterprise, we are devoted to offer help to the local people in the affected areas in relation to solving post-earthquake housing problems. In order to achieve this, we have organised and deployed a team of 98 technical persons to Sichuan Province at earliest possible time to build a total of 588 sets moveable living units, which comply with the relevant earthquake-proof and environmental protection requirements, for use in the affected areas.

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 strives to comply with the Company Law of the People's Republic of China ("Company Law"), the Securities Law of the People's Republic of China, Code on Corporate Governance Practices set out in the Listing Rules and other relevant laws and regulations and will regularly review the corporate management activities to enhance corporate value so as to ensure a sustainable development of the Company and to maximize shareholders' returns.

CORPORATE GOVERNANCE STRUCTURE



BOARD OF DIRECTORS

According to relevant rules of the Company Law, the Listing Rules and the articles of association of the Company, the second term of the board of directors of the Company has expired. Nominated by the nomination committee meeting held on 15 April 2008, recommended by the board of directors meeting held on 15 April 2008 and approved by the annual general meeting of the Company held on 15 June 2008, the third term of the board of directors has begun. The new board of directors consists of ten directors, in which Mr. Pang Baogen, Mr. Gao Jiming, Mr. Gao Lin, Mr. Zhou Hanwan and Mr. Wang Rongfu are executive directors; Mr. Hu Shaozeng, Mr. Wang Youwei, Mr. Yi Deqing, Mr. Chan Yin Ming, Dennis and Mr. Sun Chuanlin are independent non-executive directors.

SUPERVISORY COMMITTEE

According to relevant rules of the Company Law and the articles of association of the Company, the second term of the supervisory committee of the Company has expired. 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. In order to facilitate the functions of the supervisory committee, according to the Company Law, recommended by the labor union, Mr. Kong Xiangquan and Mr. Qian Yongjiang were recommended for appointment as supervisors on 15 April 2008. Nominated by the nomination committee meeting, recommended by the board of directors meeting and approved by the annual general meeting of the Company held on 15 June 2008 respectively, the third term of the supervisory committee has begun. The third term supervisory committee consists of five supervisors of whom Mr. Kong Xiangquan and Mr. Qian Yongjiang are employee representatives, Mr. Chen Xingquan, Mr. Li Yongsheng and Mr. Zhang Xindao are independent supervisors.

NOMINATION COMMITTEE

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

The nomination committee held a meeting on 15 April 2008, to transact the following business:

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

After due consideration to the candidates' background and experience, it was resolved that Mr. Pang Baogen, Mr. Gao Jiming, Mr. Gao Lin, Mr. Zhou Hanwan and Mr. Wang Rongfu be nominated as executive directors of the Company and Mr. Hu Shaozeng, Mr. Wang Youwei, Mr. Yi Deqing, Mr. Chan Yin Ming, Dennis and Mr. Sun Chuanlin as independent non-executive directors of the Company, for the third term of office for the Board. In addition, Mr. Chen Xingquan, Mr. Li Yongsheng and Mr. Zhang Xindao were nominated as independent supervisors of the Company.

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. Chan Yin Ming, Dennis (Chairman) and Mr. Yi Deqing, and one executive director, Mr. Pang Baogen. The remuneration committee of the Company held one meeting during the period. All three members attended the meeting in which the new remuneration policy of the Group for the year of 2008 was discussed.

AUDIT COMMITTEE

The audit committee of the Company consists of three independent non-executive directors, namely Mr. Wang Youwei (Chairman), Mr. Yi Deqing and Mr. Chan Yin Ming, Dennis. 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 management, discussed with the auditors 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 2008 had been reviewed by the audit committee.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors of the Company, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules during the six months ended 30 June 2008, except that the role of the chief executive officer of the Company has been assumed by Mr. Pang Baogen, the chairman of the Board.

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. The Board believes that the current arrangement has installed a proper segregation of duties and adequately streamlined the responsibility. The Board also believes that simple management structure can enhance the communication amongst staff at different levels as well as enabling efficient execution of new policies. 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 contained in Appendix 10 to the Listing Rules as its own code of conduct regarding the securities transactions by the directors. Specific enquiries have been made by the Company and all the directors have confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2008.

Investor Relations



Through active interactions between investors and the Company, and continuous improvement in corporate transparency and corporate governance, the Group aims to reinforce investors' and potential investors' faith in the Company. 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 Company.

