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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

The board of directors (the "Board") of Baoye Group Company Limited (the "Company") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2006 prepared in accordance with Hong Kong Financial Reporting Standards, together with comparative figures for the corresponding year in 2005. The following financial information is extracted from the audited consolidated financial statements as set out in the Group's 2006 Annual Report.

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
		2006	**2005**
	Note	*RMB'000*	*RMB'000*
Revenue	2	6,227,853	4,723,797
Cost of sales		(5,761,289)	(4,289,943)
Gross profit		466,564	433,854
Other gains – net	3	416,038	136,391
Selling and marketing costs		(15,388)	(7,363)
Administrative expenses		(218,069)	(112,370)
Operating profit		649,145	450,512
Finance costs		(50,722)	(29,885)
Share of losses of associates		(21)	–
Profit before income tax		598,402	420,627
Income tax expense	4	(116,381)	(112,729)
Profit for the year		482,021	307,898
Attributable to:			
Equity holders of the Company		476,032	304,226
Minority interest		5,989	3,672
		482,021	307,898
Earnings per share for profit attributable to the equity holders of the Company during the year – basic and diluted (expressed in RMB per share)	5	RMB0.779	RMB0.537
Dividends	8	46,407	73,311

* *For identification purpose only.*

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2006 RMB'000	2005 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		677,386	486,997
Investment properties		40,515	35,981
Land use rights		792,261	460,110
Goodwill		16,534	17,043
Properties under development		442,076	95,879
Investments in associates		32,401	–
Deferred income tax assets		15,496	22,844
		2,016,669	1,118,854
Current assets			
Inventories		79,802	54,233
Land use rights		269,136	286,350
Properties under development		292,283	606,348
Completed properties held for sale		61,604	72,276
Due from customers on construction contracts		738,909	517,919
Trade receivables	*6*	682,864	387,223
Other receivables		721,651	687,684
Restricted bank deposits		125,702	83,742
Cash and cash equivalents		782,699	742,289
		3,754,650	3,438,064
Total assets		5,771,319	4,556,918
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		953,735	953,735
Other reserves		227,951	235,884
Retained earnings		915,970	500,738
Proposed dividend		46,407	73,311
		2,144,063	1,763,668
Minority interest		45,191	64,363
Total equity		2,189,254	1,828,031
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		133,434	134,970
Current liabilities			
Trade payables	*7*	791,212	374,380
Other payables		661,666	432,769
Receipts in advance		262,657	227,352
Current income tax liabilities		76,476	85,896
Due to customers on construction contracts		429,591	389,137
Borrowings		1,222,779	1,080,513
Provision for warranty		4,250	3,870
		3,448,631	2,593,917
Total liabilities		3,582,065	2,728,887
Total equity and liabilities		5,771,319	4,556,918
Net current assets		306,019	844,147
Total assets less current liabilities		2,322,688	1,963,001

Note:

1. Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). This basis of accounting differs in certain respects from that used in the preparation of the Group's statutory accounts in the People's Republic of China ("PRC"). The PRC statutory accounts of the Group have been prepared in accordance with accounting principles and financial regulations applicable to the Group in the PRC ("PRC GAAP"). Appropriate restatements have been made to the PRC statutory accounts to conform with HKFRS.

These consolidated financial statements have been prepared in accordance with all applicable HKFRS issued by the Hong Kong Institute of Certified Public Accountants. The accounting policies adopted in the preparation of these financial statements are consistent with those used in the financial statements for 2005 except for changes made thereafter in adopting the amendment to Hong Kong Accounting Standard 39 and Hong Kong Financial Reporting Standard 4 on "Financial Guarantee Contracts". The adoption of these amendments do not have a significant financial impact on the Group's results and financial position for both 2005 and 2006. Other new HKFRSs, amendments to standards and interpretations, which are mandatory for financial year ended 31 December 2006, are not relevant for the Group or have no impact on the Group's financial statements.

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 are approximately RMB6,166,234,000 and RMB4,690,914,000 for the years ended 31 December 2006 and 2005 respectively.

The Group's other operations mainly comprise the provision of construction and decoration design services and provision of rental services. Other results also comprise the investment properties fair value gain and disposal gains. Neither of these constitutes a separate reportable segment.

