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寶業集團股份有限公司 BAOYE GROUP COMPANY LIMITED*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock code: 2355)

CONNECTED TRANSACTIONS: CONSTRUCTION AGREEMENT AND ACQUISITION AGREEMENT

The Board announces that on 26 February 2005, Baoye Construction, a non-wholly owned subsidiary of the Company, entered into the Construction Agreement with Minghua Textile, pursuant to which Baoye Construction has conditionally agreed to perform certain design, construction and installation work of Zhejiang Textile Raw Material Exhibition City Textile Raw Material Trade Centre (浙江輕紡原料博覽城紡織原料交易中心). The construction site is located at Minghua Village, Yaqian Town, Xiaoshan District (蕭山區衙前鎮明華村). The total consideration for the design, construction and installation work under the Construction Agreement amounts to RMB116,023,788 (equivalent to approximately HK\$109,456,404).

Particulars of the Construction Agreement are set out in the paragraph headed "Construction Agreement" of this announcement.

By virtue of the relationship between Baoye Construction and Minghua Textile which is more particularly described under the paragraph headed "Relationship between the parties" under the heading "Construction Agreement" in this announcement, the transaction contemplated under the Construction Agreement constitutes a connected transaction for the Company under the Listing Rules.

In accordance with the Listing Rules, independent shareholders' approval for the Construction Agreement is required. The Directors propose to seek the independent shareholders' approval of the Construction Agreement at the EGM by way of a poll. No Shareholder is required to abstain from voting at the EGM as none of the Shareholders or their respective associates have any material interest in the Construction Agreement.

The Independent Board Committee will be formed to consider the Construction Agreement, and an independent financial adviser will be appointed to advise the Independent Board Committee and the independent shareholders on those issues. A circular containing, among other things, details of the Construction Agreement, the recommendation of the Independent Board Committee, the advice of the independent financial adviser and the notice of EGM will be despatched to the Shareholders as soon as practicable.

The Board further announces that the Acquisition Agreement was entered into between the Company and Mr Pang on 26 February 2005 whereby the Company has conditionally agreed to acquire and Mr Pang has conditionally agreed to dispose of his 19% of equity interests in Building Materials Industrialisation Company. The consideration for the Acquisition is RMB11,514,000 (equivalent to approximately HK\$10,862,264).

Particulars of the Acquisition Agreement are set out in the paragraph headed "Acquisition Agreement" of this announcement.

As Mr Pang is an executive Director and a substantial shareholder of the Company, the Acquisition constitutes a connected transaction for the Company under the Listing Rules. Since each of applicable percentage ratios under Rule 14.07 of the Listing Rules is less than 2.5%, the Acquisition is only subject to the reporting and announcement requirements set out in Rules 14A.45 and 14A.47 of the Listing Rules and is exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to the articles of association of the Company, approval from the Shareholders is required for any contract, transaction or arrangement entered into between a Director and the Company. Accordingly, the Directors propose to seek the Shareholders' approval of the Acquisition Agreement at the EGM by way of a poll. Mr Pang will abstain from voting at the EGM as he is materially interested in the Acquisition Agreement.

A circular containing, among other things, details of the Acquisition Agreement and the notice of EGM will be despatched to the Shareholders as soon as practicable.

The terms of the Acquisition Agreement have been negotiated on an arm's length basis. The Directors, including the independent non-executive Directors, consider that the terms of the Acquisition Agreement are on normal commercial terms and are fair and reasonable as far as the Shareholders as a whole are concerned.

CONSTRUCTION AGREEMENT

The principal terms of the Construction Agreement are as follows:

- Date** : 26 February 2005
- Parties** : (1) Baoye Construction, a non-wholly owned subsidiary of the Company
(2) Minghua Textile

Particulars

Pursuant to the Construction Agreement, Baoye Construction has conditionally agreed to perform certain design, construction and installation work of Zhejiang Textile Raw Material Exhibition City Textile Raw Material Trade Centre (浙江輕紡原料博覽城紡織原料交易中心). The construction site is located at Minghua Village, Yaqian Town, Xiaoshan District (蕭山區衙前鎮明華村). The Construction Agreement is expected to be completed within 300 days.

