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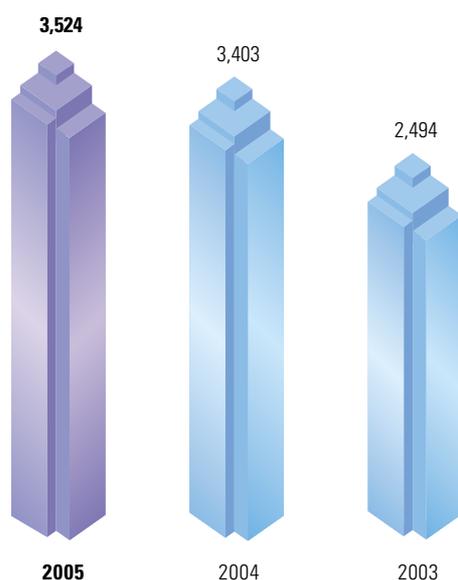
# Management Discussion & Analysis

Business Review

# Management Discussion and Analysis

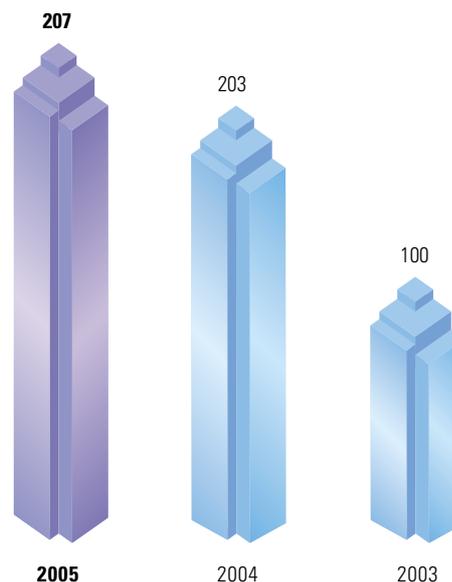
## Turnover of Construction Business

(in RMB million)



## Profit Contribution of Construction Business

(in RMB million)



## Business Review

For the year ended 31 December 2005, the Group's total turnover amounted to RMB4,723,797,000, representing an increase of approximately 8% as compared to last year. Profit attributable to shareholders amounted to RMB304,226,000, an increase of approximately 11% from last year and earnings per share reached RMB0.537, an increase of approximately 4% from last year. Net assets per share was RMB2.89, representing a growth of approximately 46% from last year.

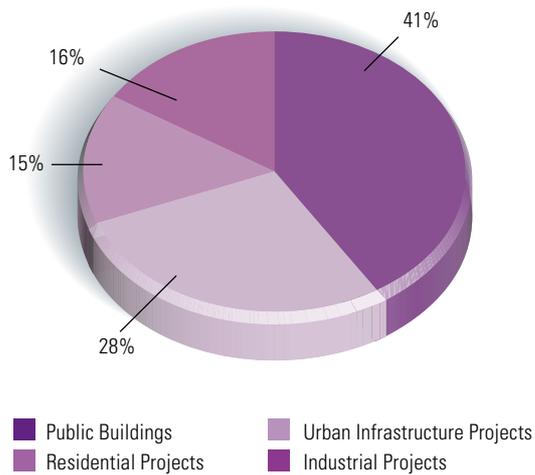
### 1) Construction Business

For the year ended 31 December 2005, the Group's construction business achieved a turnover of

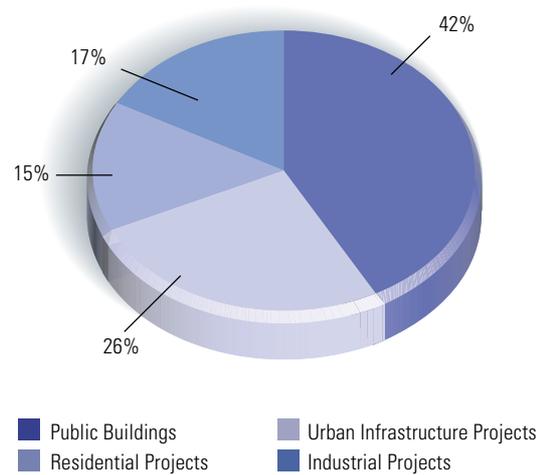
approximately RMB3,524,178,000 (approximately 74% of the Group's total turnover), and a profit contribution of approximately RMB206,955,000 (approximately 46% of the Group's total profit), representing a growth of approximately 4% and 2% respectively over the corresponding period of last year. Impacted by the macroeconomic austerity measures in tightening up bank credits in 2005, completion of certain construction projects of the Group have been slowed down. By adopting the percentage of completion method to recognise revenue of construction business, the Group's construction business only registered a marginal growth in terms of turnover and profitability as compared to 2004.

