



# 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)

### ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2005

The board of directors ("the Board") of Baoye Group Company Limited ("the Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries ("the Group") for the year ended 31 December 2005 together with comparative figures for the corresponding period in 2004. The following financial information is extracted from the audited consolidated financial statements as set out in the Group's 2005 Annual Report.

#### CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December	
		2005 RMB'000	2004 RMB'000 (Restated)
Turnover	3	4,723,797	4,378,434
Cost of sales		(4,289,943)	(3,916,308)
<b>Gross profit</b>		<b>433,854</b>	<b>462,126</b>
Other gains – net		136,391	67,440
Selling and marketing costs		(7,363)	(2,957)
Administrative expenses		(112,370)	(89,897)
<b>Operating profit</b>		<b>450,512</b>	<b>436,712</b>
Finance costs		(29,885)	(23,981)
<b>Profit before income tax</b>		<b>420,627</b>	<b>412,731</b>
Income tax expense	4	(112,729)	(120,009)
<b>Profit for the year</b>		<b>307,898</b>	<b>292,722</b>
<b>Attributable to:</b>			
Equity holders of the Company		304,226	275,082
Minority interest		3,672	17,640
		<b>307,898</b>	<b>292,722</b>
<b>Earnings per share for profit attributable to the equity holders of the Company during the year</b>			
– basic (expressed in RMB per share)	5	RMB0.537	RMB0.518
<b>Dividends</b>	8	<b>73,311</b>	<b>81,502</b>

#### CONSOLIDATED BALANCE SHEET

	Note	As at 31 December	
		2005 RMB'000	2004 RMB'000 (Restated)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		486,997	419,638
Investment properties		35,981	5,188
Land use rights		460,110	586,441
Goodwill		17,043	1,045
Properties under development		95,879	73,458
Deferred income tax assets		22,844	13,009
		<b>1,118,854</b>	<b>1,098,779</b>
<b>Current assets</b>			
Inventories		54,233	37,314
Land use rights		286,350	288,341
Properties under development		606,348	191,331
Completed properties held for sale		72,276	26,199
Due from customers on construction contracts		517,919	412,580
Trade receivable	6	387,223	320,552
Other receivables		687,684	660,426
Restricted bank deposits		83,742	22,051
Cash and cash equivalents		742,289	543,877
		<b>3,438,064</b>	<b>2,502,671</b>
<b>Total assets</b>		<b>4,556,918</b>	<b>3,601,450</b>

\* For identification purposes only

**EQUITY****Capital and reserves attributable to the Company's equity holders**

Share capital	953,735	587,576
Other reserves	235,884	78,677
Retained earnings	500,738	306,309
Proposed dividend	73,311	81,502
	<u>1,763,668</u>	<u>1,054,064</u>
<b>Minority interest</b>	64,363	104,578
<b>Total equity</b>	<u>1,828,031</u>	<u>1,158,642</u>

**LIABILITIES****Non-current liabilities**

Deferred income tax liabilities	134,970	5,499
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**Current liabilities**

Trade payable	7	374,380	283,499
Other payables		432,769	320,621
Receipts in advance		227,352	388,297
Current income tax liabilities		85,896	134,754
Due to customers on construction contracts		389,137	330,518
Borrowings		1,080,513	977,000
Provision for warranty		3,870	2,620
		<u>2,593,917</u>	<u>2,437,309</u>

**Total liabilities**

		<u>2,728,887</u>	<u>2,442,808</u>
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**Total equity and liabilities**

		<u>4,556,918</u>	<u>3,601,450</u>
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**Net current assets**

		<u>844,147</u>	<u>65,362</u>
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**Total assets less current liabilities**

		<u>1,963,001</u>	<u>1,164,141</u>
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*Notes:***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 People's Republic of China ("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. 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.

**2. Changes in accounting policies**

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations, including HKASs 1, 2, 7, 8, 10, 16, 17, 21, 23, 24, 27, 31, 32, 33, 36, 38, 39, 40, HKAS-Int 15 and 21 and HKFRS 3. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

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

Full details on the Group's changes in accounting policies following the adoption of new/revised HKASs 17, 31, 32, 36, 38, 39, 40 and HKFRS 3 will be set out in the Company's 2005 Annual Report.

The effect on adoption of new/revised HKASs 17, 31 and 40 are summarised as follows:

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

	<b>2005</b>	<b>2004</b>
	<i>RMB'000</i>	<i>RMB'000</i>
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 year ended 31 December 2004 and opening retained earnings as at 1 January 2004 from the adoption of HKAS 17.

