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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)

**(Stock Code: 2355)**

**CONNECTED TRANSACTION**  
**ACQUISITION OF 50% EQUITY INTERESTS IN HEFEI BAOYE**  
**SHORT-TERM COMMERCIAL PAPER**

**ACQUISITION OF 50% EQUITY INTERESTS IN HEFEI BAOYE**

The Board announces that the Company, Baoye Real Estate and the Seller entered into the Acquisition Agreement on 23 December 2005 whereby the Company and Baoye Real Estate have conditionally agreed to acquire and the Seller has conditionally agreed to dispose of an aggregate of 50% equity interests in Hefei Baoye. The aggregate consideration for the Acquisition is RMB145,000,000 (equivalent to approximately HK\$139,423,077).

Immediately prior to the entering into of the Acquisition Agreement, Hefei Baoye is a non wholly-owned subsidiary of the Company. The Seller is a substantial shareholder of Hefei Baoye and hence a connected person of the Company under the Listing Rules. Baoye Real Estate is a non-wholly owned subsidiary of the Company and is effectively owned as to approximately 99.9% by the Company. Accordingly, the Acquisition between the Company and Baoye Real Estate on the one side and the Seller on the other side constitutes a connected transaction for the Company under the Listing Rules.

Since each of the consideration ratio and the total assets ratio under Rule 14.07 of the Listing Rules is more than 2.5%, the Acquisition constitutes a connected transaction of the Company subject to the requirements of reporting, announcement and independent shareholders' approval under the Listing Rules.

The Directors propose to seek the independent Shareholders' approval of the Acquisition Agreement at the EGM by way of a poll. Mr. Wang Liequan, Mr. Chen Baorong and Mr. Xia Weimin, who are indirectly interested in approximately 0.1% equity interests in Baoye Real Estate and are also Shareholders, will abstain from voting at the EGM.

**SHORT-TERM COMMERCIAL PAPER**

The Company proposes to issue short term commercial paper, subject to approval by the Shareholders at the EGM pursuant to the articles of association of the Company.

**EGM**

The Independent Board Committee will be formed to consider the Acquisition Agreement, and an independent financial adviser will be appointed to advise the Independent Board Committee and the independent Shareholders on the Acquisition. A circular containing, among other things: (a) details of the Acquisition Agreement, the recommendation of the Independent Board Committee on the Acquisition Agreement and the advice of the independent financial adviser on the Acquisition Agreement; (b) details of the Proposed Issue; and (c) the notice of EGM in relation to, among other things, the Acquisition Agreement and the Proposed Issue will be despatched to the Shareholders as soon as practicable.

## ACQUISITION AGREEMENT

The principal terms of the Acquisition Agreement are as follows:

**Date** : 23 December 2005

**Parties** : (1) The Company and Baoye Real Estate as purchasers  
(2) The Seller as vendor

### Particulars

Pursuant to the Acquisition Agreement, the Company and Baoye Real Estate have conditionally agreed to acquire 40% and 10% respectively and the Seller has conditionally agreed to dispose of an aggregate of 50% equity interests in Hefei Baoye. The aggregate consideration of the Acquisition is RMB145,000,000 (equivalent to approximately HK\$139,423,077).

Hefei Baoye is a limited liability company established in the PRC on 14 March 2002 with a registered capital of RMB30,000,000. Immediately prior to the completion of the Acquisition, Hefei Baoye is owned by the Company and the Seller as to 50% and 50% respectively. Each of the Company and the Seller contributed RMB15,000,000 in the registered capital of Hefei Baoye. The board of directors of Hefei Baoye comprises five directors, all of whom were nominated by the Company. Since the Company controls the composition of the board of directors of Hefei Baoye, Hefei Baoye is treated as a non-wholly owned subsidiary of the Company.

Upon completion of the Acquisition, Hefei Baoye will be owned by the Company and Baoye Real Estate as to 90% and 10% respectively. Since Baoye Real Estate is effectively owned as to approximately 99.9% by the Company and as to approximately 0.1% equally by Mr. Wang Liequan, Mr. Chen Baorong and Mr. Xia Weimin, all of whom are promoters of the Company and Shareholders (but do not hold any management role in the Company), upon completion of the Acquisition, Hefei Baoye will be effectively owned as to 99.99% by the Company.

