THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Neo-China Group (Holdings) Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

中新集团
NEO CHINA GROUP

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 CONNECTED TRANSACTIONS INCLUDING TWO MAJOR TRANSACTIONS – PROPOSED ACQUISITION OF INTERESTS IN THREE PRC JOINT VENTURE

INDEPENDENT FINANCIAL ADVISER TO THE INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT SHAREHOLDERS

第一上海
FIRST SHANGHAI GROUP

FIRST SHANGHAI CAPITAL LIMITED

A notice convening a special general meeting of Neo-China Group (Holdings) Limited to be held at Unit 1908-9, 19th Floor, Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong on 27 February 2007 at 10:00 is set out on pages 294 to 296 of this circular. A form of proxy for use at the special general meeting is also enclosed.

If you are not able to attend the special general meeting, please complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Share Registrar of the Company in Hong Kong, Secretaries Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the special general meeting. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the meeting if they so wish.

31 January 2007

* *For identification only*

CONTENTS

In this circular, the following expressions have the meanings set out below unless the context requires otherwise.

"Announcement"	the announcement issued by the Company dated 2 January 2007;
"American Rock Agreement"	a sale and purchase agreement dated 21 December 2006 between Beijing Xi Hua and the Purchaser in respect of the sale and purchase of 15% of the issued share capital of the American Rock JV
"American Rock Completion"	completion of the American Rock Agreement
"American Rock Consideration"	the consideration of RMB100 million (approximately HK$100 million) for the acquisition by the Purchaser of the 15% of the issued share capital of the American Rock JV pursuant to the American Rock Agreement
"American Rock JV"	北京金馬文華園房地產開發有限公司 (Beijing Jin Ma Wen Hua Yuan Properties Development Company Limited), a Sino-foreign equity joint venture incorporated in the PRC on 15 October 2002
"American Rock Property Project"	a residential and commercial property project known as "American Rock"（後現代城）located at北京朝陽區百子灣路16號 (No. 16, Baiziwan Road, Chaoyang District, Beijing), the PRC, and under development by the American Rock JV
"associates"	the meaning ascribed to it in the Listing Rules
"Beijing New Shine Investment"	北京新松投資集團有限公司 Beijing New Shine Investment Group Company Limited, a company incorporated in the PRC and controlled by Mr. Li
"Beijing Guoke"	北京國科新業科技開發有限公司 Bejing Guoke Xinye Technology Development Company Limited, a company incorporated in the PRC and controlled by Mr. Li

"Beijing Xi Hua"	北京西華偉業建材經貿有限公司 (Beijing Xi Hua Wei Yie Construction Materials Trading Company Limited), a company established in the PRC with limited liability and owned by Independent Third Parties
"Board"	the board of Directors
"Changsha Agreement"	a sale and purchase agreement dated 21 December 2006 between the Purchaser and Beijing New Shine Investment in respect of the sale and purchase of 67% of the registered capital of Changsha JV
"Changsha Completion"	completion of the Changsha Agreement
"Changsha Consideration"	the consideration of RMB216 million (approximately HK$216 million) for the acquisition by the Purchaser of 67% of the issued share capital of Changsha JV pursuant to the Changsha Agreement
"Changsha JV"	湖南淺水灣湘雅溫泉花園有限公司 (Wunan Qianshuiwan Shuangya Wanquan Huayuen Company Limited), a company incorporated in the PRC on 14 September 2005 and the sole developer of the Changsha Property Project
"Changsha Property Project"	a project situated in Wancheng County, Changsha City, the PRC, and under development by Changsha JV
"Company"	Neo-China Group (Holdings) Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on Stock Exchange
"Director(s)"	director(s) of the Company
"Enlarged Group"	the Group as enlarged after the completion of the Proposed Acquisitions
"Encumbrance"	mortgage (whether legal or equitable), charge, lien, lease, option, licence, covenant, condition, agreement or other third party right
"Group"	the Company and its subsidiaries

"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee of the Company comprising Ms. Nie Mei Sheng, Mr. Zhang Qing Lin and Mr. Wang Shi Yong appointed by the Board for the purpose of advising the Independent Shareholders in respect of the Proposed Acquisitions
"Independent Shareholders"	Shareholders other than those who are connected persons with a material interest in the transaction, or any person falling within rule 14A.13(1)(b)(i) to (iv) of the Listing Rules that has a material interest in the transaction and its associates.
"Independent Third Party"	a party independent of and not connected with the directors, chief executives or substantial shareholders of the Company or its subsidiaries or any of their respective associates
"Invest Gain"	Invest Gain Limited, a company incorporated in the British Virgin Islands with limited liability and wholly-owned by Mr. Li
"Latest Practicable Date"	29 January 2007 being the latest practicable date for ascertaining certain information for inclusion in this circular;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Lucky Merit"	Lucky Merit Development Limited, a company incorporated in the British Virgin Islands with limited liability and indirectly wholly-owned by the Company at the date of this circular
"Market Value Basis"	the basis of valuation of properties by using the direct comparison approach by reference to sales evidence available on the market and the valuers' knowledge of the prevailing market conditions
"Mr. Li"	Mr. Li Song Xiao, a Director and the chairman of the Board, who has a 56.2% beneficial shareholding interest in the Company at the Latest Practicable Date

"New Direction"	New Direction Development Limited, a company incorporated in the British Virgin Islands with limited liability and indirectly wholly-owned by the Company
"PRC"	the People's Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Proposed Acquisitions"	the proposed acquisitions of interests in the Changsha JV and further interest in the Youngman Point JV and the American Rock JV by the Purchaser pursuant to the terms and conditions of the Changsha Agreement, the Youngman Point Agreement and American Rock Agreement respectively
"Purchaser"	北京新松置地投資顧問有限公司 Beijing New Shine Land Investment Consultancy Limited, company incorporated in the PRC and indirect wholly-owned by the Company
"Savills"	Savills Valuation and Professional Services Limited, an independent property valuer
"SGM"	the special general meeting of Company to be convened to consider and, if thought fit, approve, among other things, the entering into of the Changsha Agreement, the Youngman Point Agreement and the American Rock Agreement
"Share(s)"	ordinary share(s) of HK$0.01 each in the issued share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Sinoeagle Pacific"	Sinoeagle Pacific Limited, a company incorporated in the British Virgin Islands with limited liability and wholly-owned by Mr. Li
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	The Hong Kong Code on Takeovers and Mergers

"Youngman Point Agreement"	a sale and purchase agreement dated 21 December 2006 between Beijing Guoke and the Purchaser in respect of the sale and purchase of the 22.1% of the registered capital of the Youngman Joint JV
"Youngman Point Completion"	completion of the Youngman Point Agreement
"Youngman Point Consideration"	the consideration of RMB90 million (approximately HK$90 million) for the acquisition by the Purchaser of the 22.1% of registered capital of the Youngman Point JV pursuant to the Youngman Point Agreement
"Youngman Point JV"	北京新松房地產開發有限公司 (Beijing New Shine Properties Development Company Limited), a limited liability company incorporated in the PRC on 29 May 2000 and the sole developer of the Youngman Point Property Project
"Youngman Point Property Project"	a residential and commercial property project known as "Youngman Point"（青年匯）located at 北京市朝陽區青年路甘露園中里2號 (No. 2, Ganluyuan, Zhongli, Qingnian Road, Chaoyang District, Beijing), the PRC and under development by the Youngman Point JV
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"US$"	United States dollar(s), the lawful currency of the United States of America
"%"	per cent.

For the purpose of this circular, unless otherwise indicated, the exchange rates of RMB1.00 = HK$1.00 and US$1.00 = HK$7.80 have been used for currency translation, where applicable. Such exchange rates are for the purpose of illustration only and do not constitute a representation that any amounts in US$, HK$ or RMB have been, could have been or may be converted at such or any other rates or at all.

Certain English translations of Chinese names or words in this circular are included for information only, and are not official English translations of such Chinese names or words.

中新集团
NEOCHINAGROUP

NEO-CHINA GROUP (HOLDINGS) LIMITED
中 新 集 團（控 股）有 限 公 司 *

(Incorporated in Bermuda with limited liability)

(Stock Code: 563)

Executive Directors:
Mr Li Song Xiao *(Chairman)*
Mr Liu Yi
Ms Niu Xiao Rong
Mr Yuan Kun
Ms Liu Yan

Independent non-executive Directors:
Ms Nie Mei Sheng
Mr. Zhang Qing Lin
Mr Wang Shiyong

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal Place of Business:
Unit 1908-9, 19th Floor
Office Tower, Convention Plaza
No. 1 Harbour Road
Wanchai
Hong Kong

31 January 2007

To the shareholders of the Company

Dear Sir or Madam,

PROPOSED CONNECTED TRANSACTIONS INCLUDING TWO MAJOR TRANSACTIONS – PROPOSED ACQUISITIONS OF INTERESTS IN THREE PRC JOINT VENTURES

INTRODUCTION

In an announcement dated 2 January 2007, the Company announced that on 21 December 2006, the Purchaser, a wholly-owned subsidiary of the Company (as purchaser) had entered into the following three agreements:

(i) the Changsha Agreement with Beijing New Shine Investment pursuant to which inter alia the Purchaser conditionally agreed to acquire, and Beijing New Shine Investment agreed to sell, 67% of the registered capital of the Changsha JV for a consideration of RMB216,000,000.00;

* *For identification only*

(ii) the Youngman Point Agreement with Beijing Guoke, pursuant to which inter alia the Purchaser conditionally agreed to acquire, and Beijing Guoke agreed to sell, the 22.1% of the registered capital of the Youngman Point JV for a consideration of RMB90,000,000.00; and

(iii) the American Rock Agreement with Beijing Xi Hua, pursuant to which inter alia the Purchaser conditionally agreed to acquire, and Beijing Xi Hua agreed to sell, 15% of the registered capital of the American Rock JV for a consideration of RMB100,000,000.00.

The entering into of the Changsha Agreement, the Youngman Point Agreement and the American Rock Agreement constitute connected transactions for the Company under the Listing Rules and are subject to the approval of the Independent Shareholders by poll at SGM.

The Group acquired a 70% interest in the Youngman Point JV in 2006 from Mr. Li, and subsequently entered into the Youngman Point Agreement and the Changsha Agreement on 21 December 2006 with 2 companies controlled by Mr. Li respectively. As the Group entered into these agreements with parties connected or otherwise associated with one another, the Company considers that they constitute a series of transactions that it would be appropriate to aggregate them. On this basis, the Changsha Agreement together with the Youngman Point Agreement constitute a major transaction when aggregated.

The Group acquired in aggregate an effective interest of 100% in the American Rock JV during the period from 2004 to 2006. The Company considers that these transactions involve acquisitions of interests in the same asset, and it would be appropriate for them to be aggregated and treated as if they were one transaction. On this basis, the American Rock Agreement constitutes a major transaction of the Company under the Listing Rules.

The purpose of this circular is to give you, among other things, details of the Proposed Acquisitions.

THE PROPOSED ACQUISITIONS

The Purchaser, a wholly-owned subsidiary of the Company, entered into the Changsha Agreement, the Youngman Point Agreement and the American Rock Agreement on 21 December 2006. Each of the Changsha Agreement, the Youngman Point Agreement and the American Rock Agreement is independent of the others and none is conditional on any of the others.

The Changsha Agreement

Date:	21 December 2006
Parties:	
Vendor:	Beijing New Shine Investment Group Company Limited, a company whose controlling shareholder is Mr. Li, the chairman and an executive director of the Company.
Purchaser:	Beijing New Shine Land Investment Consultancy Limited, a wholly-owned subsidiary of the Company.
Asset to be acquired:	67% of the registered capital of the Changsha JV.
Consideration:	RMB216.00 million (approximately HK$216.00 million), which is to be satisfied in cash. The Company intends to fund the acquisition from internal resources.
Conditions precedent:	Completion is subject to the satisfaction of the following conditions:

(i) the approval of the Changsha Agreement by Independent Shareholders by poll at the SGM;

(ii) the issue of a legal opinion by the PRC legal adviser to the Purchaser, in form and substance satisfactory to the Purchaser, to the effect that:

(a) Beijing New Shine Investment is the lawful owner of 67% of the registered capital of the Changsha JV free and clear of Encumbrances and the relevant acquisition by the Purchaser of its interests in the Changsha JV has been approved by the relevant regulatory authorities in the PRC; and

(b) the parties to the Changsha JV have contributed their respective shares of Changsha JV registered capital in the sum of RMB30.00 million (approximately HK$30.00 million) in accordance with the relevant governmental approval, and the Changsha JV is the lawful owner, user, occupier and developer of the Changsha Property Project and the land occupied by the Changsha Property Project free of all Encumbrances other than disclosed mortgages.

As Mr. Li is a connected person with a material interest in this transaction, Mr. Li, Sinoeagle Pacific Limited, Invest Gain Limited and their respective associates and parties acting in concert with them, will abstain from voting on the resolution approving the Changsha Agreement at the SGM.

If the above conditions are not fulfilled by 31 March 2007 (or such later date as the parties may agree), the Changsha Agreement shall cease and determine and neither party thereto shall have any claim against the other, save and except in respect of any antecedent breach of the Changsha Agreement. Condition (i) cannot be waived by Beijing New Shine Investment or the Purchaser.

The Purchaser has received the legal opinion pursuant to condition (ii) above on 4 January 2007 and is satisfied that condition (ii) has been fulfiled.

Completion: Completion is to take place on the tenth business day (excluding a Saturday) after satisfaction of condition (i) above or such other date as the parties may agree.

According to the valuation report issued by Savills, the market value of the Changsha Property Project was RMB372.30 million (approximately HK$372.30 million) (on a Market Value Basis) as at 31 October 2006.

The Youngman Point Agreement

Date: 21 December 2006

Parties:

Vendor: Beijing Guoke Xinye Technology Development Company Limited, a company whose controlling shareholder is Mr. Li, the controlling shareholder and chairman and an executive director of the Company.

Purchaser: Beijing New Shine Land Investment Consultancy Limited, a wholly-owned subsidiary of the Company.

Asset to be acquired: 22.1% of the registered capital of Youngman Point JV.

Consideration: RMB90.00 million (approximately HK$90.00 million), which is to be satisfied in cash. The Company intends to fund the acquisition from internal resources.

Conditions precedent: Completion is subject to the satisfaction of the following conditions:

(i) the approval of the Youngman Point Agreement by Independent Shareholders by poll at the SGM;

(ii) the issue of a legal opinion by the PRC legal adviser to the Purchaser, in form and substance satisfactory to the Purchaser, to the effect that:

(a) Beijing Guoke is the lawful owner of 22.1% of the registered capital of the Youngman Point JV free and clear of Encumbrances and the relevant acquisitions by the Purchaser of its interests in the Youngman Point JV have been approved by the relevant regulatory authorities in the PRC; and

(b) the parties to the Youngman Point JV have contributed their respective shares of the Youngman Point JV's registered capital in the sum of RMB190.00 million (approximately HK$190.00 million) in accordance with the relevant governmental approval, the Youngman Point JV is the lawful owner, user, occupier and developer of the Youngman Point Property Project and the land occupied by the Youngman Point Property Project free of all Encumbrances other than disclosed mortgages.

