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BAOYE

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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2008

The board of directors (the "Board") of Baoye Group Company Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company, its subsidiaries and a jointly controlled entity (collectively the "Group") for the six months ended 30 June 2008 prepared in accordance with the Hong Kong Financial Reporting Standards, together with comparative figures for the corresponding period in 2007. The interim results had been reviewed by the audit committee and approved by the Board of the Company. The following financial information is extracted from the unaudited condensed consolidated interim financial information as set out in the Group's 2008 Interim Report.

* *For identification purpose only*

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2008

	Note	Unaudited Six months ended 30 June 2008 RMB'000	2007 RMB'000
Revenue	2	4,644,051	3,196,367
Cost of sales		(4,347,059)	(3,010,687)
Gross profit		296,992	185,680
Other gains – net	3	53,128	48,029
Selling and marketing costs		(10,080)	(9,768)
Administrative expenses		(123,085)	(116,633)
Operating profit		216,955	107,308
Finance costs		(60,208)	(24,563)
Share of losses of associates		(1,623)	(333)
Profit before income tax		155,124	82,412
Income tax expense	4	(50,347)	(11,499)
Profit for the period		104,777	70,913
Attributable to:			
Equity holders of the Company		103,634	65,015
Minority interest		1,143	5,898
		104,777	70,913
Earnings per share for profit attributable to the equity holders of the Company			
– basic and diluted (expressed in RMB per share)	5	RMB 0.16	RMB 0.10

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2008

	Note	Unaudited 30 June 2008 *RMB'000*	Audited 31 December 2007 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		822,133	760,593
Investment properties		43,533	43,533
Land use rights		1,899,397	2,008,189
Goodwill		16,534	16,534
Properties under development		215,283	135,541
Investment in associates		29,552	31,175
Deferred income tax assets		27,507	16,314
		3,053,939	3,011,879
Current assets			
Inventories		165,943	116,291
Land use rights		489,295	292,236
Properties under development		558,118	620,424
Completed properties held for sale		159,852	130,757
Due from customers on construction contracts		1,011,244	866,751
Trade receivables	*6*	643,150	656,635
Other receivables		1,037,341	931,352
Restricted bank deposits		336,750	248,067
Cash and cash equivalents		1,275,409	818,474
		5,677,102	4,680,987
Total assets		8,731,041	7,692,866

	Note	Unaudited 30 June 2008 *RMB'000*	Audited 31 December 2007 *RMB'000*
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital and premium		1,510,259	1,510,259
Other reserves		134,676	146,746
Retained earnings			
– Proposed dividend		–	46,407
– Others		1,258,859	1,155,225
		2,903,794	2,858,637
Minority interests		38,914	37,771
Total equity		2,942,708	2,896,408
LIABILITIES			
Non-current liabilities			
Borrowings		80,000	120,000
Deferred income tax liabilities		82,474	88,775
		162,474	208,775
Current liabilities			
Trade payables	*7*	674,842	706,462
Other payables		684,418	618,872
Receipts in advance		1,108,732	689,268
Current income tax liabilities		159,326	175,790
Due to customers on construction contracts		580,513	541,640
Dividend payable		46,407	–
Borrowings		2,366,921	1,851,151
Provision for warranty		4,700	4,500
		5,625,859	4,587,683
Total liabilities		5,788,333	4,796,458
Total equity and liabilities		8,731,041	7,692,866
Net current assets		51,243	93,304
Total assets less current liabilities		3,105,182	3,105,183

Note:

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This condensed consolidated interim financial information for the six months ended 30 June 2008 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, 'Interim financial reporting'. The condensed interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2007, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by Hong Kong Institute of Certified Public Accountants.

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2007, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rates that would be applicable to expected total annual earnings.

The following interpretations are mandatory for the first time for the financial year beginning 1 January 2008 but are not currently relevant for the Group.

- HK(IFRIC) – Int 11, 'HKFRS 2 – Group and treasury share transactions'
- HK(IFRIC) – Int 12, 'Service concession arrangements'
- HK(IFRIC) – Int 14, 'HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'

2. SEGMENT INFORMATION

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

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

The revenue attributable from these three segments, net of inter-segment revenue, is approximately RMB4,603,197,000 for the six months ended 30 June 2008 (six months ended 30 June 2007: RMB3,179,619,000).

The Group's other operations mainly comprise the provision of architectural and interior design services, provision of construction equipment rental services. Neither of these constitutes a separately reportable segment.

