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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

**Independent financial adviser to the Independent Board Committee
and the Independent Shareholders**



South China Capital Limited

SHORT-TERM COMMERCIAL PAPER

A letter from the Board is set out on pages 4 to 11 of this circular. A letter from the Independent Board Committee is set out on pages 12 to 13 of this circular. A letter from South China Capital Limited containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 14 to 23 of this circular.

A notice convening the EGM to be held at 13th Floor, Development Building, No. 208 Jianhu Road, Keqiao, Shaoxing County, Zhejiang Province, the PRC on 10 March 2006 at 2:00 p.m. is set out on pages 41 to 42 of this circular. A reply slip and a form of proxy are also enclosed. Whether or not you are able to attend the EGM in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon. 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 Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, 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 EGM 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 authority, a notarially certified copy of that power of attorney or authority shall be deposited at the same time as mentioned in the proxy form. Completion and return of the proxy form will not preclude you from subsequently attending and voting at the EGM if you so wish.

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	4
Letter from the Independent Board Committee	12
Letter from South China Capital	14
Appendix I – Property valuation	24
Appendix II – General information	35
Notice of EGM	41

DEFINITIONS

In this circular, unless the context otherwise requires, the following words and expressions 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 held at 13th Floor, Development Building, No. 208 Jianhu Road, Keqiao, Shaoxing County, Zhejiang Province, the PRC on 10 March 2006 at 2:00 p.m. to approve the Acquisition Agreement, the Proposed Issue and the transactions contemplated thereunder, the notice of which is set out on pages 41 to 42 of this circular
“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

* For identification purposes only

DEFINITIONS

“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
“Independent Shareholders”	has the meaning ascribed to it under Rule 14A.10(5) of the Listing Rules
“Latest Practicable Date”	16 January 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“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 traded 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
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	holder(s) of the shares of the Company

* For identification purposes only

DEFINITIONS

“South China Capital”	South China Capital Limited, a deemed licenced corporation to carry out type 6 (advising on corporate finance) regulated activities under the SFO and was appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Supervisors”	the supervisors of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the legal currency of the PRC
“%”	per cent

For the purpose of this circular, conversion of RMB into HK\$ is calculated at the exchange rate of HK\$1.00 to RMB1.04.

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. Pang Baogen
Mr. Gao Jiming
Mr. Gao Lin
Mr. Zhou Hanwan

Corporate legal address:

Yangxunqiao Township
Shaoxing County
Zhejiang Province
The PRC

Non-executive Directors:

Mr. Wu Weimin
Mr. Hu Shaozeng

Place of business in Hong Kong:

1902 MassMutual Tower
38 Gloucester Road
Wanchai
Hong Kong

Independent non-executive Directors:

Mr. Wang Youwei
Mr. Yi Deqing
Mr. Dennis Yin Ming Chan

18 January 2006

To the Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION ACQUISITION OF 50% EQUITY INTERESTS IN HEFEI BAOYE

SHORT-TERM COMMERCIAL PAPER

INTRODUCTION

On 23 December 2005, the Board announced that the Company and Baoye Real Estate entered into the Acquisition Agreement with the Seller, whereby the Company and Baoye Real Estate had conditionally agreed to acquire and the Seller had conditionally agreed to dispose of an aggregate of 50% equity interests in Hefei Baoye.

* For identification purposes only

LETTER FROM THE BOARD

The Acquisition constitutes a connected transaction under the Listing Rules and is subject to the approval of the Independent Shareholders at the EGM. The Independent Board Committee has been formed to advise the Independent Shareholders in relation to the terms of the Acquisition Agreement. South China Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders.

On the same day, the Board further announced that the Company proposed to issue short term commercial paper, subject to approval by the Shareholders at the EGM pursuant to the articles of association of the Company.

The purpose of this circular is to provide you with information regarding (i) the Acquisition Agreement, (ii) the Proposed Issue; and (iii) the opinions and recommendations of the Independent Board Committee and South China Capital in relation to the Acquisition Agreement.

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

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 (but do not hold any management role in the Company). Baoye Real Estate is principally engaged in the business of real estate development.

(2) The Seller as vendor

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.

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).

LETTER FROM THE BOARD

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 three promoters of the Company, namely Mr. Wang Liequan, Mr. Chen Baorong and Mr. Xia Weimin, following 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) based on 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 based on 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 residential units of the property 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).

LETTER FROM THE BOARD

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) has already been paid as at the Latest Practicable Date;
- (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) will be paid 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) will be paid 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 HK\$628,650,000.

Completion

Completion of the Acquisition is conditional upon the following:

- (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

LETTER FROM THE BOARD

- (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 is not fulfilled on or before the Long Stop Date; or (ii) the Acquisition is 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 Latest Practicable Date, none of the above conditions had 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 Latest Practicable Date, 511 (most of them are residential units and the remaining are shops and car-parking spaces) out of 1,050 units in phase one development had already been pre-sold. The 511 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 511 units were approximately RMB256,460,000. It is anticipated that phase one of the project will be completed by the end of 2006 and the 511 residential 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 511 units will not be shared among the Company and the Seller.

As at the Latest Practicable Date, phase two and phase three of the project had 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.

LETTER FROM THE BOARD

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 three promoters of the Company, namely Mr. Wang Liequan, Mr. Chen Baorong and Mr. Xia Weimin, following 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 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 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 in connection with the Acquisition. As at the Latest Practicable Date, Mr. Wang Liequan, Mr. Chen Baorong and Mr. Xia Weimin were 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 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 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.

LETTER FROM THE BOARD

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 amount 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 Company considers that the Proposed Issue will enable 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. No Shareholder is required to abstain from voting in connection with the Proposed Issue.

THE EGM

A notice of the EGM to be convened and held at 13th Floor, Development Building, No. 208 Jianhu Road, Keqiao, Shaoxing County, Zhejiang Province, the PRC on 10 March 2006 at 2:00 p.m. for the purpose of considering the Acquisition Agreement and the Proposed Issue is set out on pages 41 to 42 of this circular.

Pursuant to Rule 14A.52 of the Listing Rules, the Company will procure that the chairman of the EGM will demand the resolution relating to the Acquisition Agreement to be taken by a poll. Please refer to Appendix II for the procedure by which you may demand a poll pursuant to the articles of association of the Company.

A reply slip and a form of proxy are also enclosed. Whether or not you are able to attend the EGM in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon. 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 Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong and, for holders of

LETTER FROM THE BOARD

domestic shares of the Company, to the registered address of the Company not less than 24 hours before the time for holding the EGM 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 authority, a notarially certified copy of that power of attorney or authority shall be deposited at the same time as mentioned in the proxy form. Completion and return of the proxy form will not preclude you from subsequently attending and voting at the EGM.

RECOMMENDATION

As set out in its letter to the Shareholders, based on the advice of South China Capital, the Independent Board Committee is of the view that the terms of the Acquisition Agreement are fair and reasonable so far as the Shareholders are concerned. The recommendations and advice from the Independent Board Committee and South China Capital are set out on pages 12 to 13 and pages 14 to 23 of this circular respectively.

ADDITIONAL INFORMATION

Your attention is drawn to the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
Baoye Group Company Limited*
Pang Baogen
Chairman

* For identification purposes only



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)

18 January 2006

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION
ACQUISITION OF 50% EQUITY INTERESTS IN HEFEI BAOYE

INTRODUCTION

We refer to the circular dated 18 January 2006 ("Circular") of the Company of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context requires otherwise.

Under the Listing Rules, the terms of the Acquisition Agreement are required to be approved by the Independent Shareholders at a general meeting of the Company. We being the independent non-executive Directors constituting the Independent Board Committee are writing to you to set out our opinion in respect of the terms of the Acquisition Agreement. The Independent Board Committee was set up to advise you as a Shareholder whether in its view the terms of the Acquisition Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

We wish to draw your attention to the letter from the Board as set out on pages 4 to 11 of the Circular and the letter from South China Capital as set out on pages 14 to 23 of the Circular which contains, inter alia, its advice and recommendation to us regarding the terms of the Acquisition Agreement with the principal factors and reasons for its advice and recommendation.