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

2005



2004



However, the Group's total contract value of construction-in-progress was approximately RMB12,006,910,000 as at 31

December 2005, representing an increase of 46% from the corresponding period of the previous year. Details are as follows:

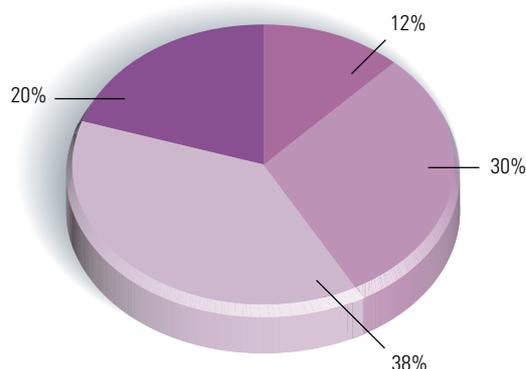
By nature:

	2005		2004		Change
	RMB'000	% of total	RMB'000	% of total	
Public Buildings	4,922,833	41%	3,469,043	42%	+42%
Urban Infrastructure Projects	3,361,935	28%	2,147,054	26%	+57%
Residential Projects	1,801,037	15%	1,240,586	15%	+45%
Industrial Projects	1,921,105	16%	1,385,943	17%	+39%
<b>Total</b>	<b>12,006,910</b>	<b>100%</b>	<b>8,242,626</b>	<b>100%</b>	<b>+46%</b>

# Management Discussion and Analysis

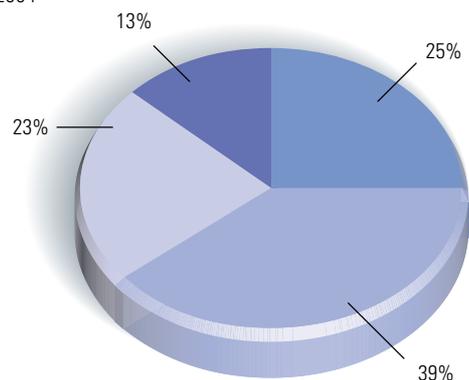
## Total Contract Value for Construction-in-Progress of Construction Business – By Region

2005



■ Shaoxing County      ■ Shanghai  
■ Other Counties of Zhejiang Province      ■ Other Provinces

2004



■ Shaoxing County      ■ Shanghai  
■ Other Counties of Zhejiang Province      ■ Other Provinces

By region:

	2005		2004		Change
	RMB'000	% of total	RMB'000	% of total	
Shaoxing County	1,435,879	12%	2,062,331	25%	-30%
Other Counties of Zhejiang Province	3,554,875	30%	3,213,831	39%	+11%
Shanghai	4,536,214	38%	1,842,081	23%	+146%
Other Provinces	2,479,942	20%	1,124,383	13%	+121%
<b>Total</b>	<b>12,006,910</b>	<b>100%</b>	<b>8,242,626</b>	<b>100%</b>	<b>+46%</b>



The Group was awarded 382 new construction projects in 2005, with total value amounting to RMB7 billion (2004: approximately RMB6.18 billion), up 13% over the previous year.

In 2005, the expansion strategy adopted by the Group's construction business bore fruit. The Group successfully extended its foothold in 3 new markets, namely Tianjin, Zhengzhou and Nanchang. Currently, the Group's construction business has been expanded into regions outside Zhejiang Province, such as Shanghai, Beijing, Tianjin, Jiangsu, Hubei, Anhui, Henan and Jiangxi. The construction business outside Zhejiang Province accounted for approximately 58% (2004: 36%) of the Group's overall construction business.

In 2005, the Group established Baoye Group Hubei Company Limited in Wuhan, Hubei Province and acquired the entire equity interests of 12 units under Hubei Construction and

Engineering Holding Company (together "the Hebei Construction Group") in February 2006, in an attempt to expedite its business expansion to Hubei Province and the entire Central China region. Details of this acquisition were set out in the announcement published by the Company on 21 February 2006.

In 2005, leveraging on its reputable brand and capability, the Group managed to undertake a large number of high-end construction projects, including landmark construction projects such as the construction of Shanghai Development Tower, the third tallest building in Pudong, the basketball stadium for Beijing Olympics, Nanjing International Finance Center and Zhejiang Center for Disease Control and Prevention. These high-end landmark construction projects help to enhance the Group's reputation in other provincial markets and expedite the development of the Group's construction business in such markets.

