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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)**

### **PROPOSED ISSUE OF ZERO COUPON CONVERTIBLE BONDS DUE 2011**

The Company has entered into the Subscription Agreement dated 12 May, 2006 with J.P. Morgan Securities Ltd., and BOCI Asia Limited, in connection with the issue by the Company of the Convertible Bonds with an aggregate principal amount of HK\$1,340.0 million. The Bonds are convertible into ordinary shares of HK\$0.01 each in the share capital of the Company. The Company intends to apply for the listing of the Convertible Bonds on the Stock Exchange, such approval is subject to the discretion of the Stock Exchange.

The Subscription Agreement may be terminated under certain circumstances. Please refer to the paragraph headed "Termination" for further information.

The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Shares to be issued and allotted upon conversion of the Convertible Bonds.

The estimated net proceeds of the Convertible Bonds issue, after deduction of expenses, are expected to amount to approximately HK\$1,292.3 million and are currently intended to be used as general working capital and potential acquisitions. As no definite plan has been concluded, it is not possible now to identify the proportions of the use of proceeds.

\* For identification only

The Company has amongst other things undertaken that neither it nor any of its subsidiaries or other affiliates over which it exercises management or voting control, nor any person acting on its or their behalf will, for a period of 120 days after the Closing Date, without the prior written consent of the Joint Lead Managers (such consent not to be unreasonably withheld), issue, offer, sell, contract to sell, pledge or otherwise dispose of (or publicly announce any such issuance, offer, sale or disposal) securities issued by the Company and having a maturity of more than one year from the date of issue, any Shares or securities convertible or exchangeable into or exercisable for Shares or warrants or other rights to purchase Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the Shares, including equity swaps, forward sales and options representing the right to receive any Shares save for Shares issued pursuant to the conversion provisions of the Convertible Bonds.

The Major Shareholder has undertaken not to sell or dispose of any shares of the Company or enter into any other transaction with a similar effect as described in the Subscription Agreement for a period of 120 days after the Closing Date.

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

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended with effect from 9:30 a.m. on 15 May, 2006 pending issue of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares from 9:30 a.m. on 16 May, 2006.

## **Subscription Agreement**

Date: 12 May, 2006

Parties: The Company as issuer  
J.P. Morgan Securities Ltd. and BOCI Asia Limited, as subscribers

Subject to the fulfilment of the conditions set out below under the section headed “Conditions of the Subscription Agreement”, J.P. Morgan Securities Ltd. and BOCI Asia Limited have severally agreed, inter alia, to subscribe, and pay for, the Convertible Bonds with an aggregate principal amount of up to HK\$1,340.0 million.

The Convertible Bonds will be offered outside the United States to not less than six professional investors and are being privately placed with certain professional investors in Hong Kong. None of the Convertible Bonds will be offered to the public in Hong Kong and none of the Convertible Bonds will knowingly be placed to any connected persons (as “connected person” is defined in the Listing Rules) of the Company. The Convertible Bonds will not be offered in Bermuda and will not be offered in the United States, member states of the European Economic Area, United Kingdom, Hong Kong, Japan or Singapore unless such offer is pursuant to an exemption of, and otherwise in compliance with, the relevant statutory and financial regulations of that jurisdiction. The offer of the Convertible Bonds may be subject to stabilisation activities conducted in accordance with applicable laws and regulations.

## **Undertakings**

The Company has amongst other things undertaken that neither it nor any of its subsidiaries or other affiliates over which it exercises management or voting control, nor any person acting on its or their behalf will, for a period of 120 days after the Closing Date, without the prior written consent of the Joint Lead Managers (such consent not to be unreasonably withheld), issue, offer, sell, contract to sell, pledge or otherwise dispose of (or publicly announce any such issuance, offer, sale or disposal) securities issued by the Company and having a maturity of more than one year from the date of issue, any Shares or securities convertible or exchangeable into or exercisable for Shares or warrants or other rights to purchase Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the Shares, including equity swaps, forward sales and options representing the right to receive any Shares save for Shares issued pursuant to the conversion provisions of the Convertible Bonds.

The Major Shareholder has undertaken not to sell or dispose of any shares of the Company or enter into any other transaction with a similar effect as described in the Subscription Agreement for a period of 120 days after the Closing Date.