* For identification purposes only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

RECOMMENDATION

Having taken into account the advice and recommendation of South China Capital, we consider that the Acquisition Agreement was entered into in the ordinary and usual course of business of the Group and on normal commercial terms (including the payment terms), and the entering into of the Acquisition Agreement is in the interests of the Company and the Shareholders as a whole and that the terms thereof are fair and reasonable as far as the Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the terms of the Acquisition Agreement.

Yours faithfully,
For and on behalf of
the Independent Board Committee
WANG Youwei
YI Deqing
Dennis CHAN Yin Ming
Independent non-executive Directors

LETTER FROM SOUTH CHINA CAPITAL

The following is the text of the letter of advice from South China Capital to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



South China Capital Limited
28th Floor, Bank of China Tower
No. 1 Garden Road
Central
Hong Kong

18 January 2006

Baoye Group Company Limited
37/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

*To the Independent Board Committee and
the Independent Shareholders of
Baoye Group Company Limited*

Dear Sirs,

ACQUISITION OF 50% EQUITY INTERESTS IN HEFEI QINGFANGCHENG BAOYE REAL ESTATE CO., LTD

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition Agreement. Details of the Acquisition Agreement are set out in the letter from the Board (the "Letter from the Board") contained in the circular dated 18 January 2006 (the "Circular") issued by the Company to the Shareholders, of which this letter forms part. This letter contains our advice to the Independent Board Committee and the Independent Shareholders as to whether or not the Acquisition Agreement is on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Capitalized terms used in this letter have the same meanings as defined in the Circular unless otherwise defined herein.

In formulating our recommendation, we have relied on the accuracy of the information and facts supplied to us by the Company, its Directors and its management. We have also relied on the information and representations provided by Vigers Appraisal & Consulting Limited (the "Valuer"), an independent valuer, regarding the valuations of the property interests held by Hefei Baoye as at 30 November 2005, the text of which is set

LETTER FROM SOUTH CHINA CAPITAL

out in Appendix I of this Circular, and assumed that the bases and assumptions made in determining the valuations are fair and reasonable. We have also assumed that all statements of belief and intention made by the Directors in the Circular were made after due enquiry. We have assumed that all information, representation and opinion made or referred to in the Circular were true, accurate and complete at the time they were made and continue to be true at the date of the EGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company, its Directors and its management and have been advised by the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted any form of in-depth investigation into the business affairs, financial position or future prospects of the Group, Hefei Baoye or the Seller nor carried out any independent verification of the information supplied, representations made or opinions expressed by the Company, its Directors and its management.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Acquisition Agreement, we have considered the following principal factors and reasons:

I. Background of and the reasons for the Acquisition

Business of the Group

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.

Acquisition

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 interest in Hefei Baoye at a total consideration of RMB145 million (equivalent to approximately HK\$139.42 million).

As at the Latest Practicable Date, the Group and the Seller each holds a 50% interest in Hefei Baoye. 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 indirectly 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 them are promoters of the Company and the Shareholders, Hefei Baoye will be effectively owned by the Company as to 99.99% upon completion of the Acquisition.

LETTER FROM SOUTH CHINA CAPITAL

Listing Rules' implication of the Acquisition

As at the Latest Practicable Date, the Group and the Seller each holds a 50% interest in Hefei Baoye. As stated in the 2005 interim report of the Company, on 10 March 2005, pursuant to a shareholders' meeting of Hefei Baoye, three directors of Hefei Baoye nominated by the other joint venture partner have resigned and their seats have been replaced by one additional director nominated by the Company. The Directors are of the opinion that the Company has obtained the unilateral control on Hefei Baoye over its operating and financial activities thereafter. Therefore, Hefei Baoye is treated as a subsidiary of the Group and is fully consolidated from that day, on which control is transferred to the Group. Thus the Group has obtained control over Hefei Baoye before the Acquisition and the interests of outside shareholder of Hefei Baoye, i.e. the Seller, in the operating results and net assets of Hefei Baoye are shown as minority interests in the consolidated accounts of the Group. As 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 and the Acquisition, pursuant to the Acquisition Agreement, constitutes a connected transaction of the Company under the Listing Rules.

As the relevant percentage ratios exceeded 2.5% and the total consideration of the Acquisition exceeded HK\$10,000,000, the Acquisition Agreement would be subject to the requirements of reporting, announcement and independent shareholders' approval under the Listing Rules. Thus 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 interested in the Acquisition and are also the Shareholders, are required to abstain from voting at the EGM in connection with the Acquisition.

In this connection, we are engaged as the independent financial adviser to advise whether the Acquisition Agreement is on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and the Shareholders as a whole and to give our recommendation as to whether or not the Independent Shareholders should vote in favour of the resolution in relation to the Acquisition Agreement at the EGM.

Information on Hefei Baoye

Hefei Baoye is principally engaged in development and sale of properties and has been involved in the development of a residential property project (the "Project") named "城市綠苑" (City Green Garden) (the "Residential Property").

LETTER FROM SOUTH CHINA CAPITAL

The Residential Property is located in Heping Road, Yaohai District (one of Hefei's Special Development Zones equipped with convenient transportation system), Hefei, Anhui Province, the PRC. As advised by the Directors, the whole Project is planned to be developed into three phases having a total planned site area of approximately 275,000 square metres and a total planned gross floor area of approximately 520,000 square metres.

The development of the Project commenced in 2004. The first phase of the Project is currently under construction and is expected to be completed by the end of 2006. As at the Latest Practicable Date, 511 out of 1,050 units in the first phase of the Project have been offered for pre-sale and all of the pre-sale units have been sold out. The development of the second and third phases of the Project has not yet been commenced. As advised by the Directors, Hefei Baoye will fund the future development costs of the Project from the proceeds of selling the units in the Project.

Moreover, Hefei Baoye owns two parcels of contiguous land with a total site area of approximately 112,001.20 square metres and several buildings and structures erected thereon (the "Industrial Complex"). These buildings mainly include two main workshops, a canteen, an ancillary office building, an electricity distribution room and a guard room having a total gross floor area of approximately 27,207.35 square metres. The structures mainly include roads, boundary walls and steel fences. The Directors advised that the Industrial Complex is currently occupied by Hefei Zhongbao Machinery Manufacture Co., Ltd., a subsidiary of the Group, for production and ancillary office uses. As advised by the Directors, Hefei Baoye is applying for the change of the land use rights of the Industrial Complex from industrial use to residential use and intends to develop the land, which the industrial complex is currently vested on, into a residential property.

Hefei Baoye was incorporated in March 2002 and started its operation in November 2004. As stated in the Letter from the Board, 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 recognized unless and until the properties have been completed. As the properties in the Project have not yet been completed, no revenue has been recorded in the accounts of Hefei Baoye. Thus the revenue (and thus the net profit) of Hefei Baoye arising from the pre-sale of the Residential Property will not be recognized prior to the Acquisition and the net profit arising from the pre-sale of such 511 units will not be shared among the Company and the Seller.

For the year ended 31 December 2004, the audited net loss of Hefei Baoye prepared in accordance with the PRC generally accepted accounting principles was approximately RMB3.79 million (equivalent to approximately HK\$3.64 million). The audited net asset value of Hefei Baoye prepared in

LETTER FROM SOUTH CHINA CAPITAL

accordance with the PRC generally accepted accounting principles for the two years ended 31 December 2004 were RMB30 million (equivalent to approximately HK\$28.85 million) and approximately RMB26.21 million (equivalent to approximately HK\$25.20 million) respectively. Based on the management accounts of Hefei Baoye for the six months ended 30 June 2005, the unaudited net loss and unaudited net asset value of Hefei Baoye prepared in accordance with the PRC generally accepted accounting principles were approximately RMB1.90 million (equivalent to approximately HK\$1.83 million) and RMB24.31 million (equivalent to approximately HK\$23.37 million) respectively.

Reasons for the Acquisition

Focus line of business

The Directors consider that the business of Hefei Baoye is in line with the Group's business. As mentioned in the paragraph headed "Business of the Group" above, 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.