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Zhejiang Baoye Construction Group Company Limited, a principal subsidiary of the Group engaging in construction business, was admitted into China Tendering & Bidding Association as one of the original members in 2005. It was also recognized as:

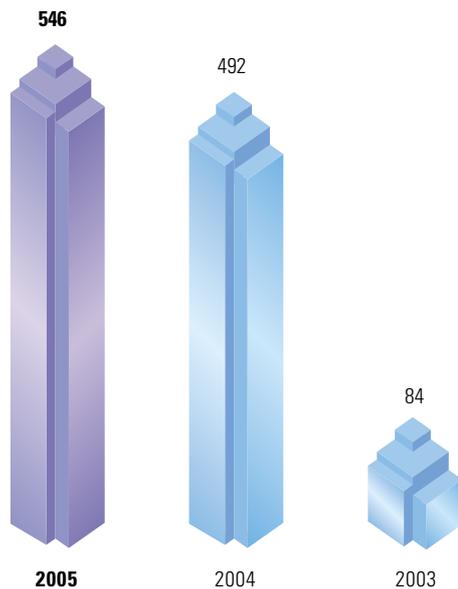
- One of the top 10 construction companies of Eastern China in 2005;
- the advanced corporation with excellent performance in Shanghai in 2005;
- high customer satisfaction corporation in Zhejiang;
- Information affects China • the top 100 competitive enterprises in 2005.

In 2005, the contracted construction projects repeatedly won renown and recognition from the industry. The major awards are shown as below:

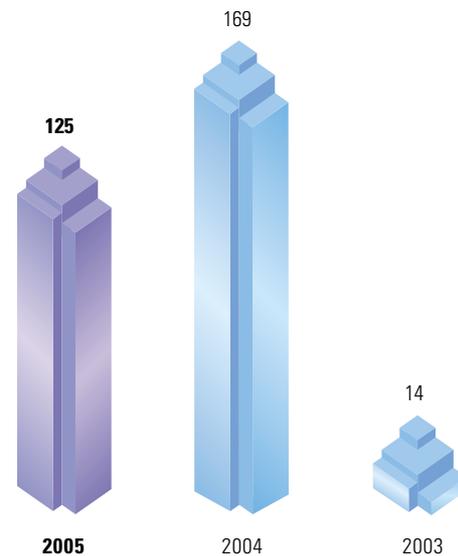
Awards	Year 2005 (number of projects awarded)	Year 2004 (number of projects awarded)
Lu Ban Award (note: the most prestigious award for construction industry in PRC)	<b>1</b>	0
National Outstanding Construction Award	<b>1</b>	1
National Outstanding Building Decoration Award	<b>2</b>	1
National Civilized Worksite	<b>1</b>	0
Qianjiang Cup (note: the most prestigious award for construction projects in Zhejiang Province)	<b>9</b>	7
Customer Satisfaction Project in Zhejiang Province	<b>1</b>	0
Outstanding Decoration Award of Zhejiang Building Project	<b>5</b>	5
Zhejiang Outstanding Quality of Building	<b>5</b>	1
Zhejiang Civilized Model Worksite	<b>8</b>	7
Bai Yulan Cup (note: the most prestigious award for construction projects in Shanghai)	<b>4</b>	2
Customer Satisfaction Project in Shanghai City	<b>19</b>	0
Outstanding Construction Quality of Zhejiang Enterprises in Shanghai	<b>5</b>	2
Shanghai Civilized Worksite	<b>6</b>	3
Shanghai Model Worksite	<b>12</b>	11

**Turnover of Property Development Business**

(in RMB million)


**Profit Contribution of Property Development Business**

(in RMB million)


**2) Property Development Business**
*Performance of property sales*

In 2005, the turnover of the Group's property development business was approximately RMB545,995,000 (approximately 12% of the Group's total turnover), representing an increase of approximately 11% over the same period of last year, which contributed a profit of RMB125,412,000 (approximately 28% of the Group's total profit), representing a decrease of approximately 26% over the same period of last year. The decrease in profit margin was primarily attributable to the higher land costs of the two development projects sold during the year as compared to that of previous year. The Group adopted the completion method to recognise the revenue of its property development business.

The operating results of the Group's property development business were largely attributable to Yulan Huating project located in the urban area of Shaoxing

and City Garden Phase III project located in Shaoxing's Keqiao region. In 2005, approximately 65,175 square metres of floor space of Yulan Huating were sold, achieving a turnover of approximately RMB373,518,000. The project's average selling price per square metre during the year was approximately RMB5,731, representing an increase of approximately 6% as compared to average selling price of approximately RMB5,420 per square metre when it was initially launched. In 2005, approximately 47,539 square metres of floor space of City Garden Phase III were sold, achieving a turnover of approximately RMB164,011,000; the project's average selling price per square metre during the year was approximately RMB3,450, representing an increase of approximately 6% as compared to average selling price of approximately RMB3,250 per square metre when it was initially launched.