As Mr. Li is a connected person with a material interest in this transaction, Mr. Li, Sinoeagle Pacific Limited, Invest Gain Limited and their respective associates and parties acting in concert with them, will abstain from voting on the resolution approving the Youngman Point Agreement in the SGM.

The Purchaser has received the legal opinion pursuant to condition (ii) above on 4 January 2007 and is satisfied that condition (ii) has been fulfiled.

If the above conditions are not fulfilled by 31 March 2007 (or such later date as the parties may agree), the Youngman Point Agreement shall cease and determine and neither party thereto shall have any claim against the other, save and except in respect of any antecedent breach of the Youngman Point Agreement. Condition (i) cannot be waived by Beijing Guoke or the Purchaser.

Completion: Completion shall take place on the tenth business day (excluding a Saturday) after satisfaction of condition (i) above or such other date as the parties may agree.

According to the valuation report issued by Savills, the market value of the Youngman Point Property Project was RMB621.51 million (approximately HK$621.51 million) (on a Market Value Basis) as at 31 October 2006.

The American Rock Agreement

Date: 21 December 2006

Parties:

Vendor: Beijing Xi Hua. The Company has been advised that Beijing Xi Hua is legally and beneficially owned by 2 individuals: He Xiao-Cheng (80%) and He Ging (20%). To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the beneficial owners of Beijing Xi Hua are Independent Third Parties. Beijing Xi Hua is a substantial shareholder of American Rock JV, an indirect subsidiary of the Company, and hence a connected person of the Company at the subsidiary level. Beijing Xi Hua has no securities interest in the Company or any of its subsidiaries other than the American Rock JV.

Purchaser: Beijing New Shine Land Investment Consultancy Limited, a wholly-owned subsidiary of the Company.

Asset to be acquired: 15% of the registered capital of American Rock JV.

Consideration: RMB100.00 million (approximately HK$100.00 million), which is to be satisfied in cash. The Company intends to fund the acquisition from internal resources.

Conditions precedent: Completion is subject to the satisfaction of the following conditions:

(i) the approval of the American Rock Agreement by Shareholders at the SGM (only Independent Shareholders will be permitted to vote on this resolution);

(ii) the issue of a legal opinion by the PRC legal adviser to the Purchaser, in form and substance satisfactory to the Purchaser, to the effect that:

(a) Beijing Xi Hua is the lawful owner of 15% of the registered capital of the American Rock JV free and clear of Encumbrances and the relevant acquisition by the Purchaser of its interests in the American Rock JV has been approved by the relevant regulatory authorities in the PRC; and

(b) the parties to the American Rock JV have contributed their respective shares of the American Rock JV's registered capital in the amount of US$12.00 million (approximately HK$93.60 million) in accordance with the relevant governmental approval, and the American Rock JV is the lawful owner, user, occupier and developer of the American Rock Property Project and the land occupied by the American Rock Property Project free of all Encumbrances other than disclosed mortgages.

If the above conditions are not fulfilled by 31 March 2007 (or such later date as the parties may agree), the American Rock Agreement shall cease and determine and neither party thereto shall have any claim against the other, save and except in respect of any antecedent breach of the American Rock Agreement. Condition (i) cannot be waived by Beijing Xi Hua or the Purchaser.

	The Purchaser has received the legal opinion pursuant to condition (ii) above on 4 January 2007 and is satisfied that condition (ii) has been fulfiled.
Completion:	Completion shall take place on the tenth business day (excluding a Saturday) after satisfaction of condition (i) above or such other date as the parties may agree.

According to the valuation report issued by Savills, the market value of the American Rock Property Project was RMB804.70 million (approximately HK$804.70 million) (on a Market Value Basis) as at 31 October 2006.

Basis for determining the Changsha Consideration, the Youngman Point Consideration and the American Rock Consideration

The Changsha Consideration

The Changsha Consideration of RMB216.00 million (approximately HK$216.00 million) was determined after arm's length negotiations between the parties by reference to the audited net assets of the Changsha JV at 31 July 2006 and the value of its property interest. Full details of the valuation (including the valuation report) and the accountants' report on the Changsha JV are stated in Appendix VII(B) and Appendix IV(C) of this circular respectively.

The Youngman Point Consideration

The Youngman Point Consideration of RMB90.00 million (approximately HK$90.00 million) was determined after arm's length negotiations between the parties by reference to the audited net assets of the Youngman Joint JV at 31 July 2006 and the value of its property interest. Full details of the valuation (including the valuation report) and the accountants' report on the Youngman Point JV are stated in Appendix VII(B) and Appendix IV(B) of this circular respectively.

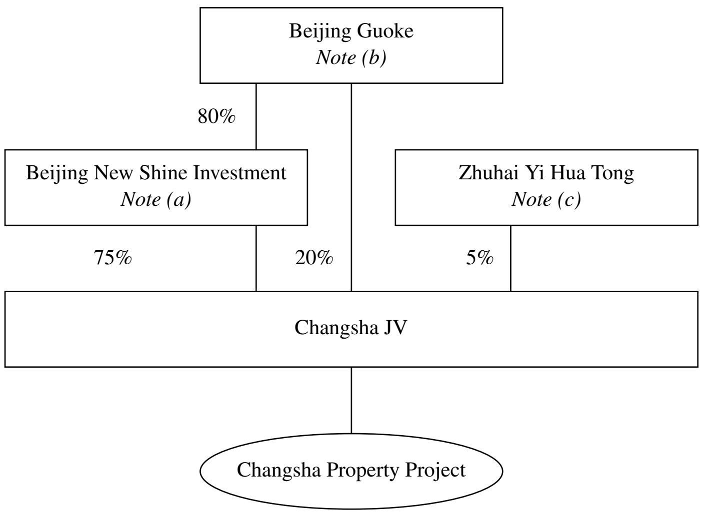
The American Rock Consideration

The American Rock Consideration of RMB100.00 million (approximately HK$100.00 million) was determined after arm's length negotiations between the parties by reference to the audited net assets of the American Rock JV at 31 July 2006 and the value of its property interest. Full details of the valuation (including the valuation report) and the accountants' report on the American Rock JV are stated in Appendix VII(A) and Appendix IV(A) of this circular respectively.

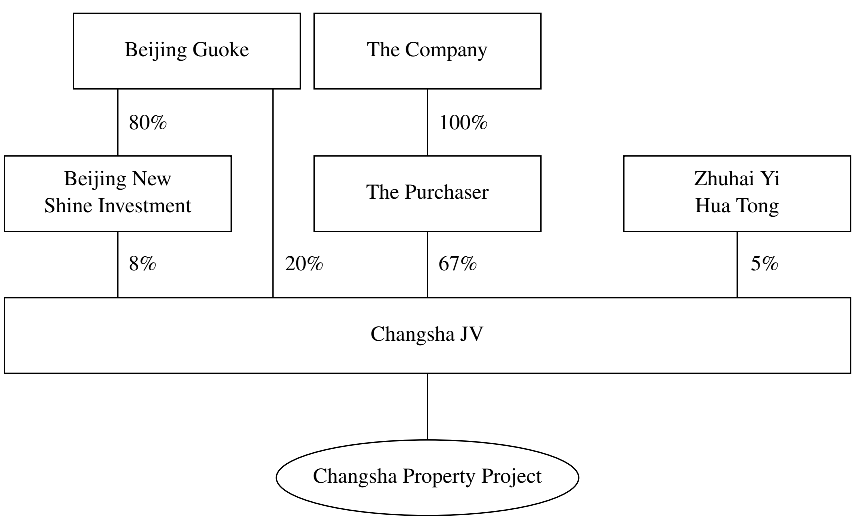
Information on the Changsha JV and the Changsha Property Project

The charts below set out the ownership structure of the Changsha Property Project before and upon the Changsha Completion:–

Before The Changsha Completion



After the Changsha Completion



Note: (a) Beijing New Shine Investment is owned by Beijing Guoke (80%), Liu Hui, the spouse of Mr. Li (16%) and Song Xuan, a former director of the Company (4%) respectively.

(b) Beijing Guoke is controlled by Mr. Li through his 80% interest in Beijing Li Wei Technology Development Co. Ltd ("Li Wei") and 80% interest in Beijing Zhi Ming Technology Development Co. Ltd ("Zhi Ming"). Beijing Guoke is owned by Li Wei (55.56%), Zhi Ming (37.04%), Mr. Li (5.92% and Liu Hui (1.08%)

(c) Zhuhai Yi Hua Tong is owned by Wang Bao Ning (95%) and Zhang Kai Ying (5%) respectively.

Beijing New Shine Investment, a limited liability company incorporated in the PRC, is controlled by Mr. Li. The principal business of Beijing New Shine Investment is investment holding.

The Changsha JV, a company incorporated in the PRC on 14 September 2005, is the sole owner of the Changsha Property Project. The total registered and paid up capital of the Changsha JV is RMB30.00 million (approximately HK$30.00 million), which was contributed by Beijing New Shine Investment. The development of Changsha Property Project is financed by internal resources, pre-sale proceeds of properties and bank loans of the Changsha JV.

Upon the Changsha Completion, the Company will have an effective equity interest of 67% in the Changsha JV and the Changsha JV will become an indirect subsidiary of the Company. The remaining equity interest in the Changsha JV will be held by Beijing New Shine Investment (8%), Beijing Guoke (20%) and 珠海怡華通發展有限公司(Zhuhai Yi Hua Tong Development Company Limited) ("Zhuhai Yi Hua Tong") (5%) respectively. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Zhuhai Yi Hua Tong and its beneficial owners are an Independent Third Parties.

Set out below are the details of the Changsha Property Project:

Address: 長沙市望城縣(原長沙火電廠基地)高塘岭鎮蓮湖區高橋大道東西兩側(East side and west side of Gaoqiao Road, Gaotangling Town, Lianhu District, Wancheng County, Changsha City, PRC (the previous site of the Changsha Electricity Plant))

The Changsha Property Project comprises five parcels of land with an aggregate site area of approximately 665,987 square metres. The Changsha Property Project will be developed into a large scale residential and commercial development, including villa, low to high-rise residential buildings, clubhouse and other ancillary facilities with a total gross floor area about 800,000 square metres. The Changsha Property Project is planned to be developed in two phases and are scheduled for completion in around 2010. The Changsha JV has obtained the land use rights of all of the five parcels of land in 2 batches in October 2005 and November 2006 and the total cost of acquisition of the titles was RMB33,111,878 (approximately HK$33,111,878).

For the period from 14 September 2005 (date of incorporation) to 31 December 2005, the audited net loss of the Changsha JV amounted to approximately RMB0.26 million (approximately HK$0.26 million). For the seven months ended 31 July 2006, the audited net loss of the Changsha JV amounted to approximately RMB0.03 million (or approximately HK$0.03 million) (no taxation expenses were incurred during the periods).

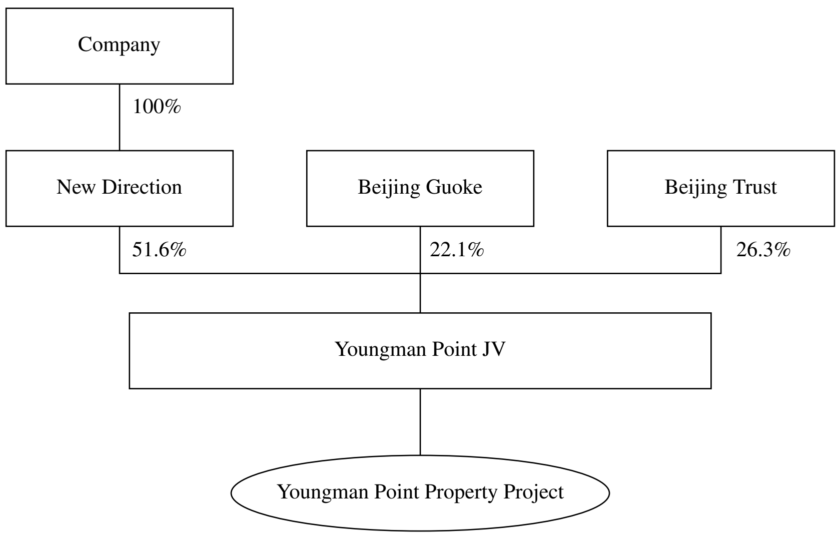
The audited net asset value of the Changsha JV as at 31 July 2006 and 31 December 2005 were RMB29.71 million (approximately HK$29.71 million) and RMB29.74 million (approximately HK$29.74 million) respectively. The audit was on the basis of Hong Kong accounting principles.

Based on the audited accounts of the Changsha JV at 31 July 2006 prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), the Changsha JV owed (i) to 湖南上地置業發展有限公司 (Hunan Shangdi Property Development Limited) ("Hunan Shangdi") an outstanding amount of RMB9.98 million (or approximately HK$9.98 million); and (ii) to Beijing New Shine Investment an outstanding amount of RMB74.00 million (or approximately HK$74.00 million). The aforesaid outstanding liabilities of the Changsha JV totalling approximately RMB83.98 million (or approximately HK$83.98 million) were unsecured, interest-free and repayable on demand. The amounts owned are loans from those companies to finance construction. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiry, Hunan Shangdi and its beneficial owners are Independent Third Parties.

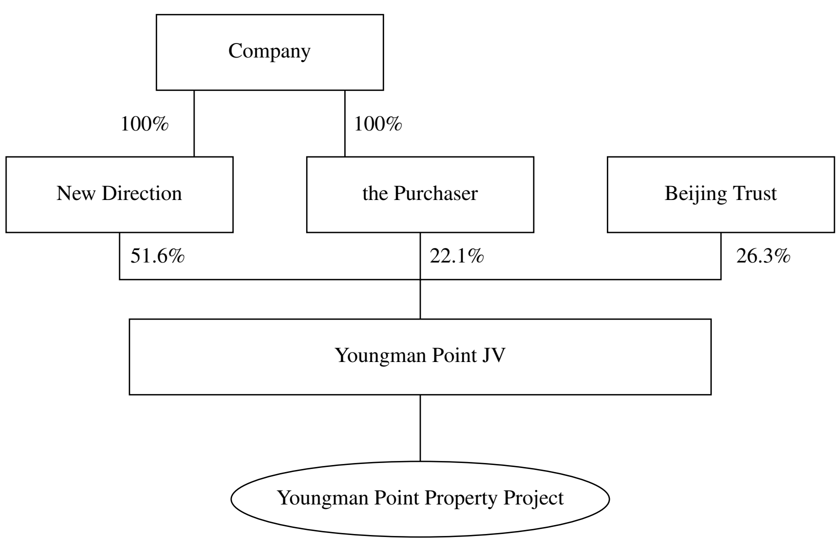
Information on the Youngman Point JV and the Youngman Point Property Project

The Youngman Point JV is already a subsidiary of the Company. The charts below set out the ownership structure of the Youngman Point Property Project before and upon the Youngman Point Completion:

Before the Youngman Point Completion



Upon the Youngman Point Completion



Beijing Guoke, a limited liability company incorporated in the PRC, is controlled by Mr. Li. The principal business of Beijing Guoke is investment holding. Beijing Guoke was formerly known as "Beijing New Shine Technology Development Limited". The change of name became effective on 9 December 2005.

