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NEO-CHINA GROUP
中新集團

NEO-CHINA GROUP (HOLDINGS) LIMITED **中新集團(控股)有限公司***

(Incorporated in Bermuda with limited liability)

(Stock Code: 563)

Announcement

On 11 May, 2006, the Company's wholly-owned subsidiary, Neo-China Property Limited entered into a non-legally binding memorandum of understanding in relation to a property project in Tianjin, the PRC with a company controlled by Mr. Li, the Chairman of the Company.

The Company is considering, an equity-linked capital-raising exercise which will, if it proceeds, entail the use of the Issue Mandate, which was granted by resolution of the Company, on which the Independent Shareholders alone voted, at the special general meeting held on 9 May, 2006.

The Company announces certain selected unaudited consolidated financial information about the Group for the 11 months period ended 31st March, 2006.

Shareholders and potential investors should exercise caution when dealing in the securities of the Company.

TIANJIN PROJECT

On 11 May 2006, the Company's wholly-owned subsidiary, Neo-China Property Limited entered into a non-legally binding memorandum of understanding with Beijing Newshine Investment Group Limited in relation to an acquisition of certain lands in Old Urban Area, Tianjin City, Nankai District, Tianjin, the PRC. The lands are proposed to be developed by the construction of a mix of residential and commercial use properties including hotels with an estimated aggregate gross floor area of approximately 1,100,000 square metres. The consideration for the acquisition will be determined based on the market condition, the independent valuer's report, etc. Beijing Newshine Investment Group Limited is controlled by the Company's controlling shareholder and Chairman, Mr. Li.

The transaction, if and when entered into, will constitute a connected transaction for the Company under Chapter 14A of the Listing Rules. The Company will comply with the relevant requirements of Chapter 14A of the Listing Rules if and when the transaction proceeds. There is no certainty that this proposal will proceed and if it proceeds it will be subject to approval by Independent Shareholders, which may or may not be given.

* *For identification only*

POSSIBLE EQUITY-LINKED CAPITAL-RAISING

At the special general meeting of the Company held on 9th May 2006, an ordinary resolution was passed on a vote by Independent Shareholders giving the Directors a general mandate to allot, issue and deal with new Shares not exceeding 20% of the aggregate nominal amount of the share capital of the Company then in issue. The number of Shares subject to the Issue Mandate is 895,867,897.

The Issue Mandate will remain effective until the earliest of: (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required to be held by Bermuda law or Bye-Laws; and (iii) its revocation or variation by an ordinary resolution of the Shareholders in general meeting.

The Company is considering, an equity-linked capital-raising exercise which will, if it proceeds, entail the use of the Issue Mandate. There is no assurance that an equity-linked capital-raising exercise will be undertaken or as to its success if it does proceed.

UNAUDITED 11 MONTH CONSOLIDATED FINANCIAL INFORMATION

The Company announces certain selected unaudited consolidated financial information about the Group for the 11 month period ended 31st March, 2006.

UNAUDITED CONSOLIDATED INCOME STATEMENT FOR THE ELEVEN MONTHS ENDED 31 MARCH 2006

	<i>NOTES</i>	<i>HK\$'000</i> (unaudited)
Revenue		37,359
Cost of sales	3	<u>(60,429)</u>
Gross loss		(23,070)
Other income		37,678
Selling expenses		(18,087)
Administrative expenses		(41,516)
Finance cost		(7,420)
Gain on disposal of subsidiaries	4	125,018
Share of losses of associates		<u>(7,453)</u>
Profit before taxation		65,150
Income tax credit		<u>14,858</u>
Profit for the period		<u><u>80,008</u></u>
Attributable to:		
Equity holders of the parent		96,808
Minority interests		<u>(16,800)</u>
		<u><u>80,008</u></u>

UNAUDITED CONSOLIDATED BALANCE SHEET

AS AT 31 MARCH 2006

	<i>HK\$'000</i> (unaudited)
NON-CURRENT ASSETS	
Property, plant and equipment	7,059
Other receivables	259,615
Available-for-sale investments	9,471
Interests in associates	2,059
Amounts due from associates	417,543
Pledged bank deposits	49,705
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	745,452
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CURRENT ASSETS	
Inventories	2,304,008
Advances to suppliers	611,701
Trade and other receivables	690,096
Amount due from a related company	17,788
Bank balances and cash	291,846
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	3,915,439
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CURRENT LIABILITIES	
Trade and other payables	436,714
Advances from customers	2,042,795
Dividend payable	23,122
Amounts due to related companies	21,279
Taxation payable	126,304
Amount due to a shareholder	3,000
Secured bank borrowings – due within one year	161,490
Loan payable	69,065
Convertible note	98,256
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	2,982,025
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NET CURRENT ASSETS	933,414
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TOTAL ASSETS LESS CURRENT LIABILITIES	1,678,866
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NON-CURRENT LIABILITIES	
Secured bank borrowings – due after one year	105,952
Deferred tax liabilities	64,304
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	170,256
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	1,508,610
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CAPITAL AND RESERVES	
Share capital	40,793
Share premium and reserves	1,335,275
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Equity attributable to equity holders of the parent	1,376,068
Minority interests	132,542
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	<u>1,508,610</u>