Given that the primary assets of Hefei Baoye are the Residential Property and the Industrial Complex, we are of the view that the Acquisition is entered into in the ordinary and usual course of business of the Group and is in line with the Group's business.

Positive outlook for the property market in the PRC

As stated in the Letter from the Board, 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.

In recent years, the PRC government has implemented a series of macro-economic austerity measures aiming at curbing the overheated economy. The policy rationale, as stated in an article named "2005年前三季度中國宏觀經濟運行特點及形勢展望 (the characteristics of the PRC macro-economic in the first three quarters of 2005 and its prospects)" dated 15 December 2005 on the website of the Central People's Government of the PRC, is to foster a good basis for future economic development by maintaining moderate economic growth and enhancing the quality of growth. The following statistics agrees with the effect of the government effort in paving a solid long-term path for the PRC economy. According to the 2005 China Statistical Yearbook, the floor space of buildings sold in the PRC in 2002, 2003 and 2004 have surged by

LETTER FROM SOUTH CHINA CAPITAL

approximately 19.62%, 25.77% and 13.39% respectively as compared with those of previous year while the average selling price of buildings in the PRC in 2002, 2003 and 2004 have surged by approximately 3.69%, 4.84% and 15.05% respectively as compared with those of previous year. Accordingly, the sales value of buildings in the PRC in 2002, 2003 and 2004 have surged by approximately 24.05%, 31.89% and 30.42% respectively as compared with those of previous year. Moreover, the gross national income of the PRC in 2002, 2003 and 2004 have surged by approximately 8.57%, 12.32% and 17.00% respectively as compared with those of previous year.

According to 2002, 2003, 2004 and 2005 Anhui Statistical Yearbooks, the floor space of commercial houses sold in Hefei in 2002, 2003 and 2004 have surged by approximately 118.35%, 46.97% and 39.29% respectively as compared with those of previous year. The average selling price of commercial houses in Hefei have decreased by approximately 6.63% in 2002 but have surged by approximately 19.74% and 18.92% in 2003 and 2004 respectively as compared with those of previous year. Moreover, the gross domestic product of Hefei in 2002, 2003 and 2004 have surged by approximately 13.58%, 17.48% and 21.60% respectively.

The vice-president of 中國房地產協會 (China Real Estate Association) anticipates that, for the year of 2006, there will be a strong demand in the property market in the PRC and the housing prices will continue to increase. As mentioned in an article named "Tougher polices for real estate development" dated 22 April 2005 on the website of China Daily, Liao Yingmin, a senior researcher with the State Council's Development Research Centre, anticipates that the strong demand in the property market in the PRC will continue to keep prices at a higher level and the strong demand for housing, backed by increasing incomes, will last for decades.

As stated in the interim report of the Company for the six months ended 30 June 2005, the Directors believe that the primary objective of macro-economic austerity measures is to slow down the overheated property market and to stabilize housing prices and, though painful and irresistible, the measures pave a healthy development path for the property market in the long run. The Directors anticipate that the demand for residential units will continue to grow due to increases in urbanization rate and per capita income in the PRC and the property market will remain buoyant for the next 15 to 20 years.

In view of the historical growth rate in the property market in the PRC and the PRC economy and in anticipation of the continuous development of the PRC economy and the expected growth potential in the property market in the PRC, we are of the view that the long-term outlook of the property market in the PRC remains positive.

Enhancement of the future revenue and results of the Group

The Acquisition will enable the Group to increase its equity interest in Hefei Baoye and in turn, increase the Group's share of future revenue and results from Hefei Baoye. In view of (i) all of the pre-sale units of the Project have been sold out as mentioned in the paragraph headed "Information on Hefei Baoye" above; and (ii) the positive outlook of the property market in the PRC as mentioned in the paragraph headed "Positive outlook for the property market in the PRC" above, we are of the view that the Acquisition will enhance the future revenue and results of the Group.

In view of (i) the Acquisition is in line with the Group's business; (ii) the long-term outlook of the property market in the PRC remains positive; and (iii) the Acquisition will enhance the future revenue and results of the Group, we are of the view that the entering into the Acquisition Agreement is in the ordinary and usual course of business, fair and reasonable and in the interest of the Company.

II. Basis of the aggregate consideration for the Acquisition

Pursuant to the Acquisition Agreement, the aggregate consideration for the Acquisition is RMB145 million (equivalent to approximately HK\$139.42 million). As stated in the Letter from the Board, the aggregate consideration for the Acquisition was negotiated on an arm's length basis and determined with reference to the valuations of the Residential Property and the Industrial Complex as stated in the valuation report prepared by the Valuer, which is set out in Appendix I of the Circular.

The aggregate consideration for the Acquisition of RMB145 million (equivalent to approximately HK\$139.42 million) represents a discount of approximately 55.64% to the proportionate share (in respect to the Seller's 50% interests in the Residential Property and the Industrial Complex) of the value of the Residential Property and the Industrial Complex as appraised by the Valuer, being RMB326.9 million (equivalent to approximately HK\$314.33 million).

In accessing the fairness and reasonableness of the valuations of the Residential Property and the Industrial Complex as at 30 November 2005, we have reviewed the valuation report contained in Appendix I to the Circular prepared by the Valuer. We have also discussed with the Valuer on the methodology adopted and assumptions used in arriving at their valuations of such Residential Property and Industrial Complex as at 30 November 2005. In the course of our discussion with the Valuer, nothing material has come to our attention that would lead us to believe that the valuations of the Residential Property and the Industrial Complex were not prepared on a reasonable basis nor reflect the methodology and assumptions which have been adopted and arrived at after due and careful consideration. We have no reason to doubt the fairness and appropriateness of the methodology adopted and assumptions used by the Valuer in arriving at the valuations of the Residential Property and the Industrial Complex.

LETTER FROM SOUTH CHINA CAPITAL

Based on the above, we are of the view that the aggregate consideration for the Acquisition is on normal commercial terms, fair and reasonable so far as the Company and the Shareholders are concerned.

III. Risks associated with the Acquisition

Notwithstanding the potential significant benefits brought along from the Acquisition, we consider that there are uncertainties associated with the Acquisition and these uncertainties and risks include (i) uncertainty as to the time required to complete the remaining of the Residential Property and the change of the land use rights of the Industrial Complex; (ii) Hefei Baoye's ability to fund the future development costs of the remaining of the Residential Property; (iii) the commercial marketability of the remaining of the Residential Property and the Industrial Complex; (iv) the time as to when the Company can and will launch the remaining properties to the market; and (v) the possible impact of investment loss to the Group in the event of failure to complete the remaining of the Project or an unfavorable investment decision leading to financial loss to the Group.

Accordingly, we would like to point out that there are potential risks and benefits associated with the Acquisition. The Residential Property and the Industrial Complex may or may not perform as projected, which will affect the Group's financial performance. The Acquisition will, therefore, result in a change in the risk profile of the Group's businesses, which may or may not accord with the risk/return preferences of individual Shareholders. Given the above potential risks are inherent, we are of the view that the potential risks are acceptable from the viewpoint of the Shareholders as a whole. After taking into consideration the reasons and merits of the Acquisition as mentioned in the paragraph headed "Reasons for the Acquisition" above, we are of the view that the entering into the Acquisition is fair and reasonable and in the interest of the Company.

IV. Financial impacts of the Acquisition on the Group

Earnings

As stated in the paragraph headed "Listing Rules' implication of the Acquisition" above, Hefei Baoye is treated as a subsidiary of the Group and its results have been fully consolidated into the Group's consolidated accounts. As advised by the Directors, upon completion of the Acquisition, the results of Hefei Baoye will continue to be fully consolidated into the Group's consolidated accounts and the interests of outside shareholders of Hefei Baoye upon completion of the Acquisition, i.e. Mr. Wang Liequan, Mr. Chen Baorong and Mr. Xia Weimin, in the operating results and net assets of Hefei Baoye will be shown as minority interests in the consolidated accounts of the Group.