The business segment results for the year ended 31 December 2006 are as follows:

	Year ended 31 December 2006				
	Construction	**Building materials**	**Property development**	**Others**	**Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total revenue	4,824,604	1,226,416	445,215	80,744	6,576,979
Inter-segment revenue	(180,025)	(149,976)	–	(19,125)	(349,126)
External revenue	4,644,579	1,076,440	445,215	61,619	6,227,853
Operating profit	468,845	50,610	126,463	3,227	649,145
Finance costs					(50,722)
Share of losses of associates					(21)
Profit before income tax					598,402
Income tax expense					(116,381)
Profit for the year					482,021
Other information					
Depreciation	24,661	27,498	2,047	2,666	56,872
Amortisation	7,381	1,114	–	–	8,495
Provision for doubtful debts, net	1,137	3,847	62	54	5,100

The business segment results for the year ended 31 December 2005 are as follows:

	Year ended 31 December 2005				
	Construction	**Building materials**	**Property development**	**Others**	**Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total revenue	3,650,687	781,746	545,995	86,040	5,064,468
Inter-segment revenue	(126,509)	(161,005)	–	(53,157)	(340,671)
External revenue	3,524,178	620,741	545,995	32,883	4,723,797
Operating profit	206,955	88,785	125,412	29,360	450,512
Finance costs					(29,885)
Profit before income tax					420,627
Income tax expense					(112,729)
Profit for the year					307,898
Other information					
Depreciation	13,015	22,883	1,778	985	38,661
Amortisation	3,036	72	–	–	3,108
Provision for doubtful debts, net	3,130	2,526	(593)	(12)	5,051

The segment assets and liabilities as at 31 December 2006 and capital expenditure for the year then ended are as follows:

	As at 31 December 2006					
	Construction	**Building materials**	**Property development**	**Others**	**Unallocated**	**Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets	3,245,158	1,102,301	1,162,918	172,530	56,011	5,738,918
Associates	–	–	32,401	–	–	32,401
Total assets	3,245,158	1,102,301	1,195,319	172,530	56,011	5,771,319
Liabilities	1,806,254	681,125	667,538	45,746	381,402	3,582,065
Capital expenditure	110,930	170,321	8,704	24,520	–	314,475

The segment assets and liabilities as at 31 December 2005 and capital expenditure for the year then ended are as follows:

	As at 31 December 2005					
	Construction	**Building materials**	**Property development**	**Others**	**Unallocated**	**Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets	2,508,681	715,629	1,233,359	40,425	58,824	4,556,918
Liabilities	1,623,717	380,078	616,198	22,998	85,896	2,728,887
Capital expenditure	45,271	93,059	1,472	3,430	–	143,232

No geographical segments information is presented as substantially all the Group's business activities were carried out and all the Group's assets are located in the PRC.

3. Other gains – net

		2006	**2005**
	Note	*RMB'000*	*RMB'000*
Interest income		47,406	34,925
Rental income		6,657	918
Excess of interest in the acquired net assets from minority shareholders over cost		575	26,435
Excess of the fair value of the net assets of subsidiaries acquired over cost	*(i)*	288,358	3,549
Fair value gains on investment properties		4,534	25,069
Gain on disposal of an investment property		–	2,990
Gain on disposal of a subsidiary		15,259	–
Losses on disposals of property, plant and equipment and land use right due to relocation of certain production plants		–	(28,698)
Gains on disposals of property, plant and equipment and land use right	*(ii)*	31,178	9,835
Government grants		9,254	58,650
Gains on debts restructuring		7,950	–
Others		4,867	2,718
		416,038	136,391

Note:

(i) Please refer to the paragraph headed "Construction Business" under the section headed "Management Discussion and Analysis" of this announcement.

(ii) The gains on disposals of other property, plant and equipment and land use rights for the year ended 31 December 2006 were mainly arising from the disposal of a building previously occupied by the Group as office premises and disposals of certain land use rights located in Wuhan city of Hubei province and Hefei city of Anhui province.

4. Income tax expense

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 year.

The Company and its subsidiaries are subject to PRC enterprise income tax at a rate of 33% (2005: 33%). The amount of income tax expense charged to the consolidated income statement represents:

	2006	**2005**
	RMB'000	*RMB'000*
Current income tax		
– PRC enterprise income tax	128,507	111,874
Deferred income tax	(12,126)	855
	116,381	112,729

5. Basic and diluted earnings per share

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

	2006	**2005**
Profit attributable to equity holders of the Company (RMB'000)	476,032	304,226
Weighted average number of ordinary shares in issue (thousands shares)	610,927	566,965
Basic earnings per share (RMB)	RMB0.779	RMB0.537

The Company had no potential dilutive shares in both 2006 and 2005. Therefore the diluted earnings per share is the same as the basic earnings per share.

