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 2007

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 and its subsidiaries (collectively the "Group") for the six months ended 30 June 2007 prepared in accordance with the Hong Kong Financial Reporting Standards, together with comparative figures for the corresponding period in 2006. The interim results had been reviewed by the audit committee of the Company and approved by the Board. The following financial information is extracted from the unaudited consolidated financial information as set out in the Group's 2007 Interim Report.

* *For identification purpose only*

Condensed Consolidated Income Statement

For the six months ended 30 June 2007

		Unaudited Six months ended 30 June	
	Notes	**2007** *RMB'000*	2006 *RMB'000*
Turnover	*2*	**3,196,367**	2,895,757
Cost of sales		**(3,010,687)**	(2,570,309)
Gross profit		**185,680**	325,448
Other gains – net	*3*	**48,029**	288,574
Selling and marketing costs		**(9,768)**	(6,291)
Administrative expenses		**(116,633)**	(78,959)
Operating profit		**107,308**	528,772
Finance costs		**(24,563)**	(26,524)
Share of losses of associates		**(333)**	(20)
Profit before income tax		**82,412**	502,228
Income tax expense	*4*	**(11,499)**	(97,351)
Profit for the period		**70,913**	404,877
Attributable to:			
Equity holders of the Company		**65,015**	401,068
Minority interests		**5,898**	3,809
		70,913	404,877
Earnings per share for profit attributable to the equity holders of the Company			
– basic and diluted (expressed in RMB per share)	*5*	**RMB0.10**	RMB0.66

Condensed Consolidated Balance Sheet

As at 30 June 2007

	Notes	Unaudited 30 June 2007 RMB'000	Audited 31 December 2006 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**737,487**	677,386
Investment properties		**40,566**	40,515
Land use rights		**747,388**	792,261
Goodwill		**16,534**	16,534
Properties under development		**377,754**	442,076
Investment in associates		**32,068**	32,401
Deferred income tax assets		**11,940**	15,496
		1,963,737	2,016,669
Current assets			
Inventories		**111,597**	79,802
Land use rights		**298,808**	269,136
Properties under development		**431,109**	292,283
Completed properties held for sale		**50,492**	61,604
Due from customers on construction contracts		**904,945**	738,909
Trade receivables	*6*	**672,455**	682,864
Other receivables		**1,219,310**	721,651
Restricted bank deposits		**150,525**	125,702
Cash and cash equivalents		**1,044,797**	782,699
		4,884,038	3,754,650
Total assets		**6,847,775**	5,771,319

	Notes	Unaudited 30 June 2007 *RMB'000*	Audited 31 December 2006 *RMB'000*
EQUITY			
Capital and reserves attributable to the Company's equity shareholders			
Share capital		**1,511,458**	953,735
Reserves		**227,951**	227,951
Retained earnings		**980,985**	915,970
Proposed dividend		**–**	46,407
		2,720,394	2,144,063
Minority interests		**51,089**	45,191
Total equity		**2,771,483**	2,189,254
LIABILITIES			
Non-current liabilities			
Borrowings		**20,000**	–
Deferred income tax liabilities		**106,564**	133,434
		126,564	133,434
Current liabilities			
Trade payables	*7*	**862,837**	791,212
Other payables		**558,953**	661,666
Receipts in advance		**459,752**	262,657
Current income tax liabilities		**83,384**	76,476
Due to customers on construction contracts		**635,328**	429,591
Dividend payable		**46,407**	–
Borrowings		**1,298,617**	1,222,779
Provision for warranty		**4,450**	4,250
		3,949,728	3,448,631
Total liabilities		**4,076,292**	3,582,065
Total equity and liabilities		**6,847,775**	5,771,319
Net current assets		**934,310**	306,019
Total assets less current liabilities		**2,898,047**	2,322,688

Notes:

1. Basis of preparation and accounting policies

This condensed consolidated interim financial information for the six months ended 30 June 2007 has been prepared in accordance with HKAS 34, "Interim financial reporting". The interim condensed financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2006.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2006, as described in the annual financial statements for the year ended 31 December 2006.