Hefei Baoye was a dormant company for the year ended 31 December 2003 and, accordingly, no profit was generated by it for the said financial year. The audited net loss before and after tax of Hefei Baoye for the year ended 31 December 2004 were both approximately RMB3,790,180 (equivalent to approximately HK\$3,644,403) prepared in accordance with the PRC generally accepted accounting principles. The audited net asset value of Hefei Baoye for the two years ended 31 December 2004 were approximately RMB30,000,000 (equivalent to approximately HK\$28,846,153) and RMB26,209,820 (equivalent to approximately HK\$25,201,750) respectively prepared in accordance with the PRC generally accepted accounting principles. Based on the management accounts of Hefei Baoye for the six months ended 30 June 2005, the unaudited net loss before and after tax of Hefei Baoye were both approximately RMB1,902,332 (equivalent to approximately HK\$1,829,165). The unaudited net asset value of Hefei Baoye was RMB24,307,488 (equivalent to approximately HK\$23,372,584) pursuant to the management accounts of Hefei Baoye for the six months ended 30 June 2005.

The unaudited net asset value of 50% of equity interests of Hefei Baoye is RMB12,153,744 (equivalent to approximately HK\$11,686,292) as at 30 June 2005.

The figures for the revenue (and thus the net profit) of Hefei Baoye are nil for the year ended 31 December 2004 and for the six months ended 30 June 2005 because the property development project currently engaged by Hefei Baoye, namely “城市綠苑” (City Green Garden), has not yet been completed. Although certain units of the project have been pre-sold, based on the “completion method” under the PRC and Hong Kong generally accepted accounting principles, the revenue (and thus the net profit) arising from the pre-sale of properties will not be recognised unless and until the properties have been completed. Please refer to the sub-section headed “Information on Hefei Baoye and relationship between the parties” for further information in relation to Hefei Baoye and its property development project “城市綠苑” (City Green Garden).

The consideration of the Acquisition will be sourced from the funding raised from the placing of 36,136,800 new H Shares, details of which were disclosed in the Company’s announcement dated 13 January 2005, and the issue and allotment of 43,364,160 new H Shares to Goldman Sachs (Asia) Finance, details of which were disclosed in the Company’s announcement dated 3 November 2005.

## **Consideration**

The aggregate consideration of the Acquisition is RMB145,000,000 (equivalent to approximately HK\$139,423,077), payable by the Company and Baoye Real Estate to the Seller in the following manner:

- (1) RMB65,000,000 (equivalent to approximately HK\$62,500,000) in cash (i.e. RMB52,000,000 by the Company and RMB13,000,000 by Baoye Real Estate) within seven days from the day of signing of the Acquisition Agreement;
- (2) RMB15,000,000 (equivalent to approximately HK\$14,423,077) in cash (i.e. RMB12,000,000 by the Company and RMB3,000,000 by Baoye Real Estate) on or before 20 January 2006; and
- (3) subject to the completion of the Acquisition, RMB65,000,000 (equivalent to approximately HK\$62,500,000) in cash (i.e. RMB52,000,000 by the Company and RMB13,000,000 by Baoye Real Estate) on or before the Long Stop Date.

((1) and (2) together, the “Deposit”)

The consideration of the Acquisition was arrived at by the parties to the Acquisition Agreement after arm’s length negotiations having considered the valuation conducted by Vigers Appraisal & Consulting Limited, an independent valuer in Hong Kong, indicating that the total value of the properties held by Hefei Baoye (based on “open-market value”) is not less than RMB500,000,000.

## **Completion**

Completion of the Acquisition is conditional upon the followings:

- (1) the Acquisition having been approved by the Shareholders in accordance with the articles of association of the Company and relevant laws and regulations (including but not limited to the Listing Rules);
- (2) the articles of association of Hefei Baoye having been legally and duly amended so as to reflect the Acquisition;
- (3) the change relating to the Acquisition having been filed and registered with relevant Administration of Industry and Commerce by Hefei Baoye; and
- (4) there being no breach of any obligations by the Seller under the Acquisition Agreement (including but not limited to the representations, warranties and undertakings given by the Seller).