## (b) The adoption of HKAS 31 resulted in:

	<b>2005</b>	<b>2004</b>
	<i>RMB'000</i>	<i>RMB'000</i>
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 year ended 31 December 2004 and opening retained earnings as at 1 January 2004 from the adoption of HKAS 31.

## (c) The adoption of HKAS 40 resulted in:

	<b>2005</b>
	<i>RMB'000</i>
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 per share)	0.030

### 3. 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 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 (“the Directors”) 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.

Turnover consists of revenue from the above three main segments, which are in total 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 gain and disposal gain. Neither of these constitutes a separately reportable segment.

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)
<b>External turnover</b>	<b>3,524,178</b>	<b>620,741</b>	<b>545,995</b>	<b>32,883</b>	<b>4,723,797</b>
Segment results	206,955	88,785	125,412	29,360	450,512
Finance costs					(29,885)
<b>Profit before income tax</b>					<b>420,627</b>
Income tax expense					(112,729)
<b>Profit for the year</b>					<b>307,898</b>
<b>Other information</b>					
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

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)
<b>External turnover</b>	<b>3,402,971</b>	<b>461,713</b>	<b>492,194</b>	<b>21,556</b>	<b>4,378,434</b>
Segment results	202,637	63,911	169,403	761	436,712
Finance costs					(23,981)
<b>Profit before income tax</b>					<b>412,731</b>
Income tax expense					(120,009)
<b>Profit for the year</b>					<b>292,722</b>
<b>Other information</b>					
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)

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
<b>Assets</b>	<b>2,508,681</b>	<b>715,629</b>	<b>1,233,359</b>	<b>40,425</b>	<b>58,824</b>	<b>4,556,918</b>
<b>Liabilities</b>	<b>1,623,717</b>	<b>380,078</b>	<b>616,198</b>	<b>22,998</b>	<b>85,896</b>	<b>2,728,887</b>
<b>Capital expenditure</b>	<b>45,271</b>	<b>93,059</b>	<b>1,472</b>	<b>3,430</b>	<b>–</b>	<b>143,232</b>

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
<b>Assets</b>	<b>1,893,768</b>	<b>870,554</b>	<b>775,936</b>	<b>32,416</b>	<b>28,776</b>	<b>3,601,450</b>
<b>Liabilities</b>	<b>888,280</b>	<b>421,823</b>	<b>582,193</b>	<b>15,704</b>	<b>534,808</b>	<b>2,442,808</b>
<b>Capital expenditure</b>	<b>25,825</b>	<b>210,068</b>	<b>426</b>	<b>12,308</b>	<b>–</b>	<b>248,627</b>

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.

### 4. Income tax expense

The Company and its subsidiaries are subject to PRC Enterprise Income Tax at a rate of 33% (2004: 33%). The amount of income tax expense 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	855	(7,279)
	<b>112,729</b>	<b>120,009</b>

**5. Basic earnings per share**

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

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

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

**6 Trade receivable**

	<b>2005</b>	<b>2004</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivable	399,470	329,693
Less: provision for doubtful debts	(12,247)	(9,141)
	<u>387,223</u>	<u>320,552</u>

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

	<b>2005</b>	<b>2004</b>
	<i>RMB'000</i>	<i>RMB'000</i>
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
	<u>399,470</u>	<u>329,693</u>

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.

**7. Trade payable**

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

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	231,944	117,956
3 months to 1 year	104,404	140,881
1 to 2 years	29,436	17,999
2 to 3 years	2,938	4,356
Over 3 years	5,658	2,307
	<u>374,380</u>	<u>283,499</u>

**8. Dividends**

The dividends paid during the years ended 31 December 2004 and 2003 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.

	<b>2005</b>	<b>2004</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Proposed final dividend of RMB0.12 (2004: RMB0.1436) per share	<u>73,311</u>	<u>81,502</u>

**9. Closure of register of members**

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

**BUSINESS REVIEW**

**1) Construction Business**

For the year ended 31 December 2005, the Group's construction business achieved a turnover of RMB3,524,178,000 (approximately 74% of the Group's total turnover), and a profit contribution of RMB206,955,000 (approximately 46% of the Group's total profit), representing a growth of approximately 4% and 2% respectively over the corresponding period of last year. Impacted by the macroeconomic austerity measures in tightening up bank credits in 2005, completion of certain construction projects of the Group have been slowed down. By adopting the percentage of completion method to recognise revenue of construction business, the Group's construction business only registered a marginal growth in terms of turnover and profitability as compared to 2004. However, the Group's total contract value of construction-in-progress was approximately RMB12,006,910,000 as at 31 December 2005, representing an increase of 46% from the corresponding period of the previous year. Details are as follows:

By nature:

	<b>2005</b>		<b>2004</b>		<b>Change</b>
	<i>RMB'000</i>	<i>% of total</i>	<i>RMB'000</i>	<i>% of total</i>	
Public Buildings	4,922,833	41%	3,469,043	42%	+42%
Urban Infrastructure Projects	3,361,935	28%	2,147,054	26%	+57%
Residential Projects	1,801,037	15%	1,240,586	15%	+45%
Industrial Projects	1,921,105	16%	1,385,943	17%	+39%
Total	<u>12,006,910</u>	<u>100%</u>	<u>8,242,626</u>	<u>100%</u>	<u>+46%</u>
By region:	<b>2005</b>		<b>2004</b>		<b>Change</b>
	<i>RMB'000</i>	<i>% of total</i>	<i>RMB'000</i>	<i>% of total</i>	
Shaoxing County	1,435,879	12%	2,062,331	25%	-30%
Other Counties of Zhejiang Province	3,554,875	30%	3,213,831	39%	+11%
Shanghai	4,536,214	38%	1,842,081	23%	+146%
Other Provinces	2,479,942	20%	1,124,383	13%	+121%
Total	<u>12,006,910</u>	<u>100%</u>	<u>8,242,626</u>	<u>100%</u>	<u>+46%</u>

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

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

In 2005, the Group established Baoye Group Hubei Company Limited in Wuhan, Hubei Province and acquired the entire equity interests of 12 units under Hubei Construction and Engineering Holding Company (together "the Hebei Construction Group") in February 2006, in an attempt to expedite its business expansion to Hubei Province and the entire Central China region. Details of this acquisition were set out in the announcement published by the Company on 21 February 2006.

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

## 2) Property Development Business

### Property sales performance

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

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

### Projects under Development

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

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

As at the end of 2005, a total salable area of approximately 65,000 square metres of City Green Garden Phase I project in Hefei were pre-sold at an average price of approximately RMB3,300 per square metre, and up to the end of March 2006, accumulated salable area of approximately 74,000 square metres were pre-sold.

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

## 3) Building Materials Business

For the year ended 31 December 2005, the Group's building materials business achieved a turnover of RMB620,741,000 (approximately 13% of the Group's total turnover), and realised profit of RMB88,785,000 (approximately 20% of the Group's total profit), up 34% and 39% respectively from the corresponding period of the previous year. The Chinese government has geared up its effort in promoting societies that are environmental friendly and energy saving, thus the requirements for quality building materials in these aspects have become increasingly important. The Group is pioneering on industrialisation of construction in the PRC. The pre-fabricated building materials developed by the Group have gradually received industry recognition through increased efforts in market development. Leveraging on economics of scale arising from mass production capability of the Group's building materials business, the Group managed to reverse the adverse impact on escalating raw material and energy costs without affecting profitability, both the turnover and profit had registered a considerable growth.

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

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

## BUSINESS PROSPECTS

### 1) Construction Business

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

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

- Continue to consolidate the markets in Jiangsu, Zhejiang and Shanghai, while maintaining the market share in Eastern China.
- Realise the speedy expansion of the Group's construction business in Central China by strengthening its presence in Wuhan and Hefei. The Company has already acquired the entire interest in the Hubei Construction Group, which rapidly enhanced the reputation of the Group in the local market. The Group will actively explore the markets in Hubei Province, Anhui Province and their neighbouring regions so that the market share of its construction business in Central China will be comparable to that of Eastern China in three to five years.

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

## 2) Property Development Business

Although the domestic real estate market was more apparently affected by the macroeconomic austerity measures implemented in 2005, the various measures the Chinese government imposed on the real estate market aimed primarily at regulating certain adverse factors which are detrimental to real estate development while ensuring the healthy and stable development of the market.