The adoption of new/revised HKFRS and interpretations

In 2007, the Group adopted the new standard, amendment and interpretations of Hong Kong Financial Reporting Standards ("HKFRS") below, which are relevant to its operations.

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosure
HK (IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK (IFRIC) – Int 10	Interim Reporting and Impairment
HKFRS 7	Financial Instruments: Disclosure

The Group has assessed the impact of the adoption of these new standards, amendments and interpretations and considered that there was no significant impact on the Group's results and financial position nor any substantial changes in the Group's accounting policies.

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 total revenue attributable from the above three segments is approximately RMB3,179,619,000 for the six moths ended 30 June 2007 (six months ended 30 June 2006: RMB2,870,471,000).

Other operations of the Group mainly comprise the provision of construction and decoration design services and provision of rental services. Other results also comprise the investment properties fair value gains. Neither of these constitutes a separately reportable segment.

The business segment results for the six months ended 30 June 2007 and 2006 are as follows, respectively.

	Six months ended 30 June 2007				
	Construction *RMB'000*	**Building materials** *RMB'000*	**Property development** *RMB'000*	**Others** *RMB'000*	**Group** *RMB'000*
Total turnover	**2,808,411**	**512,664**	**48,527**	**23,975**	**3,393,577**
Inter-segment turnover	**(107,886)**	**(82,097)**	**–**	**(7,227)**	**(197,210)**
External turnover	**2,700,525**	**430,567**	**48,527**	**16,748**	**3,196,367**
Operating profit	**80,148**	**18,409**	**8,347**	**404**	**107,308**
Finance costs					**(24,563)**
Share of losses of associates					**(333)**
Profit before income tax					**82,412**
Income tax expense					**(11,499)**
Profit for the period					**70,913**
Other information					
Depreciation	**15,608**	**17,236**	**819**	**1,473**	**35,136**
Amortisation	**2,802**	**1,132**	**364**	**756**	**5,054**
Impairment of receivables	**3,507**	**5,293**	**–**	**108**	**8,908**

	Six months ended 30 June 2006				
	Construction *RMB'000*	Building materials *RMB'000*	Property development *RMB'000*	Others *RMB'000*	Group *RMB'000*
Total turnover	2,107,437	483,803	391,007	37,895	3,020,142
Inter-segment turnover	(76,541)	(35,235)	–	(12,609)	(124,385)
External turnover	2,030,896	448,568	391,007	25,286	2,895,757
Operating profit	315,707	41,578	168,147	3,340	528,772
Finance costs					(26,524)
Share of losses of associates					(20)
Profit before income tax					502,228
Income tax expense					(97,351)
Profit for the period					404,877
Other information					
Depreciation	10,096	12,378	601	1,073	24,148
Amortisation	1,442	36	322	–	1,800
Impairment of receivables	1,047	1,290	–	–	2,337

Inter-segment transactions were entered into under normal commercial terms and conditions that would also be available to unrelated third parties.

The segment assets and liabilities as at 30 June 2007 and capital expenditure for the six months ended 30 June 2007 are as follows:

	Construction	**Building materials**	**Property development**	**Others**	**Unallocated**	**Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets	**4,237,280**	**1,087,932**	**1,193,145**	**244,844**	**52,506**	**6,815,707**
Associates	–	–	**32,068**	–	–	**32,068**
Total assets	**4,237,280**	**1,087,932**	**1,225,213**	**244,844**	**52,506**	**6,847,775**
Liabilities	**2,308,140**	**661,290**	**695,171**	**41,152**	**370,539**	**4,076,292**
Capital expenditure	**18,254**	**18,425**	**1,642**	**64,873**	–	**103,194**

The segment assets and liabilities as at 31 December 2006 and capital expenditure for the six months ended 30 June 2006 are as follows:

	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	239,615	42,767	106	52	–	282,540

Segment assets consist primarily of land use rights, property, plant and equipment, properties under development, 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. The segment liabilities exclude items such as borrowings and income tax liabilities.