The unaudited segment results for the six months ended 30 June 2008 are as follows:

	Six months ended 30 June 2008				
	Construction	**Building materials**	**Property development**	**Others**	**Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total revenue	3,858,486	633,659	299,311	42,795	4,834,251
Inter-segment revenue	(107,304)	(80,955)	–	(1,941)	(190,200)
Revenue	3,751,182	552,704	299,311	40,854	4,644,051
Operating profit/segment results	100,944	27,737	85,208	3,066	216,955
Finance costs					(60,208)
Share of losses of associates	–	–	(1,623)	–	(1,623)
Profit before income tax					155,124
Income tax expense					(50,347)
Profit for the period					104,777

The unaudited segment results for the six month ended 30 June 2007 are as follows:

	Six months ended 30 June 2007				
	Construction	**Building materials**	**Property development**	**Others**	**Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total revenue	2,808,411	512,664	48,527	23,975	3,393,577
Inter-segment revenue	(107,886)	(82,097)	–	(7,227)	(197,210)
Revenue	2,700,525	430,567	48,527	16,748	3,196,367
Operating profit/segment results	80,148	18,409	8,347	404	107,308
Finance costs					(24,563)
Share of losses of associates	–	–	(333)	–	(333)
Profit before income tax					82,412
Income tax expense					(11,499)
Profit for the period					70,913

Other unaudited segmental items included in the consolidated income statements are as follows:

	Six months ended 30 June 2008				
	Construction	**Building materials**	**Property development**	**Others**	**Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Depreciation	18,087	16,795	607	965	36,454
Amortisation	2,741	2,044	112	283	5,180
Impairment of receivables – net	366	(54)	207	(209)	310

	Six months ended 30 June 2007				
	Construction	**Building materials**	**Property development**	**Others**	**Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Depreciation	15,608	17,236	819	1,473	35,136
Amortisation	2,802	1,132	364	756	5,054
Impairment of receivables – net	3,507	5,293	–	108	8,908

Inter-segment transactions were entered into at terms and conditions agreed upon by the respective parties.

The unaudited segment assets and liabilities as at 30 June 2008 and the capital expenditure for the six months ended 30 June 2008 are as follows:

	Construction	**Building materials**	**Property development**	**Others**	**Unallocated**	**Total Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets	4,155,078	1,184,780	2,939,445	351,146	71,040	8,701,489
Investment in associates	–	–	29,552	–	–	29,552
Total assets	4,155,078	1,184,780	2,968,997	351,146	71,040	8,731,041
Total liabilities	3,175,569	625,435	1,237,931	97,092	652,306	5,788,333
Capital expenditure	50,998	18,696	206	33,034	–	102,934

The audited segment assets and liabilities as at 31 December 2007 are as follows:

	Construction	**Building materials**	**Property development**	**Others**	**Unallocated**	**Total Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets	3,398,731	1,141,889	2,794,231	266,993	59,847	7,661,691
Investment in associates	–	–	31,175	–	–	31,175
Total assets	3,398,731	1,141,889	2,825,406	266,993	59,847	7,692,866
Total liabilities	2,558,231	579,886	943,696	40,855	673,790	4,796,458

The unaudited capital expenditure for the six months ended 30 June 2007 are as follows:

Capital expenditure	18,254	18,425	1,642	64,873	–	103,194

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

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

Capital expenditure represents the additions to property, plant and equipment.

The Group's business activities were mainly carried out in the PRC where the vast majority of the Group's assets are located. The Group had also undertaken construction business in three countries in Africa, namely The Republic of Djibouti ("Djibouti"), The Republic of Botswana ("Botswana") and The Republic of Seychelles ("Seychelles), and had procured certain operating assets for use in these countries. However, no geographical segment information is required to be separately disclosed as these overseas business activities were less than 10% of the Group's consolidated revenue and results as well as the Group's total assets.

3. OTHER GAINS – NET

	Unaudited Six months ended 30 June	
	2008	**2007**
	RMB'000	*RMB'000*
Interest income	42,419	31,093
Gains on debts restructuring	2,147	4,720
Government compensation	283	3,679
Gains on disposals of property, plant and equipment	235	2,577
Fair value gains on investment properties	–	51
Others	8,044	5,909
	53,128	48,029

4. INCOME TAX EXPENSE

(i) Hong Kong Profits Tax

No provision for Hong Kong profits tax has been made as the Group has no assessable profit earned in or derived from Hong Kong for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

(ii) PRC Enterprise Income Tax ("EIT")

EIT is provided on the assessable income of the Group's entities incorporated in the PRC, calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances.

The Company, its subsidiaries and a jointly controlled entity are subject to EIT at a rate of 25% (2007: 33%).

Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25% effective from 1 January 2008. As a result, the enterprise income tax rate of the Company and its subsidiaries incorporated in the PRC has been changed from 33% to 25% effective from 1 January 2008.