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

- Develop existing land reserves. In the next few years, the Group will concentrate in developing the following projects: Four Seasons Garden in Shaoxing, Jing'an Ziyuan in Shanghai, City Green Garden in Hefei and International Airport Building in Hangzhou, Zhejiang Province. All of these projects will be developed and built in the next three to five years.
- Hubei Construction Group which the Company acquired in February 2006 has a total land reserve of approximately 500,000 square metres, majority of which are located in the metropolitan areas of Wuhan and may be used for residential and/or commercial development purposes as soon as approval has been obtained from the relevant Chinese government authorities. This additional land reserve will suffice the Group's land reserve for development in the next five to ten years.
- Improve quality and enhance brand building. Since domestic property developer will compete on quality and brand in future, the Group endeavours to launch premium properties with attractive outlook, exquisite architectural design and high construction quality so that the Group will become a prestigious brand in the real estate industry.
- Refrain from purchasing land indiscriminately. Based on our enriching experience and insightful information in the construction industry, the Group will increase its land reserve only when opportunities to acquire quality land at low cost arise.

## 3) Building Materials Business

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

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

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

- Continue to strengthen the exchange and cooperation with overseas giants in the industry and enhance its independent innovative capacity. On 8 March 2006, the Company entered into a cooperation agreement with Japan's Daiwa House Industry Co., Ltd. ("Daiwa House"), pursuant to which both parties agreed to form a strategic alliance in the co-development of technological skills for the manufacture of industrialised residential units for a term of ten years. The technological co-development not only significantly strengthens the Group's technical know-how in the manufacture of industrialised units but also establishes a foundation for any possible further co-operation, joint venture or otherwise with Daiwa House in the construction of industrialised units.
- Continue to leverage on the Group's integration advantages and explore other provincial markets. The large number of construction projects that the Group has undertaken both inside and outside the Zhejiang Province can safeguard the Group in its further development of the construction business. In future, the Group will build on the success of its construction and property development business outside Zhejiang Province to realise the rapid expansion of its building materials business in other provincial markets.
- The Group will continue to strengthen the development and production of environmental friendly and energy saving building materials and enhance the technological content of its building material products so as to act in line with the Chinese government's policy of promoting an environmental friendly and energy-saving society and ensure that the Group's products will maintain a leading position in the market competition.

## FINANCIAL REVIEW

### Treasury Policies

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

The Group has established a Financial Settlement Center, which centralises funding for all its subsidiaries at group level. The Board believes that such policy can achieve better control of the treasury operations; minimise financing risks and lower average cost of funding.

### Financial Resources and Liabilities

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

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

- On 13 January 2005, the Company entered into a placing agreement with UBS AG in relation to the placing on a fully underwritten basis of 36,136,800 new H Shares of the Company at HK\$4.05 per share. The net proceeds were approximately HK\$142,776,000 (equivalent to approximately RMB148,487,000).
- On 3 November 2005, the Company entered into the subscription agreement with Goldman Sachs in relation to the sole subscription by Goldman Sachs of the Company's 43,364,160 new H Shares at HK\$4.85 per share. The net proceeds were approximately HK\$209,300,000 (equivalent to approximately RMB217,672,000).
- On 15 December 2005, the Board passed the resolution on issuing short term commercial paper with a maximum repayment amount of RMB500,000,000. The resolution was also reviewed and approved at the first extraordinary general meeting in 2006 held on 10 March 2006. According to the resolution, the Company decided to issue short term commercial paper with a maximum repayment amount of RMB500,000,000. It is intended that part of the proceeds will be used to replenish the working capital while the remaining portion will be used to repay short-term bank borrowings.

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

### Use of proceeds

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

	<i>RMB('000)</i>
Placing of 36,136,800 new H Shares through UBS AG	148,487
Subscription of 43,364,160 new H Shares solely by Goldman Sachs	217,672
	<u>366,159</u>

Proceeds were utilised as follows:

Acquisition of 50% equity interests in Hefei Qingfangcheng Baoye Real Estate Co., Ltd.	145,000
Acquisition of 100% equity interests in Hubei Construction Group	132,855
General working capital	88,304
	<u>366,159</u>

### Key Financial Ratios

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

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

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

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

Current ratio = current assets/current liabilities

Notes:

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

### Cash Flow Analysis

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

Notes:

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

### External Guarantee and Fulfillment

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

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

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

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

### Capital commitment

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

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

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

### Subsequent events

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

On 15 December 2005, the Board passed the resolution on issuing short term commercial paper with a maximum repayment amount of RMB500,000,000. The resolution was also reviewed and approved at the first extraordinary general meeting in 2006 held on 10 March 2006. According to the resolution, the Company decided to issue short term commercial paper with a maximum repayment amount of RMB500,000,000. It is intended that part of the proceeds will be used to replenish the working capital while the remaining portion will be used to repay bank borrowings.