Capital expenditure comprises additions to property, plant and equipment.

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

3. Other gains – net

	Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Excess of the fair value of the net assets of subsidiaries acquired over the acquisition costs	**–**	212,547
Interest income	**31,093**	34,925
Gains on debts restructuring	**4,720**	–
Government compensation	**3,679**	–
Gains on disposals of property, plant and equipment	**2,577**	32,870
Fair value gains on investment properties	**51**	3,832
Others	**5,909**	4,400
	48,029	288,574

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 six months ended 30 June 2007.

The Company and its subsidiaries are subject to PRC Enterprise Income Tax ("EIT") at a rate of 33% (2006: 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%, which will be effective from 1 January 2008. As a result, the enterprise income tax rate of the Company and its subsidiaries incorporated in the PRC will change from 33% to 25% with effective from 1 January 2008. The change in the carrying amount of the deferred tax assets and liabilities, as a result of the change in tax rate, has been reflected in the financial information of the Group for the six months ended 30 June 2007.

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

	Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
PRC current income tax	**34,813**	110,545
Deferred income tax	**(23,314)**	(13,194)
	11,499	97,351

5. Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2007 is based on the Group's profit attributable to equity holders of the Company of RMB65,015,000 (six months ended 30 June 2006: RMB401,068,000) and weighted average number of 653,476,598 ordinary shares (six months ended 30 June 2006: the ordinary shares in issue of 610,927,013 shares) during the six months ended 30 June 2007.

The basic and diluted earnings per share are the same since there are no dilutive shares.

6. Trade receivables

	30 June 2007 *RMB'000*	31 December 2006 *RMB'000*
Trade receivables	**694,130**	698,041
Less: provision for doubtful debts	**(21,675)**	(15,177)
	672,455	682,864

At 30 June 2007, the ageing analysis of the trade receivables is as follows:

	30 June 2007 *RMB'000*	31 December 2006 *RMB'000*
Within 3 months	**234,400**	321,703
3 months to 1 year	**267,694**	231,379
1 to 2 years	**80,841**	89,397
2 to 3 years	**64,093**	29,776
Over 3 years	**47,102**	25,786
	694,130	698,041

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, nationally dispersed.

7. Trade payables

At 30 June 2007, the ageing analysis of the trade payables is as follows:

	30 June 2007 *RMB'000*	31 December 2006 *RMB'000*
Within 3 months	**370,108**	427,430
3 months to 1 year	**275,645**	196,935
1 to 2 years	**99,981**	58,220
2 to 3 years	**34,500**	22,829
Over 3 years	**82,603**	85,798
	862,837	791,212

8. Dividends

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2007. A final dividend of RMB0.07 per ordinary share for 2006, amounting to total dividend of RMB46,407,000 was approved at the annual general meeting on 25 June 2007, which was paid on 18 July 2007.

Management Discussion and Analysis

Results Overview

For the six months ended 30 June 2007, the Group's turnover was RMB3,196,367,000, representing an increase of approximately 10% from the corresponding period last year. Operating profit was RMB107,308,000, representing a decrease of approximately 80% from the corresponding period last year. Profit attributable to equity holders of the Company amounted to RMB65,015,000, representing a decrease of approximately 84%, compared with the same period last year. Earnings per share was RMB0.10, representing a decrease of approximately 85% compared with the corresponding period last year; and net assets per share was RMB4.10, representing an increase of approximately 21% over the same period last year.