(iii) PRC land appreciation tax

PRC land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land use rights and all property development expenditures.

The amounts of income tax expenses charged to the condensed consolidated interim income statement represent:

	Unaudited	
	Six months ended 30 June	
	2008	**2007**
	RMB'000	*RMB'000*
Current income tax		
– PRC EIT	53,621	34,813
– PRC land appreciation tax	14,220	–
Deferred income tax	(17,494)	(23,314)
	50,347	11,499

5. EARNINGS PER SHARE

Basic

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

	Unaudited	
	Six months ended 30 June	
	2008	**2007**
Profit attributable to equity holders of the Company *(RMB)*	103,634,000	65,015,000
Weighted average number of ordinary shares in issue during the period	662,964,005	653,476,598
Basic earnings per share *(RMB)*	0.16	0.10

Diluted

The Company had no potential dilutive effect in shares, thus the diluted earnings per share is the same as basic earnings per share.

6. TRADE RECEIVABLES

	Unaudited 30 June 2008 *RMB'000*	Audited 31 December 2007 *RMB'000*
Trade receivables	667,010	680,185
Less: provision for doubtful debts	(23,860)	(23,550)
	643,150	656,635

Customers are generally granted credit terms of 1 to 3 months for construction business, 1 to 12 months for building materials business and no credit terms for property development business. The ageing analysis of the trade receivables is as follows:

	Unaudited 30 June 2008 *RMB'000*	Audited 31 December 2007 *RMB'000*
Within 3 months	251,393	347,340
3 months to 1 year	273,829	241,457
1 to 2 years	85,920	39,710
2 to 3 years	23,636	26,988
Over 3 years	32,232	24,690
	667,010	680,185

7. TRADE PAYABLES

The ageing analysis of the trade payables is as follows:

	Unaudited 30 June 2008 *RMB'000*	Audited 31 December 2007 *RMB'000*
Within 3 months	225,841	298,742
3 months to 1 year	281,236	256,086
1 to 2 years	98,702	99,053
2 to 3 years	29,395	17,747
Over 3 years	39,668	34,834
	674,842	706,462

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS AND DIVIDEND

For the six months ended 30 June 2008, the Group's revenue was RMB4,644,051,000, representing an increase of approximately 45% from the corresponding period last year. Operating profit was RMB216,955,000, representing an increase of approximately 102% from the corresponding period last year. Profit attributable to equity holders of the Company amounted to RMB103,634,000, representing an increase of approximately 59% compared to the same period last year. Earnings per share was RMB0.16, representing an increase of approximately 60% compared to the same period last year. The Board does not recommend the payment of interim dividend for the six months ended 30 June 2008.

Turnover

	For the six months ended 30 June				
	2008		2007		
	RMB'000	*% of total*	*RMB'000*	*% of total*	*Change*
Construction	3,751,182	81%	2,700,525	84%	+39%
Property Development	299,311	6%	48,527	2%	+517%
Building Materials	552,704	12%	430,567	13%	+28%
Others	40,854	1%	16,748	1%	+144%
Total	4,644,051	100%	3,196,367	100%	+45%

Operating Profit

	For the six months ended 30 June				
	2008		2007		
	RMB'000	*% of total*	*RMB'000*	*% of total*	*Change*
Construction	100,944	47%	80,148	74.7%	+26%
Property Development	85,208	39%	8,347	8%	+921%
Building Materials	27,737	13%	18,409	17%	+51%
Others	3,066	1%	404	0.3%	+659%
Total	216,955	100%	107,308	100%	+102%

RESULTS REVIEW

Construction Business

For the six months ended 30 June 2008, the Group's construction business achieved a revenue of RMB3,751,182,000, representing a growth of approximately 39% over the same period last year. Operating profit amounted to RMB100,944,000, representing an increase of approximately 26% compared to the same period last year.

As at 30 June 2008, the Group's total contract value of construction-in-progress amounted to RMB27,086,005,000, surpassing the same period last year by approximately 37%, details of which are analysed below:

By project nature:

	As at 30 June				
	2008		**2007**		
	RMB'000	*% of total*	*RMB'000*	*% of total*	*Change*
Government & Public Buildings	10,563,542	39%	8,302,253	42%	+27%
Urban Infrastructure	7,854,941	29%	5,337,163	27%	+47%
Residential Projects	4,875,481	18%	3,162,763	16%	+54%
Industrial Projects	3,792,041	14%	2,965,091	15%	+28%
Total	27,086,005	100%	19,767,270	100%	+37%

By region:

	As at 30 June				
	2008		**2007**		
	RMB'000	*% of total*	*RMB'000*	*% of total*	*Change*
Zhejiang Province	9,209,242	34%	7,511,563	38%	+23%
Shanghai	7,584,081	28%	7,313,890	37%	+4%
Central China Region	7,313,221	27%	4,151,127	21%	+76%
Northern China Region	2,600,257	9.6%	790,690	4%	+229%
Overseas*	379,204	1.4%	–	–	N/A
Total	27,086,005	100%	19,767,270	100%	+37%

* *Overseas construction business was principally carried out in three African countries including Djibouti, Botswana and Seychelles.*

The Group endeavors to adopt the mission of "brand building and technology enhancement" in fostering new construction projects with emphasis on quality. For the six months ended 30 June 2008, the Group has contracted for new construction projects in the amount of approximately RMB5.05 billion, which comprises a number of high-end construction projects including the New Terminal Building of Hangzhou International Airport, Wenzhou Luchen Plaza and the highest building in Anhui, Dongyi Financial Center, enhancing the Group's position in the high-end construction market.

During the period under review, the Group's business in Djibouti, Botswana and Seychelles has registered considerable growth as new construction projects contracted for approximated to RMB370 million. These construction contracts comprise primarily the residential building projects invested by the Arab Foundation and the extension project for the President's Residence in Djibouti and a number of other landmark construction projects.

Property Development Business

For the six months ended 30 June 2008, the revenue of the Group's property development business amounted to RMB299,311,000 (before deduction of business tax and surcharges amounting to RMB314,715,000), representing an increase of approximately 517% from the same period last year. The Group's property development business contributed an operating profit of RMB85,208,000, representing an increase of approximately 921% compared to the same period last year.

During the period under review, the Group's property development business was primarily derived from the sale of units in Hefei City Green Garden Phase II, Zhejiang Commercial City and Shaoxing Linjiang Green Garden. Hefei City Green Garden Phase II has sold units in equivalent of approximately 49,582 square metres, registering a total revenue of approximately RMB169,433,000 with an average selling price per square metre of RMB3,417. Zhejiang Commercial City has sold approximately 1,079 square metres, registering a total revenue of approximately RMB3,376,000 with an average selling price per square metre of RMB3,129. Linjiang Green Garden had completed delivery of sale units of approximately 42,088 square metre to purchasers in May 2008, registering a total revenue of approximately RMB127,255,000 with an average selling price per square metre of RMB3,024. In addition, the sale of the remaining commercial and retail units left-over from prior years has recorded revenue of approximately RMB14,651,000.

Jing'an Ziyuan in Shanghai has begun pre-sale in April 2008. The pre-sale has received good response from the market and approximately 70% of the total number of units has been sold up to now, with an average selling price per square metre for service apartments and office units of RMB39,875 and RMB30,000 respectively.

Projects under development

As at 30 June 2008, the Group's projects under development are summarised below:

Project Name	**Location**	**Estimated Gross Floor Area** *(square metres)*	**Equity Interest of the Group**
Baoye Four Seasons Garden	Shaoxing	525,000	100%
Daban Fengqing	Shaoxing	250,000	100%
Yuyuan	Shaoxing	180,000	49%
Jing'an Ziyuan	Shanghai	48,239	70%
City Green Garden Phase II	Hefei	120,000	100%
Zhejiang Commercial City	Hefei	66,000	75%
Baoye Tongcheng Green Garden	Hefei	164,000	100%
Baoye Moon Lake Garden	Jingmen Hubei	82,000	100%

Baoye Four Seasons Garden is located in Kuaijishan Tourist Resort Zone, a "province-rank" resort district in Zhejiang Province. With historical culture and spectacular scenery, the area is where ancient civilization flourished. Other than its profound cultural tradition and being the origin of many myths and folklores, the area also has a large number of historical heritages. Being only 10 minutes drive from downtown of Shaoxing City, it is known as the "natural treasure in the heart of a city". Baoye Four Seasons Garden has a site area of approximately 1,050,000 square metres with 0.5 time plot ratio and a planned gross floor area of approximately 525,000 square metres for the development of deluxe condominiums, town houses, and detached houses. It also consists of a golf club and hotel facilities. The construction of about 100,000 square metres of Baoye Four Seasons Garden Phase I has been started in June 2008. The pre-sale is expected to start in 2009.

Daban Fengqing is located in Keqiao, Shaoxing County, having a total site area of approximately 100,000 square metres with 2.5 times plot ratio for development of residential area of 250,000 square metres. The land is in the development zone of the future central business district of Keqiao, alongside the "dual lake" district, east of Dabanhu, with adequate and well-developed community facilities. The project will be positioned as a premier residential property in Keqiao, Shaoxing County. The ground breaking of Daban Fengqing project has been commenced in March 2008. The pre-sale is expected to start in 2009.

