Notes to the Consolidated Financial Statements

1. General information

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

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

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

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 7 April 2006.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

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

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

i) *The adoption of new/revised HKFRS*

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparative figures have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKAS-Int 15	Operating Leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciated Assets
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27 and 33 and HKAS-Int 15 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interest and other disclosures.
- HKASs 2, 7, 8, 10, 16, 23, 27 and 33 and HKAS-Int 15 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.
- HKAS 24 has affected the identification of related parties and some other related party disclosures.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

i) *The adoption of new/revised HKFRS* (continued)

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment, properties under development and completed properties held for sale to operating leases. The up-front prepayments made for the land use rights are amortised on a straight-line basis over the period of the lease, and amortisation are expensed in the income statement or are capitalised in the properties under development during the construction period that is required to complete and prepare the properties for sale. Where there is impairment, the impairment is expensed in the income statement. In prior years, the land use rights were accounted for at cost less accumulated depreciation and accumulated impairment as properties, plant and equipment or at cost as part of properties under development and completed properties held for sale.

The Group adopted the proportionate consolidation method under HKAS 31 to account for its interests in jointly controlled entities. In prior years, the Group's interests in jointly controlled entities were accounted for by the equity method of accounting. The adoption of the proportionate consolidation method under HKAS 31 represents a change in accounting policy.

The adoption of HKASs 32 and 39 has formed an accounting policy relating to the financial assets as disclosed in Note 2.11.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy under which the changes in fair values of investment properties are recorded in the income statement as part of other income. In prior years, the increases in fair value were credited to the investment properties revaluation reserve and decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was assumed to be recovered through sale for the purpose of calculating deferred income tax.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

i) *The adoption of new/revised HKFRS* (continued)

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

- Amortised on a straight-line basis over a period of not exceeding 20 years; and
- Assessed for indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3 (Note 2.7):

- The Group ceased amortisation of goodwill from 1 January 2005;
- Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;
- From the year ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is an indication of impairment.

The excess of fair value of the Group's share of the net identifiable assets acquired over the acquisition cost is recognised in the income statement immediately.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. Other than HKFRS 3 and HKAS 40 which require prospective application; all other standards adopted by the Group require retrospective application.

- HKAS 40 – since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information, any adjustment should be made to the retained earnings as at 1 January 2005, including the reclassification of any amount held in revaluation surplus for investment property.
- HKFRS 3 – to be applied prospectively after 1 January 2005.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

i) *The adoption of new/revised HKFRS* (continued)

The effect of adopting these new accounting standards on the balance sheets as at 31 December 2004 and 2005 and the income statements for the years then ended are summarised as follows:

(a) The adoption of revised HKAS 17 resulted in:

	2005 ***RMB'000***	2004 *RMB'000*
Increase in non-current assets – land use rights	**460,110**	578,771
Increase in current assets – land use rights	**286,350**	280,658
Decrease in properties under development	**596,494**	741,894
Decrease in completed properties held for sale	**45,093**	5,328
Decrease in property, plant and equipment	**104,873**	112,207

There was no impact on basic earnings per share for the years ended 31 December 2004 and 2005 and opening retained earnings as at 1 January 2004 from the adoption of revised HKAS 17.

(b) The adoption of HKAS 31 resulted in:

	2005 ***RMB'000***	2004 *RMB'000*
Decrease in interest in a jointly controlled entity	**–**	9,082
Decrease in other receivables	**–**	38,231
Decrease in other payables	**–**	11,087
Increase in properties under development	**–**	88,033
Increase in property, plant and equipment	**–**	411
Increase in cash and cash equivalents	**–**	12,782
Increase in borrowings	**–**	65,000
Decrease in share of loss of a jointly controlled entity	**–**	2,100
Increase in expenses	**–**	2,100

There was no impact on basic earnings per share for the years ended 31 December 2004 and 2005 and opening retained earnings as at 1 January 2004 from the adoption of HKAS 31.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

i) *The adoption of new/revised HKFRS* (continued)

(c) The adoption of HKAS 40 resulted in:

	2005 *RMB'000*
Increase in other gains	**25,069**
Increase in income tax expense	**8,273**
Decrease in other reserves	**18,036**
Increase in retained earnings, brought forward	**1,240**
Increase in basic earnings per share (RMB)	**0.030**

ii) *Standards and interpretations which are not yet effective*

The following new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1 January 2006 or later periods. The Group has not early adopted these standards, amendments and interpretations. The Group is in the process of making an assessment of the impact of these standards and interpretations and is not yet in a position to state what impact these new standards and interpretations would have on its results of operations and financial position.

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 19 (Amendment)	Employee Benefits
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 1	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HKFRS – Int 4	Determining whether an Arrangement contains a Lease
HKFRS – Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitating Funds
HK(IFRIS) – Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

2. Summary of significant accounting policies (continued)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries and a jointly controlled entity made up to 31 December.

(a) Subsidiaries

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

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

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

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

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

(b) Transactions with minority interest

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

2. Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(c) Joint ventures

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the jointly controlled entities' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the jointly controlled entities that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the jointly controlled entities that result from the Group's purchase of assets from the jointly controlled entities until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value, or an impairment loss, of the asset concerned.

In the Company's balance sheet the investments in jointly controlled entities are stated at cost less provision for impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

2. Summary of significant accounting policies (continued)

2.5 Property, plant and equipment

Property, plant and equipment, comprising buildings, plant and machinery, motor vehicles and office equipment and others, are stated at cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

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

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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2. Summary of significant accounting policies (continued)

2.6 Investment properties

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

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

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

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

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

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

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

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

2. Summary of significant accounting policies (continued)

2.7 Goodwill

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

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

2.8 Impairment of non-financial assets

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

2.9 Properties under development

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

2.10 Completed properties held for sale

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

2. Summary of significant accounting policies (continued)

2.11 Financial assets

From 1 January 2005 onwards, the Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

During the year, other than loans and receivables, the Group did not hold any financial assets in other categories.

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

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

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

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

2.12 Inventories

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

2. Summary of significant accounting policies (continued)

2.13 Construction contracts

Contract costs are recognised when incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Group uses the 'percentage of completion method' to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

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

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

2.14 Cash and cash equivalents

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

2.15 Share capital

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

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

2. Summary of significant accounting policies (continued)

2.16 Borrowings (continued)

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

2.17 Deferred income tax

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

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

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

2.18 Employee benefits

(a) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(b) *Bonus plans*

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

2. Summary of significant accounting policies (continued)

2.18 Employee benefits (continued)

(c) Pension obligation

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

The Group's contributions to the defined contributions retirement scheme are expensed as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund. Details of the Group's retirement benefits are set out in Note 27(a).