Turnover

	For the six months ended 30 June				
	2007		2006		
	RMB'000	***% of total***	*RMB'000*	*% of total*	**Change**
Construction	**2,700,525**	**84%**	2,030,896	70%	+33%
Building Materials	**430,567**	**13%**	448,568	15%	-4%
Property Development	**48,527**	**2%**	391,007	14%	-88%
Others	**16,748**	**1%**	25,286	1%	-34%
Total	**3,196,367**	**100%**	2,895,757	100%	10%

Operating Profit

	For the six months ended 30 June				
	2007		2006		
	RMB'000	***% of total***	*RMB'000*	*% of total*	**Change**
Construction	**80,148**	**74.6%**	315,707	60%	-75%
Building Materials	**18,409**	**17%**	41,578	8%	-56%
Property Development	**8,347**	**8%**	168,147	31%	-95%
Others	**404**	**0.4%**	3,340	1%	-88%
Total	**107,308**	**100%**	528,772	100%	-80%

Construction Business

For the six months ended 30 June 2007, the Group's construction business achieved a turnover of RMB2,700,525,000, representing a growth of approximately 33% over the same period last year. Operating profit amounted to RMB80,148,000, representing a decline of approximately 75% compared to the same period last year. The reduction in operating profit for the six months ended 30 June 2007 was primarily attributable to the exclusion of a one-off gain of RMB212,547,000 resulting from the acquisition of the Hubei Construction Group by the Group last year. Without taking into account of such one-off gain, the operating profit for the six months ended 30 June 2007 decreased by 22% from the corresponding period last year.

According to the Group's expansion strategy, our business has been extended to major cities in China. The pre-operating and start-up expenses incurred in expanding into new markets have led to significant increase in general and administrative expenses. In addition, due to the increase in staff cost and operating losses contributed by the Hubei Construction Group, which the Group acquired in 2006, the growth in operating profit was thwarted even when the turnover of the construction business has registered an increase.

Since the acquisition of the entire interest of the Hubei Construction Group in February 2006, the post-acquisition re-organisation, business restructuring, and discharging of manpower of the Hubei Construction Group had been completed recently. As at 30 June 2007, Hubei Baoye was still under the start-up phase after such re-organisation and has not yet turned into full scale operations, leading to an operating loss of RMB19,120,000. At present, part of the industrial use land held by the former Hubei Construction Group was in the progress to convert into commercial and residential use (details of which are as shown on the section headed Prospect under Property Development Business), whereas the property development business in Wuhan has begun. Besides, the design and construction of the Wuhan Housing Industrial Park is underway. Building on the foundation of the construction business of the Group, by rapidly developing the building materials and property development business in Hubei using the "three-in-one" business model of the Group in Hubei, it is expected that Hubei Baoye would become the base of the Group in central China and grow to a similar scale of business comparable to what the Group has attained in the Yangtze Delta region in the coming three to five years.

As at 30 June 2007, the Group's total contract value of construction-in-progress amounted to RMB19,767,270,000, surpassing the same period last year by approximately 41%, details of which are analyzed below:

By project nature:

	As at 30 June				
	2007		2006		
	RMB million	***% of total***	*RMB million*	*% of total*	**Change**
Government & Public Buildings	**8,302**	**42%**	6,036	43%	+38%
Urban Infrastructure	**5,337**	**27%**	3,650	26%	+46%
Residential Projects	**3,163**	**16%**	1,965	14%	+61%
Industrial Projects	**2,965**	**15%**	2,387	17%	+24%
Total	**19,767**	**100%**	14,038	100%	+41%

As depicted from the above analysis, the Group's construction business is largely drawn from customers with good reputation and credit standing in the areas of governmental organizations; this has minimized our collection risk in receivables and finance.

By region:

	As at 30 June				
	2007		2006		
	RMB million	***% of total***	*RMB million*	*% of total*	**Change**
Zhejiang Province	**7,511**	**38%**	5,476	39%	+37%
Shanghai	**7,314**	**37%**	4,913	35%	+49%
Central China Region	**4,151**	**21%**	3,228	23%	+29%
Northern China Region	**791**	**4%**	421	3%	+88%
Total	**19,767**	**100%**	14,038	100	+41%

As noted from the above analysis by region, construction business of the Group has been outbreaked successfully from Zhejiang Province as substantiated by the significant increase in percentage of business in other provinces. This demonstrates the effectiveness of our business expansion strategy and speeds up the pace in transforming the Group from a regional enterprise to a nation wide enterprise.