On 8 March 2006, the Company entered into a cooperation agreement with Daiwa House pursuant to which both parties agreed to form a strategic alliance in the co-development of technological skills for the manufacture of industrialised residential units for a term of ten years. The technological co-development with Daiwa House not only enables the Group to strengthen its technical know-how in the manufacture of industrialised residential units but also establishes a foundation for any possible further co-operation, joint venture or otherwise with Daiwa House in the construction of industrialised units.

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

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

#### **Model Code For Securities Transactions by Directors**

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Rules ("Listing Rules") on The Stock Exchange of Hong Kong Limited as the Code for Securities Transactions by Directors of the Company. Having made specific enquiries by the Company, the Directors have confirmed compliance with required standards set out in the Code for Securities Transactions by Directors of the Company throughout the twelve months ended 31 December 2005.

#### **Material litigation and arbitration**

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

#### **Entrusted deposits and overdue time deposits**

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

#### **Corporate governance**

The Group has always been committed to establishing an orderly, effective and transparent corporate governance system so as to facilitate its corporate development and maximise the overall benefits to shareholders of the Company. Since its listing, the Company has complied with the Code on Corporate Governance Practices, the Listing Rules and other relevant laws and regulations, implemented effective corporate governance and endeavoured to enhance corporate value in order to ensure the long-term sustainable development of the Company and maximise shareholders' returns.

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

In order to pursue his own personal career and business, Mr. Wei Falin tendered his resignation as chief executive officer to the Board. After serious consideration and out of respect for Mr. Wei Falin's decision, the Board approved Mr. Wei's resignation as chief executive officer of the Company at the Board meeting held on 17 June 2005. The Board would like to express its appreciation to Mr. Wei for the invaluable achievements and contributions during his tenure of office. Mr. Pang Baogen, the chairman of the Board, will act as the chief executive officer on a temporary basis, until suitable candidate is identified by the Board to fill the vacancy.

#### **Human Resources**

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

#### **Audit Committee**

The Audit Committee, comprising of three independent non-executive Directors, has already discussed with management of the Company about the accounting policies and internal controls system adopted by the Group, and has reviewed the consolidated financial statements of the Group for the year ended 31 December 2005 before submitting to the Board for approval.

#### **Publication of Annual Report**

The full text of the Company's 2005 Annual Report will be sent to the shareholders of the Company and posted on the website of The Stock Exchange of Hong Kong Limited ([www.hkex.com.hk](http://www.hkex.com.hk)) in due course.

#### **Appreciation**

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

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

Zhejiang, the PRC  
7 April 2006

*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, one non-executive director, namely Mr. Hu Shaozeng; and three independent non-executive directors, namely Mr. Wang Youwei, Mr. Yi Deqing and Mr. Dennis Yin Ming Chan.*

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## **NOTICE OF ANNUAL GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that an annual general meeting ("AGM") of Baoye Group Company Limited ("Company") will be held at 13th floor, Development Building, No. 208 Jianhu Road, Keqiao, Shaoxing County, Zhejiang Province, the People's Republic of China ("PRC") on 1 June 2006 at 2:30 pm. for the following purposes:

I. As ordinary resolutions:

1. To consider and approve the report of the board of directors of the Company ("Board") for the year 2005;
2. To consider and approve the report of the supervisory committee of the Company for the year 2005;
3. To consider and approve the audited consolidated financial statements of the Company and its subsidiaries (together the "Group") and the auditors' reports for the year ended 31 December 2005;
4. To authorise the Board to decide the matters relating to the payment of final dividend for the year 2005;
5. To re-appoint PricewaterhouseCoopers as the Company's international auditors, and to re-appoint Shine Wing CPAs as the Company's PRC statutory auditors and to authorise the Board to fix their remuneration;
6. To consider and approve the resignation of Mr. Wu Weimin as the Company's non-executive director;
7. To consider and approve any motion proposed by any shareholder of the Company holding 5 % or more of the shares with voting rights at such meeting, if any;

II. As special resolution

8. To consider and, if thought fit, pass the following as special resolution:

**"THAT:**

- (a) Subject to sub-paragraphs (c) and (d) herein below and pursuant to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") (as the same may be amended from time to time) and the Company Law of the PRC ("PRC Company Law"), the directors of the Company are generally and unconditionally authorised to exercise all the rights of the Company, to allot and issue new shares and dispose of outstanding shares of the Company individually and collectively during the Relevant Period (as defined below) and to determine the terms and conditions in relation to the allotment and issue of new share including, inter alia:
  - i. the type and number of new shares to be issued;
  - ii. the issue price of the new shares;
  - iii. the date for the commencement and closing of the issue;



