

# Report of the Directors

The Board is pleased to present their annual report and the audited accounts of the Group for the year ended 31 December 2005.

## Principal Activities

The principal activities of the Group are the provision of construction service, manufacture and distribution of building materials and property development. The activities of the Company's subsidiaries are set out in notes 11 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

## Financial Positions and Results

The financial positions of the Group and the Company as at 31 December 2005 are set out in the balance sheets prepared in accordance with HKAS on pages 64 to 67.

The results of the Group for the year ended 31 December 2005 prepared in accordance with HKAS are set out in the consolidated income statement on page 68.

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 5 of this annual report.

## Reserves

Details of movements in reserves of the Group and the Company are set out in the note 19 to the consolidated financial statements.

## Distributable Reserves

According to the relevant laws and regulations in the PRC, the reserves of the Company available for distribution to shareholders amounted to RMB105,133,000 as at 31 December 2005 (2004: RMB87,889,000).

## Dividends

At the board meeting held on 7 April 2006, the Directors declared a final dividend of RMB0.12 (2004: RMB0.1436) per ordinary share for the year ended 31 December 2005. The proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2006.

# Report of the Directors

## Segment Information

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

- |                      |   |   |
|----------------------|---|---|
| Construction         | – | provision of construction service.                            |
| Building materials   | – | research, manufacture and distribution of building materials. |
| Property development | – | development and sale of properties.                           |

The primary reporting of business segments for the year ended 31 December 2005 is set out in note 5 to the consolidated financial statements.

## Major Customers and Suppliers

During the year, sales to the five largest customers and purchases from the five largest suppliers of the Group accounted for less than 30% of the Group's aggregate turnover and purchases respectively.

None of the directors, their associates or any shareholders (which, to the knowledge of the directors own more than 5% interests of the Group's share capital) had any interest in the above major suppliers or customers.

## Fixed Assets

Details of the movements in fixed assets of the Group and the Company during the year are set out in note 7 to the consolidated financial statements.

## Purchase, Sale or Redemption of Shares of the Company

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## Directors and Supervisors

The directors and supervisors of the Company for the year are as follows:

### Directors

#### *Executive Directors*

Mr. Pang Baogen (*Chairman*)

Mr. Gao Jiming

Mr. Gao Lin

Mr. Zhou Hanwan

#### *Non-executive Directors*

Mr. Hu Shaozeng

Mr. Wu Weimin (resigned on 25 January 2006)

#### *Independent Non-executive Directors*

Mr. Wang Youwei

Mr. Yi Deqing

Mr. Dennis Yin Ming Chan

### Supervisors

#### *Supervisors*

Mr. Sun Guofan (*Chairman of Supervisory Committee*)

Mr. Xie Qisheng

#### *Independent Supervisors*

Mr. Chen Xingquan

Mr. Li Yongsheng

Mr. Yu Zengmin (resigned on 20 May 2005)

Mr. Zhang Xindao (appointed on 20 May 2005)

# Report of the Directors

## **Independence of Independent Non-executive Directors**

The Board has obtained written confirmations from all Independent Non-executive Directors concerning their independence in accordance with rule 3.13 of the Listing Rules of HKEx. The Directors are in the opinion that the existing Independent Non-executive Directors are independent based on the guidelines set out in rule 3.13 of the Listing Rules of HKEx.

## **Changes of Directors, Supervisors and Senior Management**

1. Mr. Wei Falin resigned as Chief Executive Officer on 17 June 2005.
2. Mr. Yu Zengmin resigned as Independent Supervisor on 20 May 2005.
3. Mr. Zhang Xindao was appointed as Independent Supervisor on 20 May 2005.
4. Mr. Wu Weimin resigned as Non-executive Director on 25 January 2006.

## **Biographical Details of Directors, Supervisors and Senior Management**

Brief biographical details of directors, supervisors and senior management of the Group are set out on pages 46 to 50 of the annual report.