Property Development Business

For the six months ended 30 June 2007, the turnover of the Group's property development business amounted to RMB48,527,000, representing a decrease of approximately 88% from the same period last year. The Group's property development business contributed an operating profit of RMB8,347,000, representing a decline of approximately 95% from the same period last year. The Group adopts the completion method in accounting for revenue recognition for its property development business.

During the period under review, the turnover of the Group's property development business was mainly derived from Zhejiang Commercial City located in Hefei City, Anhui. The total gross floor area of Zhejiang Commercial City sold was approximately 8,000 square metres, with an average selling price per square metre of approximately RMB6,400, contributing to a turnover of RMB51,200,000. During the period under review, approximately 50,000 square metres of the Group's City Green Garden Phase I in Hefei City were pre-sold. However, due to certain inspection procedures have not been completed prior to the delivery of sales units, these sales have not been recognized in the six months ended 30 June 2007.

Projects under development

As at 30 June 2007, the Group's projects under development is summarized below:

Project Name	Location	Saleable 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	92,000	75%
Baoye Four Seasons Garden	Shaoxing	525,000	100%

Increase in Land Reserve

In April 2007, the Group acquired the land use right of a piece of land located in Keqiao, Shaoxing County, a total area of approximately 100,000 square metres with 2.5 times plot ratio for development of residential area of 250,000 square metres, from public tendering at a total consideration of RMB750,000,000. The land is in the development zone of the future central business district of Keqiao, alongside the "dual lakes" 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.

In May 2007, the Group entered into a contract to acquire a residential land use right of 58,570 square meters with a plot ratio of 2.8 times for development of area of 164,000 square meters residential units, at a total consideration of RMB172,000,000. The land is located at city centre of Hefei with adequate and well-developed community facilities and will be developed for commercial and residential use properties.

In August 2007, the Group and Greentown China Holdings Limited, a listed company in HKEx (stock code: 3900), jointly successfully secured a residential land area at No.1, Yang Ming Road, Shaoxing County, of a total 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, at a total consideration of RMB1,095,000,000. The Group is interested in 49% of the project. The land area is of close proximity to the resort district of Kuaijishan where the Group's golf club and Baoye Four Seasons Garden projects are located, 8 kilometres from the central business district, and will be developed as low rise premium residential properties and deluxe service apartments.

Building Materials Business

For the six months ended 30 June 2007, the turnover of the Group's building materials business was RMB430,567,000, representing a decrease of approximately 4% over the same period last year. The Group's building materials business contributed an operating profit of RMB18,409,000, representing a decrease of approximately 56% over the same period last year.

As production for steel structure and wood products are in their start-up phase, utilization rate of the plant capacity has not reached to a satisfactory level. Depreciation and other fixed costs attributed by plant buildings and machineries have caused pressure on the overall profit margin of the building materials business. Simultaneously, building materials is in a fierce competition market. The high end products which the Group is focusing on would require more product promotion and marketing before the turnover is expected to increase significantly.

For the six months ended 30 June 2007, the turnover breakdown of the Group's building materials business is as follows:

	For the six months ended 30 June		
	2007	2006	
	Turnover	Turnover	
	RMB'000	*RMB'000*	**Change**
Ready-mixed Concrete	**124,864**	136,439	-8%
Curtain Wall	**103,336**	96,514	+7%
Wood Products & Interior Decoration	**86,113**	78,441	+10%
Steel Structure	**73,196**	68,598	+7%
Concrete Pipes	**21,528**	32,541	-34%
Concrete Ducts	**12,917**	18,698	-31%
Large Roof Sheathings	**4,306**	8,821	-51%
Fire Proof Materials	**4,307**	8,516	-49%
Total	**430,567**	448,568	-4%

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 for 10 years in the co-development of technological advancement skills for the manufacture of industrialized residential units. Two of the technologies developed by joint efforts have already been applied for patent rights with the relevant government authorities. At the same time, the technology for industrialization of residential housing has been adopted for use in various construction projects including Linjiang Green Garden, five star hotel of Suzhou Aster Hotel, and detached houses in Anhui. During the period under review, the Group has joined forces with Daiwa Japan to participate in "The Third International Exposition for New Intelligent, Environmentally Friendly, and Energy Saving Building Technologies and Products", captured enormous attention in the market.