Yuyuan is located at No.1 Yangming Road, Shaoxing City, having a total site area of approximately 180,000 square metres with a plot ratio of 1 time for development of 180,000 square metres up-scale residential properties. The Group and the Greentown China Holdings Limited, a listed company on HKEx (stock code: 3900), jointly and successfully bid for the land in which the Group is interested in 49%. The land area is of close proximity to the resort district of Kuaijishan where the Group's golf club and Baoye Four Seasons Gardens project are located, 8 kilometres from the central business district, and will be developed as low rise premium residential properties and deluxe service apartments. At present, the construction has been started and it is expected that the pre-sale will begin at the end of 2008.

Jing'an Ziyuan is located on Jiangning Road in Jing'an District of Shanghai, close to the downtown prominent area, "Golden Delta", of Nanjing Road West, which is truly a prime location. The project has a gross floor area of approximately 48,239 square metres, which has been developed as luxurious service apartments. The construction has been completed and the finishing decoration work is in progress. The pre-sale has been started since April 2008 and good response is received from the market. At present, approximately 70% of the total number of units has been pre-sold.

City Green Garden, Phase II, a total gross floor area of 170,000 square metres in a prime developing zone in Hefei City, Anhui, is located in Yaohai District with convenient transportation. It comprises mainly high-end properties with retail shops and offices. The pre-sale went on well. It is expected that approximately 120,000 square metres will be recognised in 2008. In the first half of 2008, 49,582 square metres have been recognised and approximately 80% of the remaining units has been pre-sold up to now.

Zhejiang Commercial City is situated at a prime location east of Hefei Railway Station. Buzzing with intense commercial activity, the area is one of the most prominent commercial districts in Hefei City. It is mainly developed into up-scale service apartments, retail shops and low rise building complex. As at 30 June 2008, a total of approximately 26,369 square metres has been sold and recognised. Approximately 80% of the remaining 66,000 square meters have been pre-sold.

Baoye Tongcheng Green Garden is located in Baohe District of Hefei, with a land area of 58,570 square metres and 2.8 times plot ratio for development of residential area of 164,000 square metres. This property comprises nine high-rise buildings and will be developed for commercial and residential properties. The land is located at the city center of Hefei with adequate and well-developed community facilities. It is next to the University of Science and Technology of China. At present, the construction has begun and pre-sale is expected to start at the end of 2008.

Baoye Moon Lake Garden is located in Dongcheng District, Jingmen, Hubei, with well-developed community facilities and convenient transportation, having 1.8 times plot ratio for commercial and residential properties development and a total gross floor area of 82,000 square metres. The project comprises 22 buildings, 13 of which are high-rise building, 9 of which are low-rise building. The buildings alongside Yuelianghu Road will be developed as commercial units. At present, the planning phase has been finished. It is expected the pre-sale will start in 2009.

Our current level of land bank is sufficient for properties development in the next three to five years, therefore the Group had not procured new land bank during the period. Given unpredictable circumstances that prevail in the local and international markets, though prices of lands during the period under review slipped moderately, with adequate available financial resources backing, the Group chose to acquire land carefully. However, having said that, the Group will adopt a prudent investment approach in pursuing acquisition targets that will offer higher earnings prospect and will pitch on "the boat" and opportunity given rise by the current downturn.

Building Materials Business

For the six months ended 30 June 2008, the revenue of the Group's building materials business was RMB552,704,000, up approximately 28% over the same period last year; operating profit was RMB27,737,000, an increase of approximately 51% over the same period last year.

The revenue breakdown of the Group's building materials is as follows:

	For the six months ended 30 June		
	2008	**2007**	
	RMB'000	*RMB'000*	*Change*
Ready-mixed concrete	127,122	124,864	+2%
Curtain wall	165,811	103,336	+60%
Wood products and interior decoration	143,703	86,113	+67%
Steel structure	71,852	73,196	-2%
Concrete pipes	27,635	21,528	+28%
Concrete ducts	5,527	12,917	-57%
Large roof sheathings	2,764	4,306	-36%
Fireproof materials	8,290	4,307	+92%
Total	552,704	430,567	+28%

As depicted from above, leveraging on our continued investment in manufacturing technologies and process engineering, our products gradually received market and industry recognition, curtain wall, wood products and interior decoration all registered remarkable growth during the period. However, traditional building materials segments such as the concrete ducts and large roof sheathings saw a decline. On the brighter side, the upsurge of raw materials costs in steel, cement and lumber, the increased labor costs and increased competition from traditional building materials were largely offset by improvement in manufacturing technologies and process engineering, overall operating profit margin was then increased from 4.3% of the same period last year to 5% in the period under review.