*Projects under Development*

As at 31 December 2005, the Group's projects under development can be summarised as follows:

Name of Project	Location	Salable Area (In square metres)	Equity Interests held by the Group
City Green Garden Phase I	Hefei	142,559	100%
Jing'an Ziyuan	Shanghai	51,344	70%
Zhejiang Commercial City	Hefei	100,000	75%
Four Seasons Garden	Shaoxing	522,000	100%

# Management Discussion and Analysis



Keqiao "City Garden Phase III"



Shaoxing "Yulan Huating"

City Green Garden project is located on the south end of Heping Road, Hefei's Yaohai District, one of Hefei's Special Development Zones with convenient transportation. The project mainly comprises the development of high-end residential properties, with certain retail shops and offices. City Green Garden has a planned total gross floor area of approximately 520,000 square metres, in which Phase I of the project has a planned gross floor area of approximately 142,559 square metres. Construction of Phase I began in October 2004. As at the end of 2005, all buildings have already completed its capping. The sales of City Green Garden has been going very well. During 2005, approximately 65,000 square meters of floor area were pre-sold at a average price of approximately RMB 3,300 per square metres. As at the end of March, 2006, pre-sold went up to approximately 74,000 square metres.

"Baoye's Property" has already become a prestige and popular property developer. "City Green Garden" was recognized by China Construction Bank as national "Quality House" (優質樓盤放心房) in 2005. It was also chosen to be the one of the best ten new building structures in Hefei in December, 2005 for its spectacular choice of name and outstanding construction quality.

Jing'an Ziyuan is located on Jiangning Road in Shanghai's Jing'an District, 500 metres from the downtown prominent area of Nanjing West Road, which is a truly prime location. This project, with a planned gross floor area of approximately 51,344 square metres, will be developed into luxurious service apartments. Construction of the project began in November 2004 and the two level basement structural works were completed. It is expected that the 20 stories upper structural work will be completed by the end of December, 2006. If construction progresses smoothly, pre-sale of Jing'an Ziyuan can be commenced by the end of 2006.

Zhejiang Commercial City is situate at a prime location east of Hefei Railway Station. The area is highly commercialized. It boasts the most prosperous commercial district in Hefei. Zhejiang Commercial City has a planned floor area of approximately 100,000 square metres and primarily comprises service apartments and retail stores. Construction has already commenced at the end of 2005 and the project was scheduled for pre-sale in the second half of 2006.

Four Seasons Garden is located in Kuaijishan resort district, a tourist region in Zhejiang Province, The area is not only



Hefei "City Green Garden Phase I"



Hefei "Zhejiang Commercial City"

renowned for its historical heritage and spectacular scenery but was also where ancient civilization flourished. Besides having a profound cultural tradition, the region was the origin of many myths and folklores and has a large number of well preserved historic relics. Since it is only 10 minutes drive away from downtown Shaoxing, it is also hailed as the "natural treasure in the heart of a city".

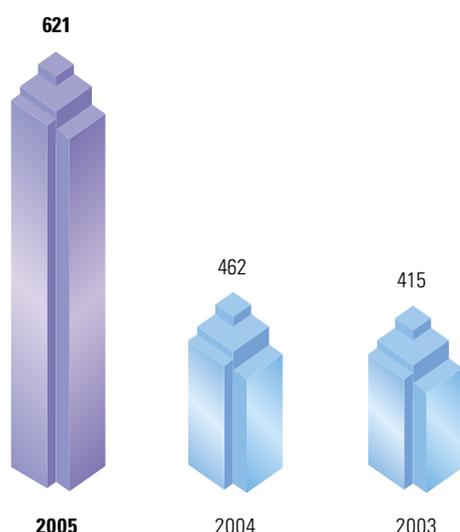
Four Seasons Garden has a site area of approximately 1,050,000 square metres and a planned gross floor area of approximately 522,000 square metres. The development comprises primarily high-end apartments and villas. In order to enhance the market positioning of Four Seasons Garden, two ancillary projects, namely a golf course and Kuaijishan Hotel (會稽山大酒店) will be built in its vicinity. To date, the earthwork of the golf course field with 18 holes, and par 72 has basically been completed and a golf driving range has also been built. As regards to Kuaijishan Hotel project, the design work is now underway. The construction plan has basically been completed and approved with part of the foundation works already finished. According to the current progress, it is estimated that the construction of Four Seasons Garden project will commence in the second half of 2006.