LETTER FROM SOUTH CHINA CAPITAL

Cash position

As stated in the Letter from the Board, the consideration of the Acquisition will be sourced from the funding raised from the placing of 36,136,800 new H Shares with the net proceeds of approximately HK\$140 million, 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 with the net proceeds of approximately HK\$209.3 million, details of which were disclosed in the Company's announcement dated 3 November 2005. As at 30 June 2005, the consolidated cash and cash equivalents of the Group were approximately HK\$701.44 million. Upon the completion of the Acquisition, the Group's bank balances and cash reserves will decrease by the amount of RMB145 million (equivalent to approximately HK\$139.42 million), which is the aggregate consideration of the Acquisition payable by the Group for the Acquisition pursuant to the Acquisition Agreement and is immaterial to the cash position of the Group. Accordingly, we are of the view that the Group has adequate financial resources to fulfill the payment obligation and the cash payment will not have a material adverse impact on the Group's financial or cash flow condition upon completion of the Acquisition.

Net asset value

The Directors advised that the excess of the share of the net fair value of Hefei Baoye over the aggregate consideration for the Acquisition arising from the Acquisition will be recognized immediately in the profit and loss account of the Group upon completion of the Acquisition in accordance with the Hong Kong Financial Reporting Standard. As such, the Group's net asset value upon completion of the Acquisition will increase and thus we consider that the entering into the Acquisition Agreement is in the interest of the Company and the Shareholders as a whole.

Gearing

As the aggregate consideration for the Acquisition will be satisfied by internal resources of the Group, we are of the view that there would not be any impact on the gearing ratio of the Group (expressed as total liabilities to Shareholders' equity) following the Acquisition.

LETTER FROM SOUTH CHINA CAPITAL

RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we consider that the entering into and the terms of the Acquisition Agreement are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interest of the Company and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the respective resolution relating to the Acquisition Agreement at the EGM. We also recommend the Independent Shareholders to vote in favour of the respective resolution relating to the Acquisition Agreement at the EGM.

Yours faithfully,
For and on behalf of
South China Capital Limited
Christina Cheung
Director

In this letter, the English names of the PRC government authorities or entities are translations of their Chinese names and included herein for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.

For the purpose of this letter, for the purpose of illustration only, conversion of RMB into HK\$ is calculated at the exchange rate of HK\$1.00 to RMB1.04.

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this circular, received from Vigers Appraisal & Consulting Limited, an independent valuer, in connection with its valuation of the property interests of Hefei Baoye.

Vigers Appraisal & Consulting Limited

International Asset Appraisal Consultants

10th Floor
The Grande Building
398 Kwun Tong Road
Kwun Tong
Kowloon
Hong Kong



18 January 2006

The Directors
Baoye Group Company Limited
208 Keqiao Jian He Road,
Baoye Development Building,
Shaoxing City,
Zhejiang Province,
The PRC

Dear Sirs,

In accordance with your instructions for us to value the property interests held by one of the subsidiaries of Baoye Group Company Limited (the "Company") named as 合肥輕紡城寶業房地產有限公司 (Hefei Qingfangcheng Baoye Real Estate Co., Ltd., referred to as the "Hefei Baoye") in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interests as at 30 November 2005 (the "date of valuation") for incorporation in this circular.

Our valuation is our opinion of market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

For property interests in Group I which are held and occupied by Hefei Baoye in the PRC, we have adopted a combination of the market and depreciated replacement cost approach in assessing the land portions to the properties and the buildings & structures erected on the lands respectively. Hence, the sum of the two results represents the market value of the property as a whole. In the valuation of land portions, reference has been made to the standard land price in Hefei City and the sales comparable in the locality. As the nature of the buildings and structures cannot be valued on market basis, they have therefore been valued on the basis of their depreciated replacement costs. Depreciated replacement cost is defined as "the current cost of replacement (reproduction) of a property

less deductions for physical deterioration and all relevant forms of obsolescence and optimisation". Our opinion of value for each individual property does not necessarily represent the amount that might be realised in the market from the disposal of that particular property. However, the depreciated replacement cost approach generally furnished the most reliable indication of value for property in the absence of a known market based on comparable sales. This approach is subject to adequate potential profitability of the business.

In valuing property interest in Group II, which are held for sale and future development by Hefei Baoye in the PRC, we have valued the property interest on the basis that the property will be developed and completed in accordance with the Company's latest development proposals provided to us. We have assumed that approvals for the proposals have been obtained. In arriving at our opinion of value, we have used Direct Comparison Approach assuming sale in existing states with the benefit of vacant possession and by making reference to standard land price in Hefei and comparable site transactions as available in the market. In the meantime, we have also taken into account the construction costs that will be expended to complete the development to reflect the quality of the completed development. The "Capital value when completed" represents our opinion of the aggregate selling prices of the development assuming that it would have been completed at the date of valuation.

For property interest in Group III which is rented and occupied by Hefei Baoye in the PRC, we have assigned no commercial value to the property mainly due to prohibitions against assignment or subletting contained in the respective lease and/or, the lack of substantial profit rent or the short term nature of such interest.

Our valuation has been made on the assumption that owner sells the property interests on the market without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangement which would serve to increase the values of the property interests. Furthermore, no account has been taken of any option or right of pre-emption concerning or affecting a sale and no forced sale situation in any manner is assumed in our valuation.

In valuing the property interests, we have assumed that the owner has free and uninterrupted rights to use, occupy or assign the property interests for the whole of the unexpired term of the respective land use rights. Furthermore, we have also assumed that all consents, approvals and licences from relevant PRC government authorities for development of the property interests were granted without any onerous conditions or undue delay.

In the course of our valuation, we have not caused title searches to be made for the property interests at the relevant government bureau in the PRC. However, we have been provided with extracts of title documents relating to the property interests. We have not, however, searched the original documents to verify the ownership, encumbrances or the existence of any subsequent amendments which do not appear on the copies handed to us. All documents have been used for reference only. All dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by Hefei Baoye and therefore are only approximations.

We have relied to a considerable extent on information provided by Hefei Baoye and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, site and floor areas and other relevant

matters. We have also been advised by Hefei Baoye that no material facts had been concealed or omitted in the information provided to us and we have not independently verified the information so provided.

Furthermore, we have relied on the legal opinion dated 18 January 2006 provided by the Company's PRC legal adviser, Jingtian & Gongcheng Attorneys at Law (the "PRC Legal Opinion"). Details of the current status of titles, grant of major approvals, licenses and documents of the property interests set out in the valuation certificates are based on the PRC Legal Opinion so provided. We have no responsibility for any legal matters concerning the legal title to the property interests set out in this letter and valuation certificates.

We have inspected the exterior and, where possible, the interior of the premises. However, no structural survey has been made and we are therefore unable to report whether the properties are free from rot, infestation or any other structural defects, though in the course of our inspections we did not note any serious defects. No tests were carried out on any of the services.

We have not carried out investigations on site to determine the suitability of ground conditions and services etc. for any future development, nor have we undertaken any ecological or environmental surveys. Our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during construction period.

In valuing the property interests, we have complied with all the requirements set out in Chapter 5 and Practice Notes 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited. In addition, our valuations are prepared in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors ("HKIS").

No allowance has been made in our valuation neither for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

Unless otherwise stated, all monetary amounts stated are in Hong Kong Dollar. The exchange rate used in valuing the property interests in the PRC on 30 November 2005 was HK\$1 = RMB1.04. There has been no significant fluctuation in the exchange rates for RMB against Hong Kong dollars between the date of valuation and this letter.

We enclosed herewith our summary of valuation and valuation certificates.

Yours faithfully,
For and on behalf of
Vigers Appraisal & Consulting Limited
Raymond Ho Kai Kwong
Registered Professional Surveyor
MRICS MHKIS MSc (e-com)
Executive Director

Note: Raymond K. K. Ho, Chartered Surveyor, MRICS, MHKIS, MSc (e-com), has 19 years experience in undertaking valuation of properties in Hong Kong and has over 11 years' experience in the valuation of properties in the PRC.