2.19 Provision

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

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

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

2.20 Revenue recognition

Revenue is recognised as follows:

(a) Provision of construction services

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

(b) Sale of building materials

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

2. Summary of significant accounting policies (continued)

2.20 Revenue recognition (continued)

(c) *Sale of properties*

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

(d) *Interest income*

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

(e) *Lease income*

Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

(f) *Subsidy income*

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

2.21 Borrowing costs

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

2.22 Operating lease

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

2.23 Dividend distribution

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

2.24 Comparatives

As mentioned in Note 2.1, the comparative figures of 2004 have been restated as a result of the adoption of HKAS 17 and HKAS 31. In addition, interest income previously included under "finance costs" is now presented as part of "other gains" in the income statement of the Group. Moreover, certain comparative figures in relation to segment information have also been reclassified to conform to changes in presentation in current year as mentioned in Note 5 as management believes that it is a fairer presentation of the Group's activities.

3. Financial risk management

3.1 Financial risk factors

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

(a) *Foreign exchange risk*

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

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

The exchange rates between RMB and HKD have remained stable historically. Management monitors the Group's currency exposure on an ongoing basis and will enter into hedges when the need arises.

(b) *Credit risk*

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

(c) *Liquidity risk*

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

(d) *Cash flow and fair value interest rate risk*

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

The Group's interest-rate risk arises from borrowings, details of which have been disclosed in Note 23 to these consolidated financial statements.

3.2 Fair value estimation

The nominal value less impairment provision of trade receivable and payable are assumed to approximate their fair values.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

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

(a) Construction contract revenue recognition

According to the accounting policies of construction contracts as stated in Note 2.13, the Group uses the 'percentage of completion method' to determine the appropriate revenues to be recognised in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract.

Upon applying the percentage of completion method, the Company need to estimate the gross profit margin of each construction contract, which was determined based on the estimated total construction contract costs and total construction contract sum. If the actual gross profit margin of each construction contract differ from the management's estimates, the construction contract revenue to be recognised within the next year will need to be adjusted accordingly.

In addition, the directors of the Company are of the opinion that there are no expected losses, where the estimated total construction contract costs exceed the total construction contract revenue, which need to be recognised in the income statement for the year ended 31 December 2005.

(b) Provision for warranty

The Group recognises a provision for repairs of construction work still under warranty at the balance sheet date. Significant judgment of the ratio of the repairs expenses compared to the warranty deposits for the construction work is required in determining the warranty provision. The Group estimates the ratio according to past history of the level of repairs. As at 31 December 2005, the provision for warranty was estimated at RMB3,870,000.

4. Critical accounting estimates and judgements (continued)

4.1 Critical accounting estimates and assumptions (continued)

(c) Estimate of fair value of investment properties

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

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

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

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

As at 31 December 2005, the fair value of the investment properties of the Group were estimated at RMB35,981,000 as reported by an independent professional valuer, including a fair value gain of approximately of RMB25,069,000 which is recorded in other gains for the year ended 31 December 2005.

4.2 Critical judgements in applying the Group's accounting policies

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 sales charges, borrowing costs and all property development expenditures.

The Group is subject to land appreciation tax in the PRC which has been included in cost of sales of the Group. However, the implementation of these taxes varies amongst various PRC cities and the Group has not finalised its land appreciation tax returns with various tax authorities. Accordingly, significant judgement is required in determining the amount of land appreciation and related tax. Where the final tax outcome of these matters is different from the amounts that were initially determined and recorded, such differences will impact the cost of sales and deferred income tax provisions in the period in which such determination is made.

5. Segment information

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

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

The revenue attributable from these three segments is approximately RMB4,690,914,000 and RMB4,356,878,000 for the years ended 31 December 2005 and 2004 respectively.

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

5. Segment information (continued)

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

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

5. Segment information (continued)

The business segment results for the year ended 31 December 2004 are as follows:

	Year ended 31 December 2004 (Restated)				
	Construction *RMB'000*	Building materials *RMB'000*	Property development *RMB'000*	Others *RMB'000*	Group *RMB'000*
Total turnover	3,645,165	555,629	492,194	42,566	4,735,554
Inter-segment turnover	(242,194)	(93,916)	–	(21,010)	(357,120)
External turnover	3,402,971	461,713	492,194	21,556	4,378,434
Operating profit	202,637	63,911	169,403	761	436,712
Finance costs					(23,981)
Profit before income tax					412,731
Income tax expense					(120,009)
Profit for the year					292,722
Other information					
Depreciation	12,303	13,735	2,385	1,071	29,494
Amortisation	1,193	85	–	–	1,278
Provision for doubtful debts, net	(4,632)	126	1,692	112	(2,702)

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

The Group previously reported and classified manufacture and sale of glass curtain wall and assembly furniture supplied by two subsidiaries of the Company, namely Zhejiang Baoye Curtail Wall Decoration Co., Ltd. and Zhejiang Guangyi Construction and Decoration Co., Ltd., within the construction business segment. The directors of the Company believe that it is a more appropriate presentation of the Group's activities to classify those activities which are of similar nature within the building materials business segment. Reclassification has been made to the comparative information for the year ended 31 December 2004.

5. Segment information (continued)

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

	As at 31 December 2005					
	Construction *RMB'000*	**Building materials** *RMB'000*	**Property development** *RMB'000*	**Others** *RMB'000*	**Unallocated** *RMB'000*	**Group** *RMB'000*
Assets	**2,508,681**	**715,629**	**1,233,359**	**40,425**	**58,824**	**4,556,918**
Liabilities	**1,623,717**	**380,078**	**616,198**	**22,998**	**85,896**	**2,728,887**
Capital expenditure	**45,271**	**93,059**	**1,472**	**3,430**	**–**	**143,232**

The segment assets and liabilities as at 31 December 2004 and capital expenditure for the year then ended are as follows:

	As at 31 December 2004 (Restated)					
	Construction *RMB'000*	Building materials *RMB'000*	Property development *RMB'000*	Others *RMB'000*	Unallocated *RMB'000*	Group *RMB'000*
Assets	1,893,768	870,554	775,936	32,416	28,776	3,601,450
Liabilities	888,280	421,823	582,193	15,704	534,808	2,442,808
Capital expenditure	25,825	210,068	426	12,308	–	248,627

Segment assets consist primarily of land use rights, property, plant and equipment, properties under development, completed properties held for sale, inventories, amounts due from customers on construction contracts, receivables and operating cash. They exclude items such as deferred tax assets and investment properties.

Segment liabilities comprise operating liabilities including amounts due to customers on construction contracts. They exclude items such as certain borrowings and income tax liabilities.

Capital expenditure comprises additions to land use rights, property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combination.