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL INFORMATION
FOR THE ELEVEN MONTHS ENDED 31 MARCH 2006

1. BASIS OF PREPARATION OF THE UNAUDITED CONSOLIDATED FINANCIAL INFORMATION

The unaudited consolidated financial information has been prepared in accordance with the accounting policies consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 April 2005 except as described in note 2 to the consolidated financial information as a result of the adoption of Hong Kong Financial Report Standards issued by the Hong Kong Institute of Certified Public Accountants.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new and revised Standards and Interpretations") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005 except for HKAS 36 Impairment of Assets, HKAS 38 Intangible Assets and HKFRS 3 Business Combination, which the Group had early adopted in the year ended 30 April 2005. The application of the new and revised Standards and Interpretations has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Group's accounting policies in the following areas that have an effect on the results for the current period:-

Convertible note

HKAS 32 requires an issuer of a compound financial instrument (that contains both financial liability and equity components) to separate the compound financial instrument into its liability and equity components on its initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The principal impact of HKAS 32 on the Group is in relation to a convertible note issued by the Group that contains both liability and equity components. Previously, the convertible note was classified as a liability on the balance sheet. HKAS 32 requires retrospective application (see Note 2A for the financial impact).

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

The Group has no debt or equity securities as at 30 April 2005.

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of the Statement of Standard Accounting Practice 24 “Accounting for investments in securities”) in accordance with the requirements of HKAS 39. Financial assets and financial liabilities are initially measured at fair value. Financial assets are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables” or “held-to-maturity financial assets”. Financial liabilities are generally classified as “financial liabilities at fair value through profit or loss” or “financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)”. Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition.

The adoption of HKAS 39 by the Group has had no material effect on the Group’s results for the current or prior periods.

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in accounting policies described above on the results for the current period is as follows:–

	Eleven months ended 31 March 2006 HK\$’000
Increase in interest on the liability component of convertible notes and decrease in profit for the period	<u>(6,466)</u>

The cumulative effects of the application of the new HKFRSs as at 30 April 2005 are summarised below:

	30 April 2005 (originally stated) HK\$’000	Effect of HKAS 1 & 27 HK\$’000	Effect of HKAS 32 HK\$’000	30 April 2005 (as restated) HK\$’000
Balance sheet item				
Convertible note	<u>104,000</u>	<u>–</u>	<u>(13,676)</u>	<u>90,324</u>
Total effects on assets and liabilities	<u>104,000</u>	<u>–</u>	<u>(13,676)</u>	<u>90,234</u>
Share premium and reserves	<u>180,295</u>	<u>–</u>	<u>13,676</u>	<u>193,973</u>
Minority interests	<u>–</u>	<u>232,448</u>	<u>–</u>	<u>232,448</u>
Total effects on equity	<u>180,295</u>	<u>232,448</u>	<u>13,676</u>	<u>426,421</u>
Minority interests	<u>232,448</u>	<u>(232,448)</u>	<u>–</u>	<u>–</u>

The Group has not early applied the following new Standards and Interpretations that have been issued but are not yet effective.

HKAS 1 (Amendment)	Capital Disclosure ¹
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures ²
HKAS 21 (Amendment)	Net Investment in a Foreign Operation ²
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions ²
HKAS 39 (Amendment)	The Fair Value Option ²
HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts ²
HKAS 6	Exploration for and Evaluation of Mineral Resources ²
HKAS 7	Financial Instruments: Disclosures ¹
HK(IFRIC) – INT 4	Determining whether an Arrangement Contains a Lease ²
HK(IFRIC) – INT 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds ²
HK(IFRIC) – INT 6	Liabilities arising from Participating in the Special Market-Waste Electrical and Electronic Equipment ³
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ⁴
HK(IFRIC) – INT 8	Scope of HKFRSs 2 ⁵
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives ⁶

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 January 2006.

³ Effective for annual periods beginning on or after 1 December 2005.

⁴ Effective for annual periods beginning on or after 1 March 2006.

⁵ Effective for annual periods beginning on or after 1 May 2006.