SUMMARY OF VALUATION

Property	Market Value as at 30 November 2005	Interest attribute to the Company	Capital Value attributable to the Company as at 30 November 2005
Group I – Property interest held and rented out by Hefei Baoye in the PRC			
1. Land, various buildings and structures located within the industrial complex at the southeast of Dongtu Road and Bianhe Road, Xinzhan District, Hefei City, Anhui Province, The PRC	RMB68,800,000 (equivalent to HK\$66,150,000)	50%	RMB34,400,000 (equivalent to HK\$33,077,000)
Sub-total:	<u>HK\$66,150,000</u>		<u>HK\$33,077,000</u>
Group II – Property interest held for sale and future development by Hefei Baoye in the PRC			
2. Phase I to III of a large-scale residential development named Hefei Green Garden located at Hefei City, Anhui Province, the PRC	RMB585,000,000 (equivalent to HK\$562,500,000)	50%	RMB292,500,000 (equivalent to HK\$281,250,000)
Sub-total:	<u>HK\$562,500,000</u>		<u>HK\$281,250,000</u>
Group III – Property interest rented and occupied by Hefei Baoye in the PRC			
3. Room 318-321 & Level 4, Tiancheng Mansion located on the junction of Tonglin Road and Heyu Road, Hefei City, Anhui Province, The PRC	No commercial value		No commercial value
Sub-total:	<u>Nil</u>		<u>Nil</u>
GRAND TOTAL:	<u>HK\$628,650,000</u>		<u>HK\$314,327,000</u>

VALUATION CERTIFICATE

Group I – Property interest held and rented out by Hefei Baoye in the PRC

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 30 November 2005
1. Land, various buildings and structures located within the industrial complex at the southeast of Dongtu Road and Bianhe Road, Xinzhan District, Hefei City, Anhui Province, The PRC	<p>The property comprises two parcels of contiguous lands with a total site area of approximately 112,001.20 sq.m. and 2 buildings with building certificates and 4 buildings without building certificates.</p> <p>These buildings include two main workshops, a canteen, an ancillary office building, a electricity distribution room and a guard room having a total gross floor area of approximately 27,207.35 sq.m.</p> <p>The structures mainly include roads, boundary walls, steel fences etc.</p> <p>The property was completed during 2004 and 2005.</p> <p>The land use rights of the property have been granted for a term of 50 years expiring on August 2053 and January 2055 respectively for industrial use. <i>(Details please refer to Note 1)</i></p>	<p>The property is currently occupied by the Hefei Zhongbao Machinery Manufacture Co., Ltd., which is a subsidiary of the Company, for production and ancillary office uses.</p>	<p>RMB68,800,000</p> <p>(equivalent to HK\$66,150,000)</p> <p>Interest attributable to the Company as at 30 November 2005: 50%</p> <p>Capital Value attributable to the Company as at 30 November 2005</p> <p>RMB34,400,000</p> <p>(equivalent to HK\$33,077,000)</p>

Notes:

1. Pursuant to a State-owned Land Use Right Certificate dated 5 August 2003 (Document No.: He Guo Yong (2003) Zi No. 0471), the land use rights to a portion of the property having a site area of approximately 52,453.5 sq.m. for a term of 50 years expiring on August 2053 for industrial uses are vested in 合肥輕紡城寶業房地產有限公司 (Hefei Qingfangcheng Baoye Real Estate Co., Ltd.) (referred hereinafter as "Hefei Baoye").

Pursuant to another State-owned Land Use Right Certificate dated 26 January 2005 (Document No.: He Guo Yong (2005) Zi No. 049), the land use rights to the remaining portion of the property having a site area of approximately 59,547.7 sq.m. for a term of 50 years expiring on January 2055 for residential uses are vested in Hefei Baoye.

2. Pursuant to two Building Ownership Certificates dated 21 November 2005 and 28 November 2005 (Document No.: Fang Di Quan He Chan Zi No. 307166 and 306930 respectively) all issued by Hefei Housing and Land Ownership Bureau, the building ownership for the 2 blocks of building with a total gross floor area of approximately of 26,087.14 sq.m. is vested in Hefei Baoye for industrial uses.
3. As at the date of our inspection, there were four buildings with a construction scale of approximately 1,120.21 sq.m. being erected on the site that are without building ownership certificates. These buildings mainly include an office building, a power distribution room, a canteen and a guardroom. As advised by the Company, the total development costs (including construction costs) expended as at the date of valuation recorded in the account was approximately RMB1,530,000. According to the information given by the Company, it is applying for Building Ownership Certificates of the building, thus we have assigned it with no commercial value.

For indicative purpose, the total depreciated replacement cost of those 4 items of ancillary buildings as at the date of valuation was RMB1,150,000.

4. The land use rights of the property with a total site area of 112,001.2 sq.m. are subject to two mortgage agreements in favor of 合肥市商業銀行長江東路支行 (Hefei Commercial Bank – Branch of Changjiang Road East) at a total consideration of RMB26,000,000. The mortgage period is for 3 years commencing from 11 November 2005 and expiring on 11 November 2008.
5. As at the date of our valuation, i.e. 30 November 2005, according to the PRC legal opinion, the valid user for the land portion of the property should be of industrial use. However, pursuant to a Notification issued by People's Government of Hefei City dated 7 December 2005 and the confirmation given by the Company, Hefei Baoye is in the process of applying for the change of use of land from industrial to residential.
6. Pursuant to the PRC Legal Opinion, we understand that the current status of titles, grant of major approvals, licences and documents of the property contain herein represent the full set of required document. Details are listed as follows:

(a)	State-owned Land Use Right Certificates	Yes
(b)	Building Ownership Certificates (For two factories with a total gross floor area of 26,087 sq.m.)	Yes

7. We have been provided with a PRC legal opinion on the title to the property interest issued by Jingtian & Gongcheng Attorneys at Law, the PRC legal adviser, which contains, *inter alias*, the following information:
 - (a) Relevant land grant contracts had been entered into between Hefei Baoye and relevant government authorities. Hefei Baoye had settled all the land grant fee according to the contracts' terms.
 - (b) Hefei Baoye has obtained the State-owned Land Use Rights Certificates and Building Ownership Certificates of the property and hence the land use rights and building ownership to 2 buildings of the property are vested legally and effectively to Hefei Baoye. Furthermore, Hefei Baoye is the sole owner to the land use rights and building ownership of the property.

- (c) During the remaining tenure of the land use rights, Hefei Baoye is entitled to use, transfer, lease and mortgage the land use rights and building ownership of the property. There are no legal impediments for Hefei Baoye to transfer the land use rights and building ownership after completion of all necessary procedures as a subsequent to the mortgage agreement and land grant contracts.
 - (d) As at the date of issuance of the PRC legal opinion, the property is subject to two mortgage agreements in favor of 合肥市商業銀行長江東路支行 (Hefei Commercial Bank - Branch of Changjiang Road East, referred as the "Mortgagor") as mentioned the Note 4 above. During the remaining term of the mortgage period, Hefei Baoye can transfer, lease and execute its rights against the property after seeking prior written consent from the Mortgagor.
8. According to the information provided, Hefei Baoye is a limited liability company established in the PRC on 14 March 2002 and a non wholly-owned subsidiary of the company owned as to 50% by the company as at the date hereof.