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

6. Land use rights

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

Group

	2005		2004	
	Non-current	**Current**	Non-current	Current
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Beginning of the year	**586,441**	**288,341**	515,612	89,203
Opening adjustments for the adoption of HKAS 17	**(7,670)**	**(7,683)**	–	–
Opening net book amount, as restated	**578,771**	**280,658**	515,612	89,203
Additions	**10,010**	**–**	246,208	27,796
Additions from business combination *(Note 36)*	**136,320**	**–**	57,899	–
Transfer to current portion	**(255,020)**	**255,020**	(232,000)	232,000
Disposal	**(4,226)**	**–**	–	–
Transfer to cost of sales	**–**	**(243,248)**	–	(60,658)
Amortisation	**(5,745)**	**(6,080)**	(1,278)	–
End of the year	**460,110**	**286,350**	586,441	288,341

Company

	Non-Current	
	2005	2004
	RMB'000	*RMB'000*
Beginning of the year	**292,689**	63,000
Additions	**–**	230,881
Amortisation	**(1,661)**	(1,192)
End of the year	**291,028**	292,689

6. Land use rights (continued)

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

As included in the Group's interests in land use rights at 31 December 2005, there are certain land use rights amounting to RMB200,000,000 (2004: RMB200,000,000), for which the Group was in the process of applying for the relevant formal land use rights certificates.

As at 31 December 2005, the total net book values of land use rights, together with buildings, secured as security for the Group's short-term secured bank loans of RMB197,513,000 (2004: RMB111,000,000) amounted to RMB306,230,000 (2004: RMB69,372,000) (Note 23).

7. Property, plant and equipment

Group

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Office equipment and others *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
At 1 January 2004						
Cost	82,659	101,172	65,906	12,538	64,661	326,936
Accumulated depreciation	(14,878)	(43,328)	(26,443)	(5,932)	–	(90,581)
Net book amount	67,781	57,844	39,463	6,606	64,661	236,355
Year ended 31 December 2004						
Opening net book amount	67,781	57,844	39,463	6,606	64,661	236,355
Acquisition of subsidiaries	–	7,350	–	–	–	7,350
Additions	18,072	98,456	5,997	3,422	84,449	210,396
Transfer	65,018	15,338	–	–	(80,356)	–
Disposals	(549)	(4,322)	(14)	(84)	–	(4,969)
Depreciation charge	(6,052)	(13,919)	(7,742)	(1,781)	–	(29,494)
Closing net book amount	144,270	160,747	37,704	8,163	68,754	419,638
At 31 December 2004						
Cost	165,160	218,170	71,584	15,872	68,754	539,540
Accumulated depreciation	(20,890)	(57,423)	(33,880)	(7,709)	–	(119,902)
Net book amount	144,270	160,747	37,704	8,163	68,754	419,638

7. Property, plant and equipment (continued)

Group (continued)

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended 31 December 2005						
Opening net book amount	144,270	160,747	37,704	8,163	68,754	419,638
Additions from acquisition of equity interest *(Note 36)*	–	–	307	364	–	671
Additions	3,674	54,613	17,134	3,968	63,172	142,561
Transfer	55,961	601	–	–	(56,562)	–
Disposals	(15,539)	(8,079)	–	(3,594)	–	(27,212)
Transfer to investment properties *(Note 8(b))*	(10,000)	–	–	–	–	(10,000)
Depreciation charge	(7,374)	(21,445)	(7,536)	(2,306)	–	(38,661)
Closing net book amount	170,992	186,437	47,609	6,595	75,364	486,997
At 31 December 2005						
Cost	193,471	252,808	89,025	16,545	75,364	627,213
Accumulated depreciation	(22,479)	(66,371)	(41,416)	(9,950)	–	(140,216)
Net book amount	170,992	186,437	47,609	6,595	75,364	486,997

7. Property, plant and equipment (continued)

Company

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2004						
Cost	388	–	4,632	726	–	5,746
Accumulated depreciation	–	–	(610)	(48)	–	(658)
Net book amount	388	–	4,022	678	–	5,088
Year ended 31 December 2004						
Opening net book amount	388	–	4,022	678	–	5,088
Additions	–	–	371	227	17,486	18,084
Disposals	–	–	–	(56)	–	(56)
Depreciation charge	(18)	–	(839)	(171)	–	(1,028)
Closing net book amount	370	–	3,554	678	17,486	22,088
At 31 December 2004						
Cost	388	–	5,003	889	17,486	23,766
Accumulated depreciation	(18)	–	(1,449)	(211)	–	(1,678)
Net book amount	370	–	3,554	678	17,486	22,088
Year ended 31 December 2005						
Opening net book amount	**370**	**–**	**3,554**	**678**	**17,486**	**22,088**
Additions	**–**	**–**	**952**	**20**	**7,771**	**8,743**
Disposals	**–**	**–**	**–**	**–**	**–**	**–**
Depreciation charge	**(18)**	**–**	**(989)**	**(183)**	**–**	**(1,190)**
Closing net book amount	**352**	**–**	**3,517**	**515**	**25,257**	**29,641**
At 31 December 2005						
Cost	**388**	**–**	**5,955**	**909**	**25,257**	**32,509**
Accumulated depreciation	**(36)**	**–**	**(2,438)**	**(394)**	**–**	**(2,868)**
Net book amount	**352**	**–**	**3,517**	**515**	**25,257**	**29,641**

7. Property, plant and equipment (continued)

Depreciation expenses of RMB27,281,000 (2004: RMB23,807,000) has been expensed in cost of sales and RMB11,380,000 (2004: RMB5,687,000) in administrative expenses.

8. Investment properties

	Group	
	2005	2004
	RMB'000	*RMB'000*
Beginning of the year	**5,188**	5,188
Transfer from property, plant and equipment *(Note 7)*	**10,000**	–
Fair value appreciation on the transfer date *(Note (b) and Note 19)*	**912**	–
Fair value appreciation credited into other gains	**25,069**	–
Disposals	**(5,188)**	–
End of the year	**35,981**	5,188

The investment properties were revalued by an independent qualified valuer in the PRC.

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

(b) During the year, one building has been transferred to investment properties, RMB912,000 being the difference between the carrying amount and fair value at the transfer date, together with a related deferred tax liability of RMB301,000, is recognised in equity as a revaluation reserve *(Note 19)*.

9. Goodwill

Group

	Goodwill
At 1 January 2004	
Cost	–
Accumulated amortisation	–
Net book amount	–
Year ended 31 December 2004	
Opening net book amount	–
Additions	1,124
Amortisation expenses	(79)
Closing net book amount	1,045
At 31 December 2004	
Cost	1,124
Accumulated amortisation	(79)
Net book amount	1,045
Year ended 31 December 2005	
Opening net book amount	**1,045**
Acquisition of equity interest in a jointly controlled entity *(Note 36(A))*	**15,998**
Closing net book amount	**17,043**
At 31 December 2005	
Net book amount	**17,043**

The balance of goodwill as at 31 December 2004 represented the unamortised amount of the goodwill arising from the acquisitions of two subsidiaries and additional equity interest of a subsidiary. As a result of the change in accounting policy for the adoption of HKFRS 3, the Group ceased amortisation of goodwill from 1 January 2005 onwards.