The Youngman Point JV is a Sino-foreign equity joint venture established in the PRC on 29 May 2000, and is solely engaged in the development of the Youngman Point Property Project. The existing total registered and paid up capital of the Youngman Point JV is RMB50.00 million (approximately HK$50.00 million). On 22 June 2005, 北京市發展和改革委員會 (the Development and Reform Commission of Beijing), the PRC approved the increase in the registered capital of the Youngman Point JV from RMB50.00 million (approximately HK$50.00 million) to RMB140.00 million (approximately HK$140.00 million). On 12 September 2006, 北京市商務局approved the increase in the registered capital of the Youngman Point JV from RMB140.00 million (approximately HK$140.00 million) to RMB190.00 million (approximately HK$190.00 million). The registered capital was contributed by New Direction, Beijing Guoke and北京國際信託投資有限公司(Beijing International Trust Investment Company Limited) ("Beijing Trust") respectively in the amount of RMB98.00 million (approximately HK$98.00 million), RMB42.00 million (approximately HK$42.00 million) and RMB50.00 million (approximately HK$50.00 million) respectively. The term of the Youngman Point JV is 20 years from the date of issue of its business licence on 29 May 2000. The estimated total investment cost of the Youngman Point JV is approximately RMB350.00 million (approximately HK$350.00 million).

Based on the audited accounts of the Youngman Point JV at 31 July 2006, the effective equity interest of the Company in the Youngman Point JV was 70%. After the increase of registered capital in September 2006, the effective equity interest of the Company in the Youngman Point JV dropped to 51.6%. Upon the Youngman Point Completion, the effective equity interest of the Company in the Youngman Point JV will be increased from 51.6% to 73.7% and Youngman Point JV will remain a subsidiary of the Company.

The Company, through a wholly-owned subsidiary, acquired a 70% interest in the Youngman Point JV in 2006 for a consideration of HK$311,878,000.00. The acquisition of the 70% interest in the Youngman Point JV constituted a connected transaction and a very substantial acquisition of the Group. Details were disclosed in the announcement of the Company dated 29 September 2005 and the circular of the Company dated 23 January 2006.

Set out below are the details of the Youngman Point Property Project:

Address: 北京市朝陽區青年路甘露園中里2號 (No. 2, Ganluyuan, Zhongli, Qingnian Road, Chaoyang District, Beijing), the PRC

Phases:
(a) Phase I, with site area and gross floor area of approximately 40,917.30 square metres and approximately 145,424 square metres respectively;

(b) Phase II (Lot No. 1), with site area and gross floor area of approximately 17,472.3 square metres and approximately 19,300 square metres respectively;

(c) Phase II (Lot No. 2), with site area and gross floor area of approximately 12,128.5 square metres and approximately 13,350 square metres respectively;

(d) Phase II (Lot No. 3), with site area and gross floor area of approximately 13,664.55 square metres and approximately 45,578 square metres respectively; and

(e) Phase II (Lot No. 4), with site area and gross floor area of approximately 29,944.5 square metres and approximately 80,432 square metres respectively.

The whole project consists of 2 phases (Phase I and Phase II). Phase I has 1,587 residential units and 25 commercial units in total for sale purposes. Phase II is still at the planning stage and the development plan has yet to be finalised at this stage. The expected completion date of Phase II is in December 2007. The whole Youngman Point Property Project is still under construction.

100% of the residential units of Phase I had been pre-sold on or before 30 November 2006. The contract value of such pre-sales amounted to approximately RMB665.00 million (approximately HK$665.00 million)

For the year ended 31 December 2005, the audited net profit before and after taxation of the Youngman Point JV amounted to approximately RMB0.79 million (approximately HK$0.79 million) and approximately RMB0.53 million (approximately HK$0.53 million) respectively. The audit was carried out applying the Hong Kong accounting principles. For the year ended 31 December 2004, the audited net loss of the Youngman Point JV amounted to approximately RMB14.21 million (approximately HK$14.21 million) (no taxation expense was incurred during the year). For the seven months ended 31 July 2006, the audited net profit before and after taxation of the Youngman Point JV amounted to approximately RMB87.81 million (approximately HK$87.81 million) and approximately RMB58.83 million (approximately HK$58.83) respectively. The development of Youngman Point Project is financed by internal resources, pre-sale proceeds of properties and bank loans of the Youngman Point JV.

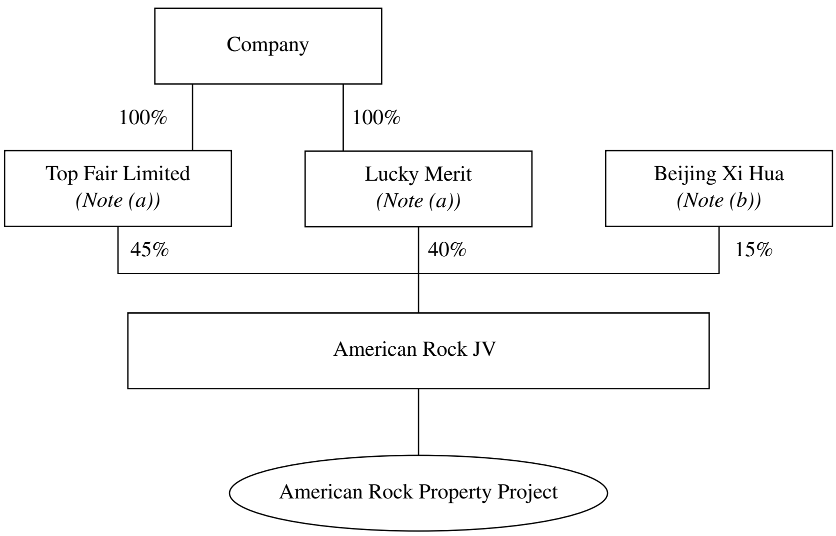
The audited net asset value of Youngman Point JV as at 31 July 2006 and 31 December 2005 were RMB182.80 million (approximately HK$182.80 million) and RMB33.97 million (approximately HK$33.97 million) respectively. The audit was on the basis of Hong Kong accounting principles.

Based on the audited accounts of the Youngman Point JV at 31 July 2006 prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), the Youngman Point JV owed to 中置(北京)企業管理有限公司 (Zhongzhi (Beijing) Enterprise Management Company Limited ("Zhongzhi (Beijing)") RMB235.47 million (approximately HK$235.47 million). The aforesaid outstanding liability of the Youngman Point JV was unsecured, interest-free and repayable on demand. The amount owed represents loan from the company to finance construction. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Zhongzhi (Beijing) and its beneficial owners are Independent Third Parties.

Information on the American Rock JV and the American Rock Property Project

The American Rock JV is already a subsidiary of the Company. It will be wholly owned by the Company after the American Rock Completion. The charts below set out the ownership structure of the American Rock Property Project before and upon the American Rock Completion:

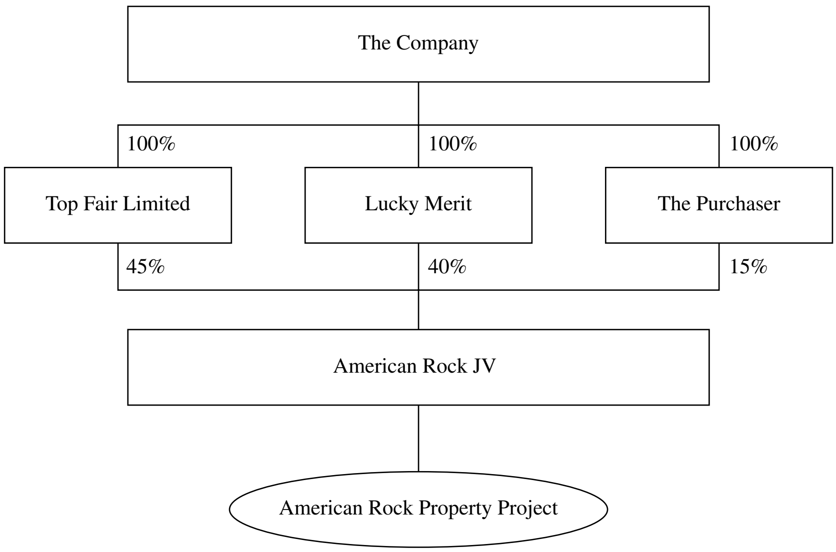
Before the American Rock Completion



Notes: (a) The Company's existing 85% interest through Top Fair Limited and through Lucky Merit was acquired in notifiable and connected transactions approved in compliance with the Listing Rules. The Company acquired a 40% interest in American Rock JV for a consideration of HK$259,595,000. The acquisition of Lucky Merit constituted a connected transaction and a very substantial acquisition of the Group. Details of the acquisition of Lucky Merit were disclosed in the announcement of the Company dated 29 September 2005 and the circular of the Company dated 23 January 2006.

(b) 80% of Beijing Xi Hua is owned by He Xiao-Cheng and 20% is owned by He Ging, each of whom is an Independent Third Party that does not own any Shares.

Upon the American Rock Completion



Beijing Xi Hua, a limited liability company incorporated in the PRC, according to information provided to the Company, is 80% beneficially and legally owned by He Xiao-Cheng and 20% beneficially and legally owned by He Ging. The principal business of Beijing Xi Hua is investment holding.

The American Rock JV is a Sino-foreign equity joint venture established in the PRC on 15 October 2002, and solely engaged in the development of the American Rock Property Project. The total registered and paid up capital of the American Rock JV is US$12.00 million (approximately HK$93.60 million) and contributions thereto attributable to Top Fair Limited, Lucky Merit and Beijing Xi Hua amounted to US$5.40 million (approximately HK$42.12 million), US$4.80 million (approximately HK$37.44 million) and US$1.80 million (approximately HK$14.04 million) respectively. The term of the American Rock JV is 20 years from the date of issue of its business licence on 15 October 2002. The estimated total investment cost of the American Rock JV is approximately US$29.50 million (approximately HK$230.10 million).

The Company already holds an 85% interest in the American Rock JV acquired in previous notifiable and connected transactions in compliance with the Listing Rules. Upon the American Rock Completion, American Rock JV will become an indirect wholly-owned subsidiary of the Company, and the effective equity interest of the Company in the American Rock JV will be increased from 85% to 100%.

Set out below are the details of the American Rock Property Project:

Address: 北京朝陽區百子灣路16號 (No. 16, Baiziwan Road, Chaoyang District, Beijing, the PRC)

Phases:

(a) Phase I (Zone A), with site area and gross floor area of approximately 27,820.26 square metres and approximately 106,689.58 square metres respectively;

(b) Phase II (Zone B), with site area and gross floor area of approximately 35,011.07 square metres and approximately 117,409.32 square metres respectively;

(c) Phase II (Zone C), with site area and gross floor area of approximately 35,744.40 square metres and approximately 167,177.10 square metres respectively; and

(d) Phase II (Zone D), with site area and gross floor area of approximately 22,922.77 square metres and approximately 109,457.42 square metres respectively.

The whole project consists of 2 phases (Phase I and Phase II) and 4 zones (Zones A, B, C and D) with approximately 5,400 residential and commercial units in total for sale purposes. Zones A and B were completed in December 2003 and September 2004 respectively. Approximately 99.6% of the residential units of Zone A and Zone B respectively and 100% and approximately 97.1% of the commercial units of Zone A and Zone B respectively have been sold as of 30 November 2006.

Approximately 92.8% and 62.1% of the residential units of Zone D and Zone C have been pre-sold as of 30 November 2006 respectively.

For the year ended 31 December 2005, the audited net profit before and after taxation of the American Rock JV amounted to approximately RMB107.02 million (approximately HK$107.02 million) and approximately RMB70.65 million (approximately HK$70.65 million) respectively. For the year ended 31 December 2004, the audited net profit before and after taxation of the American Rock JV amounted to approximately RMB329.94 million (approximately HK$329.94 million) and approximately RMB225.04 million (approximately HK$225.04 million) respectively. For the seven months ended 31 July 2006, the audited net profit before and after taxation of the American Rock JV amounted to approximately RMB67.69 million (approximately HK$67.69 million) and approximately RMB45.35 million (approximately HK$45.35 million) respectively. The audit was carried out applying the Hong Kong accounting principles The development of American Rock Project is financed by internal resources, pre-sale proceeds of properties and bank loans of the American Rock JV.

The audited net asset value of American Rock JV as at 31 July 2006 and 31 December 2005 were RMB434.27 million (approximately HK$434.27 million) and RMB388.92 million (approximately HK$388.92 million) respectively. The audit was on the basis of Hong Kong accounting principles.

Based on the audited accounts of the American Rock JV at 31 July 2006 prepared in accordance with HKFRS, the American Rock JV owed to Top Fair Limited an outstanding amount of RMB100.00 million (approximately HK$100.00 million). The aforesaid outstanding liability of the American Rock JV was unsecured, interest-free and repayable on demand. The amount owed is loan from the company to finance construction.

REASONS FOR THE PROPOSED ACQUISITIONS

The Company was incorporated in Bermuda with limited liability and its Shares are listed on the Main Board of the Stock Exchange. The Group is principally engaged in property investment and development in the PRC. The Group has been appraising proactively various investment opportunities to explore high potential investments and attractive business opportunities in the major cities in the PRC, such as Shanghai, Beijing, Shenzhen and elsewhere. The Company is of the view that the Proposed Acquisitions represent a good opportunity for the Group to further expand its business in the property market in Beijing and Changsha.

For the Changsha Project, land and construction cost are comparatively lower while the selling price is satisfactory in Changsha's property market. Thus the directors strongly believe this project will have very positive contributions to Neo China's earnings in the coming years.

Youngman Point and American Rock are two profitable projects currently developed by Neo China. Their results have already been consolidated. The property market of Beijing, especially the central business district, is mature and stable. Market prices are growing steadily and investment risks are low.

The executive and non-executive Directors consider that the Proposed Acquisitions are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. The independent non-executive Directors' views are contained in the letter from the Independent Board Committee on page 28 of this circular.

IMPLICATIONS OF THE PROPOSED ACQUISITIONS UNDER LISTING RULES

At the date of this circular, Mr. Li, the controlling shareholder of the vendors under the Changsha Agreement and the Youngman Point Agreement, is an executive Director and the chairman of the Board and, through Invest Gain and Sinoeagle Pacific respectively, two companies wholly-owned by him, is beneficially interested in 3,602,381,390 Shares, representing approximately 56.2% of the existing issued share capital of the Company. Accordingly, Mr. Li is a connected person of the Company under the Listing Rules. In addition, Beijing Xi Hua is a substantial shareholder of American Rock JV, an indirect subsidiary of the Company, and hence a connected person of the Company at the subsidiary level. The Changsha Agreement, the Youngman Point Agreement and the American Rock Agreement therefore constitute connected transactions for the Company under the Listing Rules, and are subject to the approval of the Independent Shareholders by way of poll at the SGM. Mr. Li, Invest Gain Limited and their respective associates and parties acting in concert with them will abstain from voting on the resolutions approving the Changsha Agreement and the Youngman Point Agreement in the SGM.

The accountants' reports of the 3 PRC Joint Ventures as set out in Appendix IV to this Circular were made up to 31 July 2006. Pursuant to Rule 4.06 of the Listing Rules, the accountants reports for the 3 PRC Joint Ventures are required in cover 3 financial years up to 31 December 2006. As this circular is required to be despatch on or before 31 January 2007, it would be unduly burdensome for the Company and the reporting accountants to include such accountants' reports up to 31 December 2006. In this connection, the Company has applied to the Stock Exchange for a Waiver from strict compliance with the requirements under Rule 4.06 of the Listing Rules, the Directors, having considered the due diligence work performed by the Company, confirm that there is no significant change in the financial position of the 3 PRC Joint Ventures since 31 July 2006 and that no event is expected to arise from the date thereof which may result in a significant change in the financial position of the 3 PRC Joint Ventures.