Investor Relations (continued)



During the period, we have received many investors and analysts to visit the Company and attended various “one-on-one” meetings. In addition to this, we have attended the following investor conferences:

Date	Activities	Organizer	Venue
21–23 January 2008	UBS Great China Conference	UBS	Shanghai
23–25 April 2008	JP Morgan 4th Annual China Conference	JP Morgan	Beijing
8–9 May 2008	Citi Bank HK/China Mini Conference	Citi Bank	Hong Kong
14–16 May 2008	CLSA China Forum	CLSA	Shanghai
10 June 2008	HSBC China Corporate Day	HSBC	Hong Kong

Other Information

INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As at 30 June 2008, the interest and short position of each director, supervisor and senior management of the Company in the shares, underlying shares or debentures of the Company or any associated corporations within the meaning of Part XV of the 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/ Senior management	Relevant entity	Capacity	No. of domestic shares held (Long position)	Approximate percentage of the total registered capital of the relevant entity
Directors				
Mr. Pang Baogen	The Company	Individual	198,753,054	29.98%
Mr. Gao Jiming	The Company	Individual	13,024,647	1.96%
Mr. Gao Lin	The Company	Individual	9,544,775	1.44%
Mr. Zhou Hanwan	The Company	Individual	8,233,510	1.24%
Mr. Wang Rongfu	The Company	Individual	7,147,039	1.08%
Senior Management				
Mr. Sun Guofan	The Company	Individual	11,705,283	1.77%
Mr. Gao Jun	The Company	Individual	5,794,259	0.87%
Mr. Lou Zhonghua	The Company	Individual	5,633,172	0.85%
Mr. Wang Rongbiao	The Company	Individual	2,647,911	0.40%
Mr. Jin Jixiang	The Company	Individual	2,440,527	0.37%

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2008, so far as was known to the directors, the following persons, other than directors, supervisors and senior management of the Company, have an interest in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO:

Name	Number of H shares of the Company held (Long position)	Approximate percentage of the total issued H shares of the Company	Approximate percentage of the total registered share capital of the Company
Atlantis Investment Management Ltd	62,948,000	20.16%	9.49%
The Goldman Sachs Group, Inc. (Note 1)	43,372,160	13.89%	6.54%
Coleman Charles P. III (Note 2)	33,916,992	10.86%	5.12%
Tiger Global, L.P. (Note 2)	17,777,445	5.69%	2.68%
HSBC Investments (Hong Kong) Limited	15,630,000	5.00%	2.36%

Other Information (continued)

Note:

1. The interests are held by 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 Holding (U.K.), Goldman Sachs Group Holding (U.K.) and Goldman Sachs (U.K.) L.L.C.
2. 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.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

HUMAN RESOURCES

As at 30 June 2008, the Group had a total of approximately 3,690 permanent employees (30 June 2007: 2,100), there are approximately 57,000 indirectly employed construction site workers (30 June 2007: 51,000) who are not permanent employees of the Group. For the six months ended 30 June 2008, total staff costs amounted to RMB609,687,000 (the same period in 2007: RMB421,060,000). 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 is devoted 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 TRANSACTION

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries or jointly controlled entity has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2008.

APPRECIATION

The Board would like to take this opportunity to express its 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

10 September 2008

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, its subsidiaries and a jointly controlled entity
The period	The six months ended 30 June 2008
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 Industrialisation	Zhejiang Baoye Building Materials Industrialisation 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
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 Hong Kong Stock Exchange
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 HKEx, and subscribed for in HK dollars
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
Company Law	The Company Law of the People's Republic of China
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers

Information for Shareholders

Directors

Executive Directors

Mr. Pang Baogen, *Chairman*
Mr. Gao Jiming
Mr. Gao Lin
Mr. Zhou Hanwan
Mr. Wang Rongfu

Independent Non-executive Directors

Mr. Hu Shaozeng
Mr. Wang Youwei
Mr. Yi Deqing
Mr. Chan Yin Ming, Dennis
Mr. Sun Chuanlin

Supervisors

Supervisors

Mr. Kong Xiangquan, *Chairman*
Mr. Qian Yongjiang

Independent Supervisors

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

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Company Secretary

Ms. Ngan Lin Chun, Esther FCIS, FCS

Auditors

International 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 Center
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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Shaoxing County
Zhejiang Province, PRC
Tel: 86-575-84069420
Post Code: 312028

Place of Business in Hong Kong

Room 1902, MassMutual Tower,
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Hong Kong

Authorised Representatives

Mr. Pang Baogen
Mr. Gao Jiming

Stock Code

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