10. Properties under development

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Development costs	**640,151**	219,764	**44,932**	17,425
Finance costs capitalised	**62,076**	45,025	**21,884**	10,395
	702,227	264,789	**66,816**	27,820

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

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Completion within one year	**606,348**	191,331	**–**	–
Completion more than one year	**95,879**	73,458	**66,816**	27,820
	702,227	264,789	**66,816**	27,820

11. Interests in and balances with subsidiaries

	Company	
	2005	2004
	RMB'000	*RMB'000*
Investments at cost, unlisted	**729,875**	526,479
Amounts due from subsidiaries	**215,828**	135,288
Amounts due to subsidiaries	**–**	(39,635)
	945,703	622,132

The amounts due from/(to) subsidiaries are unsecured, interest free and are repayable on demand.

11. Interests in subsidiaries (continued)

The following is a list of the principal subsidiaries as at 31 December 2005:

Name	Place of incorporation and kind of legal entity	Attributable equity interest held		Registered capital	Principal activities and place of operation
		Directly	*Indirectly*		
Zhejiang Baoye Construction Group Co., Ltd. ("Baoye Construction")	PRC, limited liability company	99%	–	RMB300,000,000	Construction and interior decoration in the PRC
Zhejiang Baoye Curtain Wall Decoration Co., Ltd. ("Baoye Curtain Wall")	PRC, limited liability company	83.1%	–	RMB10,800,000	Installation of curtain wall and steel framework in the PRC
Zhejiang Baoye Infrastructure Construction Co., Ltd.	PRC, limited liability company	87.5%	12.4%	RMB30,000,000	Construction of highway, bridge and other municipal infrastructure in the PRC
Zhejiang Guangyi Construction and Decoration Co., Ltd. ("Guangyi Decoration")	PRC, limited liability company	93.3%	6.6%	RMB15,000,000	Decoration and replenishment in the PRC
Zhejiang Baoye Real Estate Group Co., Ltd. ("Baoye Real Estate")	PRC, limited liability company	90%	9.9%	RMB50,000,000	Development and sales of properties in the PRC
Zhejiang Baoye Building Materials Industrialisation Company Limited ("Baoye Building Materials")	PRC, joint stock limited company	19%	79.9%	RMB60,600,000	Production and sales of concrete and construction materials in the PRC
Shaoxing Commodity Concrete Co., Ltd.	PRC, limited liability company	51.5%	–	RMB21,500,000	Production and sales of concrete and construction materials in the PRC

11. Interests in subsidiaries (continued)

Name	Place of incorporation and kind of legal entity	Attributable equity interest held *Directly*	Attributable equity interest held *Indirectly*	Registered capital	Principal activities and place of operation
Shaoxing Baoye Fireproof Materials Co., Ltd. ("Baoye Fireproof Materials")	PRC, limited liability company	88.3%	11.6%	RMB3,000,000	Production and sales of steel, wood fireproof doors in the PRC
Zhejiang Baoye Construction Design Research Institute Co., Ltd. (formerly known as Zhejiang Building Materials Industrialisation and Design Research Institute Co., Ltd.)	PRC, limited liability company	90%	–	RMB6,000,000	Construction and decoration design in the PRC
Shaoxing Baoye New Building Materials Co., Ltd. ("Baoye New Building Materials")	PRC, limited liability company	–	98.9%	RMB2,000,000	Production and sales of construction materials in the PRC
Shanghai Zibao Real Estate Development Co., Ltd.	PRC, limited liability company	–	69.9%	RMB18,000,000	Real estate development in the PRC
Shaoxing Baogang Woodwork Co., Ltd.	PRC, foreign invested enterprise	70%	–	USD2,720,000	Production and sales of wooden door and other wooden products in the PRC
Shaoxing Baoye Construction Intelligent Technology Co., Ltd.	PRC, limited liability company	60%	39.6%	RMB5,000,000	Installation of computer management system for building or community in the PRC

11. Interests in subsidiaries (continued)

Name	Place of incorporation and kind of legal entity	Attributable equity interest held		Registered capital	Principal activities and place of operation
		Directly	*Indirectly*		
Hangzhou International Airport Mansion Development Co., Ltd.	PRC, limited liability company	90%	–	RMB80,000,000	Development of Hangzhou International Airport Mansion in the PRC
Shaoxing Huaxin Pre-mix Commodity Concrete Co., Ltd.	PRC, limited liability company	51.5%	–	RMB20,000,000	Production and sales of concrete and construction materials in the PRC
Hefei Baoye Concrete Co., Ltd.	PRC, limited liability company	90%	9.9%	RMB10,000,000	Production and sales of concrete and construction materials in the PRC
Zhejiang Baoye Steel Structure Co., Ltd. ("Baoye Steel Structure")	PRC, limited liability company	95%	4.95%	RMB20,000,000	Production, design and sales of steel structure products in the PRC
Shaoxing Guangmao Logistics Co., Ltd.	PRC, limited liability company	90%	9.9%	RMB5,000,000	Provision of freight services and sales of construction materials in the PRC
Hefei Zhongbao Machinery Manufacture Co., Ltd.	PRC, limited liability company	–	89.9%	RMB10,000,000	Production and sales of machinery and fittings in the PRC
Hefei Qingfangcheng Baoye Real Estate Co., Ltd. *(Note 36(A))*	PRC, limited liability company	90%	9.9%	RMB30,000,000	Development and sales of properties in the PRC

11. Interests in subsidiaries (continued)

Name	Place of incorporation and kind of legal entity	Attributable equity interest held Directly	Attributable equity interest held Indirectly	Registered capital	Principal activities and place of operation
Anhui Huateng Investment Company Limited *(Note 36 (B))*	PRC, limited liability company	–	75.0%	RMB20,000,000	Development and sales of properties in the PRC
Zhejiang Baoye Gardening Co., Ltd.	PRC, limited liability company	60%	39.6%	RMB5,000,000	Provision of garden engineering service
Baoye Group Hubei Company Limited	PRC, limited liability company	90%	10%	RMB60,000,000	Investment holdings

12. Inventories

	Group 2005 RMB'000	Group 2004 RMB'000
Raw materials	**21,620**	17,616
Work in progress	**9,172**	5,683
Finished goods	**23,441**	14,015
	54,233	37,314

As at 31 December 2005, no inventory is carried at net realisable value (2004: Nil).

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

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

	Group	
	2005	2004
	RMB'000	*RMB'000*
Contract costs incurred plus recognised profits (less recognised losses) to date	**12,006,910**	8,242,626
Less: progress billings to date	**(11,878,128)**	(8,160,564)
	128,782	82,062
Represented by:		
Due from customers on construction contracts	**517,919**	412,580
Due to customers on construction contracts	**(389,137)**	(330,518)
	128,782	82,062

As at 31 December 2005, retentions and project deposits held by customers for contract work included in other receivables of the Group under Note 15 amounted to RMB471,577,000 (2004: RMB451,302,000).