Four Seasons Garden is currently the Group's only luxurious residential development project targeted at and tailored to the needs of the high income group and it is also the most luxurious district under the overall city planning of Shaoxing. While focusing on exploring the historical tradition of the region in an attempt to bring back the essence of ancient civilization, the Group will also develop it into a leisurely spot overlooking the enticing scenery of great mountains and lakes, so that it can truly be "a work we bequeath to posterity". Four Seasons Garden will make significant contribution to the Group's profit and more importantly, it will upgrade the brand image of "Baoye's Property" and enhance the overall competitiveness of the Group's property development business.

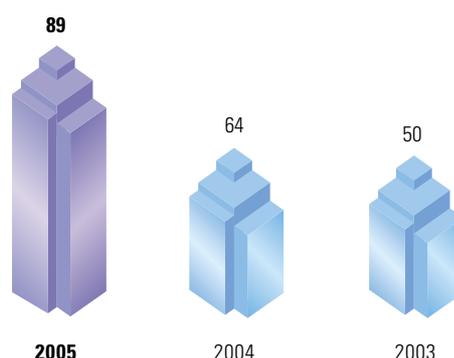
In addition, a total of approximately 10,000 square metres of retail and parking spaces under the Group's previously launched property portfolio have not been sold. Depending on market conditions, the Group will decide whether to sell those retail and parking spaces or retained them for lease.

# Management Discussion and Analysis

## Turnover of Building Materials Business (in RMB million)



## Profit Contribution of Building Materials Business (in RMB million)



### 3) Building Materials Business

For the year ended 31 December 2005, the Group's building materials business achieved a turnover of approximately RMB620,741,000 (approximately 13% of the Group's total turnover), and realised profit of approximately RMB88,785,000 (approximately 20% of the Group's total profit), up 34% and 39% respectively from the corresponding period of the previous year. The Chinese government has geared up its effort in promoting societies that are environmental friendly and energy saving, thus the requirements for quality building materials in these aspects have become increasingly

important. The Group is pioneering on industrialisation of construction in the PRC. The pre-fabricated building materials developed by the Group have gradually received industry recognition through increased efforts in market development. Leveraging on economics of scale arising from mass production capability of the Group's building materials business, the Group managed to reverse the adverse impact on escalating raw material and energy costs without affecting profitability, both the turnover and profit had registered considerable growth.

The achievement of the Group's building materials business in year 2005 is as follows:

Products of Building Materials	2005 Turnover (RMB'000)	2004 Turnover (RMB'000)	Change
Glass Curtain Wall	194,241	166,132	+17%
Wooden Products and Interior Decoration	94,233	58,902	+60%
Steel Structure	72,200	5,625	+1,184%
Ready-mix Concrete	175,162	152,379	+15%
Concrete Piles	38,151	37,471	+2%
Concrete Ducts	11,893	10,820	+10%
Large Roof Sheathings	18,921	17,811	+6%
Fireproof Materials	9,852	6,661	+48%
Bridge Beam	6,088	5,912	+3%
<b>Total</b>	<b>620,741</b>	<b>461,713</b>	<b>+34%</b>



## Business Prospects

In his government work report delivered on March 5, 2006, Premier Wen Jiabao targeted an economic growth rate of 8% for 2006 and an average annual growth rate of 7.5% during the years under the "11th Five-Year Plan". He also stated that fixed asset investment should be kept at an appropriate level, which gives rise to the policy of supporting some sectors while suppressing others. The government is also committed to optimizing investment structures and curbing overheated investment growth. Based on the above forecasts and planning, the China economy will continue to maintain a solid and rapid growth in the coming five years. This situation is certainly beneficial to the Group's development because we prefer continuous growth on a strong foundation. Meanwhile, the Chinese government has allowed private investment in monopolised sectors such as the railway and energy sectors in recent years. This will further encourage and support the rapid and healthy growth of the private sectors. Undoubtedly, this is a favorable market environment for the Group's strategic expansion. The Board therefore remains optimistic and confident in the prospect for the Group's future development.

### 1) Construction Business

While maintaining the growth in total business volume,

the domestic construction industry will see an upsurge of merger, acquisition and reorganisation activities in future. Large enterprises with competitive advantages in finances, human resources and brand reputation will continue to expand at a fast pace. The domestic construction industry is set to undergo regulated growth and development through various phases of consolidation.