VALUATION CERTIFICATE

Group II – Property interest held for sale and future development by the Hefei Baoye in the PRC

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 30 November 2005
2. Phase I to III of a large-scale residential development named Hefei Green Garden located at Hefei City, Anhui Province, the PRC	<p>Hefei Green Garden will be a large-scale multi-storey & high-rise residential development upon full completion, and is planned to be developed in 3 phases (Phase I-III), with ancillary facilities such as clubhouse, kindergarten, primary school and truck market to be provided therein.</p> <p>The project contains two parcels of land with a total site area of 254,730 sq.m. and a total gross floor area of approximately 508,628.6 sq.m. Phase I is under construction and for pre-sale, while Phase II & III are vacant land and ready for construction.</p> <p>Phase I is expected to be completed by the end of, 2006 and the remaining portion of the property is expected to be completed at the end of 2008.</p> <p>The land use rights of the property have been granted for a term of 70 years expiring on September 2072 for residential use.</p>	<p>The property is currently under developed by Hefei Baoye as Hefei Green Garden.</p> <p>The construction work for portion of the property, which has a total gross floor area of approximately of 70,172 sq.m. out of the total intended floor area to be built 508,628.6 sq.m., has been commenced.</p>	<p>RMB585,000,000 (equivalent to HK\$562,500,000)</p> <p>Interest attributable to the Company as at 30 November 2005: 50%</p> <p>Capital Value attributable to the Company as at 30 November 2005</p> <p>RMB292,500,000 (equivalent to HK\$281,250,000)</p>

Notes:

1. Pursuant to State-owned Land Use Rights Grant Contract (Document No.: GF-2000-2601) issued by Land and Resource Administrative Bureau of Hefei City, Anhui Province on 27 June 2002 (“the Grant Contract”), 合肥輕紡城寶業房地產有限公司 (Hefei Qingtangcheng Baoye Real Estate Co., Ltd., referred hereinafter as “Hefei Baoye”) agreed to acquire the land use rights term of 70 years of a parcel of land located at south of Heping Road along Tonglin Road with a site area of approximately 254,730 sq.m. at a consideration of RMB148,864,212.
2. Pursuant to two State-owned Land Use Right Certificates dated 29 September 2002 (Document No.: He Guo Yong (2002) No. 0575 and He Guo Yong (2002) No. 0576 respectively), the land use rights to the property having a total site area of approximately 254,730 sq.m. for a term of 70 years all expiring on September 2072 for residential uses are vested in Hefei Baoye.
3. Pursuant to Construction Land Use Planning Permit (Document No.: He Gui Di 2002124) issued by Town Planning Bureau of Hefei City on 18 June 2002, the approved site area is approximately 288,913.9 sq.m. (including an area of approximately 13,006.38 sq.m. for city road and approximately 1,114.81 sq.m. for virescence) is in compliance with the requirements of urban planning. Regarding portion of the land amid the property, which is currently subject to removal and demolition procedure, the Town Planning Bureau request Hefei Baoye to take immediate action for the acquisition of the ownership to this portion of land and complete the necessary process. As confirmed by the Company, the area of the remaining portion of the un-acquired land would be the difference between the area granted by the State-owned Land Use Rights Certificate mentioned in Note 2 and the Construction Land Use Planning Permit (the “Un-acquired Land”). The Company is in the process of negotiating with the individual owners to the Un-acquired Land on the amount of compensation. Once the said process has been completed, it will apply to Hefei Land and Building Resources Bureau for granting of the state-owned land use rights of the un-acquired portion of land.
4. Pursuant to 37 Construction Works Planning Permits issued by Town Planning Bureau of Hefei City, the construction works for development of Hefei Green Garden is in compliance with the requirements of urban construction works and is approved.
5. Pursuant to 12 Construction Work Commencement Permits issued by Hefei City Construction Management Bureau, the total gross floor area permitted to be constructed in Hefei Green Garden amounts to 163,505.1 sq.m.
6. Pursuant to 25 Presale Permits of Commodity Units issued by Building and Land Administrative Bureau of Hefei City, residential premises of Hefei Green Garden with total area of approximately 114,881.91 sq.m. is permitted to be presold. Among which, portion of the property with a total gross floor area of approximately 53,102.71 sq.m. in the property are subject to various agreements for sale and purchase contributing a total consideration of RMB175,057,483. This total consideration represents the Capital Value for the sold portion in the property. In the course of our valuation, we have taken into account of the aforesaid consideration.
7. The land use rights to the property with a total site area of 254,730 sq.m. are subject to two mortgage agreements in favor of 中國建設銀行股份有限公司合肥三孝口支行 (China Construction Bank Corporation San Xiao Kou Branch) at a total consideration of RMB142,000,000. The mortgage period is for 2 years commencing from 29 September 2005 and expiring on 28 September 2007.
8. As advised by the Group, the estimated total development costs (including construction costs) to complete the development was approximately RMB1,302,000,000 and the total development costs (including construction costs) incurred as at the date of our valuation was estimated to be approximately RMB174,210,000.
9. The “Capital value when completed” of the proposed development is approximately RMB1,820,000,000.

10. Pursuant to the PRC Legal Opinion, we understand that the current status of titles, grant of major approvals, licences and documents of the property contain herein represent the full set of required document. Details are listed as follows:
- | | | |
|-----|---|-----|
| (a) | State-owned Land Use Right Grant Contract | Yes |
| (b) | State-owned Land Use Right Certificates | Yes |
| (c) | Construction Land Use Planning Permit | Yes |
| (d) | Construction Works Planning Permit | Yes |
| (e) | Construction Work Commencement Permit | Yes |
| (f) | Pre-sale Permit | Yes |
11. We have been provided with a PRC legal opinion on the title to the property interest issued by Jingtian & Gongcheng Attorneys at Law, the PRC legal adviser, which contains, *inter alias*, the following information:
- (a) Relevant land grant contracts had been entered into between relevant government authorities and Hefei Baoye, Hefei Baoye had settled all the land grant fee according to the contracts' terms.
- (b) Hefei Baoye has obtained the State-owned Land Use Rights Certificates and Relevant Permits of the property and hence the land use rights are vested legally and effectively to Hefei Baoye. Furthermore, Hefei Baoye is the sole owner to the land use rights of the property.
- (c) During the remaining tenure of the land use rights, Hefei Baoye is entitled to use, transfer, lease and mortgage the land use rights and building ownership of the property. There are no legal impediments for Hefei Baoye to transfer the land use rights and building ownership after payment of all relevant taxes and completion of all necessary procedures as a subsequent to the transfer arrangement.
- (d) As at the date of issuance of the PRC legal opinion, the property is subject to two mortgage agreements in favor of 中國建設銀行股份有限公司合肥三孝口支行 (China Construction Bank Corporation Sa Xiao Kou Branch, referred as the "Mortgagor") as mentioned the Note 7 above. During the remaining term of the mortgage period, Hefei Baoye can transfer, lease and execute its rights against the property after seeking prior written consent from the Mortgagor.
12. According to the information provided, Hefei Baoye is a limited liability company established in the PRC on 14 March 2002 and a non wholly-owned subsidiary of the company owned as to 50% by the company as at the date hereof.

VALUATION CERTIFICATE

Group III – Property interest rented and occupied by Hefei Baoye in the PRC

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 30 November 2005
3. Room 318-321 & Level 4, Tiancheng Mansion located on the junction of Tonglin Road and Heyu Road, Hefei City, Anhui Province, The PRC	<p>The property comprises 3 units of Level 3 and the whole of Level 4 of a 8-storey building completed around 2003.</p> <p>The property has a total gross floor area of approximately 1,497.08 sq.m..</p>	<p>The property is leased to Hefei Baoye under two lease contracts for terms expiring on 19 December 2006 at a total monthly rent of RMB21,072.93.</p> <p>The property is currently occupied for office use.</p>	No commercial value

Notes:

- Pursuant to a leasing contract dated 14 November 2003 entered into between 合肥輕紡城寶業房地產有限公司 (Hefei Qingfangcheng Baoye Real Estate Co., Ltd., referred hereinafter as "Hefei Baoye") and 合肥泰峰房地產開發有限責任公司 (Hefei Taifeng Real Estate Development Company Limited, referred hereinafter as "Taifeng") Level 4 of Tiancheng Mansion with gross floor area of approximately 1,269.46 sq.m is leased to Hefei Baoye with a term from 20 December 2003 to 19 December 2006 at a monthly rent of RMB17,772.44.
- Pursuant to a leasing contract entered into between Hefei Baoye and Taifeng, Room 318-321 of Tiancheng Mansion with gross floor area of approximately 227.62 sq.m is leased to Hefei Baoye with a term from 20 June 2004 to 19 December 2006 at a monthly rent of RMB3,300.49.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