Business Prospect

With effect from 1 January 2008, "Income Tax Law of the People's Republic of China for enterprises with Foreign Investment and Foreign Enterprises" and "Interim Provision Concerning Imposition of Income Tax Law of People's Republic of China for Foreign Enterprises" will be merged into a single rules and regulation. After the merger, the Group's enterprise income tax rate will be reduced from the current level of 33% to 25%, the 8% reduction in enterprise income tax rate will enhance the Group's profitability significantly.

Construction Business

China's rapid economic development and increasing urbanization have provided unprecedented growth opportunity for the Group. At present, the Group has extended its business networks successfully into the mid west China region, northern China region, and southern China region covering the major cities in 13 provinces. The Group has basically laid down the foundation by adopting the strategy of "Expanding into areas beyond Zhejiang Province and Yangtze Delta and covering the whole of China". In future, the Group will endeavour to maintain this growth and expansion strategy, consolidating its market share in the existing markets and, at appropriate times, to explore new emerging markets on a nationwide basis by setting up regional management centres.

Using the "three-in-one" business model, the Group will continue to develop its construction business in new markets in light of the government policies on increased urbanization and "Nation retreats, people proceeds". On one hand, the Group will increase its efforts in developing new markets in major cities. On the other hand, it will enhance its market share in high end infrastructural construction projects including railways, water supplies and facilities, transportation, bridges through merger and acquisition. The profit margin of the Group's construction business will steadily increase as its share of high end business increases.

Resulting from the continuous Group's expansion into major cities, start-up and administrative costs have increased substantially. In order to maintain competitiveness in securing new construction projects in new markets, the Group's operating profit margin saw a decline. The Group believes that this trend is inevitable in the short term. However, in the mid and longer term, followed by an increased market share, together with a better understanding of the new markets, our established reputation and brand building, it is expected that profit returns will be generated by the Group.

Property Development Business

During the period under review, the Group has acquired a total of three parcels of land, having an aggregate of 340,000 square metres of land areas as reserve, which would provide a total of 600,000 square metres gross floor areas for development. Based on our internal estimate, using the prevailing market prices, these projects are expected to generate satisfactory returns and, in anticipation of the surging properties prices in the near future, and have seeded a solid earning growth for the Group in the years to come.

Approximately 500,000 square metres of industrial use land was obtained from the acquisition of Hubei Construction Group, of which 37,000 square metres can be used for residential development purposes according to the land use right certificate, with a plot ratio of 1.8 times and a gross floor area of approximately 67,000 square metres. Another six applications for change of use pertaining to six parcels of land, having an aggregate area of approximately 200,000 square metres, have been submitted to the relevant government authorities for approval, four of which will be designated for residential use and the remaining will be designated for commercial use. It is expected that these approvals and the respective land use right certificates will be obtained in the year of 2007.

The Group will accelerate the development of existing land reserves, taking advantage of the competitive cost and quality advantages that are set by the "three-in-one" business model. The land reserves the Group has acquired are of low cost base and high quality, which will contribute significant profitability to the Group when they are being developed in the next few years.

Building Materials Business

The applications for two international technology patent rights by the Group and Daiwa Japan are now being processed by the relevant government authorities. The Group will, on this basis, increase its allocation of resources to research and development aiming to develop and acquire proprietary and core technologies and more patent rights. The Group believes that only leading edge technologies will facilitate increase in market share. At the same time, the Group will focus on developing environmental friendly construction and building materials to promote the nation's policy on "Four Savings and One Environmental Friendly" in industrialization of construction and building materials market.