## **Conditions of the Subscription Agreement**

Completion of the Subscription Agreement is conditional upon, amongst other things:

1. the execution of a trust deed constituting the Bonds and incorporating the terms and conditions of the Bonds and a paying and conversion agency agreement, each in a form satisfactory to the Joint Lead Managers and certain other documentation ancillary to the transactions described in the Subscription Agreement in forms to be agreed by the Joint Lead Managers, the Company and certain other parties thereto; and
2. the listing of the Convertible Bonds on the Stock Exchange (or other stock exchange mutually acceptable to the Joint Lead Managers and the Company if the listing on the Stock Exchange has not been obtained by the Closing Date) and the Listing Committee of the Stock Exchange of Hong Kong granting listing of, and permission to deal in, the Shares which may fall to be issued upon conversion of the Convertible Bonds.

## **Termination**

The Subscription Agreement may be terminated in certain circumstances. In particular, the Joint Lead Managers may terminate the Subscription Agreement, by notice to the Company, at any time prior to the payment of the net subscription monies for the Bonds if, amongst other things:

- A. the Joint Lead Managers are not satisfied with the results of their due diligence investigations of the Group for the purposes of the preparation of the offering circular to be published in connection with the issue of the Convertible Bonds, and the offering circular is not prepared in form and content satisfactory to the Joint Lead Managers on or before the date to be agreed for its publication; or
- B. there shall have come to the notice of the Joint Lead Managers any breach of, or any event rendering untrue or incorrect in any respect, any of the warranties and representations contained in the Subscription Agreement or any failure to perform any of the Company's undertakings or agreements in the Subscription Agreement; or

- C. there shall have occurred any change, or any development involving a prospective change, in national or international monetary, financial, political or economic conditions (including any disruption to trading generally, or trading in any securities of the Company, on any stock exchange or in any over-the-counter market) or currency exchange rates or foreign exchange controls which would in the Joint Lead Managers' view be likely to prejudice materially the success of the offering and distribution of the Convertible Bonds or dealings in the Convertible Bonds in the secondary market; or
- D. there shall have occurred a general moratorium on commercial banking activities in the United Kingdom or United States or Bermuda or Hong Kong by any United Kingdom, New York States, United States Federal, Bermuda or Hong Kong authorities which would in the Joint Lead Managers' view be likely to prejudice materially the success of the offering and distribution of the Convertible Bonds or dealings in the Convertible Bonds in the secondary market; or
- E. there shall have occurred either of the following: (i) a suspension or material limitation of trading in securities generally on New York Stock Exchange, Nasdaq, Stock Market, London Stock Exchange, the Hong Kong Stock Exchange; or (ii) a suspension in trading in the Company's securities on the Hong Kong Stock Exchange (save in circumstances in which such suspension is routine in nature), which would in the Joint Lead Managers' view be likely to prejudice materially the success of the offering and distribution of the Convertible Bonds or dealings in the Convertible Bonds in the secondary market; or
- F. there shall have occurred, in the opinion of the Joint Lead Managers, an outbreak or escalation of hostilities or act of terrorism which would in the Joint Lead Managers' view be likely to prejudice materially the success of the offering and distribution of the Convertible Bonds or dealings in the Convertible Bonds in the secondary market; or
- G. there shall have occurred an outbreak of disease or social instability in Hong Kong and/or the People's Republic of China which would in the Joint Lead Managers' view be likely to prejudice materially the success of the offering and distribution of the Convertible Bond or dealings in the Convertible Bonds in the secondary market.

Subject to the foregoing, the Subscription Agreement is expected to be completed, and the Convertible Bonds to be issued, on the Closing Date.

For illustrative purposes and assuming a conversion price of HK\$1.5048 per Share (based on, for the purpose of this illustration, a premium of 32.0 per cent. over the closing price of the Shares on 12 May, 2006), the aggregate principal amount of the Bonds of HK\$1,340.0 million will be convertible into approximately 890.5 million new Shares, representing approximately 19.9% of the existing issued share capital and 16.6% of the issued share capital as enlarged by the Shares to be issued upon conversion of the Convertible Bonds, but without taking into account Shares which may be issued upon exercise of Employees Share Options.

The Shares issuable upon conversion of the Convertible Bonds will be issued and allotted by the Company pursuant to the general mandate granted to the Directors at the annual general meeting held on 9 May, 2006.

## **PRINCIPAL TERMS OF THE CONVERTIBLE BONDS**

The principal terms of the Convertible Bonds, which will be constituted by a trust deed (the “Trust Deed”) to be entered into between the Company and a trustee (to be appointed) are summarised as follows:

### **Principal Amount**

The aggregate principal amount of the Convertible Bonds will be HK\$1,340.0 million.