The Group acquired a 70% interest in the Youngman Point JV in early 2006 from Mr. Li, and subsequently entered into the Youngman Point Agreement and the Changsha Agreement on 21 December 2006 with 2 companies controlled by Mr. Li. As the Group entered into these agreements with parties connected or otherwise associated with one another, the Company considers that they constitute a series of transactions that it would be appropriate to aggregate them. On this basis, the Changsha Agreement together with the Youngman Point Agreement also constitute a major transaction when aggregated.

The Group acquired in aggregate an effective interest of 75% in the American Rock JV during the period from 2004 to 2006 and was contracted to acquire the remaining 15% on 21 December 2006. The Company considers that these transactions involve acquisitions of the interest in the same asset, and it would be appropriate to aggregate them and treated as if they were one transaction. On this basis, the American Rock Agreement constitutes a major transaction of the Company under the Listing Rules.

The Proposed Transactions were treated as very substantial acquisitions and connected transactions pending the financial information of the targets, which were finalised and made available to the Company after the suspension of trading in the Shares on 21 December 2006. The Company treated the Proposed Transactions as major and connected transactions for the reasons stated above.

Completion of each of the Changsha Agreement, the Youngman Point Agreement and the American Rock Agreement is subject to the satisfaction of a number of conditions precedent as detailed above. The Changsha Agreement, the Youngman Point Agreement and the American Agreement may or may not be completed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

FINANCIAL EFFECTS OF THE PROPOSED ACQUISITIONS

The acquisition pursuant to each of the Changsha Agreement, the Youngman Point Agreement and the American Rock Agreement will be funded by internal resources of the Company. The Changsha JV will be treated as subsidiary of the Company. American Rock JV and Youngman Point JV are currently subsidiaries of the Company. As the Changsha Project is in its very early stage of development, it is not expected to have any material positive contribution for the earnings of the Company until fiscal year 2008.

GENERAL

An independent board committee of the Company has been formed to advise the Independent Shareholders on the terms of the Changsha Agreement, the Youngman Point Agreement and the American Rock Agreement. First Shanghai Capital Limited, an independent financial adviser, has been appointed to advise the independent board committee and the Independent Shareholders in this regard.

The recommendation of the independent board committee of the Company and the letter of advice from First Shanghai Capital Limited in respect of the Changsha Agreement, the Youngman Point Agreement and the American Rock Agreement are set out in Appendix I and II to this circular.

THE SGM

Notice of the SGM is set out on pages 294 to 296 of this circular. At the SGM, resolutions will be proposed to approve, inter alia, the Proposed Acquisition.

A form of proxy for use at the SGM is enclosed with this circular. To be valid, the form of proxy must be completed and signed in accordance with the instructions printed thereon and deposited, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority at the Share Registrar of the Company in Hong Kong, Secretaries Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong, not less than 48 hours before the time appointed for holding the Special General Meeting. Completion and delivery of the form of proxy will not preclude shareholders from attending and voting at the SGM if they so wish.

RECOMMENDATION

The Directors consider that the Proposed Acquisitions, which are conditional upon the Shareholders' approval, are in the best interests of the Company, the Group and the Shareholders. Accordingly, the Directors recommend the Shareholders to vote in favour of the relevant resolutions at the SGM.

FURTHER INFORMATION

Your attention is drawn to the information set out in elsewhere in this circular and in the Appendices to it.

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

The following is the text of a letter received from the Independent Board Committee setting out its advice to the Independent Shareholders for the purpose of inclusion in this circular.

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

(Incorporated in Bermuda with limited liability)
(Stock Code: 563)

31 January 2007

To the Independent Shareholders

Dear Sir or Madam,

PROPOSED CONNECTED TRANSACTIONS INCLUDING TWO MAJOR TRANSACTIONS – PROPOSED ACQUISITIONS OF INTERESTS IN THREE PRC JOINT VENTURES

We refer to the circular of the Company dated 31 January 2007 (the "Circular"), of which this letter forms part. Terms defined herein shall have the same meanings as defined in the Circular unless the context otherwise requires.

We, being the Directors constituting the Independent Board Committee, have been appointed by the Board to advise you as to whether the terms of the Proposed Acquisitions are fair and reasonable insofar as the Independent Shareholders are concerned.

We wish to draw your attention to the letter from the Board, which is set out on pages 6 to 27 of the Circular, and the letter of advice from First Shanghai Capital Limited, the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders, setting out its advice in respect of the Proposed Acquisitions as set out on pages 30 to 41 of the Circular.

* *For identification only*

Having considered the terms of the Proposed Acquisitions and the advice of First Shanghai Capital Limited, we are of opinion that the terms of the Changsha Agreement, the Youngman Point Agreement and the American Rock Agreement are fair and reasonable insofar as the Independent Shareholders are concerned and the Proposed Acquisitions are in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the SGM to approve the Proposed Acquisitions.

Yours faithfully,
Independent Board Committee
Nie Mei Sheng **Wang Shi Yong** **Zhang Qing Lin**

The following is the text of a letter received from First Shanghai Capital Limited setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Acquisitions for inclusion in this circular.

FIRST SHANGHAI CAPITAL LIMITED
19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

31 January 2007

To the Independent Board Committee and
the Independent Shareholders

Neo-China Group (Holdings) Limited
Unit 1908-09, 19/F
Office Tower, Convention Plaza
No. 1 Harbour Road
Wanchai
Hong Kong

Dear Sir or Madam,

PROPOSED CONNECTED TRANSACTIONS INCLUDING TWO MAJOR TRANSACTIONS – PROPOSED ACQUISITION OF INTERESTS IN THREE PRC JOINT VENTURES

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Acquisitions, details of which are set out in the circular of the Company dated 31 January 2007 (the "Circular") to the Shareholders, of which this letter forms a part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.

As disclosed in the announcement of the Company dated 2 January 2007, on 21 December 2006, Beijing New Shine Land Investment Consultancy Limited (as the Purchaser), a wholly-owned subsidiary of the Company entered into three agreements (the "Agreements"), namely (i) the Changsha Agreement with Beijing New Shine Investment pursuant to which inter alia the Purchaser conditionally agreed to acquire, and Beijing New Shine Investment agreed to sell, 67% of the registered capital of the Changsha JV for a consideration of RMB216,000,000 (approximately HK$216,000,000); (ii) the Youngman Point Agreement with Beijing Guoke, pursuant to which inter alia the Purchaser conditionally agreed to acquire, and Beijing Guoke agreed to sell, 22.1% of the registered capital of the Youngman Point JV for a consideration of RMB90,000,000 (approximately HK$90,000,000); and (iii) the American Rock Agreement with Beijing Xi Hua, pursuant to which inter alia the Purchaser conditionally agreed to acquire, and Beijing Xi Hua agreed to sell, 15% of the registered capital of the American Rock JV for a consideration of RMB100,000,000 (approximately HK$100,000,000).

The considerations for the Agreements (the "Considerations") are to be satisfied in cash, while the Company intends to fund the Proposed Acquisitions from internal resources.

As at the date of the Circular, Mr. Li, the controlling shareholder of the vendors under the Changsha Agreement and the Youngman Point Agreement, is an executive Director and the chairman of the Board and, through Invest Gain and Sinoeagle Pacific respectively, two companies wholly-owned by him, is beneficially interested in 3,602,381,390 Shares, representing approximately 56.2% of the existing issued share capital of the Company. Accordingly, Mr. Li is a connected person of the Company under the Listing Rules. In addition, Beijing Xi Hua is a substantial shareholder of American Rock JV, an indirect subsidiary of the Company, and hence a connected person of the Company at the subsidiary level. The Changsha Agreement, the Youngman Point Agreement and the American Rock Agreement therefore constitute connected transactions for the Company under the Listing Rules, and are subject to the approval of the Independent Shareholders by way of poll at the SGM. Mr. Li, Invest Gain and their respective associates and parties acting in concert with them will abstain from voting on the resolutions approving the Changsha Agreement and the Youngman Point Agreement in the SGM.

The Independent Board Committee, comprising the independent non-executive Directors namely Ms. Nie Mei Sheng, Mr. Zhang Qing Lin and Mr. Wang Shi Yong, has been appointed to advise the Independent Shareholders in relation to the terms of the Agreements. Our role, as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, is to give an independent opinion as to whether the terms of the Agreements are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

In putting forth our opinion and recommendations, we have relied on the accuracy of the information and representations included in the Circular and provided to us by the Directors and the Company, and have assumed that all such information and representations made or referred to in the Circular and provided to us by the Directors and the Company were true at the time they were made and continued to be true as at the date hereof. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and have been advised by the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular. We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors nor have we conducted any form of investigation into the business, affairs or future prospects of the Group. We have taken the reasonable steps as required under Rules 13.80 of the Listing Rules in forming our opinion.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendations as to the fairness and reasonableness of the terms of the Agreements, we have taken into account the following principal factors and reasons:

1. Reasons for the Proposed Acquisitions and the property market in Changsha and Beijing

Reasons

As mentioned in the "Letter from the Board" in the Circular, the Group is principally engaged in property investment and development in the PRC. The Group has been appraising proactively various investment opportunities to explore high potential investments and attractive business opportunities in the major cities in the PRC, such as Shanghai, Beijing, Shenzhen and elsewhere. The Company is of the view that the Proposed Acquisitions represent a good opportunity for the Group to further expand its business in the property market in Beijing and Changsha.

Property market in Changsha

The Changsha Property Project is located in Changsha City, the PRC. Changsha is the capital of Hunan Province. The table below sets out the growth rates of the gross domestic products ("GDP") and per capita income of Changsha and the PRC over the years 2003, 2004 and 2005:–

	2003	2004	2005
GDP			
Changsha	14.0%	14.8%	14.9%
PRC	10.0%	10.1%	9.9%
Per capita income			
Changsha	9.1%	7.6%	10.7%
PRC (urban area)	9.0%	7.7%	9.6%

Source: National Bureau of Statistics of China; Changsha Municipal Bureau of Statistics

We note from the above table that the growth rate of GDP of Changsha have been generally higher than those in the PRC as a whole from 2003 to 2005 while the per capita income of Changsha was at similar level as that of the PRC in 2003 and 2004 and at a higher level in 2005. We have also noticed the upward trends in the growth rates of both the GDP and per capita income of Changsha from 2003 to 2005, which reflected a continuous growth on the economy within the area in recent years.

According to an article posted on Changsha Municipal Bureau of Statistics, the price index on Changsha's property market has experienced an increase of approximately 5.6% in 2005, the demand was also driven by increase in population of approximately 1.6% and per capita income in the city. In 2005, the total investment in property development was approximately RMB25.6 billion, increased by approximately 46.0%. Floor space of residential and commercial buildings sold in Changsha totalled approximately 5.4 million square metres, represented an increase of approximately 14.1%. Sales of residential buildings stood at approximately RMB8.8 billion, represented an increase of approximately 9.0%.

Based on our discussion with the management of the Company, we understand that the PRC government imposed a series of austerity measures targeted at overheating of property market. Because of these measures, the pace of growth in the PRC property market has been slowing. However, having considered the continuous growth on the economy in Changsha as reflected by the growth of GDP and per capita income and the statistical figures in Changsha's property market as stated above, we concur with the Directors' view that demand for properties in Changsha would continue to grow at a steady and healthy pace.

Property market in Beijing

The Youngman Point Property Project and the American Rock Property Project are located in Beijing, the PRC. Beijing, being the capital of the PRC, is a political and economic center and where the operations for many state level government agencies as well as many multinational corporations are located. The table below sets out the growth rates of the GDP and per capita income of Beijing and the PRC over the years 2003, 2004 and 2005:–

	2003	**2004**	**2005**
GDP			
Beijing	11.0%	14.1%	11.1%
PRC	10.0%	10.1%	9.9%
Per capita income			
Beijing	11.2%	11.5%	11.2%
PRC (urban area)	9.0%	7.7%	9.6%

Source: National Bureau of Statistics of China; Beijing Municipal Bureau of Statistics

We note from the above table that the growth rate of both GDP and per capita income of Beijing have been higher than those of the PRC as a whole. Based on an article published by Beijing Municipal Bureau of Statistics, in 2005, investment in real estate development of Beijing was approximately RMB152.5 billion, increased by approximately 3.5% over the previous year. Floor space of residential and commercial buildings sold in Beijing amounted to approximately 28.0 million square metres, represented an increase of approximately 13.4%; of this total, floor space of residential houses was approximately 25.7 million square metres, represented a growth of approximately 12.3%. Sales of commercial buildings stood at approximately RMB175.9 billion, represented an increase of approximately 40.8%.

The upcoming 2008 Olympics and 2010 World Expo might be important factors contributing to the aforesaid growth. Based on the article "Beijing Olympic Action Plan" published in July 2002 on the official website of Beijing 2008 Olympic Games, with the investment in urban development, telecommunications, transports and public utilities, the property market environment is expected to improve, which may attract more investors to develop and purchase new properties.

According to the annual report of the Company for the year ended 30 April 2006 ("Annual Report 2006") and based on our discussion with the management of the Company, we understand that a series of austerity measures targeted at overheating of property market were imposed by the central government through to the local authorities. These measures are to curb speculations, divert demands, improving the supply of properties, etc. The national's overall investment in the Beijing property market experienced a soft landing resulting from these measures. The effects of the austerity measures have begun to take effect in the property market with investment growth starting to gradually subside. However, having considered the continuous growth in GDP and per capita income in Beijing and the upcoming 2008 Olympics and 2010 World Expo as discussed above, we concur with the Directors' view that, due to strong local economy, demand for properties will continue to remain buoyant with market growth at a steady and health pace.

Having considered the reasons of the Proposed Acquisitions and the prospects of the property market in Changsha and Beijing, we are of the view that the Proposed Acquisitions is in the benefit of the Company and the Shareholders as a whole.

2. Business and financial review of the Group

The Group is principally engaged in property investment and development in the PRC. In 2004, the Group restructured its business from providing Internet consulting to property investment and development. Since then, it has seen its financial performance improved substantially. Its revenue and profit attributable to equity holders of the Company for the year ended 30 April 2005 were approximately HK$476.5 million (restated) and approximately HK$177.8 million (restated) respectively, as compared to those for 2004 of approximately HK$0.7 million and approximately HK$9.7 million respectively. Furthermore, for the financial year ended 30 April 2006, the Group recorded revenue of approximately HK$671.1 million and profit attributable to equity holders of the Company of approximately HK$104.7 million respectively.

We have reviewed the previous announcements of the Company and noticed that the Group has been acquiring interests in various property projects in the PRC. Based on the Annual Report 2006, the Group has six major projects under development which include 3 projects in Beijing, namely, the American Rock Property Project; the Youngman Point Property Project and the Xidiaoyutai Project – Yushuiyuan; and the Phoenix Tower Project in Shenzhen; the Tianjin Lacchengxiang Project in Tianjin and the Chongqing Yuanjiagang Project in Chongquing. Total gross floor area of these six projects amounted to approximately 3,049,500 square metres, representing an increase of approximately 280% as compared to year 2005.