14. Trade receivable

	Group	
	2005	2004
	RMB'000	*RMB'000*
Trade receivable	**399,470**	329,693
Less: provision for doubtful debts	**(12,247)**	(9,141)
	387,223	320,552

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

14. Trade receivable (continued)

As at 31 December 2005, the ageing analysis of trade receivable is as follows:

	2005	2004
	RMB'000	*RMB'000*
Within 3 months	**214,652**	244,138
3 months to 1 year	**138,534**	52,182
1 to 2 years	**36,352**	26,635
2 to 3 years	**9,552**	6,037
Over 3 years	**380**	701
	399,470	329,693

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

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

15. Other receivables

	Group		**Company**	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deposits for acquisitions	**43,000**	–	**43,000**	–
Deposits for a real estate development project	**50,000**	50,000	**50,000**	50,000
Prepayments and other deposits	**28,765**	25,160	**–**	8
Amounts due from minority shareholders	**–**	24,127	**–**	–
Amount due from a shareholder	**–**	421	**–**	–
Advances to a jointly controlled entity	**–**	45,500	**–**	91,000
Amounts due from a jointly controlled entity	**–**	–	**–**	3,184
Other receivables	**94,342**	63,916	**19,785**	21,872
Retention money receivables and project deposits *(Note 13)*	**471,577**	451,302	**–**	–
	687,684	660,426	**112,785**	166,064

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

16. Restricted bank deposits

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

17. Cash and cash equivalents

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at bank and in hand	**614,207**	433,877	**50,200**	40,734
Short-term deposits	**128,082**	110,000	**125,550**	–
	742,289	543,877	**175,750**	40,734

The effective interest rates for the year of the short-term bank deposits of the Group and the Company are 1.96% (2004: 1.62%) and 1.95% (2004: Nil) respectively, and these deposits have original maturities of three months or less.

As at 31 December 2005, approximately RMB737,421,000 (2004: RMB522,257,000) and RMB4,868,000 (2004: RMB21,620,000) of the cash and cash equivalents of the Group were denominated in RMB and HKD respectively.

18. Share capital

The movements of share capital are as follows:

	Number of shares *(thousands)*	**Ordinary shares** *RMB'000*	**Share premium** *RMB'000*	**Total** *RMB'000*
At 1 January 2004 and 31 December 2004	531,426	531,426	56,150	587,576
Issue of new H shares *(Note (a))*	79,501	79,501	286,658	366,159
At 31 December 2005	**610,927**	**610,927**	**342,808**	**953,735**

(a) In January and November 2005, the Company issued 36,136,800 and 43,364,160 new H shares with a par value of RMB1.00 each at HKD4.05 (equivalent to approximately RMB4.30) and HKD4.85 (equivalent to approximately RMB5.04) each respectively. All the shares were fully paid up in form of cash, resulting in an increase in share premium of RMB286,658,000 after deducting the costs directly attributable to the issue of RMB8,101,000.

19. Other reserves

Group

	Investment properties revaluation reserve *RMB'000*	Other public revaluation reserve *RMB'000*	Statutory surplus reserve *RMB'000* *(Note (a))*	Statutory assets welfare fund *RMB'000* *(Note (b))*	Total *RMB'000*
Balance at 1 January 2004	1,240	7,551	21,656	10,828	41,275
Transfer to income statement upon the sale of completed properties	–	(3,680)	–	–	(3,680)
Appropriation from retained earnings	–	–	27,388	13,694	41,082
Balance at 31 December 2004	1,240	3,871	49,044	24,522	78,677

19. Other reserves (continued)

	Investment properties revaluation reserve *RMB'000*	Other assets revaluation reserve *RMB'000*	Statutory surplus reserve *RMB'000* *(Note (a))*	Statutory public welfare fund *RMB'000* *(Note (b))*	Total *RMB'000*
Balance at 1 January 2005	1,240	3,871	49,044	24,522	78,677
Opening adjustment for the adoption of HKAS 40 *(Note 2.1)*	(1,240)	–	–	–	(1,240)
Balance at 1 January 2005, as restated	–	3,871	49,044	24,522	77,437
Revaluation of buildings – gross *(Note 8(b))*	–	912	–	–	912
Revaluation of buildings – tax *(Note 24)*	–	(301)	–	–	(301)
Acquisition of equity interest in a jointly controlled entity from another joint venturer *(Note 36(A))*	–	120,110	–	–	120,110
Appropriation from retained earnings	–	–	25,151	12,575	37,726
Balance at 31 December 2005	**–**	**124,592**	**74,195**	**37,097**	**235,884**

19. Other reserves (continued)

Company

	Statutory surplus reserve RMB'000 (Note (a))	Statutory public welfare fund RMB'000 (Note (b))	Total RMB'000
Balance at 1 January 2004	21,656	10,828	32,484
Appropriation from retained earnings	27,388	13,694	41,082
Balance at 31 December 2004	49,044	24,522	73,566
Balance at 1 January 2005	49,044	24,522	73,566
Appropriation from retained earnings	25,151	12,575	37,726
Balance at 31 December 2005	**74,195**	**37,097**	**111,292**

(a) Statutory surplus reserve

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

(b) Statutory public welfare fund

The Group is required each year to transfer 5% to 10% of the profit after tax as reported in the PRC statutory accounts to the statutory public welfare fund. This reserve is restricted to capital expenditure for staff collective welfare facilities which are owned by the Group. The statutory public welfare fund is not available for distribution to the shareholders except upon liquidation of the Company.

20. Trade payable

As at 31 December 2005, the ageing analysis of trade payable is as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 3 months	**231,944**	117,956	**594**	–
3 months to 1 year	**104,404**	140,881	**–**	150
1 to 2 years	**29,436**	17,999	**–**	–
2 to 3 years	**2,938**	4,356	**–**	–
Over 3 years	**5,658**	2,307	**–**	–
	374,380	283,499	**594**	150

21. Other payables

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Amounts due to minority shareholders *(Note (a))*	**1,916**	1,488	**–**	–
Amounts due to shareholders *(Note (a))*	**6,660**	7,217	**–**	–
Amount due to a jointly controlled entity	**–**	12,807	**–**	–
Other payables	**230,627**	126,712	**86,894**	20,302
Other taxes payables	**76,730**	90,429	**–**	7,051
Deposits from project managers	**113,601**	79,763	**–**	–
Accruals	**3,235**	2,205	**1,500**	1,500
	432,769	320,621	**88,394**	28,853

(a) The balances with shareholders and minority shareholders were unsecured, interest free and had no fixed repayment terms.

The amounts due to minority shareholders mainly represented the dividend payable to minority shareholders, which have not been paid out as at 31 December 2005.

The amounts due to shareholders mainly represented the deposits received from shareholder in relation to their management of execution of construction contract of the Group.