## **Remuneration of Directors**

The remuneration of directors in the Group is disclosed on an individual named basis in note 27(b) to the consolidated financial statements.

## **Highest Paid Individuals**

During the year, the relevant information of the five individuals with the highest remuneration in the Group is disclosed in note 27(c) to the consolidated financial statements.

## **Directors' and Supervisors' Service Contracts**

Approved in the 2004 annual general meeting of the Company, all the appointed directors and supervisors signed a service contract with the Company on 20th May 2005 and the contracts shall remain effective until the conclusion of the 2007 annual general meeting of the Company.

No Director or Supervisor has a service contract with the Company, which is not terminable by the Company within one year without payment of compensation other than statutory compensation.

### Interests of Directors, Supervisors and Senior Management

As at 31 December 2005, 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 corporation within the meaning of Part XV of the Securities and Futures Ordinance which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provision of Securities and Futures Ordinance) or which were required, pursuant to section 352 of the Securities and Futures Ordinance, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange were as follows:

<b>Directors/ Supervisors/ Senior management</b>	<b>Relevant entity</b>	<b>Capacity</b>	<b>No. of domestic share held (Long position)</b>	<b>Approximate percentage of the total registered capital of the relevant entity</b>
Mr. Pang Baogen	The Company	Individual	198,753,054	32.53%
Mr. Gao Jiming	The Company	Individual	13,024,647	2.13%
Mr. Sun Guofan	The Company	Individual	11,705,283	1.92%
Mr. Gao Lin	The Company	Individual	9,544,775	1.56%
Mr. Zhou Hanwan	The Company	Individual	8,233,510	1.35%
Mr. Xu Jianbiao	The Company	Individual	7,524,884	1.23%
Mr. Wang Rongfu	The Company	Individual	7,147,039	1.17%
Mr. Gao Jun	The Company	Individual	5,794,259	0.95%
Mr. Lou Zhonghua	The Company	Individual	5,633,172	0.92%
Mr. Wang Rongbiao	The Company	Individual	2,647,911	0.43%

# Report of the Directors

## Directors' and Supervisors' Interests in Contracts

No contract of significance in relation to the Company's business to which the Company or its subsidiaries was a party and in which the Directors or the Supervisors of the Company has a material interests, whether directly or indirectly, subsisted at any time during the year (excluding Directors' service contracts).

## Directors' and Supervisors' Rights to Acquire Shares or Debentures

Apart from disclosed under the paragraph headed "Interests of Directors, Supervisors and Senior Management", at no time during the year was the Company or its subsidiaries, a party to any arrangement to enable the Directors, the Supervisors and their respective spouses or children under 18 years of age of acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other entities.

## Interests of Directors in Competing Business

During the year and up to the date of this report, none of the Directors has any interest in business, which competes or may compete with the business of the Group under the Listing Rules.

## Details of Share Offering and Placing

	IPO	The 1st placement of H shares	The 2nd placement of H shares
Class of share listed	H share	H share	H share
Listing place	Main Board of the HKEx.	Main Board of the HKEx.	Main Board of the HKEx.
Offer price/Placing price	HK\$1.43 per H share	HK\$4.05 per H share	HK\$4.85 per H share
Listing date	30 June 2003	21 January 2005	14 December 2005
Number of issued H shares	180,684,000	36,136,800	43,364,160

## Share Capital

As at 31 December 2005, there were a total share capital of 610,927,013 shares of the Company which includes:

	Number of shares	Approximate percentage of total share capital
Domestic Shares	350,742,053	57.41%
H shares	260,184,960	42.59%
<b>Total</b>	<b>610,927,013</b>	<b>100%</b>

## Public Float

Based on the publicly available information and to the best knowledge of the Directors, the Company has maintained sufficient public float as at the latest practicable date prior to the date of this annual report.