The Group has achieved commendable results after two and half years' unwavering efforts with the Japan's Daiwa House Industry Co. Ltd to co-develop pre-fabricated building materials for residential properties in China. Various industrialisation of pre-fabricated building materials' technologies and research and development results have been put into application in various construction projects. These technologies and research and development results will also be applied in the Daban Fengging and Baoye Four Seasons Garden projects. At the same time, the Group will also collaborate with the China Institute of Architecture to research and co-develop the know-how in the areas of energy-saving, and environment-friendly residential units in anticipation of the huge "New-village" re-development and construction market.

Business Prospect

During the period under review, almost every industry sector in China was impacted by the austerity macroeconomic control measure. In particular, the real estate and construction industries had undergone another round of correction. Properties prices have adjusted downward and volume of market demand has contracted in certain regions; purchasers are prudent in buying properties. The Group believes that these are primarily the results of the austerity macroeconomic measures implemented by the PRC Government from 2007. However, the adverse effects in these industries in China revealed fundamental differences when compared to the critical situation that were brought by the subprime mortgage in the USA. The adverse effects were primarily driven by the significant upsurge in properties prices from 2007, now being corrected or adjusted to rationalise in the industries. These adjustments or corrections in the near term are considered healthy and will pave a long-term steady growth for the industries. Any short-term adjustments, either way, are not the single factor in determining future prospect of the industries, but the fundamental growth prospects. The growth prospects in the China market include economic growth, increased urbanisation rate, population movement, mode of living, changes in composition and mix of families and so on. Though the slow down in global market has created a number of challenges to the China economy, its steady growth momentum remains. According to the report issued by the National Bureau of Statistics of China, the urbanisation rate remains at 45%, which is much lower than highly developed countries, resulting from large influx of agricultural population moving from villages to cities. At present, there is abundant demand calling for comfortable and modernised residential units from the replacement market.

The Group is facing short-term economic adjustment or correction. Realising that operating costs such as raw materials, salaries and wages, and interest continue to rise, the Group will nevertheless have to absorb these adverse effect in our profit margins for the construction and building materials businesses. However, these negative impacts were largely offset by the improved operating margin registered in the property development business, attributed by the sale of units in the city centres of Shanghai and Hefei, which have enhanced the overall profit margin for the Group in the year of 2008.

Due to our effective strategic position and expansion strategy, construction business has successfully extended its foothold outside Zhejiang Province, following the acquisition of Hubei Construction Group, and has registered year-on-year growth. After years of accumulative experience, the Group is able to articulate appropriate sales plans to ensure steady growth and contribution for the property development business; building materials will see an increase in revenue after the Hefei Industrial Park is put into commercial production.

The Group believes that short-term market correction and adjustment will benefit the long-term development of our businesses. This correction and adjustment is not only a challenge but also an opportunity for us. With our prudent financial management and business expansion model, low gearing ratio, which have not only enabled us to pass through this difficult and down-turn period and, more importantly, provided us with sufficient capital to pursue acquisition initiatives during this consolidation phase in our industries to set a solid foundation for the future prosperity of the Group.

FINANCIAL REVIEW

Treasury Policies

The Group adopts a prudent approach on financial policies and takes stringent risk management control over its investment, financing and cash as well as maintaining a sound capital structure. The Group will adjust its investment, financing and capital structure from time to time according to its sustainable development and internal resources available, with a view to optimising the capital structure of the Group.

The Group has established a financial settlement center, which centralises funding for all its subsidiaries at Group level. The Board believes that such policy will enable the Group to achieve better controls on the treasury operations, minimise financing risks and lower the average cost of capital.

Financial Resources and Liabilities

With its steady growth in cash flow, sound credit record and excellent reputation in the industry, the Group preserved an AAA credit rating by a credit rating institution recognised by the People's Bank of China in 2008. Such excellent credit rating will benefit the Company's financing activities and allows the Group to continue to enjoy the prime rate offered by the People's Bank of China. At present, the bank borrowings of the Group bear an interest rate between 7% to 8% per annum (30 June 2007: 6% to 8% per annum). During the period, 75% of the Group's borrowings were on an unsecured basis (30 June 2007: 92%). The Group will take advantage of its good credit to continue to take borrowings on an unsecured basis, which will be complemented by secured project loans when necessary.