The Directors believe that while facing both challenges and opportunities, the Group's construction business will remain as its core business. To spearhead its prudent development strategy by exercising effective risk management control, the Group will rapidly extend its reach to markets outside Zhejiang Province, capture opportunities brought about by market consolidation and build solid foundation by implementing the following initiatives:

- Continue to consolidate the markets in Jiangsu, Zhejiang and Shanghai, while maintaining the market share in Eastern China.
- Realise the speedy expansion of the Group's construction business in Central China by

# Management Discussion and Analysis

strengthening its presence in Wuhan and Hefei. The Company has already acquired the entire interest in the Hubei Construction Group, which rapidly enhanced the reputation of the Group in the local market. The Group will actively explore the markets in Hubei Province, Anhui Province and their neighbouring regions so that the market share of its construction business in Central China will be comparable to that of Eastern China in three to five years.

- Explore the Northern China market by focusing on Beijing, Tianjin and Hebei regions. Following its success in securing the basketball stadium construction project for 2008 Beijing Olympics, the Group intends to capture further opportunities from the Olympics and highlight the Olympics concept. Besides, in view of the rapid development of Tianjin in recent years, the Group will expedite its penetration into Tianjin market and enhance the Group's market recognition in the local market by securing prime construction projects.
- Continue to undergo strategic restructuring and acquire quality construction companies outside Zhejiang Province when conditions become mature and risk is low so as to facilitate the expansion of the Group's construction business into other first rank cities with robust economic development and sizable population.
- Fully utilise the Group's expertise in the prefabricated building materials to reduce energy consumption during the construction process and step up its efforts in developing high-end projects.

## 2) Property Development Business

Although the domestic real estate market was more apparently affected by the macroeconomic austerity measures implemented in 2005, the various measures

the Chinese government imposed on the real estate market aimed primarily at regulating certain adverse factors which are detrimental to real estate development while ensuring the healthy and stable development of the market.

In recent years, property development business has made substantial profit contribution to the Group and has become one of its important business segments as it develops into a large nationwide conglomerate. The Board believes that with the domestic real estate market now being dominated by the high income group and middle class, the high and medium end apartments which the Group has always been focusing on will fully match with the actual demand of the market. Going forward, the Group's property development business will be developed in the following directions:

- Focusing on development of existing land reserves. In the next few years, the Group will concentrate in developing the following projects: Four Seasons Garden in Shaoxing, Jing'an Ziyuan in Shanghai, City Green Garden and Zhejiang Commercial City in Hefei and International Airport Building in Hangzhou, Zhejiang Province. All of these projects will be developed and built in the next three to five years.
- The Hubei Construction Group which the Company acquired in February 2006 has a total land reserve of approximately 500,000 square metres, majority of which are located in the metropolitan areas of Wuhan and may be used for residential and/or commercial development purposes as soon as approval has been obtained from the relevant Chinese government authorities. This additional land reserve will suffice the Group's land reserve for development in the next five to ten years.

- Improve quality and enhance brand building. Since domestic property developer will compete on quality and brand in future, the Group endeavours to launch premium properties with attractive outlook, exquisite architectural design and high construction quality so that the Group will become a prestigious brand in the real estate industry.
- Refrain from purchasing land indiscriminately. Based on our enriching experience and insightful information in the construction industry, the Group will increase its land reserve only when opportunities to acquire quality land at low cost arise.
- Continue to strengthen the exchange and cooperation with overseas giants in the industry and enhance its independent innovative capacity. On 8 March 2006, the Company entered into a cooperation agreement with Japan's Daiwa House Industry Co., Ltd. ("Daiwa House"), pursuant to which both parties agreed to form a strategic alliance in the co-development of technological skills for the manufacture of industrialised residential units for a term of ten years. The technological co-development not only significantly strengthens the Group's technical know-how in the manufacture of industrialised units but also establishes a foundation for any possible further co-operation, joint venture or otherwise with Daiwa House in the construction of industrialised units.

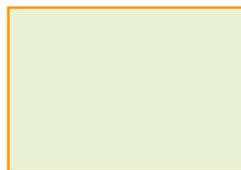
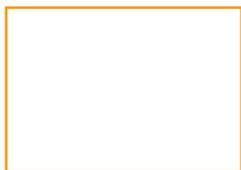
### 3) Building Materials Business

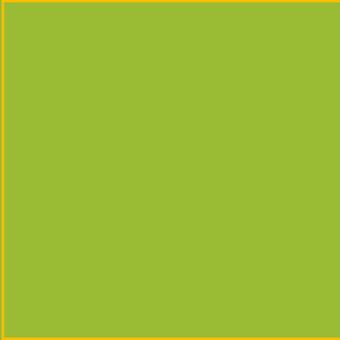
The stable and rapid growth of the Chinese economy entails a huge investment in fixed assets and provides enormous market opportunities for the Group's building materials business. Meanwhile, the transformation of the Chinese construction industry's model from construction to manufacturing has already evolved as an irreversible trend, but the key element to the realisation of this revolutionary reform lies in the industrialised production of prefabricated building materials. Being a pioneer in the industrialisation of building materials, the Group can consolidate its leading position in future market competition.