6. Trade receivables

	2006	2005
	RMB'000	*RMB'000*
Trade receivables	698,041	399,470
Less: provision for doubtful debts	(15,177)	(12,247)
	682,864	387,223

The provision for doubtful debts has been included in administrative expenses in the consolidated income statement.

As at 31 December 2006, the ageing analysis of the trade receivables of the Group is as follows:

	2006	2005
	RMB'000	*RMB'000*
Within 3 months	321,703	214,652
3 months to 1 year	231,379	138,534
1 to 2 years	89,397	36,352
2 to 3 years	29,776	9,552
Over 3 years	25,786	380
	698,041	399,470

Customers are generally granted credit terms of 1 to 3 months for construction business, 1 to 12 months for building materials business and no credit terms for property development business.

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers.

7. Trade payables

As at 31 December 2006, the ageing analysis of the trade payables of the Group is as follows:

	2006	2005
	RMB'000	*RMB'000*
Within 3 months	427,430	231,944
3 months to 1 year	196,935	104,404
1 to 2 years	58,220	29,436
2 to 3 years	22,829	2,938
Over 3 years	85,798	5,658
	791,212	374,380

8. Dividends

	2006	2005
	RMB'000	*RMB'000*
Proposed final dividend of RMB0.07 (2005: RMB0.12) per ordinary share	46,407	73,311

The dividends paid during the years ended 31 December 2006 and 2005 were RMB73,311,000 (RMB0.12 per share) and RMB81,502,000 (RMB0.1436 per share) respectively. A dividend in respect of the year 2006 of RMB0.07 per share, amounting to a total dividend of RMB46,407,000 is to be proposed at the annual general meeting of the Company to be held on 25 June 2007 and will be payable thereafter upon shareholders' approval at the meeting. These financial statements do not reflect this dividend payable in the relevant accounts.

9. Closure of register of member

The register of member of the Company will be closed from 26 May 2007 to 25 June 2007, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the abovementioned final dividend, all transfers, accompanied by the relevant share certificates must be lodged with the Company's H Shares registrar in Hong Kong, Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong (for holders of the Company's H Share) no later than 4:00 p.m. on 25 May 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the year ended 31 December 2006, the Group achieved a consolidated revenue of RMB6,227,853,000 (2005: RMB4,723,797,000), representing an increase of 32% compared to the preceding year; operating profit reached RMB649,145,000 (2005: RMB450,512,000), up 44% over last year; profit attributable to equity holders of the Company amounted to RMB476,032,000 (2005: RMB304,226,000), an increase of 56% from last year; earnings per share was RMB0.779 (2005: RMB0.537), soared 45% from last year; and net assets value per share was RMB3.51 (2005: RMB2.89), up 22% over last year.

Construction Business

For the year ended 31 December 2006, the Group's construction business recorded a revenue of RMB4,644,579,000 (approximately 75% of the Group's consolidated revenue), up 32% over last year; and the operating profit contribution amounted to RMB468,845,000 (approximately 72% of the Group's total operating profit), representing a growth of 127% over last year.

For the year ended 31 December 2006, the total contract value for construction-in-progress of the Group's construction business was RMB17,066,745,000, representing an increase of approximately 42% over last year. Details of which are analysed below:

By project nature

	2006		2005		Change
	RMB'000	*% of total*	*RMB'000*	*% of total*	
Government and Public Buildings	7,338,700	43%	4,922,833	41%	+49%
Urban Infrastructure	4,437,354	26%	3,361,935	28%	+32%
Residential Projects	2,389,344	14%	1,801,037	15%	+33%
Industrial Projects	2,901,347	17%	1,921,105	16%	+51%
Total	17,066,745	100%	12,006,910	100%	+42%

By region

	2006		2005		Change
	RMB'000	*% of total*	*RMB'000*	*% of total*	
Zhejiang Province	6,656,901	39%	4,990,754	42%	+33%
Shanghai	5,972,911	35%	4,536,214	38%	+32%
Central China Region	3,924,941	23%	2,159,032	18%	+82%
Northern China Region	511,992	3%	320,910	2%	+60%
Total	17,066,745	100%	12,006,910	100%	+42%

Approximately RMB1,000 million in the above contract value of construction-in-progress was derived from the newly acquired Hubei Construction Group.