Completion of the Acquisition shall take place on the date when all of the above conditions are fulfilled, and in any event, no later than 30 June 2006 (or other date as agreed by the parties to the Acquisition Agreement) (the “Long Stop Date”). None of the above conditions may be waived by the parties to the Acquisition Agreement. If (i) any of the above conditions shall not have been fulfilled on or before the Long Stop Date; or (ii) the Acquisition shall have been voted down by the Shareholders, whichever is the earlier, the Seller shall refund the Deposit to the Company and Baoye Real Estate within 30 days thereof. As at the date of this announcement, none of the above conditions have been fulfilled.

## **Information on Hefei Baoye and relationship between the parties**

Hefei Baoye is a limited liability company established in the PRC on 14 March 2002. It is principally engaged in the business of development and sale of properties. The property development project currently engaged by Hefei Baoye is known as “城市綠苑” (City Green Garden), a residential property development project located in Heping Road, Yaohai District, Hefei, Anhui Province, the PRC with a developable building area of approximately 160,000, 147,000 and 213,000 square metres for its phase one, phase two and phase three development respectively. As at the date hereof, approximately 510 (most of them are residential units and the remaining are shops and car-parking spaces) out of 1,050 units have already been pre-sold. The 510 units were pre-sold at an average price of approximately RMB3,300 per square metre. The estimated turnover arising from the pre-sale of these 510 units is approximately RMB256,460,000. It is anticipated that phase one of the project will be completed in 2006 and the 510 units, which have only been pre-sold, will not be completed prior to the completion of the Acquisition. On the basis of the aforesaid, based on the “completion method” under the PRC and Hong Kong generally accepted accounting principles, the revenue (and thus the net profit) of Hefei Baoye arising from the pre-sale of properties will not be recognised prior to the Acquisition and thus the net profit arising from the pre-sale of such 510 units will not be shared among the Company and the Seller.

As at the date hereof, phase two and phase three of the project have not yet been commenced.

Prior to the Acquisition, Hefei Baoye was owned by the Company and the Seller as to 50% and 50% respectively. The board of directors of Hefei Baoye comprises five directors, all of whom were nominated by the Company. Since the Company controls the composition of the board of directors of Hefei Baoye, Hefei Baoye is treated as a non wholly-owned subsidiary of the Company.

Upon completion of the Acquisition, Hefei Baoye will be owned by the Company and Baoye Real Estate as to 90% and 10% respectively and the Seller will cease to hold any interests in Hefei Baoye. Since Baoye Real Estate is effectively owned as to approximately 99.9% by the Company and approximately 0.1% equally by Mr. Wang Liequan, Mr. Chen Baorong and Mr. Xia Weimin, all of whom are promoters of the Company, upon completion of the Acquisition, Hefei Baoye will be effectively owned as to 99.99% by the Company.

Given that the Seller is a substantial shareholder of Hefei Baoye, a non wholly-owned subsidiary of the Company, the Seller is a connected person of the Company under the Listing Rules. Baoye Real Estate is a non wholly-owned subsidiary of the Company and effectively owned as to approximately 99.9% by the Company. Accordingly, the Acquisition between the Company and Baoye Real Estate on the one side constitutes a connected transaction for the Company under the Listing Rules.

Since each of the consideration ratio and the total assets ratio under Rule 14.07 of the Listing Rules is more 2.5%, the Acquisition and the transactions contemplated under the Acquisition Agreement constitute connected transaction of the Company subject to the requirements of reporting, announcement and independent shareholders' approval under the Listing Rules.

In accordance with the Listing Rules, independent Shareholders' approval for the Acquisition Agreement is required. The Directors propose to seek the independent Shareholders' approval of the Acquisition Agreement at the EGM by way of a poll. Mr. Wang Liequan, Mr. Chen Baorong and Mr. Xia Weimin, who are indirectly interested in an aggregate of 0.1% equity interests in Baoye Real Estate and are also Shareholders, will abstain from voting at the EGM. As at the date of this announcement, Mr. Wang Liequan, Mr. Chen Baorong and Mr. Xia Weimin are holding 2,647,911, 1,498,370 and 3,214,391 domestic shares of the Company, representing approximately 0.43%, 0.25% and 0.53% of the total registered capital of the Company respectively.

#### **Reasons and benefits of the Acquisition**

The Directors consider that real estate development remains one of the most profitable businesses in the PRC. The Directors also see the potential of the rapidly-growing real estate market in Hefei, Anhui province. The Acquisition will enable the Group to obtain almost the entire equity interests in Hefei Baoye and thus to be benefited from the future prospects of Hefei Baoye and the continuous growth in the real estate market in the PRC as a whole.