Consideration

The total consideration for the design, construction and installation work under the Construction Agreement amounts to RMB116,023,788 (equivalent to approximately HK\$109,456,404), payable by Minghua Textile to Baoye Construction in the manner as set out under the paragraph headed "Payment terms" below.

The consideration for the Construction Agreement was determined through a tendering process and based on the estimated costs of the design, construction and installation work of Zhejiang Textile Raw Material Exhibition City Textile Raw Material Trade Centre (浙江輕紡原料博覽城紡織原料交易中心), plus a management fee at a level comparable to other similar projects undertaken by the Group.

Payment terms

The consideration for the Construction Agreement will be payable in the following manner:

- (1) an initial prepayment in the sum of RMB11,602,379 (equivalent to approximately HK\$10,945,640), being 10% of the total consideration, will be paid by Minghua Textile to Baoye Construction within 7 days from the day of signing of the Construction Agreement. At the time when 60% of the construction work is completed, such amount of initial prepayment will be deducted monthly from the monthly consideration paid by Minghua Textile until 90% of the construction work is completed;
- (2) Baoye Construction will submit a monthly report on work progress and fee (estimate) before the 25th day of each month. Within 7 days immediately after the receipt of such report, Minghua Textile will assess the same and confirm the actual amount of construction work done. Minghua Textile will then pay 80% of the actual monthly amount of construction work done on or before the 5th day of the month following the receipt of such report;
- (3) an amount equal to 90% of the actual amount of construction work done will be paid within 10 days upon passing of the test on completion of construction;
- (4) an amount equal to 97% of the actual amount of construction work done will be paid within 15 days upon confirmation of the audit of the completion work; and
- (5) the remaining 3% of the actual amount of construction work done will be payable in accordance with the terms and conditions set out in the report on quality guarantee of the construction.

The above payments method is an ordinary commercial practice within the same industry. The Directors (excluding the Independent Board Committee comprising all independent non-executive Directors and whose

opinion will be set out in the circular after taking into account the principal factors and reasons considered by the independent financial adviser and its advice set out in the circular) consider that the above payment terms were normal commercial terms.

Condition

The Construction Agreement is conditional upon the Construction Agreement and the transactions contemplated thereunder having been approved by the independent shareholders at the EGM by way of a poll.

Relationship between the parties

Baoye Construction is owned by the Company as to approximately 99%, while the remaining approximately 1% is owned equally by Mr Wang Liequan, Mr Chen Baorong and Mr Xia Weimin. Baoye Construction is principally engaged in the undertaking and implementation of construction projects. Mr Wang Liequan, Mr Chen Baorong and Mr Xia Weimin are the promoters of the Company.

Minghua Textile is owned as to 67% by Mr Li, a former director of Shaoxing Baogang, a non-wholly owned subsidiary of the Company. Mr Li resigned as a director of Shaoxing Baogang on 30 April 2004. Minghua Textile is principally engaged in the undertaking of the construction project of Zhejiang Textile Raw Material Exhibition City Textile Raw Material Trade Centre (浙江輕紡原料博覽城紡織原料交易中心).

In view that Minghua Textile is an associate of Mr Li, Minghua Textile is a connected person of the Company and the transaction contemplated under the Construction Agreement constitutes a connected transaction for the Company under the Listing Rules.

In accordance with the Listing Rules, independent shareholders' approval for the Construction Agreement is required. The Directors propose to seek the independent shareholders' approval of the Construction Agreement at the EGM by way of a poll. No Shareholder is required to abstain from voting at the EGM as none of the Shareholders or their respective associates have any material interest in the Construction Agreement.

The Independent Board Committee will be formed to consider the Construction Agreement, and an independent financial adviser will be appointed to advise the Independent Board Committee and the independent shareholders on those issues. A circular containing, among other things, details of the Construction Agreement, the recommendation of the Independent Board Committee, the advice of its independent financial adviser and the notice of EGM will be despatched to the Shareholders as soon as practicable.