- iv. the class and the number of new shares to be issued to the existing shareholders;
  - v. to make, execute or grant offer proposals, agreements and options as may be necessary in the exercise of such powers; and
  - vi. all other matters in relation thereto.
- (b) The directors of the Company are authorised to make or grant offer proposals, agreements and options as required or may be required in the exercise of such powers during the Relevant Period as referred to in sub-paragraph (a) or after the expiry of the Relevant Period.
  - (c) The total nominal amount of overseas listed foreign shares, domestic shares and non-H foreign shares (other than those issued under the PRC Company Law and the Article of Association of the Company by the capitalisation of the statutory capital reserve fund) agreed to allot and/or conditionally or unconditionally agreed to be allotted by the directors of the Company pursuant to sub-paragraph (a) above (whether pursuant to exercise of options of otherwise) shall not exceed 20% of such class of the shares of the Company existing in issue.
  - (d) Upon the exercise of the powers pursuant to sub-paragraph (a) above, the directors of the Company shall comply with the PRC Company Law and the Listing Rules (as the same may be amended from time to time) and obtain the approval from the China Securities Regulatory Commission.
  - (e) For the purpose of this resolution:  
“Relevant Period” refers to the period from the date of the passing of this resolution to the earliest of the following three:
    - (a) twelve months after the passing of this resolution;
    - (b) conclusion of the next annual general meeting of the Company; and
    - (c) the date of the passing of a special resolution to revoke or amend the mandate as referred to in this resolution by shareholders in shareholders’ general meeting.
  - (f) subject to the approval by the relevant authorities of the PRC and pursuant to the PRC Company Law, when exercising the powers under sub-paragraph (a) above, the directors of the Company are authorised to increase the registered capital of the Company to the required amount respectively and attend to the relevant registration procedures with the relevant authorities in the PRC, Hong Kong or such other relevant place.
  - (g) subject to the approval by the relevant authorities of the PRC, the Board is authorised to make appropriate and necessary amendments to the Articles of Association of the Company, so as to reflect the changes in the capital of the Company that may have arisen under this mandate.”

*Executive Directors*

Mr. PANG Baogen  
Mr. GAO Jiming  
Mr. GAO Lin  
Mr. ZHOU Hanwan

*Non-executive Director*

Mr. HU Shaozeng

*Independent non-executive Directors*

Mr. WANG Youwei  
Mr. YI Deqing  
Mr. Dennis Yin Ming Chan

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

Zhejiang Province, the PRC

7 April 2006

*Notes:*

1. The register of members of the Company will be closed from 3 May 2006 to 1 June 2006 (both days inclusive), during which no transfer of shares can be registered.
2. Holders of domestic shares and H shares whose names appear on the register of members of the Company before 4:00 pm. on 2 May 2006 are entitled to attend and vote at the meeting convened by the above notice and may appoint one or more proxies to attend and, in the event of a poll, vote on their behalves. A proxy need not be a member of the Company.
3. In order to be valid, the proxy form must be deposited by hand or post, for holders of H shares of the Company, to the H shares registrar of the Company, Tengis Limited at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong and, for holders of domestic shares of the Company, to the registered address of the Company not less than 24 hours before the time for holding the meeting or not less than 24 hours before the time appointed for taking the poll. If the proxy form is signed by a person under a power of attorney or other authorities, a notarially certified copy of that power of attorney or authority shall be deposited at the same time as mentioned in the proxy form.
4. Shareholders or their proxies shall produce their identity documents when attending the meeting.
5. Shareholders who intend to attend the meeting should complete and return the reply slip and return it by hand or post to the share registrar of the Company (for holders of H shares) or to the registered office address of the Company (for holders of domestic shares) on or before 11 May 2006.
6. The meeting is expected to take half a day. Shareholders attending the meeting shall be responsible for their own travel and accommodation expenses.
7. The registered office address of the Company is as follows:  
Yangxunqiao Township  
Shaoxing County  
Zhejiang Province  
The People’s Republic of China  
Tel: 86-575-4135837  
Fax: 86-575-4118792  
Post Code: 312028
8. As at the date hereof, the Board comprises four executive directors, namely Mr. Pang Baogen, Mr. Gao Jiming, Mr. Gao Lin and Mr. Zhou Hanwan; one non-executive director, namely Mr. Hu Shaozeng, and three independent non-executive directors, namely Mr. Wang Youwei, Mr. Yi Deqing and Mr. Dennis Yin Ming Chan.