## Substantial Shareholders

At 31 December 2005, so far as was known to the Directors, the following person, other than the Directors, Supervisors and senior management of the Company, has an interest in the shares of the Company as recorded in the register required to be kept under section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Divisions 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	Approximate percentage of the total registered capital
Goldman Sachs (Asia) Finance ( <i>Note 1</i> )	43,364,160	16.67%	7.10%
Jayhawk China Fund (Cayman) ( <i>Note 2</i> )	23,090,000	8.87%	3.78%
Mr. Kent C. McCarthy ( <i>Note 2</i> )	23,090,000	8.87%	3.78%
Atlantis Investment Management Limited ( <i>Note 3</i> )	17,500,000	6.73%	2.86%
Value Partners Limited ( <i>Note 4</i> )	16,734,000	6.43%	2.74%
Mr. Cheah Cheng Hye ( <i>Note 4</i> )	16,734,000	6.43%	2.74%

# Report of the Directors

## Substantial Shareholders (continued)

Notes:

1. The 43,364,160 H shares are held directly by Goldman Sachs (Asia) Finance. Goldman Sachs (Asia) Finance is held as to 1% by Goldman Sachs Global Holdings (L.L.C.) and 99% by Goldman Sachs (Asia) Finance Holdings L.L.C.
2. The 23,090,000 H shares are held by Jayhawk China Fund (Cayman), Ltd as investment manager. Mr. Kent C. McCarthy has 100% interest of the total issued share capital of Jayhawk China Fund (Cayman), Ltd. Pursuant to the Securities and Futures Ordinance, Mr. Kent C. McCarthy is deemed to be interested in the H Shares held by Jayhawk China Fund (Cayman), Ltd.
3. The 17,500,000 H Shares are held by Atlantis Investment Management Limited as investment manager.
4. The 16,734,000 H Shares are held by Value Partners Limited as investment manager. Mr. Cheah Cheng Hye holds 32.77% interest of the total issued share capital of Value Partners Limited. Pursuant to the Securities and Futures Ordinance, Mr. Cheah Cheng Hye is deemed to be interested in the H Shares held by Value Partners Limited.

## Use of Proceeds

The Company placed new H shares twice in the year 2005, with total proceeds approximately RMB366,159,000. The proceeds are utilised strictly according to the proposed usage as stated in the placement announcement. Please refer to page 29 for details of use of proceeds.

## Human Resources

As at 31 December 2005, the Group had approximately 1,488 permanent employees (2004: approximately 1,171). There are approximately 45,000 construction site workers (2004: approximately 41,000) who are not permanent employees of the Group. Total staff costs amounted to RMB790,849,000 (2004: RMB672,105,000) for the year ended 31 December 2005. Remuneration is determined by reference to market terms and the performance, qualifications and experience of individual employee. Employee benefits provided by the Group include pension fund schemes and medical insurance. The Group devotes much attention to human resources management, striving to establish a high quality team to support its business development in the long run. The Board is conducting research to implement a more effective employee incentive plan.

## Closure of Register of Members

The register of members of the Company will be closed from 3 May 2006 to 1 June 2006 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's H shares registrar in Hong Kong, Tengis Limited at 26th Floor, Tesbury Center, 28 Queen's Road East, Wanchai, Hong Kong (for holders of H shares) or the registered office address of the Company at Yangxunqiao Township, Shaoxing County, Zhejiang Province, the People's Republic of China (for holders of domestic shares), no later than 4:00 p.m., 2 May 2006.