In 2006, the Group's construction business continued its expansion strategy and has successfully entered into new markets in Henan, Shandong and Jiangxi, and has been outbreak from Zhejiang Province and extended to Shanghai, Beijing, Tianjin, Jiangsu, Hubei, Anhui, Hebei, Henan, Shandong and Jiangxi areas. These construction businesses outside Zhejiang Province contributed approximately 61% of the Group's total construction business (2005: 58%).

On 21 February 2006, the Group acquired the entire equity interests of the Hubei Construction Group at an aggregate consideration of RMB132,855,000. This acquisition was another major strategic step, following the acquisition of Hefei Baoye, which fits into our nation-wide expansion drive. The 12 entities under the Hubei Construction Group were engaged in construction and related business. The Group took advantage of the abundant resources both of the Hubei Construction Group and of Hubei Province and rapidly expanded the markets in Hubei and Central China.

The acquisition does not only fit into the PRC Government's policy of "Nation retreats, people proceed", but also provides feasible exit for the local government in dealing with the inherited problems brought by a local state-owned enterprise. At the same time, the Group is also going to establish a housing industrial park for production and sale of modernised building materials, and property development business in Wuhan. These new business inroads would definitely help to enhance local economic growth and productivity improvement. Therefore, the Group has received tremendous and strong support from the local government. The excess of the fair value of the net assets acquired from the Hubei Construction Group exceeds our cost of acquisition, amounting to approximately RMB288,358,000, which was recognised in the income statement (included in the operating profit of the construction business). The resulting excess of the fair value mainly arose from the debt restructuring exercise during the acquisition process, by using RMB43,000,000 in cash to discharge the entire bank loans' principal plus the then accrued interest of RMB222,707,000, leading to an increase of its net assets value by RMB179,707,000 accordingly.

After the acquisition, the Hubei Construction Group contributed RMB580,288,000 to the Group's turnover and suffered a net loss of RMB28,262,000 during the period from acquisition date to 31 December 2006. During the year, following the acquisition by the Group, the Hubei Construction Group underwent and completed various post-acquisition corporate and business restructuring and reorganisation as well as rationalisation of human resources. It is expected that the Hubei Construction Group would start to contribute to the Group's profit in the coming years.

In the coming three to five years, the Group will base on its construction business to start its building materials and property development business in Hubei. It will follow its "three-in-one" business model in Hubei, developing "Hubei Baoye" to the Group's base in Central China with its scale comparable to that of the current Group's base in the Yangtze River Delta region.

Property Development Business

Property Sales

For the year ended 31 December 2006, the revenue of the Group's property development business amounted to RMB445,215,000 (approximately 7% of the Group's consolidated revenue), representing a decrease of 18% from last year; and the operating profit contribution amounted to RMB126,463,000 (approximately 19% of the Group's total operating profit), representing a growth of 1% from last year. The Group adopts the completion method in recognising revenue of its property development business.

During the year, the revenue of the Group's property development business was mainly derived from City Green Garden in Hefei, Anhui. The total gross floor area of City Green Garden sold was approximately 103,000 square metres, achieving a revenue of approximately RMB356,000,000. The average selling price per square metre was approximately RMB3,500, up 6% over the target selling price per square metre of RMB3,300. In addition, approximately 8,743 square metres of the service apartment of Zhejiang Commercial City has been sold, registering a revenue of RMB24,490,000. The average selling price per square metre was RMB2,800.

Projects under development

As at 31 December 2006, the projects under development of the Group are tabulated below:

Project Name	Location	Gross Floor Area *(square metres)*	Equity Interest of the Group
Linjiang Green Garden	Shaoxing	56,000	100%
Jing'an Ziyuan	Shanghai	51,000	70%
City Green Garden Phase I	Hefei	50,000	100%
City Green Garden Phase II	Hefei	170,000	100%
Zhejiang Commercial City	Hefei	100,000	75%
Baoye Four Seasons Garden	Shaoxing	525,000	100%

Building Materials Business

For the year ended 31 December 2006, the revenue of the Group's building materials business was RMB1,076,440,000 (approximately 17% of the Group's consolidated revenue), up 73% over last year; and the operating profit contribution was RMB50,610,000 (approximately 8% of the Group's total operating profit), representing a decrease of 43% from last year.