22. Provision for warranty

	Group	
	2005	2004
	RMB'000	*RMB'000*
At 1 January 2005	**2,620**	5,000
Additional provisions made in the consolidated income statement	**3,200**	2,400
Used during the year	**(1,950)**	(4,780)
At 31 December 2005	**3,870**	2,620

The Group gives warranty on construction work and undertakes to repair construction work that is not satisfactory for periods which range from 6 months to 5 years. Provision has been recognised for expected warranty claims based on the past experience of the level of repairs. The provision to the extent of RMB3,200,000 and RMB670,000 is expected to be used during the year of 2006 and during the year of 2007 respectively.

23. Borrowings

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Short-term bank loans				
– Unsecured	**883,000**	866,000	**310,000**	350,000
– Secured	**197,513**	111,000	**46,000**	46,000
	1,080,513	977,000	**356,000**	396,000

(a) As at 31 December 2005, the secured short-term bank loans of RMB197,513,000 (2004: RMB111,000,000) were secured by the land use rights of the Group with a total net book value amounting to RMB306,230,000 (2004: RMB69,372,000).

(b) Interests rates of these loans were 5% to 7% (2004: 5% to 6%) per annum for the year ended 31 December 2005.

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

24. Deferred income tax

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

The amounts shown in balance sheet include the following:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred tax assets:				
– Deferred tax assets to be recovered after more than 12 months	**12,178**	7,515	**–**	–
– Deferred tax assets to be recovered within 12 months	**10,666**	5,494	**–**	–
	22,844	13,009	**–**	–
Deferred tax liabilities:				
– Deferred tax liabilities to be settled after more than 12 months	**(95,532)**	(5,400)	**(679)**	(679)
– Deferred tax liabilities to be settled within 12 months	**(39,438)**	(99)	**–**	–
	(134,970)	(5,499)	**(679)**	(679)

24. Deferred income tax (continued)

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

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Beginning of the year	**7,510**	231	**(679)**	–
Acquisition of equity interest in a jointly controlled entity from another joint venturer *(Note 36(A))*	**(115,309)**	–	**–**	–
Acquisition of a subsidiary *(Note 36(B))*	**(3,171)**	–	**–**	–
Recognised in the income statement *(Note 29)*	**(855)**	7,279	**–**	(679)
Tax charged to equity *(Note 19)*	**(301)**	–	**–**	–
End of the year	**(112,126)**	7,510	**(679)**	(679)

24. Deferred income tax (continued)

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

Deferred tax assets
Group

	Provision for doubtful receivables *RMB'000*	Tax losses *RMB'000*	Unrealised profit resulting from intragroup transactions *RMB'000*	Total *RMB'000*
At 1 January 2004	6,273	–	–	6,273
Recognised in the income statement	(892)	2,223	5,405	6,736
At 31 December 2004	5,381	2,223	5,405	13,009
Recognised in the income statement	1,668	4,090	1,068	6,826
Acquisition of equity interest in a jointly controlled entity from another joint venturer *(Note 36(A))*	–	3,009	–	3,009
At 31 December 2005	**7,049**	**9,322**	**6,473**	**22,844**

24. Deferred income tax (continued)

Deferred tax liabilities

	Group				Company
	Accelerated tax depreciation	**Revaluation of assets**	**Interest expense capitalised**	**Total**	**Interest expense capitalised**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2004	(538)	(4,458)	(1,046)	(6,042)	–
Recognised in the income statement	(139)	1,933	(1,251)	543	(679)
At 31 December 2004	(677)	(2,525)	(2,297)	(5,499)	(679)
Charged to equity *(Note 19)*	–	(301)	–	(301)	–
Recognised in the income statement	246	(7,567)	(360)	(7,681)	–
Acquisition of equity interest in a jointly controlled entity from another joint venturer *(Note 36(A))*	–	(118,318)	–	(118,318)	–
Acquisition of a subsidiary *(Note 36(B))*	–	(3,171)	–	(3,171)	–
At 31 December 2005	**(431)**	**(131,882)**	**(2,657)**	**(134,970)**	**(679)**

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

25. Other gains – net

	2005 **RMB'000**	2004 *RMB'000*
Excess of interest in the acquired net assets from minority shareholders over cost *(Note (a))*	**26,435**	–
Excess of the fair value of the net assets of a subsidiary acquired over the cost *(Note 36(B))*	**3,549**	–
Interest income	**34,925**	26,422
Fair value gains on investment properties *(Note 8)*	**25,069**	–
Gain on disposals of investment property	**2,990**	–
Losses on disposals of property, plant and equipment and land use rights due to relocation of certain production plants *(Note (b))*	**(28,698)**	–
Government compensation *(Note (b))*	**58,650**	30,861
Gains on disposals of other property, plant and equipment and land use rights	**9,835**	6,779
Others	**3,636**	3,378
	136,391	67,440

(a) In February 2005, the Company entered into an acquisition agreement with Mr. Pang Baogen ("Mr. Pang"), the chairman of the Board of Directors of the Company and the substantial shareholder of the Company, to acquire his 19% equity interest in Baoye Building Materials, a subsidiary of the Company, at a cash consideration of RMB11,514,000. In addition, in April 2005, two subsidiaries of the Company, namely Baoye Real Estate and Baoye Steel Structure, also entered into another two acquisition agreements with another two minority shareholders of Baoye Building Materials, to acquire additional 15% and 1% equity interest in Baoye Building Materials at cash considerations of RMB11,327,000 and RMB808,000 respectively.

The carrying amount of 19%, 15% and 1% equity interest in Baoye Building Materials at the transaction date is approximately RMB27,189,000, RMB21,465,000 and RMB1,430,000, respectively. The difference between the above considerations and the net book value of equity interest acquired totalling RMB26,435,000 was recognised directly in the income statement.

(b) These losses on disposals of property, plant and equipment and land use rights were mainly caused by relocation of certain production plants at the request of the local government authorities according to the town plan.

Government compensation represents the amount received/receivable from the local government authorities for the losses on disposals of the property, plant and equipment and land use rights and the loss of business arising from relocation of production plants as mentioned above.

26. Expenses by nature

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

	2005 **RMB'000**	2004 *RMB'000*
Depreciation of property, plant and equipment *(Note 7)*	**38,661**	29,494
Amortisation of land use rights charged into income statement	**3,108**	1,278
Employee benefit expenses *(Note 27)*	**790,849**	672,105
Cost of inventories and completed properties held for sale	**3,506,969**	3,238,864
Operating leases of buildings	**4,507**	2,939
Auditors' remuneration	**1,800**	1,500
Others	**63,782**	62,982
	4,409,676	4,009,162

27. Employee benefit expenses

	2005 **RMB'000**	2004 *RMB'000*
Wages and salaries	**781,219**	663,611
Welfare, medical and other expenses	**6,706**	5,673
Retirement benefit costs – defined contribution plans *(Note (a))*	**2,924**	2,821
	790,849	672,105

(a) Retirement benefit costs

As stipulated by the Government regulations in PRC, the Company and its subsidiaries are required to contribute to the state-sponsored retirement scheme for all of its employees in the PRC at 19% to 20% (2004: 19% to 20%) of the eligible salary of its employees on a monthly basis. The state-sponsored retirement scheme is responsible for the entire pension obligations payable to all retired employees and the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the monthly contributions.