The terms of the Acquisition Agreement have been negotiated on an arm's length basis. The 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.

#### **SHORT-TERM COMMERCIAL PAPER**

The Company proposes to issue, subject to approval by the Shareholders in the EGM, short-term commercial paper (短期融資券), a form of negotiable instrument to be traded between banks in the PRC, with a maximum outstanding repayment of RMB500,000,000 (equivalent to approximately HK\$480,769,230).

The maturity period of the short-term commercial paper shall be no more than 365 days from the date of its issue. The pricing, interest rate, underwriting arrangements and other details of the Proposed Issue shall be determined by the Board, taking into account the market conditions and the terms and conditions to be proposed by the underwriters.

The Company intends to use the proceeds of the issue of the short-term commercial paper under the Proposed Issue as working capital. The Board considers that the Proposed Issue will enable the Company to lower its interest costs and to diversify its capital-raising channels. The Company confirms that the Proposed Issue will not be on terms less favourable to the Company than normal bank borrowing.

Pursuant to the Articles of Association of the Company, the issue of the short-term commercial paper is subject to the approval of the Shareholders in general meeting.

## **EGM**

The Independent Board Committee will be formed to consider the Acquisition Agreement, and an independent financial adviser will be appointed to advise the Independent Board Committee and the Shareholders on the Acquisition. A circular containing, among other things: (a) details of the Acquisition Agreement, the recommendation of the Independent Board Committee on the Acquisition Agreement and the advice of its independent financial adviser on the Acquisition Agreement; (b) details of the Proposed Issue; and (c) the notice of EGM in relation to, among other things, the Acquisition Agreement and the Proposed Issue will be despatched to the Shareholders as soon as practicable.

## **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.

Baoye Real Estate is a non wholly-owned subsidiary of the Company and is effectively owned as to approximately 99.9% by the Company and as to approximately 0.1% equally by Mr. Wang Liequan, Mr. Chen Baorong and Mr. Xia Weimin, all of whom are promoters of the Company. Baoye Real Estate is principally engaged in the business of real estate development.

The Seller is owned as to 85% by 紹興中國輕紡城時代房地產有限公司 (Shaoxing China Qingfangcheng Times Real Estate Company Limited) and 15% by 呂鴻飛先生 (Mr. Lu Hong Fei) and is principally engaged in real estate development.

## **DEFINITIONS**

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

“Acquisition”	the acquisition of 50% of equity interests in Hefei Baoye by the Company (as to 40%) and Baoye Real Estate (as to 10%) from the Seller pursuant to the terms and conditions of the Acquisition Agreement
“Acquisition Agreement”	an agreement dated 23 December 2005 and entered into between the Company and Baoye Real Estate as purchasers and the Seller as vendor in connection with the Acquisition
“associate”	has the meaning ascribed to it under the Listing Rules
“Baoye Real Estate”	浙江寶業房地產集團有限公司 (Zhejiang Baoye Real Estate Group Company Limited), a limited liability company established in the PRC on 15 February 2001, which is effectively owned as to approximately 99.9% by the Company and 0.1% equally by Mr. Wang Liequan, Mr. Chen Baorong and Mr. Xia Weimin, all of whom are promoters of the Company
“Board”	the board of Directors
“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
“Directors”	the directors of the Company
“EGM”	an extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve the Acquisition Agreement, the Proposed Issue and the transactions contemplated thereunder
“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

“Hefei Baoye”	合肥輕紡城寶業房地產有限公司 (Hebei Qingfangcheng Baoye Real Estate Co., Ltd.), a limited liability company established in the PRC on 14 March 2002 and a non wholly-owned subsidiary of the Company. Prior to the completion of the Acquisition, it is owned as to 50% by the Company and as to 50% by the Seller
“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
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	30 June 2006, or other date as agreed by the parties to the Acquisition Agreement
“PRC”	the People’s Republic of China
“Proposed Issue”	the proposed issue by the Company of short-term commercial paper, a form of negotiable instrument to be trade between banks in the PRC
“Seller”	中國輕紡城集團楚雄房地產開發有限公司 (China Qingfangcheng Group Chuxiong Real Estate Company Limited), a company incorporated in the PRC
“Shareholder(s)”	holder(s) of the 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 RMB 1.04.

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

Zhejiang Province, the PRC  
23 December 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.*