During the year, the Group's building materials business achieved a considerable growth in revenue. This marked achievement was largely attributable to increased market acceptance of our newly developed building materials. Decline in operating profit contribution in 2006 was primarily because of the absence of a local government subsidy in the amount of RMB29,952,000 for removal of production facilities to Shaoxing Housing Industrial Park that was accounted for in 2005's operating profit contribution. The up surge in raw materials costs and the keen competition from traditional building materials suppliers has also impacted our gross profit margin. Despite all these negative impacts, the Group will improve its profit margin by leveraging on its manufacturing technology advancement, mass scale of production and centralised procurement.

During the year ended 31 December 2006, the revenue breakdown of the Group's building materials is as follows:

Building Materials Products	2006 *RMB'000*	2005 *RMB'000*	Change
Ready-mixed concrete	258,685	175,162	+48%
Glass curtain wall	323,124	194,241	+66%
Wood products and interior decoration	265,137	94,233	+181%
Steel structure	149,230	72,200	+107%
Concrete pipes	39,944	38,151	+5%
Concrete ducts	3,570	11,893	-70%
Large roof sheathings	7,898	18,921	-58%
Fireproof materials	24,102	9,852	+145%
Others	4,750	6,088	-22%
Total	1,076,440	620,741	+73%

On 8 March 2006, the Group signed a co-operative agreement with Japan's Daiwa House Industry Company Limited ("Daiwa Japan"), pursuant to which both parties formed a strategic alliance in the co-development of technological advancement skills for the manufacture of industrialised residential units. This will help the Group to capture the leading position in the manufacture of industrialised housing. Since then, Daiwa Japan has already deployed a team of engineering experts from Japan to station at the Group's Shaoxing Industrial Park in Keqiao, and the Group has also sent a team of engineers to Japan in exchange of ideas and experiences. The results of the co-operation have been encouraging and progressing steadily. Nine laboratories and test centres for structural, earthquake, fireproof, soundproof, durability, interior environment, window and glass curtain wall, mock up, and conserve heat and energy have been established; and construction of the experimental building designed according to standardisation, industrialisation and modulization requests has been completed. Two of the technologies have already been applied for patent rights. The technology for industrialisation of residential housing has been adopted for use in the construction of Linjiang Green Garden project and has been proven to be successful in application and use.

BUSINESS PROSPECT

Construction Business

- In 2006, the PRC Government implemented a series of upscale macroeconomic control policies and measures to deepen the regulatory aspects against the construction, property development, and building materials industry sectors. These policies and measures would eliminate some of the smaller enterprises in the industry sectors in the near term. However, in the longer term perspective, these policies and measures would pave a healthy, continuing and stable development in the industry sectors where we operate. Though the Group's construction projects' progress has also been slowed down due to these policies and measures thus affecting our growth momentum, the quality and quantity of new construction projects that the Group has contracted for have been improved significantly. The financial strength of the owners of new construction projects becomes stronger, leading to better payment terms and less delinquent payments.

- After the acquisition of Hubei Construction Group in 2006, various post-acquisition corporate and business restructuring and reorganisation have been completed. In addition, effective management control systems and measures including incentive mechanism have been gradually built up and put into place. Simultaneously, reaping upon the solid foundation built by the Hubei Construction Group, our available resources and technologies, as well as government policies in developing the Central and Western China regions, will see the Group's construction business to attain promising growth. The Group will position Hubei as its base to capture the growing demand in the Central China region.

- The high economic growth rate and increasing urbanisation rate have provided unprecedented development opportunities for the Group's businesses. During the year, the Group has successfully solicited new business in Central and Western China, Northern and Southern China, and has extended into major cities of 13 provinces, realising its corporate strategy of "embarking Zhejiang and Yangtze River Delta and covering the whole nation". In future, the Group will continue to consolidate its position in developed markets and at appropriate timing continue to exploit new and emerging markets in other provinces.

- Using the "three-in-one" business model, the Group will continue to develop business in new markets in construction business as a start, reaping from the government policies on increased urbanisation and "Nation retreats, people proceed". On one hand, the Group will increase its effortss in developing new markets in major cities. On the other hand, it will enhance its market share in high value added infrastructural construction projects including railways, water supplies and facilities, highways and transports, bridges through merger and acquisition, this will enhance the Group's operating margin steadily.