Directors and Supervisors

As at the Latest Practicable Date, the interests and short positions of the Directors, the Supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Director/Supervisor/ Senior management	Relevant entity	Capacity	No. of domestic Shares held (Long position)	Approximate percentage of the total registered capital of the relevant entity
Mr. Pang Baogen (Executive Director and Chairman of the Company)	The Company	Beneficial owner	198,753,054	32.53%
Mr. Gao Jiming (Executive Director and deputy general manager of the Company)	The Company	Beneficial owner	13,024,647	2.13%
Mr. Gao Lin (Executive Director and deputy general manager of the Company and chairman of Zhejiang Baoye Construction Group Co., Ltd. ("Baoye Construction"))	The Company	Beneficial owner	9,544,755	1.56%

Director/Supervisor/ Senior management	Relevant entity	Capacity	No. of domestic Shares held (Long position)	Approximate percentage of the total registered capital of the relevant entity
Mr. Zhou Hanwan (Executive Director and deputy general manager of the Company)	The Company	Beneficial owner	8,233,510	1.35%
Mr. Sun Guofan (Supervisor)	The Company	Beneficial owner	11,705,283	1.92%
Mr. Gao Jun (Assistant general manager of the Company)	The Company	Beneficial owner	5,794,259	0.95%
Mr. Xu Jianbiao (General manager of Baoye Construction)	The Company	Beneficial owner	7,524,884	1.23%
Mr. Lou Zhonghua (General manager of Baoye Real Estate)	The Company	Beneficial owner	5,633,172	0.92%

Save as disclosed above:

- (i) as at the Latest Practicable Date, none of the Directors, the Supervisors and chief executives of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies;
- (ii) as at the Latest Practicable Date, none of the Directors had any interest in any assets which have been, since 31 December 2003, being the date to which the latest published audited accounts of the Company were made up, acquired, disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group; and
- (iii) there is no contract or arrangement subsisting at the date of this circular in which any of the Directors is materially interested and which is significant in relation to the business of the Group.

Substantial Shareholders

As at the Latest Practicable Date, the following persons (other than the Directors, the Supervisors and chief executives of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

	Number of H Shares held (Long position)	Approximate percentage of H Shares	Approximate percentage of the total registered capital of the Company
Mr. Cheah Cheng Hye (<i>Note 1</i>)	16,734,000	6.43	2.74
Value Partners Limited (<i>Note 1</i>)	16,734,000	6.43	2.74
Atlantis Investment Management Limited A/C GAM Trading (No. 24) Inc (<i>Note 2</i>)	17,500,000	6.73	2.86
The Goldman Saches Group, Inc. (<i>Note 3</i>)	43,364,160	16.67	7.10
Mr. McCarthy Kent C. (<i>Note 4</i>)	23,090,000	8.87	3.78
Jayhawk China Fund (Cayman), Ltd. (<i>Note 4</i>)	23,090,000	8.87	3.78

Notes:

- The 16,734,000 H Shares are held by Value Partners Limited as investment manager. Mr. Cheah Cheng Hye is interested in approximately 32.77% of the total issued share capital of Value Partners Limited. Pursuant to the SFO, Mr. Cheng Cheng Hye is deemed to be interested in the H Shares held by Value Partners Limited.
- The 17,500,000 H Shares are held by Atlantis Investment Management Limited as investment manager.
- The 43,364,160 are directly held by Goldman Sachs (Asia) Finance. Goldman Sachs (Asia) Finance is held as to 1% by Goldman Saches Global Holdings L.L.C. and 99% by Goldman Sachs (Asia) Finance Holdings L.L.C. Goldman Sachs (Asia) Finance Holdings L.L.C. is held as to 1% by Goldman Saches Global Holdings L.L.C. and 99% by Goldman Saches & Co. Goldman Saches & Co. is held as to 0.2% by The Goldman Saches & Co. L.L.C. and 99.8% by The Goldman Saches Group, Inc. Goldman Saches Global Holdings L.L.C is held as to 1% by The Goldman Saches & Co. L.L.C. and 99% by The Goldman Saches Group, Inc. The Goldman Saches & Co. L.L.C. is held as to 100% by The Goldman Saches Group, Inc.
- The 23,090,000 H Shares are held by Jayhawk China Fund (Cayman), Ltd. as investment manager. Mr. McCarthy Kent C. is interested in 100% of the total issued share capital of Jayhawk China Fund (Cayman), Ltd. Pursuant to the SFO, Mr. McCarthy Kent C. is deemed to be interested in the H Shares held by Jayhawk China Fund (Cayman), Ltd.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors, Supervisors and chief executives of the Company) who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying voting rights to vote in all circumstances at general meetings of any other members of the Group.

3. EXPERT

- (a) The following are the qualifications of the expert who has given opinion or advice contained in this circular:

Name	Qualification
South China Capital	Deemed licenced corporation to carry out type 6 regulated activities under the SFO
Vigers Appraisal & Consulting Limited	Property valuer
Jingtian & Gongcheng Attorneys at Law	PRC legal adviser to the Company

- (b) None of South China Capital, Vigers Appraisal & Consulting Limited and Jingtian & Gongcheng Attorneys at Law have any shareholding in any member of the Group nor do they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

4. COMPETING INTEREST

None of the Directors and their respective associates have any interests in a business or are interested in any business which competes or may compete either directly or indirectly with, or is similar to, the business of the Group as at the Latest Practicable Date.

5. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

6. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2003, the date to which the latest audited financial statements of the Group were made up.

7. SERVICE CONTRACTS

Each of the executive Directors and Supervisors has entered into a service contract with the Company on or around 30 October 2002 and the service contract shall continue until the conclusion of the annual general meeting of the Company for the financial year ended 31 December 2005 and thereafter, subject to the approval of the Shareholders' meeting of the Company, each service contract may be renewed each time for three years.

Save as disclosed herein, none of the Directors and Supervisors have any service contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

8. CONSENT

Each of South China Capital, Vigers Appraisal & Consulting Limited and Jingtian & Gongcheng Attorneys at Law has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or opinion and references to its name in the form and context in which it appears.

9. RIGHT TO DEMAND A POLL

Pursuant to the Listing Rules, any vote taken at a meeting held to seek approval of a connected transaction must be taken by poll. Accordingly, the resolution to be proposed at the EGM in respect of the Acquisition Agreement shall be decided on poll. Set out below is the procedure by which the Shareholders may demand a poll pursuant to the constitutional document of the Company.

Pursuant to Article 82 of the articles of association of the Company, a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by:

- (i) the chairman of the meeting;
- (ii) at least two Shareholders present in person or by proxy for the time being entitled to vote at the meeting; or
- (iii) any Shareholder or Shareholders present in person or by proxy and representing one-tenth or more of the total voting rights of all Shareholders having the right to vote at the meeting.

Unless a poll is duly demanded and the demand is not withdrawn, a declaration by the chairman that a resolution has been passed and an entry to that effect made in the minute book of the Company, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded for or against the resolution.

10. GENERAL

- (a) The share registrar and transfer office of the Company in Hong Kong is Tengis Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (b) As at the Latest Practicable Date, the Board comprised Pang Baogen (executive Director), Gao Jiming (executive Director), Gao Lin (executive Director), Zhou Hanwan (executive Director), Wu Weimin (non-executive Director), Hu Shaozeng (non-executive Director), Wang Youwei (independent non-executive Director), Yi Deqing (independent non-executive Director) and Dennis Yin Ming Chan (independent non-executive Director).
- (c) The secretary of the Company is Ms. Ngan Lin Chun Esther. Ms. Ngan is a fellow member of the Hong Kong Institute of Chartered Secretaries.
- (d) The qualified accountant of the Company is Mr. Fung Ching Simon. Mr. Fung is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the CPA Australia.
- (e) The English text of this circular shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the Company's principal place of business in Hong Kong from the date of this circular up to and including 3 February 2006 and at the EGM:

- (a) the Acquisition Agreement;
- (b) the service contracts referred to in paragraph 7 of this Appendix;
- (c) the letter from the Independent Board Committee, the text of which is set out on pages 12 to 13 of this circular;
- (d) the letter of advice from South China Capital, the text of which is set out on pages 14 to 23 of this circular;
- (e) the property valuation report prepared by Vigers Appraisal & Consulting Limited, the text of which is set out in Appendix I to this circular;
- (f) the legal opinion from Jingtian & Gongcheng Attorneys at Law as referred to in the property valuation report set out in Appendix I to this circular; and
- (g) the written consents of South China Capital, Vigers Appraisal & Consulting Limited and Jingtian & Gongcheng Attorneys at Law as referred to in paragraph 8 of this Appendix.