As at 30 June 2008, the Group's net bank borrowings, after deduction of cash and cash equivalents and restricted bank deposits, amounted to RMB834,762,000 (30 June 2007: RMB123,295,000). The Group's net gearing ratio (net bank borrowings/equity attributable to the equity holders of the Company) was 28.7% (30 June 2007: 4.5%). Acquisition of the land use rights has been paid off during the period. The Group is confident that it will keep the gearing ratio at such healthy level in the future.

The proposed issuance of short-term commercial paper approved in the extraordinary general meeting of the Company on 19 November 2007 has not received favorable borrowing terms from the relevant financial institutions as a result of the PRC Government's tightened monetary policy. As the Group is financially sufficient, the Company does not need to call for immediate issue of such short-term commercial paper. The Group will continue to maintain close contact with the concerned financial institutions to arrange the issuance of short-term commercial paper when required.

Key Financial Ratios

	As at 30 June	
	2008	**2007**
Return on equity *(%)*	3.6%	2.4%
Net assets value per share *(RMB)*	4.38	4.10
Net gearing ratio *(%)*	28.7%	4.5%
Current ratio	1.01	1.24

Return on equity	=	profits attributable to the equity holders of the Company/equity attributable to the equity holders of the Company
Net assets value per share	=	equity attributable to the equity holders of the Company/number of issued shares at the end of the period under review
Net gearing ratio	=	net bank borrowings/equity attributable to the equity holders of the Company
Current ratio	=	current assets/current liabilities

During the period under review, profit attributable to equity holders of the Company amounted to RMB103,634,000 registering a growth of 59% compared to the same period last year. Return on equity and net assets value per share both saw a commendable growth. Net bank borrowings increased by 5.7 times to RMB834,762,000 in 2008 from the corresponding period last year. The increase in net bank borrowings has pushed up the gearing ratio and thus lowering the current ratio, which, of course, is a short-term phenomenon. The increased spending in high quality land reserve will contribute significant profits to the Group in future.

Cash Flow Analysis

		As at 30 June	
		2008	**2007**
	Note	*RMB'000*	*RMB'000*
Net cash inflow/(outflow) from operating activities	*(i)*	36,505	(329,896)
Net cash outflow from investing activities	*(ii)*	(55,340)	(61,567)
Net cash inflow from financing activities	*(iii)*	475,770	653,561
Increase in cash and cash equivalents		456,935	262,098

Note:

(i) The net cash inflow from operating activities was RMB36,505,000, compared to net cash outflow of RMB329,896,000 of the same period in 2007, representing an increase of RMB366,401,000 from the same period in 2007. This was primarily attributable to the pre-sale of Shanghai Jing'an Ziyuan project, which has received a total of purchase deposits amounting to RMB494,719,000. All other operating subsidiaries have also registered healthy cash inflow position, thus leading to a net cash inflow position for the Group.

(ii) The net cash outflow from investing activities of RMB55,340,000 was primarily attributable to the increased investment in fixed assets and construction-in-progress for Kuaijishan Golf Club and Hotel, and building materials industrial parks.

(iii) The net cash inflow from financing activities of RMB475,770,000 was a reduction of RMB177,791,000 from the same period last year. There were no issue of new shares in 2008 versus new shares issued to Tiger Global in the amount of RMB559,650,000 in February 2007, all cash inflow from financing activities during the period was from increase in bank borrowings.

Land Appreciation Tax

On 28 December 2006, the State Administration of Taxation pronounced a circular in respect of the rules and regulations pertaining to land appreciation tax applicable to real estate and property development enterprise in clearing their pending tax assessment. The appreciation tax came into effect in 1993. The Group has consistently complied with the tax rules and regulations in the PRC and conformed to the Hong Kong Financial Reporting Standards in accounting for such tax provision. Besides, the Group is a construction enterprise with construction as its core business, while building materials and property development as its supporting businesses. Therefore, the financial impact resulting from the tax pronouncement towards the Group's operating results would not be significant.

Administrative Expenses

The Group's administrative expenses increased from RMB116,633,000 in the six months ended 30 June 2007 to RMB123,085,000 in the six months ended 30 June 2008, a moderate increase of 5.5%, in which the vast majority of the increase was attributable to salaries and wages. Due to the new labor law and inflation factors, salaries and wages grouped under administrative expenses increased to RMB28,512,000 in the six months ended 30 June 2008 from RMB19,663,000 in the same period last year, representing an increase of 45%. Other administrative expenses are within manageable level primarily resulting from cost and energy saving, and increased in efficiency.