Property Development Business

- City Green Garden Phase I, located in Hefei, has had 50,000 square metres residential units pre-sold in 2006, due to the late handover of the sale units to owners before the end of 2006, all of the revenue and profit derived from the sales would be accounted for in the operating results for 2007. In addition, similar to City Green Garden Phase I, Zhejiang Commercial City in Hefei also has had a total pre-sold area of 30,000 square metres in 2006, all of the revenue and profit derived from the sale would also be accounted for in the operating results for 2007. These, coupled with the City Green Garden Phase II, Zhejiang Commercial City, and part of Jing'an Ziyuan that are to be sold in 2007, would contribute significant increase in both revenue and profitability for the Group's property development business.

- Approximately 500,000 square metres of industrial use land was obtained from the acquisition of the Hubei Construction Group, in which a parcel of land area approximating to 37,000 square metres has already obtained the land use right certificate for residential development purposes, with the plot ratio of 1.8 times and having a build-up area of approximately 67,000 square metres. Another six applications for change of use pertaining to six parcels of land areas, having an aggregate land area of approximately 200,000 square metres, have been submitted to relevant government authorities for approval, four of which will be designated for residential use and the balance will be designated for commercial use. The applications are under processing. It is expected that these approvals and the respective land use right certificates will be obtained in the year of 2007.

- At present, the Group has started a feasibility study in acquiring a land area of approximately 2,000,000 square metres for resort residential use, which is located in a lakeshore designated by the local government as a tour site and is about 15 minutes drive from the city centre of Hefei, Anhui. The site will have great potential to be developed as a deluxe resort area. In addition, the Group will endeavour to search for and identify appropriate site areas in Tianjin Economic Development Zone and Shaoxing, to be included in its land bank reserve catering for longer term development.

- The Group will maintain its prudent development strategy and will selectively acquire high quality and inexpensive land as reserves, though it has had adequate land reserves in meeting demand for the next five years.

Building Materials Business

- The Group has benefited from various research results it has attained through the co-operation and strategic alliance with Daiwa Japan, and has successfully applied these achieved research results into practical use. As an extension of the co-operative agreement and strategic alliance, the Group is in collaboration with Daiwa Japan to establish a joint-venture company, which will be mutually beneficial to both parties in terms of economics and technologies.

- The Group has been focusing on developing cost effective, environmental friendly and modernised building materials to ease out traditional building materials. During the year, the Group established the Zhejiang Baoye Group Construction Research Institute, a "province-rank" high technology development centre for scientific research. Our targets are to set standard for pre-fabricated building materials and to lead the construction industry into a new era of industrialisation of pre-fabricated building materials.

- The Group's building materials business has been diligently developing overseas markets and has received purchase orders from Algeria and Australia for our wood products and glass curtain wall. The Group is planning to establish an overseas sales office in Dubai to exploit export of building materials to the Middle East oil producing countries. Our products have reached international quality standard, still, our prices are within affordable and low ranges. For this reason, the competitive edges of our products remain strong in international market, providing impetus for the development of emerging markets, in particular the Middle East.

- The Group will continue to centralise its procurement function, aiming to lower the cost of raw materials. The demand for building materials from inter-companies is increasing in a rapid rate and has called for regular demand in sizable quantum, which will afford the Group to enter into longer term supply contracts with vendors, upon which will stabilise the supply and pricing of raw materials to lower cost of production and improve profit margin.

- In 2005, the Group commenced the construction of housing industrial park in Anhui. At present, the production facilities of glass curtain wall, heat and energy conserve materials, and building equipment have been completed and are now on trial production. It is expected that these new productions would start to contribute in the Group's results of 2007. In Wuhan, the Group has started discussions with the local government with respect to the selection of sites for the construction of housing industrial park. It is expected that the construction of factory buildings would begin in 2008.

Leveraging on the expected continued economic growth and development opportunities that are brought by the 11th Five-year-plan of the PRC Government, and as one of the leading enterprises in the industry, the Group is confident and has the belief to renew its historical growth in business by developing new markets, completion of nation-wide positioning, adopting flexible business strategies and enhancing business model. The Group will take advantage of the synergies created by the "three-in-one" business model, with construction as the base, industrialisation of construction (pre-fabricated building materials) as the centre of development and property development as the supplementary business, to maintaining its leading position in the industry and fostering commendable operating results.