NOTICE OF EGM



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)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Baoye Group Company Limited (“Company”) will be held at 13th Floor, Development Building, No. 208 Jianhu Road, Keqiao, Shaoxing County, Zhejiang Province, the PRC on 10 March 2006 at 2:00 p.m. for the purpose of considering and, if thought fit, passing (with or without amendments) the following resolutions:

ORDINARY RESOLUTION

“**THAT** the agreement (the “Acquisition Agreement”) dated 23 December 2005 and conditionally entered into between the Company and 浙江寶業房地產集團有限公司 (Zhejiang Baoye Real Estate Group Company Limited*) as purchasers and 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*) as vendor, a copy of which has been produced to the meeting marked “A” and has been initialled by the Chairman of the meeting for identification purpose, be and is hereby approved and that any one director of the Company (the “Director”) be and is hereby authorised to do or execute for and on behalf of the Company all such acts and things and such other documents which in his opinion may be necessary, desirable or expedient to carry into effect or to give effect to the Acquisition Agreement and all transactions contemplated therein, including such changes and amendments thereto as any one Director may consider necessary, desirable and expedient.”

SPECIAL RESOLUTION

“**THAT**

- (a) the proposal (the “Proposed Issue”) to issue short-term commercial paper (the “Paper”) pursuant to which the Company may issue, on or prior to the 1st anniversary of the date of passing this resolution, the Paper with a maximum repayment amount of RMB500 million in accordance with the regulations promulgated from time to time by the People’s Bank of China and any other applicable regulations, be and is hereby approved and that all the transactions contemplated thereby be and are hereby approved; and

* For identification purposes only

NOTICE OF EGM

- (b) the board of Directors (the “Board”), the Chairman of the Board or any committee comprising two or more Directors as duly authorised by the Board, be and are hereby authorised to take all actions which are, in its/his opinion, necessary, appropriate, desirable or expedient for the issue of the Paper and the transactions contemplated thereby and all other matters incidental thereto or in connection therewith (including without limitation the termination of the actual aggregate principal amount of the Paper, interest rate and underwriting arrangements) and to agree to the variation and waiver of any of the matters relating thereto that are, in its/his opinion, not material to the transactions contemplated thereby and are in the best interests of the Company.”

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

Shaoxing County, Zhejiang Province, the PRC
18 January 2006

Notes:

1. The register of members of the Company will be closed from 8 February 2006 to 10 March 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 at 4:00 p.m. on 7 February 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. The Ordinary Resolution as set out above will be determined by way of a poll.
4. 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 Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, 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 authority, a notarially certified copy of that power of attorney or authority shall be deposited at the same time as mentioned in the proxy form.
5. Shareholders or their proxies shall produce their identity documents when attending the meeting.
6. 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 18 February 2006.
7. The meeting is expected to take a half day. Shareholders attending the meeting shall be responsible for their own travel and accommodation expenses.
8. The registered office address of the Company is as follows:

Yangxunqiao Township
Shaoxing County
Zhejiang Province
The People’s Republic of China
9. As at the date hereof, the board or directors of the Company 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.

* For identification purposes only



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)

Proxy Form for Extraordinary General Meeting to be held on 10 March 2006
(or at any adjournment thereof)

No. of shares to which this Proxy relates ¹	
Type of shares (domestic shares or H shares of the Company) to which this Proxy relates ¹	

I/We ² _____
(of _____)
being the registered holder(s) of domestic share(s)/H share(s)³ of Baoye Group Company Limited ("Company") HEREBY APPOINT the Chairman of the Extraordinary General Meeting or ⁴ _____
(of _____)
as my/our proxy at the Extraordinary General Meeting (and at any adjournment thereof) of the Company to be held at 13th Floor, Development Building, No. 208 Jianhu Road, Keqiao, Shaoxing County, Zhejiang Province, the People's Republic of China on 10 March 2006 at 2:00 p.m. for the purpose of considering and if thought fit, passing the resolutions as set out in the notice of the Extraordinary General Meeting dated 18 January 2006 and at the Extraordinary General Meeting (or at any adjournment thereof) to vote on my/our behalf in respect of the resolutions as directed below:-

	For ⁵	Against ⁵
Ordinary Resolution to approve the acquisition agreement dated 23 December 2005 and entered into between the Company and 浙江寶業房地產集團有限公司 (Zhejiang Baoye Real Estate Group Company Limited*) as purchasers and 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*) as vendor and all the transactions contemplated thereby		
Special Resolution to approve the issue of short-term commercial paper by the Company and all the transactions contemplated thereby		

Signed this _____ day of _____, 2006.

Signature(s) _____
Holder(s) of domestic shares or H shares

Notes:

1. Please insert the number of domestic shares or H shares relates to this proxy form. If no number is inserted, this proxy form will be deemed to relate to all such shares in the capital of the Company registered in your name(s).
2. Full name(s) (in Chinese and English) and registered address(es) (as shown in the register of member(s)) to be inserted in **BLOCK LETTERS**.
3. Please delete as appropriate.
4. A proxy need not be a member of the Company. A holder of domestic shares or H shares is entitled to appoint a proxy to attend and, in the event of a poll, vote in his/her stead. If such an appointment is made, you may delete the words "the Chairman of the Extraordinary General Meeting or" and insert the name and address of the person appointed as proxy in the space provided. **ANY ALTERATION MADE TO THIS PROXY FORM MUST BE INITIALED BY THE PERSON(S) WHO SIGN(S) IT.**
5. Please indicate with a "✓" in the appropriate space how you wish the proxy to vote on your behalf. If this form is returned duly signed, but without any such indication, the proxy will vote or abstain at his/her discretion. Your proxy will also be entitled to vote at his/her discretion on any resolution properly put to the Extraordinary General Meeting other than those referred to in the notice of the Extraordinary General Meeting.
6. In the case of joint holders, the vote of the senior who tenders as vote, whether in person or by proxy or by representative, will be accepted to the execution of the votes of the other joint holder(s). For this purpose, seniority is determined by the order in which the names stand in the Register of Members of the Company in respect of the joint holding.
7. This proxy form must be signed by you or your attorney duly authorised in writing or, in the case of corporation, must be under its common seal or under the hand of an officer or attorney duly authorised. If the proxy form is signed by your attorney, the written authorisation or other authorisation documents of such attorney should be notarised.
8. 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 Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, 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 authority, a notarially certified copy of that power of attorney or authority shall be deposited at the same time as mentioned in the proxy form.
9. Completion and delivery of the proxy form will not preclude you from attending and voting at the Extraordinary General Meeting if you so wish.
10. The Ordinary Resolution as set out above will be determined by way of a poll.

* For identification purposes only



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)

Reply Slip for Extraordinary General Meeting

To: Baoye Group Company Limited ("Company")

I/We ¹ _____
of _____
being the registered holder(s) of ² _____ domestic/
H shares (as shown in the register of members) of RMB1.00 each in the capital of the
Company, hereby inform the Company that I/we intend to attend (in person or by proxy)
the Extraordinary General Meeting of the Company to be held at 13th Floor, Development
Building, No.208 Jianhu Road, Keqiao, Shaoxing County, Zhejiang Province, the People's
Republic of China on 10 March 2006 at 2:00 p.m.

Signature _____

Date this _____ day of _____ 2006

Notes:

1. Please insert full name(s) and address(es) (as shown in the register of members) in block capitals.
2. Please insert the number and class of shares registered in your name(s) and strike out what are not suitable for you.
3. In order to be valid, this completed and signed reply slip shall be delivered to the H shares registrar of the Company, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong (for holders of H Shares) or to the Company's registered office address at Yangxunqiao Township, Shaoxing County, Zhejiang Province, the People's Republic of China (Post Code: 312028) on or before 18 February 2006. This reply slip may be delivered to Tengis Limited or the Company by hand or by post.

* For identification purposes only