In his work report delivered on 5 March 2006, Premier Wen Jiabao included the energy consumption indicator into the macroeconomic austerity system for the first time. The Group has always been dedicated to developing cost-effective, environmental friendly, energy-saving and high quality building materials.

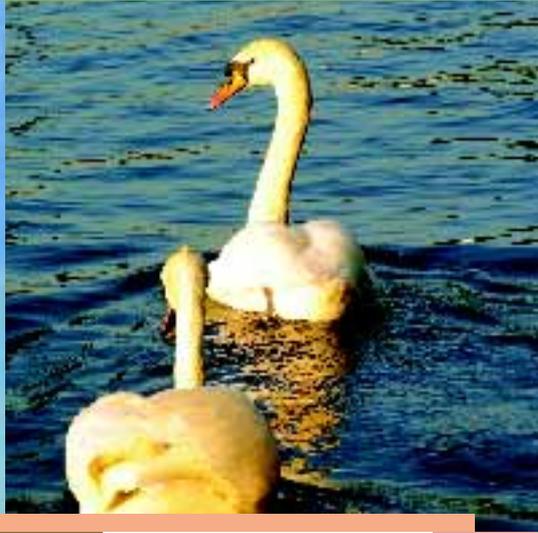
Looking ahead, the Board is fully confident in the Group's building materials business and believes that the business will make a greater contribution to the Group's future development. In the coming year, the Group will develop its building materials business in the following directions:

- Continue to leverage on the Group's integration advantages and explore other provincial markets. The large number of construction projects that the Group has undertaken both inside and outside the Zhejiang Province can safeguard the Group in its further development of the construction business. In future, the Group will build on the success of its construction and property development business outside Zhejiang Province to realise the rapid expansion of its building materials business in other provincial markets.
- The Group will continue to strengthen the development and production of environmental friendly and energy saving building materials and enhance the technological content of its building material products so as to act in line with the Chinese government's policy of promoting an environmental friendly and energy-saving society and ensure that the Group's products will maintain a leading position in the market competition.





The Group has adopted prudent financial policies and exercise tight risk management control over its investment, financing and cash. Its capital structure has always remained sound and solid. The Group will adjust its investment, financing and capital structure from time to time according to its continuous development and internal resources available, with a view to optimising the capital structure of the Group.



# Management Discussion & Analysis

Financial Review

# Management Discussion and Analysis

## Treasury Policies

The Group has adopted prudent financial policies and exercise tight risk management control over its investment, financing and cash. Its capital structure has always remained sound and solid. The Group will adjust its investment, financing and capital structure from time to time according to its continuous 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 can achieve better control of the treasury operations; minimise financing risks and lower average cost of funding.

## Financial Resources and Liabilities

With the support of steady growth in cash flow, sound credit record and excellent reputation in the industry, the Group was awarded an AAA credit rating in 2005 by a credit rating institution recognised by the People's Bank of China. Such excellent credit rating will benefit the Company's financing activities and allows the Group to continue to enjoy the best interest lending rate offered by the People's Bank of China. During the year, the Group maintained most of its borrowings on an unsecured basis. The amount of unsecured debt accounted for 82% of the total borrowings. Leveraging on its excellent credit rating, the Group continues to obtain its borrowings on an unsecured basis, which will be complemented by secured project loans when necessary.

In addition to bank borrowings, the Group actively raised capital through various financing channels. The Group's recent financing activities were as follows:

- On 13 January 2005, the Company entered into a placing agreement with UBS AG in relation to the placing on a fully underwritten basis of 36,136,800 new H Shares of

the Company at HK\$4.05 per share. The net proceeds were approximately HK\$142,776,000 (equivalent to approximately RMB148,487,000).

- On 3 November 2005, the Company entered into the subscription agreement with Goldman Sachs in relation to the sole subscription by Goldman Sachs of the Company's 43,364,160 new H Shares at HK\$4.85 per share. The net proceeds were approximately HK\$209,300,000 (equivalent to approximately RMB217,672,000).
- On 15 December 2005, the Board passed the resolution on issuing short term commercial paper with a maximum repayment amount of RMB500,000,000. The resolution was also reviewed and approved at the first extraordinary general meeting in 2006 held on 10 March 2006. According to the resolution, the Company decided to issue short term commercial paper with a maximum repayment amount of RMB500,000,000. It is intended that part of the proceeds will be used to replenish the working capital while the remaining portion will be used to repay short-term bank borrowings.