FINANCIAL REVIEW

Treasury Policies

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

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

Financial Resources and Liabilities

With the support of steady increase in cash flow, sound credit record and excellent reputation in the industry, the Group was awarded an AAA credit rating in 2006 by a credit rating institution recognised by the People's Bank of China. Such excellent credit rating will benefit the Company's financing activities and allows the Group to continue to enjoy the best interest lending rate offered by the People's Bank of China. During the year, the Group maintained most of its borrowings on an unsecured basis. The amount of unsecured debt accounted for 62% of the total borrowings. Leveraging on its excellent credit rating, the Group continues to pursue its borrowings on an unsecured basis, which will be supplemented by project financing when necessary.

As at 31 December 2006, the Group's net bank borrowings, after deducting cash and bank deposits, amounted to RMB314,378,000 (31 December 2005: RMB254,482,000). The Group's gearing ratio (calculated on the basis of net bank borrowings over the total shareholders' equity) was 15% (31 December 2005: 14%). The Group will continue to adopt prudent policy to maintain low gearing ratio.

On 13 December 2006, the Company entered into the subscription agreement with Tiger Global, L.P. in relation to the subscription by Tiger Global, L.P. for 52,036,992 new H shares of the Company at HK$10.88 per H share. The net proceeds were approximately HK$563,000,000. All the conditions precedent to the subscription agreement have been fulfilled on 2 February 2007 and all the placing proceeds were received on that day. This placement of new H shares has strengthened the financial position of the Group, thus turning the financial position of the Group from low gearing ratio to net cash position.

Use Plan of Proceeds

The net proceeds raised by the Company's placing of new H shares to Tiger Global, L.P. was approximately HK$563,000,000. The proceeds will be allocated and utilized as follows:

	HK$'000
Acquisition of properties and annexation of any business that are relevant to the Company's business	281,500
Development of energy-saving and environmental-friendly construction materials	112,600
General working capital	168,900
Total:	563,000

The Group is now discussing merger and acquisition opportunity with two state-owned enterprises. We are working out a feasibility study report on establishing a modernised building materials industrial park in Tianjin. At the same time, the Group has started a study and research for the plan of purchasing a parcel of land over one million square metres in Hefei for building deluxe resorts. The above plans are still under planning and preliminary discussion. We will disclose the details of which according to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") when the conditions become mature.

Key Financial Ratios

	As at 31 December	
	2006	**2005**
Return on equity	22.2%	17.3%
Net assets value per share (RMB)	3.51	2.89
Net gearing ratio	15%	14%
Current ratio	1.09	1.33

Return on equity = profit attributable to equity holders of the Company/total equity attributed to shareholders of the Company
Net assets value per share = net assets/shares in issue at the end of the year
Net gearing ratio = net bank borrowings/total equity attributed to shareholders of the Company
Current ratio = current assets/current liabilities

The proceeds raised from the two issues of new H shares last year were immediately being applied for use in acquisition projects, generating hefty returns for the Group within a short period of time. As a result, both the return on equity and net assets value per share during the year have experienced enormous improvement compared to that of last year. Besides, the gearing ratio was maintained at a low level. When the Group's profit continues to grow, it is expected that there will be room for improvement on the return on equity in future.

Cash Flow Analysis

		For the year ended 31 December	
		2006	**2005**
	Note	*RMB'000*	*RMB'000*
Net cash (outflow)/inflow from operating activities	*(i)*	(47,877)	11,398
Net cash inflow/(outflow) from investing activities	*(ii)*	30,213	(176,156)
Net cash inflow from financing activities	*(iii)*	58,074	363,170
Increase in cash and cash equivalents		40,410	198,412

Note:

(i) The Group's cash generated from operation for the year 2006 amounted to RMB156,292,000, but paid interest of RMB66,242,000 and paid income tax of RMB137,927,000. It is expected that as the business grows steadily, the cash flow from operating activities will be increased in future.

(ii) The cash inflow from investing activities was mainly derived from the disposal of a building previously occupied by the Group as office premises in Shaoxing, Zhejiang Province.

(iii) During the year, cash inflow from financing activities was mainly attributable to increased 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 land appreciation tax came into effect in 1993. The Group has consistently complied with the tax rules and regulations in the PRC and conformed to 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 be minimal.