3. Business and financial review of the Changsha Property Project, the Youngman Point Property Project and the American Rock Property Project

As at the Latest Practicable Date, the Group held no interest in the Changsha JV. The effective equity interest in which will be 67% upon the Changsha Completion. The Changsha JV, a company incorporated in the PRC on 14 September 2005, is the sole owner of the Changsha Property Project. According to "Letter from the Board" in the Circular, the Changsha Property Project comprises five parcels of land with an aggregate site area of approximately 665,987 square metres, it will be developed into a large scale residential and commercial development, including villa, low to high-rise residential buildings, clubhouse and other ancillary facilities with a total gross floor area about 800,000 square metres. The Changsha Property Project is planned to be developed by two phases and are scheduled for completion in around 2010. For the seven months ended 31 July 2006, the audited net loss of the Changsha JV amounted to approximately RMB0.03 million (approximately HK$0.03 million) (no taxation expenses were incurred during the periods). As advised by the management of the Company, as the Changsha Property Project is still under development and the Changsha JV has not recorded any revenue during the period from its establishment up to 31 July 2006, the loss was mainly due to administrative expenses incurred during the setup period.

As at the Latest Practicable Date, the Group held 51.6% interest in the Youngman Point JV. The effective equity interest in which will increase to 73.7% upon the Youngman Point Completion. The Youngman Point JV is a Sino-foreign equity joint venture established in the PRC on 29 May 2000, and is solely engaged in the development of the Youngman Point Property Project. According to "Letter from the Board" in the Circular, the Youngman Point Property Project consists of 2 phases (Phase I and Phase II). Phase I has 1,587 residential units and 25 commercial units in total for sale purposes. Phase II is still at the planning stage and the development plan has yet to be finalised at this stage. The expected completion date of Phase II is in December 2007, while the whole Youngman Point Property Project is still under construction. For the seven months ended 31 July 2006, the audited net profit before and after taxation of the Youngman Point JV amounted to approximately RMB87.8 million (approximately HK$87.8 million) and approximately RMB58.8 million (approximately HK$58.8 million) respectively. The development of Youngman Point Project is financed by internal resources, pre-sale proceeds of properties and bank loans of the Youngman Point JV.

As at the Latest Practicable Date, the Group held 85% interest in the American Rock JV. Upon the American Rock Completion, the effective equity interest of the Group in the American Rock JV will increased from 85% to 100%, which will then become an indirectly wholly-owned subsidiary of the Company. The American Rock JV is a Sino-foreign equity joint venture established in the PRC on 15 October 2002, and solely engaged in the development of the American Rock Property Project. According to "Letter from the Board" in the Circular, the American Rock Property Project consists of 2 phases (Phase I and Phase II) and 4 zones (Zones A, B, C and D) with approximately 5,400 residential and commercial units in total for sale purposes. Zones A and B were completed in December 2003 and September 2004 respectively. Approximately 99.6% of residential units of Zone A and Zone B respectively and 100.0% and approximately 97.1% of the commercial units of Zone A and Zone B respectively have been sold as of 30 November 2006. Approximately 92.8% and 62.1% of the residential units of Zone D and Zone C have been pre-sold as of 30 November 2006 respectively. For the seven months ended 31 July 2006, the audited net profit before and after taxation of the American Rock JV amounted to approximately RMB67.7 million (approximately HK$67.7 million) and approximately RMB45.4 million (approximately HK$45.4 million) respectively. The development of American Rock Project is financed by internal resources, pre-sale proceeds of properties and bank loans of the American Rock JV.

Based on the above, we are of the view that the nature of the Changsha Property Project, the Youngman Point Property Project and the American Rock Property Project are similar to other existing projects of the Group as stated in the paragraph headed "Business and financial review of the Group" in this letter and the entering into of the Agreements corresponds with the overall objective of the Group and may enhance the future development of the Group. Furthermore, given that certain portion of the Youngman Point Property Project and the American Rock Property Project have been pre-sold and both Youngman Point JV and American Rock JV have generated profits for the seven months ended 31 July 2006, we are of the view that, by increasing the Group's equity interests in Youngman Point JV and American Rock JV through the Proposed Acquisitions, the revenue and income bases of the Group might be potentially enhanced.

4. Basis for determining the Considerations

The Changsha Consideration, the Youngman Point Consideration and the American Rock Consideration amount to RMB216 million (approximately HK$216 million) , RMB90 million (approximately HK$90 million) and RMB100 million (approximately HK$100 million) respectively, which are to be satisfied by the Group in cash from internal resources. As stated in the "Letter from the Board" in the Circular, the Considerations were determined after arm's length negotiation between the Purchaser and the vendors by reference to the audited net assets as at 31 July 2006 of Changsha JV, the Youngman Point JV and the American Rock JV (collectively, the "Targets") respectively and the value of their property interests. As discussed with Savills Valuation and Professional Services Limited (the "Valuer"), we understand that the properties held under development were valued by making reference to comparable market transactions in the localities and have also taken into account the construction costs that will be expended to complete the development to reflect the quality of the proposed developments. In regard to the vacant land held for future development, it was valued by making reference to comparable site transactions as available in the market. We consider that the valuation methodology adopted by the Valuer is in line with common market practice. Having considered the above, we are of the view that the basis for determining the Considerations is fair and reasonable so far as the Independent Shareholders are concerned. We have also reviewed the computation of the adjusted market value of the Targets provided by the Company and understood that the adjusted market value of the interests to be acquired by the Group in Changsha JV, the Youngman Point JV and the American Rock JV amount to approximately RMB270 million (approximately HK$270 million), RMB108 million (approximately HK$108 million) and RMB119 million (approximately HK$119 million) respectively, thus the respective Consideration represents a discount of approximately 20.0%, 16.7% and 16.0% respectively.

To assess whether the relevant discount of the Considerations to adjusted market value of the Targets are fair and reasonable, we have identified the last two transactions (the ”Comparable Projects”) completed by the Group in the past two years that involved acquisitions of project companies from connected parties:–

Date of announcements	Projects	Premium/ (discount) to adjusted market value
		%
September 2005	70% of Youngman Point Project 40% of American Rock Project	0.0
June 2006	Tianjin Project	(35.4)
Average		**(17.7)**
January 2007	67% of Changsha Project	(20.0)
	22% of Youngman Point Project	(16.7)
	15% of American Rock Project	(16.0)

As shown in the table above, the considerations paid for the properties of the Comparable Projects ranged from a discount of about 35.4% to nil, with an average discount of approximately 17.7% when compared to their respective adjusted market value. Having considered that the discounts of the Considerations to respective adjusted market value are within the range set by the Comparable Projects, we consider the level of such discounts acceptable.

Having considered that (1) the methodologies adopted by the Valuer in valuing the relevant properties are in line with market practices; and (2) the Considerations are set at discounts to the respective market value of the Targets, and such discounts are within the range set by the Comparable Projects, we are of the view that the basis for determining the Considerations is fair and reasonable so far as the Independent Shareholders are concerned.

5. Financial effects of the Proposed Acquisitions on the Group

Net asset value

According to appendix V to the Circular, the unaudited pro forma consolidated net asset value of the Enlarged Group will be increased from approximately HK$3,413 million as at 31 October 2006 to approximately HK$3,682 million upon completion of the Proposed Acquisitions, taking into consideration the assets and liabilities of Changsha JV as at 31 July 2006 and the other pro forma adjustments. The net asset value per Share will also increase from approximately HK$0.60 per Share to approximately HK$0.64 per Share, based on 5,722,374,340 Shares outstanding as at 31 October 2006.

Earnings

The Changsha JV will be treated as a subsidiary of the Company upon Changsha Completion. As stated in the "Letter from the Board" in the Circular, as the Changsha Project is in its very early stage of development, it is not expected to have any material positive contribution for the earnings of the Company until fiscal year 2008. Youngman Point JV and American Rock JV are currently subsidiaries of the Company. For the seven months ended 31 July 2006, the net profit of Youngman Point JV and American Rock JV amounted to RMB58.8 million and RMB45.4 million, respectively. By increasing the Group's equity interests in Youngman Point JV and American Rock JV through the Proposed Acquisitions, the revenue and income bases of the Group might be potentially enhanced.

Working capital

The Considerations will be satisfied at cash financed by internal sources. According to the Annual Report 2006, the Group had cash and bank balance of approximately HK$315.7 million and net current asset of HK$3,093 million as at 30 April 2006. In November 2006, the Company raised approximately HK$770 million by way of top-up placement. According to an announcement of the Company dated 28 November 2006 in respect of such placement, HK$400 million of the net proceeds from the placing will be used for potential land acquisitions. The Proposed Acquisitions will decrease the Group's cash and bank balance by approximately RMB406 million (approximately HK$406 million).

RECOMMENDATION

Having considered the above principal factors and reasons, in particular: –

i) the Proposed Acquisitions represent a good opportunity for the Group to further expand its business in the property market in Beijing and Changsha;

ii) both Changsha and Beijing had experienced a positive growth in terms of GDP and per capita income for the period from 2003 to 2005;

iii) given that certain portion of the Youngman Point Property Project and the American Rock Property Project have been pre-sold and both Youngman Point JV and American Rock JV have generated profits for the seven months ended 31 July 2006, by increasing the Group's equity interests in Youngman Point JV and American Rock JV through the Proposed Acquisitions, the revenue and income bases of the Group might be potentially enhanced; and

iv) the basis of determining the Considerations is fair and reasonable and the Considerations are set at a discount to the proportionate adjusted market values of the Targets,

we are of the opinion that the terms of the Agreements are fair and reasonable and are in the interest of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Agreements and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
First Shanghai Capital Limited

Helen Zee	**Fanny Lee**
Managing Director	*Director*

A. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Set out below is an extract from the audited financial statements of the Group for the three years ended 30 April 2004, 2005 and 2006.

	For the year ended 30 April		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	
Revenue	671,140	476,472	654
Profit before taxation	108,980	332,390	(14,665)
Taxation	(14,752)	(73,374)	15,288
Profit before minority interests	94,228	259,016	623
Minority interests	(10,435)	(81,199)	9,125
Profit attributable to equity holders of the Company	104,663	177,817	9,748
Dividends paid during the year	91,895	–	–
Dividends per share declared during the year	1.5 cents	2.2 cents	–
Earning per share			
– Basic	3.78 cents	9.26 cents	0.51 cents
– Diluted	3.50 cents	8.55 cents	0.51 cents

	At as 30 April		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Assets and liabilities			
Total assets	4,245,673	1,893,377	498,515
Total liabilities	(2,704,272)	(1,067,779)	(193,334)
Minority interests	(149,699)	(242,047)	(17,976)
Shareholders' funds	1,391,702	583,551	287,205

B. UNAUDITED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 OCTOBER 2006

The unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 31 October 2006, together with the comparative figures for the corresponding period in the prior year were as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 31 OCTOBER 2006

		Six months ended	
		31.10.2006	**31.10.2005**
	NOTES	*HK$'000*	*HK$'000*
		(unaudited)	(unaudited)
Revenue	*3*	1,979,282	32,749
Cost of sales	*4*	(1,726,293)	(12,144)
Gross profit		252,989	20,605
Other income		39,623	21,561
Change in fair value of derivative financial instrument		8,780	–
Change in fair value of investment properties	*9*	134,214	–
Fair value gain on transfer of properties held for sales to investment properties	*9*	235,076	–
Gain on disposal of subsidiaries		–	125,018
Administrative expenses		(44,520)	(10,699)
Selling expenses		(44,546)	(13,425)
Finance costs		(53,267)	(4,075)
Share of losses of associates		(5,258)	(2,945)
Profit before taxation		523,091	136,040
Income tax expense	*5*	(126,716)	(4,269)
Profit for the period	*6*	396,375	131,771
Attributable to:			
Equity holders of the Company		400,637	127,004
Minority interests		(4,262)	4,767
		396,375	131,771
Dividends paid	*7*	–	54,640
Earnings per share	*8*		
– Basic		8.08 cents	5.11 cents
– Diluted		7.82 cents	4.55 cents

CONDENSED CONSOLIDATED BALANCE SHEET
AT 31 OCTOBER 2006

	NOTES	**31.10.2006** *HK$'000* (unaudited)	**30.4.2006** *HK$'000* (audited)
NON-CURRENT ASSETS			
Plant and equipment	*9*	11,261	6,698
Investment properties	*9*	1,340,587	–
Deposits for acquisitions of subsidiaries	*10*	424,270	185,675
Interests in associates		–	117,375
Loan to an associate		–	483,735
Long-term receivable		–	272,661
Available-for-sale investment		–	9,471
Pledged bank deposits		56,292	77,049
		1,832,410	1,152,664
CURRENT ASSETS			
Properties held for sale		451,783	25,721
Properties under development		5,309,911	1,923,255
Advances to suppliers		722,029	467,452
Trade and other receivables and prepayments	*11*	308,785	292,363
Investments held for trading		1,485	–
Amount due from an associate		–	22,248
Tax recoverable		55,655	46,306
Pledged bank deposits		9,911	–
Bank balances and cash		946,152	315,664
		7,805,711	3,093,009
CURRENT LIABILITIES			
Accruals and other payables	*12*	908,626	459,010
Advances from customers		1,429,921	1,587,456
Amounts due to related companies	*13*	84,143	5,567
Amount due to a shareholder	*14*	21,294	1,678
Dividend payable		44	23,121
Tax payable		231,931	141,967
Secured bank borrowings – due within one year	*15*	601,730	16,750
Loan payable		–	65,972
Convertible notes	*18*	–	99,307
		3,277,689	2,400,828
NET CURRENT ASSETS		4,528,022	692,181
TOTAL ASSETS LESS CURRENT LIABILITIES		6,360,432	1,844,845

	NOTES	31.10.2006 HK$'000 (unaudited)	30.4.2006 HK$'000 (audited)
NON-CURRENT LIABILITIES			
Secured bank borrowings			
– due after one year	15	722,772	244,135
Deferred tax liabilities	16	774,206	59,309
Loan payable	17	256,660	–
Derivative financial instrument		24,656	–
Convertible notes	18	1,199,196	–
		2,977,490	303,444
		3,382,942	1,541,401
CAPITAL AND RESERVES			
Share capital	19	57,224	40,793
Share premium and reserves		3,117,448	1,350,909
Equity attributable to equity holders of the Company		3,174,672	1,391,702
Minority interests		208,270	149,699
		3,382,942	1,541,401

