



BAOYE GROUP ANNOUNCES 2006 ANNUAL RESULTS
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS RISES 56% TO RMB476 MILLION

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“THREE-IN-ONE” GROWTH STRATEGY
INITIALISES CORPORATE STRATEGY OF
“EMBARKING ZHEJIANG & YANGTZE RIVER DELTA, COVERING THE WHOLE NATION”

Financial Highlights

	For the year ended 31 December		Change
	2006	2005	
	<i>RMB'000</i>	<i>RMB'000</i>	
Turnover	6,227,853	4,723,797	↑32%
Operating profit	649,145	450,512	↑57%
Profit attributable to equity holders	476,032	304,226	↑56%
Basic earnings per share (RMB)	0.779	0.537	↑45%
Net tangible assets value per share (RMB)	3.51	2.99	↑42%

(Hong Kong, 16 April 2007) – Baoye Group Company Limited (“Baoye Group” or “the Group”) (Stock Code: 2355), a PRC leading conglomerate engaging in construction, production of building materials and property development, today announced its audited annual results for the year ended 31 December 2006.

In 2006, the Group’s turnover amounted to RMB6.228 billion, an increase of 32% over that in 2005. Operating profit was RMB649 million, representing an increase of 57% over the preceding year. Profit attributable to equity holders amounted to RMB476 million, up 56% when compared with last year. Basic earnings per share rose 45% to RMB0.779. The board of directors recommends the payment of a final dividend of RMB0.07 per share for the year ended 31 December 2006.

Mr. Pang Baogen, Chairman of Baoye Group, said, “As one of the leading enterprises in the industry, the Group takes 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, and captures business opportunities

arising from the pursuit of increasing urbanisation in the PRC. Followed by the completion in the acquisition of the Hubei Construction Group in 2006, I am pleased to report that the Group has achieved record turnover and earnings in history. During the year, the Group has extended its business into major cities of 13 provinces, beginning to initialise its corporate strategy of “embarking Zhejiang and Yangtze River Delta and covering the whole nation”. We believe the PRC government’s macroeconomic austerity measures will see the construction, building materials and property sectors continue to prosper in a more regulated and healthier environment. Those measures will also help to guide the market in achieving better resources allocation and present merger and acquisition opportunities to industry players, thus inspiring consolidation. This impetus is in favour to the Group’s development and will fortify its industry lead-position in the long run.”

In 2006, construction business recorded a turnover of RMB4.645 billion, accounting for approximately 75% of the Group’s total turnover. The segment’s operating profit reached RMB469 million, up 127% against last year, accounting for 72% of the Group’s total operating profit. During the year, the Group continued its expansion strategy and successfully entered into new markets in Henan, Shandong and Jiangxi. The construction businesses in regions outside Zhejiang Province contributed 61% of the Group’s total construction business. It also rapidly expanded the markets in Hubei and Central China after the acquisition of 12 operating units under the Hubei Construction Group. Total contract value of construction-in-progress in Central China region rose 82% from RMB2.159 billion in 2005 to RMB3.925 billion, an increase from 18% to 23% of the total contract value. The Group’s total contract value for construction-in-progress was RMB17.067 billion, representing an increase of approximately 42% over last year.

As regards the property development business, its turnover was RMB445 million. The operating profit was RMB131 million, 5% over last year. Turnover from property development mainly derived from City Green Garden in Hefei, Anhui, which brought in turnover of approximately RMB356 million. City Green Garden Phase I and Zhejiang Commercial City in Hefei had 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 had to be accounted for in the operating results for 2007. These, coupled with 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.

With respect to the building materials business, the Group has been focusing on developing cost effective, environmental friendly and modernised building materials to ease out traditional building materials. During the year, owing to increased market acceptance of the Group’s newly developed building materials, turnover of the segment was RMB1.076 billion, a 73% increase compared with last year. The sales of wood products and interior decorations, steel structure and fireproof materials reached RMB265

million, RMB149 million and RMB24.10 million, recording growth of 181%, 107% and 145% respectively. In addition, the Group has diligently developing overseas markets and has received purchase orders from Algeria and Australia for its wood products and glass curtain wall. The Group also established the Zhejiang Baoye Group Construction Research Institute, a “province-rank” high technology development centre for scientific research.