### **Issue Price**

100% of the principal amount of the Convertible Bonds.

### **Redemption Price**

135.7% of the principal amount of the Convertible Bonds.

### **Interest**

The Convertible bonds will carry no interest.

### **Conversion Price**

The Convertible Bonds will be convertible into Shares at an initial conversion price (the “Conversion Price”) of 1.5048 per Share which is at a premium of approximately 32.0 per cent. over the closing price of the Shares on the Stock Exchange on 12 May, 2006. The Conversion Price will be subject to anti-dilutive adjustments for, among other things, subdivision or consolidation of Shares, bonus issues, rights issues and other dilutive events such as issue of new Shares.

### **Conversion Rights**

Holders of the Convertible Bonds will have the right at any time on or after 60 days from the Closing Date up to, and including, the close of business on the business day seven days prior to the Maturity Date to convert the Convertible Bonds into Shares at the Conversion Price, subject to adjustment.

Shares issued on conversion will rank pari passu in all respects with the Shares in issue as at the conversion date in all respects and will entitle the holders thereof to receive all future dividends and distributions which are declared, made or paid after the date of allotment of such Shares.

### **Term of Convertible Bonds**

Five years.

### **Redemption**

Pursuant to the Subscription Agreement, unless previously redeemed, purchased and cancelled or converted, the Convertible Bonds will be redeemed at 135.7% of their principal amount in HK dollars on the Maturity Date, which is expected to give a yield to maturity of 6.2 per cent. per annum, calculated on a semi-annual basis, from the Closing Date of the Convertible Bond Issue to the Maturity Date.

## Redemption Option

On the Put Option Date, holders of the Convertible Bonds will have the right at such holders' option, to require the Company to redeem all or part only of the Convertible Bonds.

## Redemption at the Option of the Company

On or at any time after 12 June, 2009 and at any time when at least 95 per cent. in principal amount of the Convertible Bonds has already been converted, redeemed or purchased and cancelled and (in either case) not less than seven business days prior to the Maturity Date, the Company may redeem all but not part of the Convertible Bonds.

Following a Change of Control, the holder of each Convertible Bonds will have the right at such holder's option, to require the Company to redeem in whole but not in part the Convertible Bonds.

## Form of the Convertible Bonds

The Convertible Bonds will be in registered form only and in denominations of HK\$10,000 each or integral multiples therefore.

## Ranking of the Convertible Bonds

The Convertible Bonds will rank as direct, unsubordinated, unconditional and unsecured obligations of the Company and will at all times rank pari passu and without any preference or priority among themselves.

## Listing

Application will be made for the listing of the Convertible Bonds on the Stock Exchange. If listing on the Stock Exchange was not obtained by the Closing Date, the Company might seek listing of the Convertible Bonds on another stock exchange mutually acceptable to the Joint Lead Managers and the Issuer. The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Shares to be issued upon conversion of the Convertible Bonds.

## SHAREHOLDING STRUCTURE OF THE COMPANY

To the best knowledge of the Directors and the Company, the shareholding structure of the Company as at the date of this announcement is as follows:

Shareholder	Existing (as at the date of this announcement)		Assuming the Bonds are fully converted into Shares at the initial Conversion Price of HK\$1.5048 each	
	No. of Shares	% of issued share capital of the Company	No. of Shares	% of enlarged share capital of the Company
Invest Gain Limited ( <i>Note</i> )	2,298,986,537	51.32%	2,298,986,537	42.81%
Public	2,180,352,950	48.68%	3,070,836,735	57.19%

*Note:* Invest Gain Limited is wholly-owned by Mr. Li Song Xiao, chairman of the Company.

## **CHANGES TO THE SHAREHOLDING IN THE COMPANY AS A RESULT OF CONVERSION**

Assuming that no other issue of Shares and no repurchase of Shares is made by the Company before conversion of the Convertible Bonds, the holding of the Major Shareholder after full conversion of the Convertible Bonds will be 2,298,986,537 Shares (approximately 42.8%)

Assuming that all outstanding Employees Share Options are also exercised but no other Shares are issued or repurchased before then, the aggregate shareholding of the Major Shareholder in the Company after full conversion of the Convertible Bonds will be 2,301,986,537 Shares (approximately 42.2%)

## **USE OF PROCEEDS**

The estimated net proceeds of the Convertible Bonds will amount to approximately HK\$1,292.3 million. The proceeds are currently intended to be used for general working capital and potential acquisitions including but not limited to working capital and other financing requirements. These include potential funding requirements in connection with its possible acquisition, announced on 11 May, 2006, of certain land in Old Urban Area, Tianjin City, Nankai District, Tianjin from Beijing Newshine Investment Group Limited a company controlled by Mr. 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 51.3% in the issued share capital of the Company.

