

Chairman's Statement



Mr. Pang Baogen
Chairman

I have the pleasure to report to our shareholders the audited consolidated financial results of the Group for the year ended 31 December 2006. The Group achieved a consolidated revenue of RMB6,227,853,000, up 32% compared to the preceding year; profit attributable to equity holders amounted to RMB476,032,000, increased 56% over last year, earnings per share was RMB0.779, representing an increase of 45% compared to the previous year. The Board proposed a final dividend of RMB0.07 per share for the year ended 31 December 2006.

With a solid foundation, the Group's three main business activities achieved a healthy and steady growth with impressive operating results in the year of 2006. On top of consolidating the markets in Yangtze River Delta and Anhui, we exploited markets in Hubei and Central China through the acquisition of the Hubei Construction Group. In 2006, the new markets in Northern China contributed significantly to the growth of the Group's construction business and built a strong foundation for future expansion of the construction, property development and building materials markets in Northern China. The Group has basically laid out the foundation in adopting the strategy of "embarking Zhejiang and Yangtze River Delta and covering the whole nation".

Chairman's Statement *(continued)*

Corporate Strategy

In China, many enterprises enter the real estate industry after enjoying success in their own businesses. This is one of the reasons leading to the real estate bubble. In 2006, the PRC Government launched another series of macroeconomic control policies and measures to regulate the real estate market. The implementation of these policies and measures gradually cooled down the real estate market. As a result, those enterprises with less financial strength are at grave risks, even of closing down. Despite all these tough challenges, the Group closely observed and monitored the situation, developed a long term strategic positioning according to the changes in the business environment as well as established business and profit models and regularly adjusted them. We took advantage of our "three-in-one" business model to strictly control our costs, tap new resources and minimise expenses. We also revised our business strategy, effectively avoiding any effects brought about by the macroeconomic control policies and measures on the Group's business.

On 8 March 2006, the Group signed a co-operative agreement with Daiwa Japan, pursuant to which the two parties co-developed technology advancement skills for the manufacture of industrialised residential units. It helped the Group consolidate its leading position in the field of industrialisation of construction. Since then, Daiwa Japan has already deployed a team of engineering experts to station at the Group's Shaoxing Housing Industrial Park in Keqiao. The Group has also sent a team of engineers to Japan in exchange of ideas and experiences. We have applied for patent rights for our co-developed "exterior wall panel" and "exterior wall panel manufacture rack" technologies. During the year, we established Zhejiang Baoye Group Construction Research Institute, a "province-rank" high technology development centre for scientific research on the Group's industrialisation of construction. It is the core technology and talent training base of the Group as well as the driver for building core competitiveness.

In recent years, the Group has been devoted to replicating the Zhejiang business model. That is to set up several regional management centres in China comprising construction groups, property development groups and building materials groups. Since we entered the Anhui market in 2002, the Group has become one of the three big local enterprises and Anhui Baoye Group has emerged following the acquisition of Hefei Baoye in 2005. During the year, the Group acquired the Hubei Construction Group, making a stir in the PRC construction industry. The three main business of the Group then directly and quickly entered the Hubei market, forming the Hubei Baoye Group. The Board believes that as we expand our business in Northern China, Northern Baoye Group will foster the Group's rapid development in that region in the near future.

During the year, the Group held meetings with several big real estate groups in the PRC, in which we discussed future strategic co-operation and formation of alliances. Once we conclude an alliance or co-operative agreement, the Group will take full advantage of our superior qualification as a general contractor in the construction industry and our leading position in manufacture of pre-fabricated building materials to generate sustainable and long term contribution to the Group's profit.