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 OCTOBER 2006

	Attributable to equity holders of the Company											
	Share capital	**Share premium**	**Contributed surplus**	**Convertible note equity reserve**	**Special reserve**	**Revaluation reserve**	**Share options reserve**	**Exchange reserve**	**Accumulated (losses) profits**	**Total**	**Minority interests**	**Equity total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(note a)			*(note b)*	*(note c)*						
At 1 May 2005	24,836	120,407	368,234	11,234	–	–	–	140	66,174	591,025	242,047	833,072
Exchange differences arising on translation of foreign operations and net income recognised directly in equity	–	–	–	–	–	–	–	10,497	5,950	16,447	–	16,447
Profit for the period	–	–	–	–	–	–	–	–	127,004	127,004	4,767	131,771
Total recognised income for the period	–	–	–	–	–	–	–	10,497	132,954	143,451	4,767	148,218
Dividends	–	–	(54,640)	–	–	–	–	–	–	(54,640)	–	(54,640)
At 31 October 2005	24,836	120,407	313,594	11,234	–	–	–	10,637	199,128	679,836	246,814	926,650
At 1 May 2006	40,793	1,605,048	–	11,234	(13,813)	–	4,287	4,255	(260,102)	1,391,702	149,699	1,541,401
Exchange differences arising on translation of foreign operations and net income recognised directly in equity	–	–	–	–	–	–	–	44,950	–	44,950	4,401	49,351
Profit for the period	–	–	–	–	–	–	–	–	400,637	400,637	(4,262)	396,375
Total recognised income for the period	–	–	–	–	–	–	–	44,950	400,637	445,587	139	445,726
Issue of shares by conversion of convertible notes	4,000	106,541	–	(11,234)	–	–	–	–	–	99,307	–	99,307
Issue of shares for the acquisition of subsidiaries	12,431	745,821	–	–	–	–	–	–	–	758,252	–	758,252
Transaction costs attributable to issue of shares	–	(2,177)	–	–	–	–	–	–	–	(2,177)	–	(2,177)
Recognition of equity component of convertible notes	–	–	–	99,662	–	–	–	–	–	99,662	–	99,662
Deferred tax liability on recognition of equity component of convertible notes	–	–	–	(31,830)	–	–	–	–	–	(31,830)	–	(31,830)
Acquisition of subsidiaries	–	–	–	–	–	140,228	–	–	–	140,228	121,708	261,936
Acquisition of additional interests in a subsidiary	–	–	–	–	3,968	–	–	–	–	3,968	(63,276)	(59,308)
Release of reserves arising on sales of properties	–	–	–	–	9,596	(48,645)	–	(285)	–	(39,334)	–	(39,334)
Deemed contribution *(note 20(iii)(b))*	–	–	305,611	–	–	–	–	–	–	305,611	–	305,611
Recognition of share based payments	–	–	–	–	–	–	3,696	–	–	3,696	–	3,696
At 31 October 2006	57,224	2,455,233	305,611	67,832	(249)	91,583	7,983	48,920	140,535	3,174,672	208,270	3,382,942

Notes:

(a) Under the Companies Act 1981 of Bermuda (as amended), the Company's share premium account may be distributed in the form of fully paid bonus shares.

(b) Special reserve represents the difference between the fair value and the carrying amount of the net assets attributable to the additional interest in a subsidiary being acquired from a minority shareholder. This special reserve will be recognised in the income statement upon the earlier of the disposal of the subsidiaries or the disposal by the subsidiaries of the assets to which it relates.

(c) Revaluation reserve represents the difference between the fair value, net of deferred tax, and the carrying amount of additional interests in associates being acquired and become subsidiaries of the Group. This revaluation reserve will be recognised in the income statement upon the earlier of the disposal of the subsidiaries or the disposal by the subsidiaries of the assets to which it relates.

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 31 OCTOBER 2006

		Six months ended	
		31.10.2006	**31.10.2005**
	NOTES	*HK$'000*	*HK$'000*
		(unaudited)	(unaudited)
Net cash used in operating activities		(1,053,023)	(137,173)
Net cash used in investing activities:			
Deposits paid for acquisition of subsidiaries		(406,347)	–
Additional interest in an associate	*20(ii)*	(128,713)	–
Additions in investment property		(75,529)	–
Additional interest in a subsidiary	*20(i)*	(59,308)	–
Purchase of property, plant and equipment		(1,736)	(1,256)
Acquisitions of subsidiaries	*20*	47,553	–
Disposals of subsidiaries		–	179,999
Repayments from (advance to) associates		135,696	(273,835)
Decrease in long-term receivable		272,661	–
Other investing cash flows		34,344	(22,867)
		(181,379)	(117,959)
Net cash generated from financing activities:			
Proceeds on issue of convertible notes		1,291,213	–
New bank borrowings raised		386,139	477,115
Increase in loan payable		247,525	–
Dividends paid		(23,077)	(18,368)
Repayment of bank borrowings		(40,692)	(93,604)
Expenses on issue of shares		(2,177)	–
Other financing cash flows		(654)	24,877
		1,858,277	390,020
Net increase in cash and cash equivalents		623,875	134,888
Cash and cash equivalents at the beginning of the period		315,664	69,648
Effect of foreign exchange rate changes		6,613	–
Cash and cash equivalents at the end of the period		946,152	204,536

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 OCTOBER 2006

1. Basis of preparation

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. Principal accounting policies

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments which are measured at fair values.

The accounting policies used in the unaudited condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 April 2006 except as described below:

Investments held for trading

The investments held for trading are initially measured at fair value. At each balance sheet date subsequent to initial recognition, investments held for trading are measured at fair value with changes in fair value recognized directly in income statement in the period in which they arise.

Derivative financial instrument

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at the fair value with changes in fair value recognised in profit or loss.

In the current period, the Group has adopted a number of new standards, amendments and interpretations issued by the HKICPA that are relevant to its operations and effective for accounting periods beginning on or after 1 December 2005, 1 January 2006 or 1 March 2006. The adoption of these new standards, amendments and interpretations has resulted in changes to the Group's accounting policies in the following area that have no material impact on the results for the current period:

Financial guarantee contracts

In the current period, the Group has applied HKAS 39 and Hong Kong Financial Reporting Standard ("HKFRS") 4 (Amendments) "Financial Guarantee Contracts" which is effective for annual periods beginning on or after 1 January 2006.

A financial guarantee contract is defined by HKAS 39 "Financial Instruments: Recognition and Measurement" as a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

The Group acts as the issuer of the financial guarantee contracts

Prior to 1 May 2006, financial guarantee contracts were not accounted for in accordance with HKAS 39 and those contracts were disclosed as contingent liabilities. A provision for financial guarantee was only recognised when it was probable that an outflow of resources would be required to settle the financial guarantee obligation and the amount could be estimated reliably.

Upon the application of these amendments, a financial guarantee contract issued by the Group is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

In relation to the financial guarantee contracts provided in respect of mortgage facilities for certain property purchasers, the Group has applied the transitional provision in HKAS 39. As the fair value of the financial guarantee contracts is insignificant, this change in accounting policy has had no effect on the Group's result for the current and/or prior accounting period.

The Group has not early applied the following new standard, amendment and interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these new standard, amendment or interpretations will have no material impact on the results and the financial positions of the Group.

HKAS 1 (Amendment)	Capital Disclosure [1]
HKFRS 7	Financial Instruments: Disclosures [1]
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [2]
HK(IFRIC) – INT 8	Scope of HKFRS 2 [3]
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives [4]
HK(IFRIC) – INT 10	Interim financial reporting and impairment [5]

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

[2] *Effective for annual periods beginning on or after 1 October 2006.*

[3] *Effective for annual periods beginning on or after 1 May 2006.*

[4] *Effective for annual periods beginning on or after 1 June 2006.*

[5] *Effective for annual periods beginning on or after 1 November 2006.*

3. Revenue and business segments

Revenue represents amounts received and receivable for properties sold by the Group to outside customers and services rendered is summarised as follows:

	Six months ended	
	31.10.2006	**31.10.2005**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Sales of properties	1,979,267	32,749
Provision of property management service	15	–
	1,979,282	32,749

Business segments

For management purposes, the Group is currently organised into two operating divisions – sales of properties and property investment. The operation of property investment business commenced in August 2006. The Group was principally engaged in one operating division of sales of properties for the six months ended 31 October 2005 and so no business segment analysis is presented.

The Group's revenue and contribution to profit analysed by business segments for the six months ended 31 October 2006 are as followings:

	Sales of properties	Property investment	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
REVENUE				
External sales	1,979,267	–	6,302	1,985,569
Inter-segment sales	–	–	(6,287)	(6,287)
Total	1,979,267	–	15	1,979,282

Inter-segment sales are charged at prevailing market rates.

	Sales of properties	Property investment	Unallocated	Consolidated
RESULT				
Segment result	418,669	133,806	(546)	551,929
Unallocated corporate expenses				(18,431)
Other income				39,338
Change in fair value of derivative financial instrument				8,780
Share of losses of associates	(5,258)	–	–	(5,258)
Finance costs				(53,267)
Profit before taxation				523,091
Income tax expense				(126,716)
Profit for the period				396,375

4. Cost of sales

Cost of sales included land appreciation tax in the People's Republic of China ("the PRC") of HK$98,255,000 (2005: nil).

5. Income tax expense

	Six months ended	
	31.10.2006	**31.10.2005**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
The income tax expense comprises:		
Current tax – PRC enterprise income tax	142,570	4,269
Deferred taxation *(note 16)*	(15,854)	–
	126,716	4,269

No provision for Hong Kong Profits Tax has been made in the unaudited condensed consolidated financial statements as the Group did not derive any assessable profit in Hong Kong for the period.

The Group's subsidiaries established in the PRC are subject to PRC enterprise income tax on their taxable income at the rate of 33%. A subsidiary established in Shenzhen Special Economic Zone in the PRC is entitled to a preferential rate of 15%.

6. Profit for the period

	Six months ended	
	31.10.2006	**31.10.2005**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Profit for the period has been arrived at after charging (crediting):		
Depreciation of plant and equipment	1,308	523
Effective interest on convertible notes	41,129	4,075
Interest expense on loan payable	9,046	–
Imputed interest expense on loan payable	3,092	–
Interest income on:		
Bank deposits	(1,445)	(430)
Loan to an associate	(5,440)	(18,048)
Other loans	(4,532)	–
Exchange gain	(16,334)	–
Dividend income from investments held for trading	(11,676)	–
Gain on disposal of subsidiaries	–	(125,018)

7. Dividends

No dividends were paid during the period (2005: HK$54,640,000). The directors have determined that an interim dividend of HK1.5 cents per share (2005: HK1.5 cents) should be paid to the shareholders of the Company whose names appear in the Register of Members on 30 January 2007.

8. Earnings per share

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company for the period is based on the following data:

	Six months ended	
	31.10.2006	**31.10.2005**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Earnings:		
Earnings for the purposes of basic earnings per share	400,637	127,004
Effect of dilutive potential ordinary shares in respect of interest on convertible notes	41,129	4,075
Earnings for the purposes of diluted earnings per share	441,766	131,079
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	4,956,814,978	2,483,632,950
Effect of dilutive potential ordinary shares on convertible notes	689,395,095	400,000,000
Weighted average number of ordinary shares for the purposes of diluted earnings per share	5,646,210,073	2,883,632,950

During the period ended 31 October 2006, the computation of diluted earnings per share does not assume the conversion of the Company's outstanding share options granted since the exercise price of the option was higher than the average market price for shares for the period. No share option was granted as at 31 October 2005.

9. Movements in investment properties and plant and equipment

During the period, the Group acquired investment properties, through acquisition of subsidiaries, at a cost of HK$560,924,000.

During the period, properties held for sale with a carrying amount of HK$334,843,000 has been transferred to investment property as a result of management's change in intention. The properties held for sale was fair-valued by external valuers, Savills Valuations and Professional Services Limited upon transfer to investment properties. The resulting increase in fair value of HK$235,076,000 has been recognised directly in the unaudited condensed consolidated income statement.

The Group's remaining investment properties were fair-valued by external valuers, Savills Valuations and Professional Services Limited, at 31 October 2006. The resulting increase in fair value of investment properties of HK$134,214,000 has been recognised directly in the unaudited condensed consolidated income statement.

During the period, the Group acquired certain plant and equipment at a cost of HK$1,736,000. In addition, plant and equipment at a cost of HK$3,979,000 was acquired through the acquisitions of subsidiaries *(note 20)*.

10. Deposits for acquisition of subsidiaries

The amounts represent deposits paid for acquisitions of certain subsidiaries. The acquisitions of these subsidiaries are subject to certain conditions which are not yet satisfied at the balance sheet date. Capital commitments in respect of amounts contracted, but not provided in the financial statements in relation to the acquisition of these subsidiaries at 31 October 2006 are approximately HK$190,836,000 *(note 21)*.

11. Trade and other receivables and prepayments

	31.10.2006	30.4.2006
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Trade receivables	71,448	9,820
Other receivables	118,221	99,978
Other tax prepayments	89,504	89,213
Other deposits and prepayments	29,612	28,275
Deposits paid for acquisition of properties under development	–	65,077
	308,785	292,363

The Group allows a credit period of 90 days to the buyers. The following is an aging analysis of trade receivables at the balance sheet date:

	31.10.2006	30.4.2006
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0 – 90 days	71,448	4,948
90 – 180 days	–	–
Over 180 days	–	4,872
	71,448	9,820

12. Accruals and other payables

	31.10.2006	30.4.2006
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Accruals for properties under development	448,823	397,298
Other payables	279,462	61,712
Payables for acquisition of a subsidiary	180,341	–
	908,626	459,010

13. Amounts due to related companies

The amounts are unsecured, non-interest bearing and repayable on demand. The controlling shareholder of the Company, Mr. Li Song Xiao, is also the controlling shareholder of the related companies. The directors consider that the carrying amounts of the amounts due to the related companies approximate the fair values in view of the short-term nature of financial liability.

14. Amount due to a shareholder

The amount is unsecured, non-interest bearing and repayable on demand. The directors consider that the fair value of the amount due to a shareholder approximates its carrying amount.

15. Secured bank borrowings

During the period, the Group obtained new bank borrowings amounting to HK$386,139,000 and acquired bank borrowings, through acquisitions of subsidiaries, at a cost of HK$711,631,000. The borrowings bear interest at market rates and are repayable over a period of 5 years. The proceeds were used to finance the development of properties.

The effective interest rate (being the contractual interest rate) in the Group's borrowings are 6.44%.

16. Deferred tax liabilities

The following is the major deferred tax liability recognised and movement thereon during the current accounting period:

	Convertible notes	Revaluation of investment properties	Fair value adjustment on properties under development/ properties held for sale	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
At 1 May 2006	–	–	59,309	59,309
Exchange difference	–	–	834	834
Acquisition of subsidiaries	–	69,091	628,996	698,087
Charge to equity for the period	31,830	–	–	31,830
(Credit) charge to income for the period	(1,573)	79,552	(93,833)	(15,854)
At 31 October 2006	30,257	148,643	595,306	774,206

At 31 October 2006, the Group had unused tax losses of HK$125,077,000 available for offset against future profits. The tax losses may be carried forward indefinitely. No deferred tax asset has been recognised in relation to tax losses as it is not probable that taxable profit will be available against future assessable profit.

During the period, unrecognised tax losses of approximately HK$19,030,000 has been utilised to offset assessable profit from the period.

17. Loan payable

The loan payable represents a fixed capital injection of 26.3% registered capital in a group entity at a nominal amount approximately HK$247,525,000 from an independent third party with a fixed dividend at 6.5% per annum. According to the agreement, the independent third party has no right to share further profit of the group entity other than the 6.5% annual dividend. The Group will purchase from the independent third party the 26.3% registered capital in May 2008 in accordance with the contractual arrangement at a price of approximately HK$286,139,000.

The effective interest rate of the loan payable is 7.27%

18. Convertible notes

On 12 June 2006, the Company issued zero coupon convertible notes at par with a principal amount of HK$1,340,000,000 ("Convertible Notes 2011"). Convertible Notes 2011 will be redeemed at 135.7% of the principal amount on 11 May 2011 ("Maturity Date").