In March 2006, the Group entered into a co-operation agreement with Daiwa House Industry Co., Ltd. of Japan (“Daiwa Japan”), pursuant to which both parties formed a strategic alliance in the co-development of technology advancement skills for the manufacture of industrialised residential units. Since then, Daiwa Japan has deployed a team of experts from Japan to station at the Group’s Shaoxing Housing Industrial Park, 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 modulisation 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. Now 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.

In December 2006, the Group entered into a subscription agreement with Tiger Global, L.P. in relation to the subscription by Tiger Global, L.P. of the Group’s 52,036,992 new H shares at HKD10.88 per share. The net proceeds from the issuance of new H shares were approximately HKD563 million. This placing of new H shares has strengthened the financial position of the Group, thus making the financial position from low gearing ratio to net cash position. The proceeds will be used to acquire properties and related business, develop energy-saving and environmental-friendly building materials and for general corporate purpose. Currently, the Group is discussing merger and acquisition opportunity with two state-owned enterprises. It is working out a feasibility study report on establishing a modernised building materials industrial park in Tianjin. In the meantime, the Group has started study and research for purchasing a parcel of land over one million square metres in Hefei for building deluxe resorts.

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. The Group has already obtained the land use right certificate of a parcel of land area approximating to 37,000 square metres in Hubei Province for residential development purposes. Pertaining to the land area of approximately 200,000 square metres,

applications for change of use for residential use and commercial use have been submitted to relevant government authorities for approval. It is expected that these approvals and the respective land use right certificates will be obtained in the year of 2007.

Looking forward, Mr. Pang confidently said, “Riding on the combined strengths of “three-in-one” business model, we will strive to seize every business opportunity ahead and to develop our three core businesses. On one hand, the Group will increase its efforts in developing new markets in major cities to complete nation-wide positioning. 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. We believe that with increase in proportion of the high value added construction projects, the segment’s profit margin will improve, thus enhancing the Group’s consolidated gross profit margin and net profit margin steadily in the coming years.”

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About Baoye Group Company Limited

Founded in 1975, the Group is the only Hong Kong listed company incorporated in the PRC engaging in construction, production of building materials and property development. It is also the largest and most profitable non-state owned construction company in China. Rooted in Zhejiang Province and operating on a “vertically integrated” business model, the Group has built “Baoye” into a prominent brand. It has already moved its footsteps outside Zhejiang Province and marked its presence in Hefei under the brand of Baoye. Such initiative plus the acquisition of Hubei Construction Group have seen the Group growing from a regional construction company into a nation-wide conglomerate.

The Group was awarded the premium class certificate for general building construction contracting works (房屋建築工程施工總承包特級資質) in 2002, the highest qualification awarded by the Ministry of Construction of the PRC, allowing the Group to undertake construction projects of any scale and complexity. In addition, the Group has received many of construction industry honors, including the “Lu Ban Award” (中國建築工程魯班獎), and the “Qianjiang Cup” (錢江杯) and “Bai Yulan Cup” (白玉蘭杯). The Group has won nine industry awards in “Lu Ban Award” (中國建築工程魯班獎), which has then positioned the Group in the top-tier enterprise of the construction industry.

The Group’s land reserve is maintained at low cost. Adding to it “three-in-one” competitive advantage, quality construction workmanship and advanced building materials supplies, all of which would contribute to profit enhancement for the Group’s property development business. The Group recently acquired land in Wuhan to enrich its land reserve, which will suffice to meet its development requirement in the next 5 to 10 years.

Baoye ventured into the building materials and other construction products business in 1994. Its first production base – Baoye Housing Industrial Park in Shaoxing, Zhejiang Province was completed and had commenced commercial production. The construction of its second production base - the Hefei Baoye Residential Housing Industrial Park- has commenced while the construction of Wuhan Baoye Residential Housing Industrial Park is under planning phase.

For press enquiries:

Strategic Financial Relations (China) Limited

Ms Serine Li	(852)2864 4811	serine.li@sprg.com.hk
Ms Scarlett Shi	(852)2864 4850	scarlett.shi@sprg.com.hk