27. Employee benefit expenses (continued)

(b) Directors' emoluments

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

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

27. Employee benefit expenses (continued)

(b) Directors' emoluments (continued)

The remuneration of each director for the year ended 31 December 2004 is set out below:

Name of directors	Fees *RMB'000*	Salaries, bonuses and allowances *RMB'000*	Retirement benefits *RMB'000*	Total *RMB'000*
Pang Baogen	–	552	3	555
Gao Jiming	–	420	3	423
Zhou Hanwan	–	420	2	422
Gao Lin	–	420	2	422
Wu Weimin	25	–	–	25
Hu Shaozeng	25	–	–	25
Wang Youwei	25	–	–	25
Yi Deqing	25	–	–	25
Xu Yangsheng *(Note (i))*	127	–	–	127
Guo Linguang *(Note (i))*	57	–	–	57
Dennis Yin Ming Chan	56	–	–	56
	340	1,812	10	2,162

During the years ended 31 December 2005 and 2004, no director waived any emoluments. Neither incentive payment for joining the Group nor compensation for loss of office was paid or payable to any directors during the years ended 31 December 2005 and 2004.

(i) These two directors have resigned during the year ended 31 December 2004.

27. Employee benefit expenses (continued)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2004: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2004: one) individual during the year are as follows:

	2005 **RMB'000**	2004 RMB'000
Basic salaries and allowances	**960**	84
Bonuses	**–**	468
Retirement benefits	**–**	3
	960	555

The emoluments for the above senior management fell within the band of HKD nil to HKD1,000,000 during the years ended 31 December 2005 and 2004.

28. Finance costs

	2005 **RMB'000**	2004 RMB'000
Interest on bank loans	**48,030**	42,137
Less: interest capitalised in construction in progress	**(1,094)**	(4,657)
Less: interest capitalised in properties under development	**(17,051)**	(13,499)
	29,885	23,981

The capitalisation rates applied to funds borrowed generally and used for the development of properties and construction in progress were approximately 4.9% (2004: 5.3%) per annum.

29. Income tax expense

(i) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the year (2004: Nil).

(ii) PRC Enterprise Income Tax

The Company and its subsidiaries are subject to PRC Enterprise Income Tax ("EIT") at a rate of 33% (2004: 33%). The amount of income tax expenses charged to the consolidated income statement represents:

	2005 ***RMB'000***	2004 *RMB'000*
Current income tax		
– PRC enterprise income tax	**111,874**	127,288
Deferred income tax *(Note 24)*	**855**	(7,279)
	112,729	120,009

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

	2005 ***RMB'000***	2004 *RMB'000*
Profit before income tax	**420,627**	412,731
Calculated at a tax rate of 33% (2004: 33%)	**138,806**	136,201
Effect of partial income tax exemption *(Note (a) and (b))*	**(16,444)**	(19,728)
Income not subject to tax	**(9,890)**	–
Expenses not deductible for tax purposes	**257**	838
Unrecognised tax losses	**–**	2,702
Utilisation of previously unrecognised tax losses	**–**	(4)
Income tax expense	**112,729**	120,009

(a) According to the tax circulars, Shaoxingdishui Qianqingzi 2005 No. 001 to No. 005, five subsidiaries of the Company, namely, Baoye Real Estate, Baoye Construction, Baoye Fireproof Materials, Guangyi Decoration and Baoye Curtain Wall, are entitled to a 10% (2004: 10%) reduction of their enterprise income taxes as they are qualified as country enterprise in the PRC.

(b) According to the tax circulars, Zhidishuizi 2004 No. 93 and 94 issued by the local tax bureau of Shaoxing County, two subsidiaries of the Company, Baoye Building Materials and Baoye New Building Materials are entitled to an income tax credit of 40% on the purchase cost of certain qualified equipment manufactured in the PRC.

30. Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB136,472,000 (2004: RMB109,630,000).

31. Earnings per share

Basic

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

	2005	2004
Profit attributable to equity holders of the Company *(RMB'000)*	**304,226**	275,082
Weighted average number of ordinary shares in issue *(thousands shares)*	**566,965**	531,426
Basic earnings per share (RMB)	**RMB0.537**	RMB0.518

Diluted

No fully diluted earnings per share is presented as the Company has no potential dilutive shares.

32. Dividends

	2005 ***RMB'000***	2004 *RMB'000*
Proposed final dividend of RMB0.12 (2004: RMB0.1436) per ordinary share	**73,311**	81,502

The dividends paid during the years ended 31 December 2005 and 2004 were RMB81,502,000 (RMB0.1436 per share) and RMB33,746,000 (RMB0.0635 per share) respectively. A dividend in respect of the year 2005 of RMB0.12 per share, amounting to a total dividend of RMB73,311,000 is to be proposed at the annual general meeting of the Company to be held on 1 June 2006 and will be payable thereafter upon shareholders' approval at the meeting. These financial statements do not reflect this dividend payable in the relevant accounts.

33. Cash generated from operations

	2005 *RMB'000*	2004 *RMB'000*
Profit for the year	**307,898**	292,722
Adjustments for:		
Income tax expense	**112,729**	120,009
Depreciation	**38,661**	29,494
Amortisation of goodwill	**–**	79
Amortisation of land use rights	**3,108**	1,278
Losses/(gains) on sale of property, plant and equipment	**18,863**	(6,779)
Gains on sale of investment property	**(2,990)**	–
Excess of interest in the acquired net assets from minority shareholders over cost *(Note 25(a))*	**(26,435)**	–
Excess of the fair value of the net assets of a subsidiary acquired over the cost *(Note 36(B))*	**(3,549)**	–
Fair value gains on investment properties	**(25,069)**	–
Interest income	**(34,925)**	(26,422)
Interest expenses	**29,885**	23,981
Changes in working capital (excluding the effects of acquisition):		
Decrease/(increase) in properties under development, completed properties held for sale and land use rights for properties development	**255,577**	(232,958)
Increase in restricted bank deposits	**(61,691)**	(5,766)
Increase in inventories	**(16,919)**	(15,347)
Increase in balances with customers on construction contracts	**(46,720)**	(58,994)
Increase in trade and other receivables	**(92,949)**	(263,556)
(Decrease)/increase in trade and other payables, receipts in advances and provision for warranty	**(235,314)**	199,578
Cash generated from operations	**220,160**	57,319

33. Cash generated from operations (continued)

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

	2005 RMB'000	2004 RMB'000
Net book amount *(Note 6 and Note 7)*	**31,438**	4,969
Gains/(losses) on sale of property, plant and equipment and land use rights	**(18,863)**	6,779
Proceeds from sale of property, plant and equipment and land use rights	**12,575**	11,748

34. Contingencies

	Group		Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Guarantees given to banks in respect of mortgage facilities granted to third parties	**67,500**	58,690	**–**	–
Guarantees given to banks in respect of bank loans granted to subsidiaries	**–**	–	**500,000**	456,000

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

The Company has executed guarantees amounting to approximately RMB690,000,000 (2004: RMB686,000,000) with respect to banking facilities made available to subsidiaries. As at 31 December 2005, the borrowings outstanding against the facilities amounted to RMB500,000,000 (2004: RMB456,000,000).