Reasons and benefits of the Construction Agreement

The Group is principally engaged in (i) the undertaking and implementation of construction projects; (ii) research and development, production and sale of building materials; and (iii) real estate development.

The design, construction and installation work under the Construction Agreement and the execution of the Construction Agreement form part of the ordinary and usual course of business of the Group.

The Directors (excluding the Independent Board Committee comprising all independent non-executive Directors and whose opinion will be set out in the circular after taking into account the principal factors and reasons considered by the independent financial adviser and its advice set out in the circular) consider that the Construction Agreement was entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and the entering into of the Construction Agreement is in the interests of the Company and the Shareholders as a whole and the terms of which are fair and reasonable as far as the Shareholders are concerned.

ACQUISITION AGREEMENT

The principal terms of the Acquisition Agreement are as follows:

- Date** : 26 February 2005
- Parties** : (1) The Company as purchaser
(2) Mr Pang as vendor

Particulars

Pursuant to the Acquisition Agreement, the Company has conditionally agreed to acquire and Mr Pang has conditionally agreed to dispose of his 19% of equity interests in Building Materials Industrialisation Company.

Building Materials Industrialisation Company is a joint stock limited company established in the PRC on 8 July 1999. Prior to the Acquisition, it was owned by Baoye Construction, Mr Pang, 浙江省建築科學設計研究院 (Zhejiang Construction Science and Design Research Institute), 浙江寶業建築設計研究院有限公司 (Zhejiang Baoye Construction and Design Research Co., Ltd.) (formerly known as 浙江住宅產業現代化設計研究所有限公司 (Zhejiang Building Materials Industrialisation and Design Research Institute Co., Ltd.)) and Mr Hu Shaozeng, a non-executive Director, as to 60%, 19%, 15%, 5% and 1% respectively. Immediately prior to the Acquisition, Building Materials Industrialisation Company was a 60% subsidiary of the Company.

Upon completion of the Acquisition, Building Materials Industrialisation Company will be owned as to 60%, 19%, 15%, 5% and 1% by Baoye Construction, the Company, 浙江省建築科學設計研究院 (Zhejiang Construction Science and Design Research Institute), 浙江寶業建築設計研究院有限公司 (Zhejiang

Baoye Construction and Design Research Co., Ltd.) (formerly known as 浙江住宅產業現代化設計研究所有限公司 (Zhejiang Building Materials Industrialisation and Design Research Institute Co., Ltd.)) and Mr Hu Shaozeng respectively. Immediately after the Acquisition, Building Materials Industrialisation Company will become a 79% subsidiary of the Company.

Building Materials Industrialisation Company is principally engaged in the production and sales of construction materials.

The audited net profit both before and after taxation of Building Materials Industrialisation Company for the year ended 31 December 2002 were approximately RMB17,660,287 (equivalent to approximately HK\$16,660,648) and RMB12,472,914 (equivalent to approximately HK\$11,766,900) respectively prepared in accordance with the PRC generally accepted accounting principles. The audited net profit both before and after taxation of Building Materials Industrialisation Company for the year ended 31 December 2003 were approximately RMB20,225,488 (equivalent to approximately HK\$19,080,649) and RMB13,551,077 (equivalent to approximately HK\$12,784,035) respectively prepared in accordance with the PRC generally accepted accounting principles. The audited net asset value of Building Materials Industrialisation Company for the two years ended 31 December 2003 were approximately RMB80,084,742 (equivalent to approximately HK\$75,551,643) and RMB93,680,808 (equivalent to approximately HK\$88,378,121) respectively prepared in accordance with the PRC generally accepted accounting principles. Based on the management accounts of Building Materials Industrialisation Company for the 6 months ended 30 June 2004, the unaudited net profit and unaudited net asset value of Building Materials Industrialisation Company were approximately RMB4,111,037 (equivalent to approximately HK\$3,878,337) and RMB98,444,298 (equivalent to approximately HK\$92,871,979) respectively.

Consideration

The consideration for the Acquisition is RMB11,514,000 (equivalent to approximately HK\$10,862,264), payable by the Company to an account designated by Mr Pang within 30 days immediately after the completion of the Acquisition.