The holders of Convertible Notes 2011 have the right to convert all or any portion of Convertible Notes 2011 into shares of the Company at an initial conversion price of HK$1.5048 per share, subject to adjustment. The conversion right can be exercised at any time on or after 60 days from the date on which Convertible Notes 2011 is issued up to, and including, the close of business on the business day seven days prior to the Maturity Date.

On 12 June 2009, the holders of Convertible Notes 2011 can put back Convertible Notes 2011 to the Company at the price of 120.103% of principal amount ("Redemption Right of the Holder"). As the economic characteristics and risks of the Redemption Right of the Holder are not closely related to the host contract, the Redemption Right of the Holder is separately accounted for at fair value at each reporting date as derivate financial instrument. The fair value of the Redemption Right of the Holder at 12 June 2006 and 30 October 2006 was HK$33,436,000 and HK$24,656,000, respectively. Accordingly, a change in fair value of derivative financial instrument of approximate HK$8,780,000 is credited to the unaudited condensed consolidated income statement for the period.

At any time after 12 June 2009 but not less than seven business days prior to the Maturity Date, the Company may redeem Convertible Notes 2011 in whole but not in part at a relevant redemption amount if the closing price of the shares for any 20 trading days out of the 30 consecutive trading days prior to the date upon which notice of such redemption is at lease 130 per cent of the applicable early redemption amount divided by the conversion ratio ("Redemption Right of the Issuer"). As the economic characteristics and risks of the Redemption Right of the Issuer are not closely related to the host contract, the Redemption Right of the Issuer is separately accounted for at fair value at each reporting date as derivative financial instrument. The fair value of the Redemption Right of the Issuer is insignificant at both 12 June 2006 and 31 October 2006.

In the event of the Company's shares cease to be listed or admitted to trading on the Stock Exchange of Hong Kong Limited, each holder of the Convertible Notes 2011 shall have right, at such holder's option, to require the Company to redeem Convertible Notes 2011 on the twentieth business day after notice has been given to the holder at the early redemption amount ("Delisted Put Right"). As the economic characteristics and risks of the Delisted Put Right are not closely related to the host contract, the Delisted Put Right is separately accounted for at fair value at each reporting date as derivative financial instrument. The fair value of the Redemption Right of the Issuer is insignificant at both 12 June 2006 and 31 October 2006.

Convertible Notes 2011 contain three components, liability element, early redemption right and equity element. The equity element is presented in equity heading convertible note equity reserve. The effective interest rate of the liability element is 9.44%.

The fair value of the liability component of Convertible Notes 2011 at 31 October 2006 determined based on the present value of the estimated future cash flows discounted at the prevailing market interest rate for an equivalent non-convertible loan at the balance sheet date, was approximately HK$1,285,864,000.

The convertible note outstanding at 30 April 2006 has been converted into shares of the Company on 2 May 2006.

19. Share capital

	Number of shares	Nominal value *HK$'000*
Authorised:		
Shares of HK$0.01 per share at 31 October 2006	40,000,000,000	400,000
Issued and fully paid:		
Shares of HK$0.01 per share at 1 May 2006	4,079,339,487	40,793
Issue of shares by conversion of convertible notes	400,000,000	4,000
Issue of shares for acquisition of subsidiaries	1,243,034,853	12,431
	5,722,374,340	57,224

20. Acquisition of subsidiaries

For the period ended 31 October 2006

(i) Chongqing China Enterprises Property Development Company Limited

On 30 June 2006, the Group acquired 70% equity interest in Chongqing China Enterprises Property Development Company Limited ("Chongqing China Enterprises"), a company established in the PRC and engaged in property development in Chongqing, the PRC, at a cash consideration of HK$444,886,000. Prior to the acquisition, the Group held 20% interest in Chongqing China Enterprises and Chongqing China Enterprises then became a 90% owned subsidiary of the Group subsequent to the acquisition. This acquisition has been accounted for by the purchase method of accounting.

Details of the net assets acquired in respect of the acquisition of Chongqing China Enterprises are summarized below:

	2006		
	Acquiree's carrying amount before combination	**Fair value adjustments**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
NET ASSETS ACQUIRED			
Plant and equipment	1,424	–	1,424
Properties under development	600,759	244,428	845,187
Trade and other receivables and prepayments	692	–	692
Bank balances and cash	68,520	–	68,520
Accruals and other payables	(1,590)	–	(1,590)
Secured bank borrowings	(198,020)	–	(198,020)
Deferred tax liabilities	–	(80,661)	(80,661)
	471,785	163,767	635,552
Minority interests			(63,556)
Interest in an associate			(127,110)
			444,886
Payables for acquisition of a subsidiary			(180,341)
Deposits paid for acquisition of a subsidiary			(168,269)
Total consideration satisfied by cash			96,276
Net cash outflow arising on acquisition:			
Cash consideration paid			(96,276)
Bank balances and cash acquired			68,520
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary			(27,756)

On 31 August 2006, the Group completed the acquisition of the remaining 10% equity interest in Chongqing China Enterprises at a consideration of HK$59,308,000.

The subsidiary acquired during the period contributed nil to the Group's revenue and loss of HK$4,997,000.

If the acquisition had been completed on 1 May 2006, total group's revenue for the period would have been HK$1,979,282,000, and profit for the period would have been HK$391,140,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 May 2006, nor is it intended to be a projection of future results.

(ii) Beijing New Shine Land Investment Consultancy Limited

On 31 August 2006, the Group acquired 50% equity interest in Beijing New Shine Land Investment Consultancy Limited ("Beijing New Shine Land Investment") at a cash consideration of HK$257,426,000. Prior to this acquisition, the Group held 50% interest in Beijing New Shine Land Investment and Beijing New Shine Land Investment then became a wholly-owned subsidiary of the Group subsequent to the acquisition. Beijing New Shine Land Investment owns 80% equity interest in Beijing City Yushuiyuen Property Development Corporation Limited, a company established in the PRC and engaged in property development in Beijing, the PRC. This acquisition has been accounted for by the purchase method of accounting.

Details of the net assets acquired in respect of the acquisition of Beijing New Shine Land Investment are summarized below:

	2006		
	Acquiree's carrying amount before combination	**Fair value adjustments**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
NET ASSETS ACQUIRED			
Plant and equipment	592	–	592
Properties under development	1,030,224	867,937	1,898,161
Trade and other receivables and prepayments	57,383	–	57,383
Advances to suppliers	400,712	–	400,712
Tax recoverable	46,025	–	46,025
Amounts due from related companies	35,939	–	35,939
Pledged bank deposits	7,246	–	7,246
Bank balances and cash	127,838	–	127,838
Accruals and other payables	(168,730)	–	(168,730)
Advances from customers	(929,807)	–	(929,807)
Tax payable	(29,272)	–	(29,272)
Amounts due to fellow subsidiaries	(24,059)	–	(24,059)
Amounts due to immediate holding company	(375,727)	–	(375,727)
Secured bank borrowings	(186,878)	–	(186,878)
Deferred tax liabilities	–	(286,419)	(286,419)
	(8,514)	581,518	573,004
Minority interests			(58,152)
Interests in associates			(257,426)
Total consideration satisfied by cash			257,426
Net cash outflow arising on acquisition:			
Cash consideration paid			(257,426)
Bank balances and cash acquired			127,838
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			(129,588)

The subsidiary acquired during the period contributed HK$893,276,000 to the Group's revenue and profit of HK$52,944,000.

If the acquisition had been completed on 1 May 2006, total group's revenue for the period would have been HK$1,979,282,000, and profit for the period would have been HK$384,148,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 May 2006, nor is it intended to be a projection of future results.

Prior to the above acquisition, the Group acquired additional 25% equity interest in Beijing New Shine Land Investment on 30 June 2006 at a cash consideration of HK$128,713,000.

(iii) Lead Mix Limited and DIVO Success Limited

On 31 August 2006, the Group acquired 100% equity interest in Lead Mix Limited ("Lead Mix") and DIVO Success Limited ("DIVO Success") at a consideration of HK$758,252,000 which was settled by the issue of 1,243,034,853 ordinary shares of the Company (note a).

Lead Mix directly owns 100% equity interest in Joyful Fortune Limited, Capital Team Investment Limited, Eastern Winway Limited, Reliapoint Limited and Maxsun Limited, which are established in the British Virgin Islands and engaged in investment holding.

Besides, Lead Mix also indirectly owns 100% equity interest in Tianjin Zhongxin Huaan Real Estate Development Company Limited, Tianjin Zhongxin Binhai Real Estate Development Company Limited, Tianjin Zhongxin Xinjie Real Estate Development Company Limited, Tianjin Zhongxin Mingshi Real Estate Development Company Limited and Tianjin Zhongxin Jiaye Real Estate Development Company Limited which are established in the PRC and engaged in properties development in Tianjin, the PRC.

DIVO Success directly owns 100% of Tianjin Zhongxin Huacheng Real Estate Development Company Limited and Tianjin Xinrun Real Estate Development Company Limited, which are established in the PRC and engaged in properties development project in Tianjin, the PRC.

This acquisition has been accounted for by the purchase method of accounting.

Details of the net assets acquired in respect of the acquisition of Lead Mix and DIVO Success are summarized below:

	2006		
	Acquiree's carrying amount before combination	**Fair value adjustments**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
NET ASSETS ACQUIRED			
Plant and equipment	1,963	–	1,963
Investment properties	351,557	209,367	560,924
Properties under development	538,084	793,685	1,331,769
Trade and other receivables and prepayments	92,874	–	92,874
Tax recoverable	4,460	–	4,460
Bank balances and cash	204,897	–	204,897
Accruals and other payables	(48,533)	–	(48,533)
Advances from customers	(247,892)	–	(247,892)
Amounts due to related companies	(149,860)	–	(149,860)
Amounts due to group companies	(8,777)	–	(8,777)
Amount due to a shareholder	(20,222)	–	(20,222)
Secured bank borrowings	(326,733)	–	(326,733)
Deferred tax liabilities	–	(331,007)	(331,007)
	391,818	672,005	1,063,863
Represented by:			
Equity instruments of the Company *(note a)*			758,252
Deemed contribution from the controlling shareholder *(note b)*			305,611
			1,063,863
Net cash inflow arising on acquisition:			
Bank balances and cash acquired			204,897

The subsidiaries acquired during the period contributed HK$24,771,000 to the Group's revenue and profit of HK$83,498,000.

If the acquisition had been completed on 1 May 2006, total group's revenue for the period would have been HK$1,979,282,000, and profit for the period would have been HK$393,726,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 May 2006, nor is it intended to be a projection of future results.

Notes:

(a) Pursuant to the sales and purchase agreements for the acquisition of Lead Mix and DIVO Success, 1,243,034,853 ordinary shares of the Company with par value of HK$0.01 each were issued. The fair values of the shares issued for the acquisition of Lead Mix and DIVO Success amount to approximately HK$758,252,000 determined using the quoted price at the date of the acquisition.

(b) Lead Mix and DIVO Success are acquired from a controlling shareholder. The deemed contribution represents the difference between the fair value of the consideration and the fair value of the net assets acquired.

21. Commitments

At balance sheet date, the Group had the following commitments:

	31.10.2006	**30.4.2006**
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Authorised and contracted for but not provided:		
Development expenditure of properties in the PRC	793,557	285,220
Capital expenditure in respect of acquisitions of subsidiaries	190,836	364,817
Capital expenditure in respect of acquisitions of plant and equipment	2,681	–
	987,074	650,037

22. Contingencies

(i) At balance sheet date, the Group had the following contingent liabilities:

	31.10.2006	**30.4.2006**
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Guarantees in respect of mortgage facilities for certain purchasers	1,789,620	672,074

The Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends when the Group obtained the "property title certificate" for the mortgagees.

No provision has been made in the unaudited condensed consolidated financial statements for the financial guarantees as the fair value of the financial guarantee contracts is insignificant.

(ii) Three subsidiaries of the Group have been named as joint defendants in a court action in the PRC in respect of an alleged breach of contractual undertakings for an amount of HK$37,045,000 (30.4.2006: HK$35,976,000). The subsidiaries and their legal counsel are strongly resisting this claim and the directors are of the opinion that settlement of the claim is remote. Accordingly, no provision for any potential liability has been made in the unaudited condensed consolidated financial statements.

(iii) The State Administration of Taxation of the PRC issued a circular as Guo Shui Han 2004 No. 938 on 2 August 2004 to strengthen the levy of land appreciation tax on property developers. In the opinion of the directors, land appreciation tax shall not be levied in respect of properties already completed and full provision for land appreciation tax has not been made in the unaudited condensed consolidated financial statements. The Group has not, however, been able to secure written confirmation of those individual city policies, and the directors consider that the chance that full land appreciation tax might be levied is less than probable in accordance with the rule of State Administration of Taxation. Should such levies take place, land appreciation tax would be approximately HK$55,160,000 (30.4.2006: HK$26,013,000).

23. Related party transactions

During the period, the Group entered into the following transactions with related parties:

	Agency fee expenses	**Interest income**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Related companies	8,238	–
An associate	–	5,440

The controlling shareholder of the Company, Mr. Li Song Xiao, is also the controlling shareholder of the above related companies. The agency fee expenses were paid to the related companies for providing property promotion and management services to the group companies.

Details of the balances with related parties as at balance sheet date are set out in the balance sheet and note 13 and 14 to the unaudited condensed consolidated financial statements.

A group entity had entered into agreements with Beijing Newshine Decoration Company Limited ("Newshine Decoration") with a total considerations of RMB145,065,000 prior to the group entity became a subsidiary of the Company. Pursuant to the agreements, Newshine Decoration will provide decoration services for the properties under development held by the group entity. At 31 October 2006, RMB145,065,000 has been paid to Newshine Decoration and was included in advances to suppliers. The controlling shareholder of the Company, Mr. Li Song Xiao, is also the controlling shareholder of Newshine Decoration.

During the period ended 31 October 2006, a group entity had entered into agreements with 北京新松沃克建築裝飾工程有限公司 ("北京新松沃克"), with a total consideration of RMB1,596,000. Pursuant to the agreements, 北京新松沃克 provides decoration services for the properties under development held by the group entity. At 31 October 2006, RMB500,000 has been paid to 北京新松沃克 and was included in property under development. The controlling shareholder of the Company, Mr. Li Song Xiao, is also the controlling shareholder of 北京新松沃克.

Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	31.10.2006	**31.10.2005**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Short-term benefits	**2,270**	600
Share-based payments	**3,029**	–
	5,299	600

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

24. Post balance sheet events

(a) On 31 October 2006, the Group entered into an equity transfer agreement with an independent third party for acquisition of 100% equity interest in Honest State Limited, which owns 54.5% of Xian Chan Ba Construction Development Company Limited ("Xian Chan Ba"), for the consideration of approximately HK$770,588,000 (as amended by a supplemental agreement entered by the Group and the independent third party on 13 November 2006). The consideration is to be satisfied in cash of the approximately HK$219,918,000, by the allotment and issue of 340,000,000 shares of the Company and by issue of convertible notes of the Company with a term of six months of approximately HK$168,317,000.