Finance Costs

Finance costs represent interest expenses derived from bank borrowings amounting to RMB60,208,000 for the six months ended 30 June 2008, which is a significant increase of 1.45 times compared to RMB24,563,000 of the same period last year. The increase was primarily attributable to two-fold: bank borrowings increased from RMB1,318,617,000 as at 30 June 2007 to RMB2,446,921,000 as at 30 June 2008; bank borrowing rates increased by about 1% by comparing 2008 versus 2007 for the same period. The increase in bank borrowings was primarily used to finance the purchase of three parcels of land as well as its development and construction costs.

External Guarantee and Fulfillment

	30 June 2008 *RMB'000*	31 December 2007 *RMB'000*
Guarantees given to banks in respect of mortgage facilities granted to third parties	149,304	56,657

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

Details of the Charges on the Group's Assets

As at 30 June 2008, land use rights, buildings and properties under development at a total value of approximately RMB180,842,000 (31 December 2007: RMB392,140,000) were pledged to banks as security in securing short-term bank borrowings.

Capital Expenditure

The Group's capital expenditure in the first half of 2008 approximated to RMB102,934,000, in which approximately RMB50,000,000 was used for the construction of Kuaijishan Golf Club and Hotel project; approximately RMB30,000,000 was used for the construction of the Institute of Construction Research; and approximately RMB18,000,000 was used for the construction of building materials industrial parks' new production facilities in Shaoxing and Hefei. It is expected that approximately RMB20,000,000 will be allocated for the construction of building materials industrial parks' new production facilities in Hefei and Wuhan in the second half of 2008.

Adjustment of RMB Exchange Rate and Foreign Exchange Risks

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

Dividends

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil). A final dividend of RMB0.07 per ordinary share for 2007, amounting to total dividend of RMB46,407,000, was approved at the annual general meeting of the Company on 15 June 2008, which was paid on 8 July 2008.

CONNECTED TRANSACTION

During the period under review, the Group did not have any transaction which constitute connected transaction that requires disclosure under the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries or jointly controlled entity has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2008.

HUMAN RESOURCES

As at 30 June 2008, the Group had a total of approximately 3,690 permanent employees (30 June 2007: 2,100), there are approximately 57,000 indirectly employed construction site workers (30 June 2007: 51,000) who are not permanent employees of the Group. For the six months ended 30 June 2008, total staff costs amounted to RMB609,687,000 (the same period in 2007: RMB421,060,000). Remuneration is determined by reference to market terms as well as the performance, qualification and experience of the individual. Other benefits provided by the Group include pension and medical insurance. The Group highly values human resources management, and is devoted to establishing a high quality team to support its long term business development. The Board intends to implement a more effective employee incentive plan.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors of the Company, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules during the six months ended 30 June 2008, except that the role of the chief executive officer of the Company has been assumed by Mr. Pang Baogen, the chairman of the Board.

Three general managers have been appointed to oversee and manage the three main business activities (construction, property development and building materials) of the Group respectively, each of whom has partly shared the duty of the chief executive officer. The Board believes that the current arrangement has installed a proper segregation of duties and adequately streamlined the responsibility. The Board also believes that simple management structure can enhance the communication amongst staff at different levels as well as enabling efficient execution of new policies. Therefore, the Board endorsed the position of chief executive officer to be assumed by the chairman of the Board. Nevertheless, the Board will regularly review the management structure to ensure that it meets the business development requirements of the Group.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in Appendix 10 to the Listing Rules as its own code of conduct regarding the securities transactions by the directors. Specific enquiries have been made by the Company and all the directors have confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2008.

AUDIT COMMITTEE

The audit committee of the Company consists of three independent non-executive directors, namely Mr. Wang Youwei (Chairman), Mr. Yi Deqing and Mr. Chan Yin Ming, Dennis. The audit committee held one meeting during the period under review and all three members attended the meeting. The audit committee has discussed the accounting policies as well as critical accounting estimates and assumptions with management, discussed with the auditors the audit plan and key audit areas. The audit objectives and the scope of the internal audit department of the Group were also discussed. The interim results of the Group for the six months ended 30 June 2008 had been reviewed by the audit committee.

PUBLICATION OF INTERIM REPORT

The full text of the Company's 2008 Interim Report will be despatched to the shareholders of the Company and posted on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.baoyegroup.com) respectively in due course.

APPRECIATION

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

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

Zhejiang, the PRC
10 September 2008

As at the date of this announcement, the Board includes five executive directors, Mr. Pang Baogen, Mr. Gao Jiming, Mr. Gao Lin, Mr. Zhou Hanwan and Mr. Wang Rongfu, and five independent non-executive directors, Mr. Hu Shaozeng, Mr. Wang Youwei, Mr. Yi Deqing, Mr. Chan Yin Ming, Dennis and Mr. Sun Chuanlin.