## Connected Transaction

In 2005, the following connected transactions of the Group require disclosures pursuant to the Listing Rules:

- 1) On 26 February 2005, the Company entered into an acquisition agreement with Mr. Pang Baogen, the Chairman of the Board, to acquire Mr. Pang's 19% of equity interest in the Zhejiang Baoye Building Materials Industrialisation Company Limited, a non wholly-owned subsidiary of the Company, at a consideration of RMB11,514,000. Particulars of this connected transaction, please refer to the circular that dispatched to shareholders of the Company on 18 March 2005. This transaction was approved by shareholders of the Company in the Extraordinary General Meeting held on 6 May 2005.
- 2) On 23 December 2005, the Group entered into an acquisition agreement with China Qingfangcheng Group Chaxiong Real Estate Company Limited ("China Qingfangcheng"), to acquire China Qingfangcheng's 50% of equity interest in Hefei Qingfangcheng Baoye Real Estate Co., Ltd., a non wholly-owned subsidiary of the Company, at a consideration of RMB145,000,000. Particulars of this connected transaction, please refer to the circular that dispatched to shareholders of the Company on 18 January 2006. This transaction was approved by shareholders of the Company in the Extraordinary General Meeting held on 10 March 2006.

## Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Articles of Association of the Company and related laws of HK and the PRC, which would oblige the Company to offer new shares on pro-rata basis to the existing shareholders of the Company.

## Policies on Income Tax

The Company and its subsidiaries basically paid PRC corporate income tax at a rate of 33% of its assessable profits according to the relevant laws and regulations in the PRC. Details of the Group's income tax information are disclosed in note 29 to the consolidated financial statements.

## External Guarantee and Fulfillment

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

The Group has issued performance guarantees in respect of mortgage facilities granted by certain banks 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.

Save as disclosed above, the Group had not provide any other external guarantee during the year.

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## Litigation and Arbitration

As at the date of this report, the Group was not involved in any material litigation and arbitration.

## Entrusted Deposits and Overdue Time Deposits

As at the date of this report, the Group did not have any entrusted deposits placed in financial institutions in the PRC. All of the Group's bank balances were deposited in commercial banks in the PRC in accordance with the applicable laws and regulations. The Group had no bank deposits which cannot be withdrawn upon maturity.

## Code of Corporate Governance Practices

The Board believes that except that the chief executive officer of the Company is temporarily assumed by Mr. Pang Baogen, the chairman of the Board, the Group has complied with the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the year. For details, please refer to the Corporate Governance Report as set out in this 2005 Annual Report.

## Auditors

PricewaterhouseCoopers is appointed as the Company's international auditors, and Shine Wing CPAs Co., Ltd ("Shine Wing") is appointed as the Company's statutory auditors. The accounts contained herein this annual report were prepared in accordance with HKAS and have been audited by PricewaterhouseCoopers.

The remuneration of the auditors in the year 2005 is set out as follows:

	2005		2004	
	Audit fees	Other fees	Audit fees	Other fees
PricewaterhouseCoopers (HK\$'000)	1,800	50	1,500	50
Shine Wing (RMB'000)	300	20	330	20

### Notes:

1. Other fees mainly represented disbursement such as travelling expenses.
2. A resolution will be submitted at the forthcoming annual general meeting to re-appoint PricewaterhouseCoopers and Shine Wing as the Company's international auditors and statutory auditors respectively.

### Subsequent Event

On 21 February 2006, the Group acquired the entire interests in the Hubei Construction Group at a total consideration of RMB132,855,000. Hubei Construction Group comprises 12 units which are engaged in businesses similar to the Group's three core businesses, namely the construction, building materials production and property development business. Since the Hubei Construction Group has good reputation and qualifications, such acquisition and integration are conducive to the Group's establishment of its foothold and business development in Hubei Province and Central China and the consolidation of the Group's three core businesses.

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 bank borrowings.

On 8 March 2006, the Company entered into a cooperation agreement with Japan's Daiwa House Industry Co., Ltd 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 in PRC for a term of ten years. The technological co-development with Daiwa House not only enables the Group to strengthen its technical know-how in the manufacture of industrialised residential units but also establishes a foundation for any possible future co-operation and joint venture with Daiwa House.

### Appreciation

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

By order of the Board

**Pang Baogen**

*Chairman*

Zhejiang, the PRC

7 April 2006