Administrative Expenses

The administrative expenses of the Group have increased from RMB112,370,000 in 2005 to RMB218,069,000 in 2006, representing an increase of RMB105,699,000, up 94% over last year. The increase was primarily attributable to the inclusion of the newly acquired Hubei Construction Group of RMB65,852,000, and the start-up expenses incurred by the four new regional branches established by the Baoye Construction Group to exploit other provincial markets. We believe that this new acquisition and start-up expenses will contribute to the profit growth of the Group in the long run.

External Guarantee and Fulfillment

	2006	**2005**
	RMB'000	*RMB'000*
Guarantee given to banks in respect of mortgage facilities granted to third parties	19,800	67,500
Guarantee given to banks in respect of bank loans of third parties	20,000	–

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

Details of the charges on the Group's Assets

As at 31 December 2006, land use rights and buildings in aggregate of approximately RMB319,409,000 (31 December 2005: RMB306,230,000) were pledged to banks as security in securing short-term bank borrowings.

Capital Expenditure Plan

It is expected that the Group's capital expenditure in 2007 will be amounted to RMB100,000,000, of which approximately RMB60,000,000 is for purchasing research and testing equipments for the Zhejiang Baoye Group Construction Research Institute to conduct research and development for prefabricated building materials; and approximately RMB40,000,000 for purchasing plants and machineries for building materials business, in which RMB25,000,000 will be used for the Hefei Industrial Park.

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 direct impact on the business operations or results of the Group.

Connected Transactions
During the year ended 31 December 2006, the Group had no connected transaction that requires disclosure under the Listing Rules.

Purchase, Sale or Redemption of Securities
Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2006.

Human Resources
As at 31 December 2006, the Group had approximately 1,987 permanent employees, including 400 employees from the newly acquired Hubei Construction Group (2005: approximately 1,488). There are approximately 51,000 construction site workers (2005: approximately 45,000) who are not permanent employees of the Group. Total staff costs amounted to RMB875,497,000 (2005: RMB790,849,000) for the year ended 31 December 2006. Remuneration is determined by reference to market terms and the performance, qualifications and experience of individual employee. Employee benefits provided by the Group include pension fund scheme and medical insurance. The Group highly values human resources management, and devotes to build a high quality team to support its long term business development. The Board intends to implement a more effective employee incentive plan.

Litigation and Arbitration
As at the date of this announcement, the Group had no material litigation and arbitration.

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

Code on Corporate Governance Practices
In the opinion of the directors, the Company has complied with the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules during the year ended 31 December 2006, except that the role of the chief executive officer of the Company has been assumed by Mr. Pang Baogen, the chairman of the Board, since the ex-chief executive officer of the Company resigned. Three general managers have been appointed to overseeing and managing 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 to which they manage. The Board believes that the current arrangement has installed a proper segregation of duties mechanism and adequately streamlined the responsibility well and a simple management structure can enhance the communication amongst staff at different levels as well as enabling execution of new policies efficient. 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 of the Listing Rules as its own code of conduct regarding the securities transactions by the directors. Having made specific enquiries of all directors, all directors have confirmed that they have complied with the required standards set out in the Mode Code throughout the year ended 31 December 2006.

Audit Committee
The audit committee of the Company consists of three independent non-executive directors, Mr. Wang Youwei, Mr. Yi Deqing and Mr. Dennis Yin Ming Chan. The audit committee held two meetings during the year. All three members attended all the meetings. The audit committee has discussed the accounting policies as well as critical accounting estimates and assumptions with management, discussed with the auditors on the audit plan and key audit areas. The audit objectives and the scope of the Group's internal audit department were also discussed. The audited consolidated financial statements and the annual results announcement of the Group for the year ended 31 December 2006 had been reviewed by the audit committee before submission to the Board for adoption and approval.

Preliminary Announcement of Annual Results
The figures in respect of this preliminary announcement of the Group's results for the year ended 31 December 2006 have been confirmed by the Group's auditors, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this preliminary announcement.

Publication of Annual Report
The full text of the Group's 2006 Annual Report will be sent to the shareholders of the Company and posted on the websites of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and the Company (www.baoyegroup.com) respectively in due course.

Appreciation
The Board would like to take this opportunity to express its sincere 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
16 April 2007

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