As at 31 December 2005, the Group's bank borrowings, net of cash and bank deposits, amounted to RMB254,482,000 (31 December 2004: RMB411,072,000). The Group's gearing ratio (calculated on the basis of net bank borrowings over total shareholder equity) is 14.4% (31 December 2004: 39%). The Group will continue to adopt prudent policy to maintain low gearing ratio.

## Use of proceeds

The total amount raised by the Company's two placings of new H shares in 2005 was approximately RMB366,159,000. The proceeds were used in strict accordance with the proposed application plan as stated in the announcements on the issue of additional H Shares, details of which were as follows:

	RMB('000)
Placing of 36,136,800 new H Shares through UBS AG	148,487
Subscription of 43,364,160 new H Shares solely by Goldman Sachs	217,672
	Total Proceeds Raised: 366,159

Proceeds were utilised as follows:

Acquisition of 50% equity interests in Hefei Qingfangcheng Baoye Real Estate Co., Ltd.	145,000
Acquisition of 100% equity interests in Hubei Construction Group	132,855
General working capital	88,304
	Total Proceeds Utilised: 366,159

## Key Financial Ratios

	As at 31 December	
	2005	2004
Return on equity (%)	<b>17.3%</b>	26.1%
Net assets value per share (RMB)	<b>2.89</b>	1.98
Net gearing ratio (%)	<b>14.4%</b>	39%
Current ratio	<b>1.33</b>	1.03

Return on equity = earnings attributable to shareholders of the Company/total shareholders' equity of the Company

Net asset value per share = net assets/shares in issue at the end of the year

Net gearing ratio = net bank borrowings/total shareholders' equity

Current ratio = current assets/current liabilities

### Notes:

The above key financial ratios reveal that the proceeds of approximately RMB366,159,000 from the two placings of new H shares in 2005 had significantly improved the net asset value per share, net gearing and current ratios of the Group and, at the same time, had simultaneously reduced the return on equity due to increased in total shareholders' equity. The reduction is temporary as the Group has re-invested these proceeds into the acquisition projects and believes that the new acquisition projects would generate fruitful and long term gains for the Group, thereby improving the return on equity and net gearing ratio at the same time.

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## Cash Flow Analysis

	Note	For the year ended 31 December		
		2005 RMB'000	2004 RMB'000	Change
Net cash inflow/(outflow) from operating activities	1	11,398	(49,238)	+123%
Net cash outflow from investing activities	2	(176,156)	(262,643)	+33%
Net cash inflow from financing activities	3	363,170	367,962	-1%
Increase in cash and cash equivalents		198,412	56,081	+254%

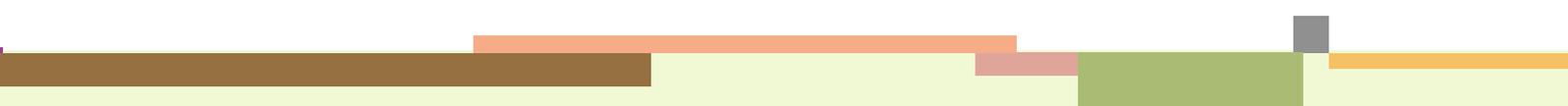
### Notes:

1. During the year, net cash inflow from operating activities amounted to RMB220,160,000, which was a substantial increase of RMB162,841,000 over previous year of RMB57,319,000. This was mainly the results of sales of properties and collection of trade and other receivables.
2. During the year, the Company had paid RMB65,000,000 in cash as partial consideration of the total acquisition cost of RMB145,000,000 for the 50% interest in Hefei Qingfangcheng Baoye Real Estate Co., Ltd.; and had paid RMB23,649,000 to Mr. Pang Baogen, the Chairman of the Company, and two other minority shareholders of Zhejiang Baoye Housing Industrialisation Company Limited as the consideration of the acquisition for their totalling 35% equity interests in that company, which was fully paid in cash.
3. The net cash inflow from the two H share issues during the year was RMB366,159,000, and dividends pay out was RMB81,502,000, while the cash inflow from financing activities last year was primarily attributable to the increased bank borrowings.

## External Guarantee and Fulfillment

	2005 RMB'000	2004 RMB'000
Guarantee given to banks in respect of mortgage facilities granted to third parties	67,500	58,690

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



### **Details of the charges on the Group's assets**

As at 31 December 2005, land use rights and buildings at a total value of approximately RMB306,230,000 (31 December 2004: RMB69,372,000) were pledged to banks as security for obtaining short-term bank loans.

### **Capital commitment**

As at 31 December 2005, the Group has capital commitment contracted but not provided for in respect of properties under development for RMB14,094,000 (31 December 2004: Nil).

### **Adjustment of RMB Exchange Rate and Foreign Exchange Risks**

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