During the period under review, construction of Hubei Baoye Housing Industrial Park has been commenced, which has rallied high level support and attention from the Hubei Provincial Government. The Group will speed up the construction progress of the Hubei Baoye Housing Industrial Park. At the same time, the production facilities of the Anhui Baoye Housing Industrial Park have begun to build scale and momentum, of which production lines of curtain wall, modernized building materials, heat and energy conserve materials, and building equipment have been completed and put into production.

The Group is committed to promote the nation's conserving energy and minimizing waste, and "Four Savings and One Environmental Friendly" policies by investing and developing industrialization of construction and building materials. Investment in construction and building materials is different from consumable products, and would require a much longer investment and return cycle. However, the Group believes that this is the development trend of industry and sees an enormous development potential. Leveraging on our strengths and support in construction and property development business, and co-operation with Daiwa Japan on technology development for industrialisation of building materials and construction, the Group is one of the leading companies in pre-fabricated building materials and construction in China. At present, apart from the Shaoxing Housing Industrial Park, our production base has been extended to strategic locations, such as Hefei and Wuhan, all of which have provided a solid foundation for the Group to maintain its leading position in industrialization of building materials and construction in China.

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 optimizing the capital structure of the Group.

The Group has established a financial settlement center, which centralizes 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, minimize 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 renewed an AAA credit rating by a credit rating institution recognized by the People's Bank of China in 2007. 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 6% to 8% per annum. During the period, 92% of the Group's borrowings were on an unsecured basis. 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 2007, the Group's net bank borrowings, after deduction of cash, cash equivalent and bank deposits, amounted to RMB123,295,000 (30 June 2006: RMB325,617,000). The Group's net gearing ratio (net bank borrowings/the total shareholders' equity) was 4.5% (30 June 2006:15.7%). During the period under review, the Group acquired land use rights in respect of 3 parcels of land and as a result, it is expected that a total of RMB1,500,000,000 would be required to discharge its relevant obligations in the second half of 2007. In this connection, the Group would require additional bank borrowings of approximately RMB800,000,000, in addition to the proceeds received from placing of new H shares in February 2007 and bank deposit balances, to settle these obligations. Thus, bank borrowings and the net gearing ratio of the Group are expected to increase. However, the Group is confident that it will continue to adopts a prudent policy on gearing ratio.

Use of Proceeds

In February 2007, through placing of new H shares to Tiger Global, L.P. ("Tiger Global"), the Group had raised proceeds of approximately RMB557,723,000 (after deduction of issuance expense). The proceeds received have been applied as follows:

		RMB
Deposit Payment for Acquisition of a land use right in Shaoxing	*(i)*	226,500,000
Deposit Payment for Acquisition of a land use right in Hefei	*(ii)*	50,000,000
General Working Capital		121,223,000
Repayment of Bank Borrowings		160,000,000
Total:		557,723,000

(i) During the period under review, the Group has acquired land use right in respect of a parcel of land near Dabanhu, Shaoxing County at a total consideration of RMB755,000,000 and as at 30 June 2007, the Group has paid a cash deposit of RMB226,500,000 equivalent to 30% of the total consideration.

(ii) The Group has entered into a contract to acquire a residential land use right in Hefei at a total consideration of RMB172,000,000. As at 30 June 2007, the Group had already paid a deposit of RMB50,000,000.

Key Financial Ratios

	As at 30 June	
	2007	2006
Return on equity (%)	**2.4%**	19.4%
Net assets value per share (RMB)	**4.10**	3.39
Net gearing ratio (%)	**4.5%**	15.7%
Current ratio	**1.24**	1.12

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

The proceeds raised from the placing of new H shares in February 2007 of RMB557,723,000 were immediately being applied for use in acquisition projects. As a result, the new assets value per share increased significantly. Besides, the net gearing ratio was further reduced. However, on the other hand, the contrast of return on equity between the six months ended 2007 and 2006 was due to a one-off gain from the acquisition of Hubei Construction Group by the Group being recorded last year, no gain of a similar scale was recorded during the six months ended 30 June 2007.