This 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.

## **REASONS FOR AND BENEFITS OF THE CONVERTIBLE BOND ISSUE**

The Convertible Bond Issue will, upon completion, raise funds for the Company in an aggregate net sum of approximately HK\$1,292.3 million. It is currently intended that the funds will be used by the Company as mentioned above. This will also improve the liquidity position of the Group as well as potentially enhance the equity base and reduce the financing costs of the Group.

## **INFORMATION ON THE GROUP**

The Group's principal activities are property development and investment.

## **FUND RAISING ACTIVITIES OF THE COMPANY IN THE PRECEDING TWELVE MONTHS**

On 13 February, 2006, the Board announced that on 10 February, 2006, the Placing Agent agreed to place ("Placing"), on a fully underwritten basis, 496,720,000 existing Shares at a price of HK\$0.89 per Share on behalf of Mr. Li Song Xiao. On the same day, the Company entered into a conditional agreement with Mr. Li Song Xiao for the subscription ("Subscription") of 496,720,000 new Shares at the same price per Share. The Placing and the Subscription were completed on 10 February, 2006 and 27 February, 2006 respectively.

Save as disclosed above, the Company has not conducted any fund raising activities in the preceding twelve months of this announcement.

The Group's principal activities are property development and investment.

## ADJUSTMENT TO EMPLOYEES SHARE OPTIONS

The exercise prices and the numbers of Shares to be issued upon exercise of the Employees Share Options will be adjusted (if required) in accordance with the terms and conditions of the scheme to which they relate upon completion of the Convertible Bond Issue.

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

## SUSPENSION AND RESUMPTION OF TRADING

**At the request of the Company, trading in the Shares on the Stock Exchange has been suspended with effect from 9:30 a.m. on 15 May, 2006 pending issue of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares from 9:30 a.m. on 16 May, 2006.**

## TERMS USED IN THIS ANNOUNCEMENT

“Change of Control”	(i) other than, directly or indirectly, or as the beneficiary of a trust, acting individually or together Invest Gain Limited or any of its affiliates, executors, administrators or successors; any person or persons, acting together, acquires control of the Company; or  (ii) the Company consolidates with or merges into or sells or transfers all or substantially all of the Company’s assets to any other person, unless the consolidation, merger, sale or transfer will not result in the other person or persons acquiring control over the Company or the successor entity
“Closing Date”	the date (expected to be on or around 12 June, 2006) on which the Convertible Bonds are first issued
“Company”	Neo-China Group (Holdings) Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“Conversion Price”	means the price per Share at which the Bonds may be converted into Shares
“Convertible Bond Issue”	the subscription and issue of the Convertible Bonds with an aggregate principal amount of HK\$1,340.0 million, under the Subscription Agreement
“Convertible Bonds”	the Convertible Bonds of an aggregate principal amount of up to HK\$1,340.0 million to be subscribed by the Joint Lead Managers
“Directors”	directors of the Company
“Employees Share Options”	outstanding share options granted pursuant to the employee share option scheme of the Company adopted on 19 August, 1993 and amended on 24 October, 2000 and the employee share option scheme adopted on 12 December, 2002
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars

“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Joint Lead Managers”	J.P. Morgan Securities Ltd. and BOCI Asia Limited
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Major Shareholder”	Invest Gain Limited, being the major shareholder of the Company interested in aggregate in approximately 51.3 per cent. of the existing issued share capital of the Company
“Maturity Date”	12 June, 2011
“Placing Agent”	Deutsche Bank AG, Hong Kong Branch
“Put Option Date”	12 June, 2009
“Share(s)”	ordinary shares of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	a conditional subscription agreement entered into between, the Company, J.P. Morgan Securities Ltd. and BOCI Asia Limited on 12 May, 2006 in connection with the issue by the Company of the Convertible Bonds with an aggregate principal amount of HK\$1,340.0 million,
“United States”	the United States of America, its territories and possessions, any State of the United States, and the District of Columbia

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

Hong Kong, 15 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.