The unaudited book value of 19% of equity interests of Building Materials Industrialisation Company is RMB18,704,417 (equivalent to approximately HK\$17,645,676) as at 30 June 2004.

The consideration for the Acquisition was based on the 19% of the registered capital of Building Materials Industrialisation Company and was arrived at after arm's length negotiations between the Company and Mr Pang. The entire registered capital of Building Materials Industrialisation Company has been fully paid.

Completion

Completion of the Acquisition is conditional upon the followings:

- (1) the Acquisition Agreement having been duly signed by the Company and Mr Pang;
- (2) the Acquisition having been approved by the Directors (including the independent non-executive Directors) and Shareholders in accordance with the articles of association of the Company and relevant laws and regulations;
- (3) the Acquisition having been disclosed in accordance with the Listing Rules;
- (4) the articles of association of Building Materials Industrialisation Company having been legally and duly amended so as to reflect the Acquisition; and
- (5) the change relating to the Acquisition having been filed and registered with relevant Administration of Industry and Commerce by Building Materials Industrialisation Company.

If any of the conditions, which are not waivable, set out above shall not have been fulfilled on or before 30 April 2005 or any other day agreed by both parties, either party is entitled to terminate the Acquisition Agreement by giving written notice to the other party and no party shall have any claim against the other.

Relationship between the parties

In view that Mr Pang is an executive Director and a substantial shareholder of the Company, Mr Pang is a connected person of the Company under the Listing Rules. Accordingly, the Acquisition constitutes a connected transaction for the Company under the Listing Rules.

Since each of applicable percentage ratios as defined under Rule 14.07 of the Listing Rules is less than 2.5%, the Acquisition is only subject to the reporting and announcement requirements set out in Rules 14A.45 and 14A.47 of the Listing Rules and is exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to the articles of association of the Company, approval from the Shareholders is required for any contract, transaction or arrangement entered into between a Director and the Company. Accordingly, the Directors propose to seek the Shareholders' approval of the Acquisition Agreement at the EGM by way of a poll. Mr Pang will abstain from voting at the EGM as he is materially interested in the Acquisition Agreement.

A circular containing, among other things, details of the Acquisition Agreement and the notice of EGM will be despatched to the Shareholders as soon as practicable.

Reasons and benefits of the Acquisition

The audited net profit both before and after taxation of Building Materials Industrialisation Company for the year ended 31 December 2002 were approximately RMB17,660,287 (equivalent to approximately HK\$16,660,648) and RMB12,472,914 (equivalent to approximately HK\$11,766,900) respectively prepared in accordance with the PRC generally accepted accounting principles. The audited net profit both before and after taxation of Building Materials Industrialisation Company for the year ended 31 December 2003 were approximately RMB20,225,488 (equivalent to approximately HK\$19,080,649) and RMB13,551,077 (equivalent to approximately HK\$12,784,035) respectively prepared in accordance with the PRC generally accepted accounting principles. Given the positive profit growing trend of Building Materials Industrialisation Company, the Board is of the view that there are positive prospect and growth potential of Building Materials Industrialisation Company in the coming few years. As such, it is expected that the Acquisition will contribute positively to the future development of the Group.

The terms of the Acquisition Agreement have been negotiated on an arm's length basis. The Directors, including the independent non-executive Directors, consider that the terms of the Acquisition Agreement are on normal commercial terms and are fair and reasonable as far as the Shareholders as a whole are concerned.

GENERAL

The Group is principally engaged in (i) the undertaking and implementation of construction projects; (ii) research and development, production and sale of building materials; and (iii) real estate development.