Chairman's Statement *(continued)*

New Members of the Board

To enhance corporate governance standard of the Group, broaden the representation of the Board as well as enhance the Board's decision science on the Group's overall development strategy and major investment and acquisition activities, the Board proposed to appoint two candidates nominated by the nomination committee, Mr. Wang Rongfu and Mr. Sun Chuanlin, as directors for the second term of the Board. Mr. Wang Rongfu is the chairman of Baoye Construction and was nominated to be an executive director of the Board. Mr. Sun Chuanlin, a qualified engineer, has retired from civil services. He was the secretary of the communist party committee of Yang Xunqiao Commune, the deputy general manager of Shaoxing Vegetable Production and Sales Company. He was nominated to be an independent non-executive director of the Board. Both of them will capitalise their expertise and reputation in the industry to offer insightful and valuable opinions on the Group's development and management control.

Awards

During the year, the Group's construction projects won a number of awards in the industry. The Zhejiang Mobile Communication Hinge Building project received the Luban Award, the nation's highest honour in construction industry. Up till now, the Group has won nine Luban Awards, two of which from the newly acquired Hubei Construction Group. The number of Luban Awards tops other construction enterprises in China. Besides, Zhejiang Baoye Group Construction Research Institute, which is responsible for scientific research of the Group's industrialisation of construction, has applied for patent rights for the "external wall panel" and "external wall panel manufacture rack" technologies. Moreover, the "Key technology research on and application of light steel frame system for low multi-storey residential construction" co-developed with Tongji University has been certified and accepted by the Ministry of Construction of the PRC.

Issue of New H Shares

On 13 December 2006, the Company entered into a subscription agreement with Tiger Global in relation to the subscription by Tiger Global for 52,036,992 new H shares of the Company at HK\$10.88 per share. The net proceeds were approximately HK\$563,000,000, which will be used strictly in accordance with the proposed application plan as stated in the announcement on the issue of additional H shares dated 13 December 2006. That is to be used for purchase of properties, acquisition of any business related to the Company, development of energy saving and environmental friendly construction materials, as well as general corporate purpose. 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 Listing Rules when the conditions become mature.

This was the third issue of H shares after the subscription agreement with UBS in January 2005 and the issue of additional H shares to Goldman Sachs in December 2005. This issue significantly increased the financial strength of the Group and improved the Group's financial positions from the relatively low gearing ratio to net cash position. Financing was only one of the reasons for the Group to issue new H shares. To nurture the valuable experience from the international capital market is the most important reason. This helped us change our management philosophy, accept the values imposed by the international capital market and build our management control mechanism to meet with international management standard.

Chairman's Statement *(continued)*



Prospect

Looking into the future, continuous growth of the PRC economy, unlimited business opportunities created by the increased demand in urbanisation, increase in per capita income, growing savings of the people, the bullish A shares market and the expected continuous appreciation of RMB, will provide a strong support for the development of the PRC construction and real estate markets. After years of deployment, the Group's three main business catch up with the high-flying economy in China and the operating results will achieve dramatic growth in the coming years.

Yet, we believe that the fluctuation of the PRC economy and fierce market competition are the best training course for enterprises. China economy is not going to maintain this high growth rate forever. When the growth rate becomes steady or slows down, those miracles of getting rich over night will become history. The Group holds on to the development strategy of "establishing and maintaining the leading position in the industry, making Baoye a long lasting and renowned enterprise with long term core competitiveness". We will focus on developing pre-fabricated building materials which may have a longer investment recovery period but with a sustainable and steady growth. We will also expand the "three-in-one" business model to other provinces, so that we can sustain long term growth and development in this ever changing market.

Commitments to Shareholders

The Group aims to create values and wealth for shareholders, staff and customers. Their trust on us is our source of success. Our goal is to make Baoye a sizable construction conglomerate with growing profit, great potential and good management. Baoye will become a long lasting and premium brand. This can be achieved through balancing the interests of stakeholders, possessing acute market sense, committing high degree of social responsibility, continuing development of energy saving and environmental friendly building materials, driving the industrialisation of construction development in China, and maintaining the forefront position in the PRC construction industry.

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

Pang Baogen
Chairman
 16 April 2007