35. Capital commitments

(a) Commitments for properties under development

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted but not provided for	**14,094**	–	**–**	–

(b) Operating lease commitments – where a Group is the leassee

The lease expenditure expensed in the income statement during the year is disclosed in Note 26.

As at 31 December 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2005	2004
	RMB'000	*RMB'000*
Not later than one year	**844**	979
Later than one year and not later than five years	**165**	86
	1,009	1,065

36. Business combinations

(A) Acquisition of 50% equity interest in a jointly controlled entity from another joint venturer

As at 31 December 2004, the Group holds a 50% equity interest in a jointly controlled entity, Hefei Qingfangcheng Baoye Real Estate Co., Ltd. ("Hefei Qingfangcheng"), a limited liability company incorporated in the PRC and mainly engaged in development and sale of properties.

On 23 December 2005, the Company and its subsidiary, Baoye Real Estate, entered into an agreement with China Qingfangcheng Group Chuxiong Real Estate Company Limited (the "Seller"), another joint venture partner of Hefei Qingfangcheng, to acquire an additional 50% equity interest of Hefei Qingfangcheng at a consideration of RMB145,000,000 (the "Acquisition Transaction").

Hefei Qingfangcheng did not contribute any revenue and suffer a net loss of RMB32,000 for the period from the acquisition date to 31 December 2005.

(i) Details of the net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration:	
– Cash paid during the year 2005	65,000
– Cash to be paid after 31 December 2005 (recorded as other payables in the consolidated balance sheet)	80,000
Total purchase consideration	145,000
Fair value of net assets acquired – refer to (ii) below	(129,002)
Goodwill	15,998

36. Business combinations (continued)

(A) Acquisition of 50% equity interest in a jointly controlled entity from another joint venturer (continued)

(ii) *Fair value of net assets acquired – 50% equity interest held by the Seller*

The assets and liabilities arising from the Acquisition Transaction are as follows:

	Fair value *RMB'000*	Carrying amount *RMB'000*
Cash and cash equivalents	12,623	12,623
Property, plant and equipment	430	430
Deferred income tax assets	3,009	3,009
Properties under development and land use rights	326,899	147,630
Receivables	9,903	9,903
Payables	(139,703)	(139,703)
Borrowings	(25,000)	(25,000)
Net deferred tax liabilities	(59,159)	–
Net assets acquired	129,002	8,892

The properties under development and land use rights were revalued by an independent qualified valuer. Fair values of other working capital items and properties, plant and equipment are stated at their carrying amount at the acquisition date.

(iii) *Cash flow on acquisition*

	RMB'000
Purchase consideration settled in cash	65,000
Cash and cash equivalents in the jointly controlled entity acquired	(12,623)
Cash outflow on acquisition	52,377

(iv) *Impact of fair value adjustments on the original 50% equity interest held by the Company*

	RMB'000
Fair value	129,002
Carrying amount	(8,892)
Assets revaluation reserve *(Note 19)*	120,110

36. Business combinations (continued)

(B) Acquisition of 75% equity interest in Anhui Huateng Investment Company Limited ("Anhui Huateng")

During the year, the Group acquired 75% equity interest of Anhui Huateng, a limited liability company incorporated in the PRC and its assets mainly included the land use rights and properties under development. Anhui Huateng did not contribute any revenue and suffered a net loss of RMB681,000 for the period from the acquisition date to 31 December 2005.

(i) Details of the net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration:	
– Cash paid	15,000
Fair value of net assets acquired – refer to (ii) below	(18,549)
Excess of the fair value of the net assets acquired over the acquisition costs	(3,549)

The excess of the fair value of the net assets acquired over the acquisition costs was recorded as other gains in the consolidated income statement for the year ended 31 December 2005 (see Note 25).

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

	Fair value *RMB'000*	Carrying amount *RMB'000*
Cash and cash equivalents	679	679
Property, plant and equipment	241	241
Properties under development and land use rights	86,293	76,666
Receivables	86	86
Payables	(59,382)	(59,382)
Net deferred tax liabilities	(3,171)	–
Net assets	24,746	18,290
Minority interest (25%)	(6,197)	
Net assets acquired	18,549	

The properties under development and land use rights of Anhui Huateng were revalued by an independent qualified valuer. Fair values of other working capital items are stated at their carrying amount at the acquisition date.

36. Business combinations (continued)

(B) Acquisition of 75% equity interest in Anhui Huateng Investment Company Limited ("Anhui Huateng") (continued)

(iii) Cash flow on acquisition

	RMB'000
Purchase consideration settled in cash	15,000
Cash and cash equivalents in a subsidiary acquired	(679)
Cash outflow on acquisition	14,321

37. Related party transactions

The Group is controlled by Mr. Pang Baogen, who owns 32.53% share interest of the Company as at 31 December 2005.

Apart from the related party transactions and balances already disclosed in Note 25(a) and 21(a), the Group had the following significant related party transactions during the year ended 31 December 2005.

Key management compensation

	2005	2004
	RMB'000	*RMB'000*
Salaries and other short-term employee benefits	**2,550**	2,404

38. Events after the balance sheet date

(a) Business combination

On 21 February 2006, the Group acquired the 100% equity interest of 11 companies and the ownership of a guest house located in Hubei province from Hebei Construction Engineering Holding Company at an aggregate consideration of approximately of RMB132,855,000. The management of the Company are in the progress of assessing the identifiable assets and liabilities of the acquired business and is not yet in a position to state the results of assessment.

(b) Short-term commercial paper

The shareholders of the Company approved to issue short-term commercial paper in the Extraordinary General Meeting held on 10 March 2006, with a maximum outstanding repayment amount of RMB500,000,000. The maturity period of the short-term commercial paper shall be no more than 365 days from the date of its issue. The price, interest rate, underwriting arrangement and other details of the short-term commercial paper shall be determined by the Board, taking into account the market conditions and terms and conditions to be proposed by the underwriter.

The Company intend to use the proceeds from the issue of short-term commercial paper as working capital and repayment of short-term bank loans.