DEFINITIONS

Unless the context otherwise requires, capitalised terms used in this announcement shall have the following meanings:

“Acquisition”	the acquisition of 19% of equity interests in Building Materials Industrialisation Company by the Company from Mr Pang pursuant to the terms and conditions of the Acquisition Agreement
“Acquisition Agreement”	an agreement dated 26 February 2005 and entered into between the Company and Mr Pang in connection with the Acquisition
“associate”	has the meaning ascribed to it under the Listing Rules
“Baoye Construction”	浙江寶業建設集團有限公司 (Zhejiang Baoye Company Construction Group Co., Ltd), a limited liability company established in the PRC on 15 February 2001, which is owned by the Company as to approximately 99%, while the remaining approximately 1% is owned equally by Mr Wang Liequan, Mr Chen Baorong and Mr Xia Weimin
“Board”	the board of Directors
“Building Materials Industrialisation Company”	浙江寶業住宅產業股份有限公司 (Zhejiang Baoye Building Materials Industrialisation Company Limited*), a joint stock limited company established in the PRC on 8 July 1999. Prior to the Acquisition, it is owned by Baoye Construction, Mr Pang, 浙江省建築科學設計研究院 (Zhejiang Construction Science and Design Research Institute), 浙江寶業建築設計研究院有限公司 (Zhejiang Baoye Construction and Design Research Co., Ltd.) (formerly known as 浙江住宅產業現代化設計研究所有限公司 (Zhejiang Building Materials Industrialisation and Design Research Institute Co., Ltd.)) and Mr Hu Shaozeng, a non-executive Director, as to 60%, 19%, 15%, 5% and 1% respectively
“Company”	寶業集團股份有限公司 (Baoye Group Company Limited*), a joint stock limited company established in the PRC, the H Shares of which are listed on the Stock Exchange
“Construction Agreement”	an agreement dated 26 February 2005 and conditionally entered into between Baoye Construction and Minghua Textile relating to the provision of design, construction and installation services subject to the terms and conditions contained therein
“Directors”	the directors of the Company
“EGM”	an extraordinary general meeting of the Company to be convened to approve the transactions contemplated under the Construction Agreement and the Acquisition Agreement respectively
“Group”	the Company and its subsidiaries

“H Shares”	overseas listed foreign shares in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Stock Exchange
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising the independent non-executive Directors, namely Mr. Wang Youwei, Mr. Yi Deqing and Mr. Dennis Yin Ming Chan
“independent shareholders”	has the meaning ascribed to it under Rule 14A.10 (5) of the Listing Rules
“Independent Third Party(ies)”	party(ies) who is (are) independent from and not connected with any of the promoters, Directors, supervisors, chief executives and substantial shareholders of the Company or its subsidiaries or any of their respective associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Minghua Textile”	浙江明華輕紡原料博覽城有限公司 (Zhejiang Minghua Textile Raw Material Exhibition City Co., Ltd.*), a limited liability company established in the PRC on 17 December 2002, which is owned by Mr Li, 杭州蕭山衙前鎮明華村經濟合作社 (The Economic Cooperative Committee of Minghua Village, Yaqian Town, Xiaoshan District, Hangzhou*) and 浙江中新電力發展集團有限公司 (Zhejiang Zhongxing Electric Development Group Company Limited*), both being Independent Third Parties, as to 67%, 23% and 10% respectively
“Mr Li”	Mr Li Wenjiang, a former director of Shaoxing Baogang, who was resigned as a director of Shaoxing Baogang on 30 April 2004
“Mr Pang”	Mr Pang Baogen, an executive Director and a substantial shareholder of the Company
“PRC”	the People’s Republic of China
“Shaoxing Baogang”	紹興寶港木製品有限公司 (Shaoxing Baogang Woodwork Co., Ltd.), a limited liability company established in the PRC on 19 December 2002, which is owned by the Company and 港基國際投資有限公司 (Goldbase International Investment Limited) as to 70% and 30% respectively
“Shareholder(s)”	holder(s) of the H Shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent

For the purpose of this announcement, conversion of RMB into HK dollars is calculated at the exchange rate of HK\$1.00 to RMB1.06.

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

Zhejiang Province, the PRC
26 February 2005

* For identification purposes only

As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Pang Baogen, Mr. Gao Jiming, Mr. Gao Lin and Mr. Zhou Hanwan; two non-executive Directors, namely Mr. Wu Weimin and Mr. Hu Shaozeng; and three independent non-executive Directors, namely Mr. Wang Youwei, Mr. Yi Deqing and Mr. Dennis Yin Ming Chan.