Cash Flow Analysis

		For the six months ended 30 June	
		2007	2006
		RMB'000	*RMB'000*
Net cash (outflow) from operating activities	*(1)*	**(329,896)**	(140,732)
Net cash (outflow)/inflow from investing activities	*(2)*	**(61,567)**	29,690
Net cash inflow from financing activities	*(3)*	**653,561**	104,714
Increase/(decrease) in cash and cash equivalents		**262,098**	(6,328)

(1) The net cash outflow from operating activities during the period was RMB329,896,000, representing an increase of net cash outflow compared to the same period last year. The increase was primarily the result of deposit payment of RMB226,500,000 made in respect of 30% of total consideration of Dabanhu's land use rights in Shaoxing County, and deposit payment of RMB50,000,000 for the acquisition of Hefei Jinheng Real Estate Development Company Limited.

(2) The cash outflow from investing activities during the period was mainly due to the increased spending on the construction of infrastructure of Baoye Four Seasons Garden and Hefei Housing Industrial Park.

(3) The cash inflow from financial activities during the period was mainly attributable to the proceeds of RMB557,723,000 received through the placing of new H shares to Tiger Global in February 2007.

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 and Accounting 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 Group's administrative expenses grew from RMB78,959,000 in the same period of 2006 to RMB116,633,000 for the six months ended 30 June 2007, registering an increase of approximately 48% or RMB37,674,000. The increase was primarily attributable to various re-organization and restructuring expenses amounting to RMB40,919,000, an increase of approximately 111% or RMB21,496,000 over the same period last year, incurred by the Hubei Construction Group; and the establishment of regional management centers by the Baoye Construction Group to explore other provincial markets, the administrative expenses amounted to approximately RMB45,882,000 in the period under review, an increase of approximately 82% or RMB20,663,000 over the same period last year. The Group believes that these start-up and re-organization expenses will contribute to the profit growth of the Group in the long run.

External Guarantee and Fulfillment

	30 June	31 December
	2007	2006
	RMB'000	*RMB'000*
Guarantees given to banks in respect of mortgage facilities granted to third parties	**35,302**	19,800
Guarantees 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 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 2007, land use rights, buildings and properties under development at a total value of approximately RMB85,726,000 (31 December 2006: RMB319,409,000) were pledged to banks as security in securing short-term bank loans.

Capital Expenditure Plan

It is expected that the Group's capital expenditure in 2007 will amount to RMB100,000,000, of which RMB60,101,000 has been applied for use in investment properties, factory buildings, and machineries for Baoye Four Seasons Garden and Hefei Housing Industrial Park projects in the period under review. It is expected that the balance will be incurred in the second half of the year for construction spending for the said two projects and for purchasing research and testing equipment for Zhejiang Baoye Group Construction Research Institute at a total expenditure of approximately RMB40,000,000.

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 period under review, the Group did not constitute any 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 six months ended 30 June 2007.

Human Resources and Remuneration Policies

As at 30 June 2007, the Group had a total of approximately 2,100 permanent employees (the same period in 2006: 1,987), and approximately 52,000 construction workers (the same period in 2006: approximately 51,000) who are not permanent employees of the Group. For the six months ended 30 June 2007, total staff costs amounted to RMB421,060,000 (the same period in 2006: RMB409,103,000). 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 devotes 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, the Company has complied with the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2007, 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 former chief executive officer of the Company resigned. 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 of the Listing Rules as its own code of conduct regarding the securities transactions by the directors. Specific enquiries have been made by the Company, all directors have confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2007.

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. Dennis Yin Ming Chan. 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 on 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 2007 had been reviewed by the audit committee.

Publication of Interim Report

The full text of the Company's 2007 Interim 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.irasia.com/listco/hk/baoyegroup) 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
14 September 2007

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, one non-executive director, Mr. Hu Shaozeng, and four independent non-executive directors, Mr. Wang Youwei, Mr. Yi Deqing, Mr. Dennis Yin Ming Chan and Mr. Sun Chuanlin.