⁶ Effective for annual periods beginning on or after 1 June 2006.

The Group is not yet in a position to determine whether these standards and interpretations will have a significant impact on how the results of operations and financial positions are prepared and presented. These standards and interpretations may result in changes in the future as to how the results of operations and financial positions are prepared and presented.

3. COST OF SALES

	<i>HK\$'000</i> (unaudited)
Cost of sales relating to current period sale of property	16,635
Cost adjustments relating to sale of properties in prior periods	43,794
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	60,429
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4. DISPOSAL OF SUBSIDIARIES

During the period, the Group entered into agreements for the disposals of Spot On Assets Limited and Neo-China Industrial Limited, which were wholly-owned subsidiaries of the Group, for a total consideration of HK\$215,000,000. Both disposals have been completed during the period and gains on disposal of subsidiaries of approximately HK\$125,018,000 have been resulted from the disposals.

5. ACQUISITION OF SUBSIDIARIES

During the period, the Group entered into agreements for the acquisitions of the entire interest of Lucky Merit Development Limited which holds 40% interest in Beijing Jin Ma Wen Hua Yuan Properties Development Company Limited (“American Rock JV”) and the entire interest of New Direction Development Limited which

holds a 70% interest in Beijing New Shine Properties Development Limited (“Youngman Point JV”). The acquisitions of American Rock JV and Youngman Point JV were completed on 28 February 2006 and 30 March 2006 respectively. Details of the acquisitions were set out in the Group’s circular to shareholders dated 20 January 2006.

In April 2006, the Company received all PRC government approvals necessary for the completion of sales of two buildings in the American Rock project located in Beijing, representing a gross floor area of approximately 37,879 sq. m., and seven buildings in the Youngman Point project also located in Beijing, representing a gross floor area of approximately 102,991 sq. m. Most of these properties have been transferred to the purchasers. However, at this stage there can be no assurance as to the level or timing of recognition of revenues to be recognised by the Company in respect of such sales or the impact such sales may have on the results or profits of the Company for any given financial period.

This information is unaudited and does not cover a full financial year of the Group. It is based on management accounts and is subject to change. The information is not a forecast or projection in respect of the financial year ended 30th April, 2006 and should not be used as a basis for any estimate for the full year.

Shareholders and investors should exercise caution in dealing in the securities in the Company.

TERMS USED IN THIS ANNOUNCEMENT

In this announcement:

“associate”	has the meaning ascribed to it in the Listing Rules;
“Company”	means Neo-China Group (Holdings) Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange;
“Connected Person(s)”	has the meaning ascribed to it in the Listing Rules;
“Directors”	means the directors of the Company;
“Group”	means the Company and its subsidiaries;
“HK\$”	means Hong Kong dollars;
“Hong Kong”	means the Hong Kong Special Administrative Region of the People’s Republic of China;
“Independent Shareholders”	means Shareholders other than Mr. Li, Invest Gain Limited (a company controlled by Mr. Li) and their respective associates and parties acting in concert with them, and other Shareholders not permitted to vote under the Listing Rules and/or the Takeovers Code or the Issue Mandate;
“Issue Mandate”	means the mandate granted on 9th May, 2006 to the Directors to exercise the power of the Company to allot, issue and deal with Shares not exceeding 20% (being 895,867,897 Shares) of its issued share capital at 9th May, 2006;

“Listing Rules”	means the Rules Governing the Listing of Securities on the Stock Exchange;
“Mr. Li”	means Li Song Xiao, the Chairman, a Director and the controlling shareholder of the Company, who is the ultimate beneficial owner of 2,298,986,537 Shares representing approximately 56.36% in the issued share capital of the Company;
“PRC”	means the People’s Republic of China;
“RMB”	means renminbi of the PRC;
“Share(s)”	means ordinary shares of HK\$0.01 each in the share capital of the Company;
“Shareholder(s)”	means holder(s) of Shares;
“Stock Exchange”	means the Stock Exchange of Hong Kong Limited; and
“Takeovers Code”	means the Hong Kong Code on Takeovers and Mergers issued by the Securities and Futures Commission in Hong Kong.

By Order of the Board of
Neo-China Group (Holdings) Limited
Li Song Xiao
Chairman

Hong Kong, 11 May, 2006

As at the date of this announcement, the Board comprises Mr. Li Song Xiao as a chairman; Mr Liu Yi, Ms Song Xuan, Ms Niu Xiao Rong, Mr Zhang Huai An and Mr Yuan Kun as executive Directors; Ms Nie Mei Sheng, Mr Zhen Kuan and Mr Wang Shiyong as independent non-executive Directors.

Please also refer to the published version of this announcement in The Standard.