On 31 October 2006, the Group entered into an equity transfer agreements with two independent third parties separately for the acquisition of an aggregate 17% equity interest in Xian Chan Ba for the cash consideration of approximately HK$137,255,000.

The acquisition of Xian Chan Ba have not been completed up to the date of the unaudited condensed consolidated financial statements. Details of the acquisition of 54.5% and 17% interest in Xian Chan Ba are included in a circular of the Company dated 8 December 2006.

(b) On 22 November 2006, the Group entered into agreement with two independent third parties to form a new entity ("New Entity"), a company which will engage in land development, relocation and construction project in Tianjin. The Group will hold 65% equity interest in the New Entity and is proposed to make capital investment of approximately HK$117,000,000. Details of the joint venture project in Tianjin are included in an announcement of the Company dated 22 November 2006.

(c) On 28 November 2006, the Group, the controlling shareholder and J.P. Morgan Securities (Asia Pacific) Limited ("J.P. Morgan") entered into a Placing and Subscription Agreement for placing an aggregate of 688,000,000 existing shares to twelve independent investors on a fully-underwritten basis, through J.P Morgan, at HK$1.132 per share. The controlling shareholder has conditionally agreed to subscribe for the 688,000,000 new shares at HK$1.132 per share. Details of the placing are included in an announcement of a Company dated 28 November 2006.

(d) On 1 December 2006, the Group entered into a sales and purchase agreement with Beijing New Shine Investment Group Company Limited ("Beijing New Shine Investment") in which a controlling shareholder of the Company has equity interest for a proposed acquisition of 67% investment in Wunan Qianshiuwan Shuangya Wanquan Huayuen Company Limited ("Wunan Qianshiuwan") at a consideration of approximately HK$213,861,000.

On the same date, the Group entered into another sales and purchase agreement with Beijing Guoke Xinye Technology Development Company Limited ("Beijing Guoke"), a company whose controlling shareholder is Mr. Li Song Xiao, the controlling shareholder of the Group, for a proposed acquisition of additional 22.1% registered capital in Beijing New Shine Property Development Company Limited ("Beijing New Shine Property") at a consideration of approximately HK$89,109,000.

In addition, the Group entered into a sales and purchase agreement with Beijing Xi Hua Wei Yie Construction Materials Trading Company Limited, an independent third party, for acquisition of the remaining 15% interest in Beijing Jin Ma Wen Hua Yuan Properties Development Limited at a consideration of HK$99,010,000.

Details of these three agreements are included in an announcement of the Company dated 2 January 2007.

(e) On 31 December 2006, the Group entered into a cooperation development agreement ("Agreement I") with an independent third party to jointly develop a construction of city infrastructure project ("Cooperation Project I") in Pi Xian Xi Pu Town in Chengdu City, the PRC. The duration of the Agreement I is 30 months. The Group will contribute an investment amount of approximately HK$693,069,000 for the first stage development and the Group has not confirm any capital commitment to the second stage of the Cooperation Project I. The Group is entitled to investment return out of the proceeds arising from an auction sale of the project after the development of the city infrastructure. After repayment to the Group of its investment amount under Cooperation Project I, the remaining proceeds from the auction sale shall be distributed between the Group and the independent third party.

On 3 January 2007, the Group entered into a cooperation framework agreement ("Agreement II") with another independent third party to form a project company ("Project Company"), whose registered capital will be approximately HK$198,200,000, to jointly develop a property project ("Cooperation Project II") in Wen Jiang Xin Cheng District in Chengdu City, the PRC. The Group shall contribute approximately HK$198,020,000 of which approximately HK$138,614,000 is for its 70% registered capital in the Project Company and approximately HK$59,406,000 is a shareholder loan to the Project Company.

According to Agreement II, the Group shall be solely responsible for, and the independent third party shall not be involved in, the operation and management of the Project Company. Within 24 months from the signing of Agreement II, the Group shall purchase from the independent third party (i) the 30% registered capital of approximately HK$59,406,000 in the Project Company as well as (ii) a shareholder loan of approximately HK$237,624,000 at a price of approximately HK$396,040,000.

Details of the two agreements are included in an announcement of the Company dated 9 January 2007.

C. AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2006

The following are the audited consolidated annual financial statements of the Company for the year ended 30 April 2006, with the comparative figures for the year ended 30 April 2005.

CONSOLIDATED INCOME STATEMENT

For the year ended 30 April 2006

	Notes	2006 HK$'000	2005 HK$'000 (restated)
Revenue	6	671,140	476,472
Cost of sales		(610,572)	(253,809)
Gross profit		60,568	222,663
Other income	7	42,078	29,348
Administrative expenses		(54,725)	(13,053)
Selling expenses		(44,606)	(11,334)
Finance costs	8	(10,774)	(3,146)
Gain on disposal of subsidiaries	34	125,018	100,011
Share of results of associates	16	(8,579)	7,901
Profit before taxation		108,980	332,390
Income tax expense	9	(14,752)	(73,374)
Profit for the year	10	94,228	259,016
Attributable to:			
Equity holders of the Company		104,663	177,817
Minority interests		(10,435)	81,199
		94,228	259,016
Dividends	13	91,895	–
Earnings per share	14		
– Basic		3.78 cents	9.26 cents
– Diluted		3.50 cents	8.55 cents

CONSOLIDATED BALANCE SHEET

At 30 April 2006

	Notes	2006 HK$'000	2005 HK$'000 (restated)
Non-current assets			
Plant and equipment	*15*	6,698	4,188
Interests in associates	*16*	117,375	99,321
Loan to an associate	*16*	483,735	290,587
Long-term receivable	*17*	272,661	–
Available-for-sale investment	*18*	9,471	–
Deposits for acquisition of subsidiaries	*19*	185,675	–
Pledged bank deposits	*20*	77,049	41,926
		1,152,664	436,022
Current assets			
Properties held for sale		25,721	13,402
Properties under development	*21*	1,923,255	786,919
Advances to suppliers		467,452	259,160
Trade and other receivables	*22*	292,363	323,992
Amount due from an associate	*16*	22,248	–
Tax recoverable		46,306	4,234
Bank balances and cash	*23*	315,664	69,648
		3,093,009	1,457,355

	Notes	2006 HK$'000	2005 HK$'000 (restated)
Current liabilities			
Accruals and other payables	*24*	459,010	359,416
Advances from customers		1,587,456	280,768
Amount due to a related company	*25*	5,567	33,439
Amount due to a shareholder	*26*	1,678	7,298
Dividend payable		23,121	–
Tax payable		141,967	130,235
Secured bank borrowings	*27*	16,750	93,604
Loan payable	*28*	65,972	–
Convertible note	*29*	99,307	–
		2,400,828	904,760
Net current assets		692,181	552,595
Total assets less current liabilities		1,844,845	988,617
Non-current liabilities			
Secured bank borrowings	*27*	244,135	–
Deferred tax liabilities	*30*	59,309	–
Loan payable	*28*	–	69,065
Convertible note	*29*	–	93,954
		303,444	163,019
		1,541,401	825,598
Capital and reserves			
Share capital	*31*	40,793	24,836
Reserves		1,350,909	558,715
Equity attributable to the equity holders of the Company		1,391,702	583,551
Minority interests		149,699	242,047
		1,541,401	825,598

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 April 2006

	Share capital HK$'000	Share premium HK$'000 *(note a)*	Contributed surplus HK$'000 *(note b)*	Capital reserve HK$'000 *(note c)*	Convertible note equity reserve HK$'000	Special reserve HK$'000 *(note d)*	Share options reserve HK$'000	Exchange reserve HK$'000	Accumulated (losses) profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 May 2004	20,759	17,038	368,234	221	–	–	–	70	(119,117)	287,205	17,976	305,181
Exchange difference arising on translation of foreign operations and net income recognised directly in equity	–	–	–	–	–	–	–	70	–	70	–	70
Profit for the year	–	–	–	–	–	–	–	–	177,817	177,817	81,199	259,016
Total recognised income for the year	–	–	–	–	–	–	–	70	177,817	177,887	81,199	259,086
Recognition of equity component of convertible note	–	–	–	–	22,683	–	–	–	–	22,683	–	22,683
Issue of shares by conversion of convertible note *(note 29)*	4,077	103,369	–	–	(11,449)	–	–	–	–	95,997	–	95,997
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	160,637	160,637
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	(17,765)	(17,765)
Disposal of an associate	–	–	–	(221)	–	–	–	–	–	(221)	–	(221)
At 30 April 2005 and 1 May 2005	24,836	120,407	368,234	–	11,234	–	–	140	58,700	583,551	242,047	825,598
Effect of changes in accounting policies *(note 2)*	–	–	–	–	–	–	–	–	7,474	7,474	–	7,474
As restated	24,836	120,407	368,234	–	11,234	–	–	140	66,174	591,025	242,047	833,072
Exchange differences arising on translation of foreign operations and net income recognised directly in equity	–	–	–	–	–	–	–	4,115	–	4,115	3,633	7,748
Profit for the year	–	–	–	–	–	–	–	–	104,663	104,663	(10,435)	94,228
Total recognised income for the year	–	–	–	–	–	–	–	4,115	104,663	108,778	(6,802)	101,976
Issue of shares for a private placement	4,967	418,740	–	–	–	–	–	–	–	423,707	–	423,707
Issue of shares for the acquisition of subsidiaries	10,990	1,071,079	–	–	–	–	–	–	–	1,082,069	–	1,082,069
Transaction costs attributable to issue of shares	–	(5,178)	–	–	–	–	–	–	–	(5,178)	–	(5,178)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	81,177	81,177
Acquisition of additional interest in a subsidiary	–	–	–	–	–	(18,653)	–	–	–	(18,653)	(166,723)	(185,376)
Release of special reserve arising on sales of properties	–	–	–	–	–	4,840	–	–	–	4,840	–	4,840
Deemed distribution *(note 33)*	–	–	(276,339)	–	–	–	–	–	(430,939)	(707,278)	–	(707,278)
Dividends	–	–	(91,895)	–	–	–	–	–	–	(91,895)	–	(91,895)
Recognition of share based payments	–	–	–	–	–	–	4,287	–	–	4,287	–	4,287
At 30 April 2006	40,793	1,605,048	–	–	11,234	(13,813)	4,287	4,255	(260,102)	1,391,702	149,699	1,541,401

Notes:

(a) Under the Companies Act 1981 of Bermuda (as amended), the Company's share premium account may be distributed in the form of fully paid bonus shares.

(b) The contributed surplus represents the credit balance arising from the reduction of the nominal value of the issued share capital of the Company from HK$0.10 per share to HK$0.01 per share by way of cancellation of HK$0.09 of the paid up capital on each share of the Company on 31 December 2001.

(c) The capital reserve was reserve required by the relevant laws in the People's Republic of China applicable to the Group's associates. The associate was disposed of through the disposal of a subsidiary during last year and the balance of capital reserve became nil as at 30 April 2005.

(d) Special reserve represents the difference between the fair value and the carrying amount of the net assets attributable to the additional interest in a subsidiary being acquired from a minority shareholder, which will be recognised in the income statement upon the earlier of the disposal of the subsidiaries or the disposal by the subsidiaries of the assets to which it relates.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 April 2006

	Notes	2006 HK$'000	2005 HK$'000 (restated)
OPERATING ACTIVITIES			
Profit before taxation		108,980	332,390
Adjustments for:			
Depreciation		1,295	951
Interest expenses		10,774	3,146
Interest income		(29,218)	(22,159)
Gain on disposal of subsidiaries		(125,018)	(100,011)
Release of special reserve arising on sales of properties		4,840	–
Share option expenses		4,287	–
Share of results of associates		8,579	(7,901)
Operating cash flows before movements in working capital		(15,481)	206,416
(Increase) decrease in properties held for sale		(12,061)	253,783
(Increase) decrease in properties under development		(213,449)	49,131
Increase in advances to suppliers		(79,592)	(259,160)
Decrease (increase) in trade and other receivables		109,323	(129,950)
Decrease in accruals and other payables		(298,246)	(67,421)
Increase in advances from customers		686,295	138,098
Decrease in amount due to a related company		(43,720)	(20,101)
Cash generated from operations		133,069	170,796
The People's Republic of China (the "PRC") tax paid		(61,927)	(12,484)
NET CASH GENERATED FROM OPERATING ACTIVITIES		71,142	158,312

	Notes	2006 HK$'000	2005 HK$'000 (restated)
INVESTING ACTIVITIES			
Advance to an associate		(188,370)	(72,797)
Deposits paid for acquisition of subsidiaries		(185,675)	–
Acquisition of an associate		(116,442)	–
(Increase) decrease in pledged bank deposits		(28,078)	21,138
Purchase of plant and equipment		(3,601)	(879)
Proceeds of disposal of subsidiaries	34	214,997	358
Acquisition of subsidiaries	33	2,399	55
Interest received		2,112	567
Bank balances and cash acquired arising from transfer from an associate to a subsidiary		–	9,902
Advance to minority shareholders		–	(9,599)
Additional interest in an associate		–	(1,887)
NET CASH USED IN INVESTING ACTIVITIES		(302,658)	(53,142)
FINANCING ACTIVITIES			
Proceeds from issue of shares		423,707	–
New bank borrowings raised		244,135	–
Repayment of bank borrowings		(95,913)	(43,377)
Dividend paid		(68,774)	–
Interest paid		(21,333)	(11,683)
(Repayment to) advance from a shareholder		(5,620)	7,298
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES		476,202	(47,762)
NET INCREASE IN CASH AND CASH EQUIVALENTS		244,686	57,408
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		69,648	12,170
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		1,330	70
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash		315,664	69,648

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 April 2006

1. General

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed in the section of "Corporate Information" to the annual report.

The consolidated financial statements are presented in Hong Kong dollars, which is same as the functional currency of the Company.

The Company's principal activity is investment holding and the activities of its subsidiaries and associates are set out in notes 42 and 16, respectively.

2. Adoption of new and revised hong kong financial reporting standards

In the current year, the Group has applied, for the first time, a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are 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 for the year ended 30 April 2005. The application of the new HKFRSs 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 changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

(a) Share-based Payments

In the current year, the Group has applied HKFRS 2 "Share-based Payment", which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ('equity-settled transactions'), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ('cash-settled transactions'). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 May 2005. Profit for the year has been decreased by HK$4,287,000 due to recognition of share based payments. No prior year adjustment was required as the Group has no share option outstanding before 30 April 2005 (see note 2A for the financial impact).

(b) Financial Instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for accounting periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

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, comparative figures for 2005 have been restated. (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 the 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 May 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of Statement of Standard Accounting Practice 24 "Accounting for investments in securities") in accordance with the requirements of HKAS 39. Under HKAS 39, 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 assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition. Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "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 year.

Interest-free non-current loan

Prior to the application of HKAS 39, interest-free non-current loan payable was stated at the nominal amount. HKAS 39 requires all financial assets and financial liabilities to be measured at fair value on initial recognition. Such interest-free loan payable are measured at amortised cost determined using the effective interest method at subsequent balance sheet dates. The Group has applied the relevant transitional provisions in HKAS 39. As a result of this change in the accounting policy, the carrying amount of the non-current loan payable as 1 May 2005 has been decreased in order to state the loan payable at amortised costs in accordance with HKAS 39 (see note 2A for the financial impact).

2A. Summary of the effects of the changes in accounting policies

The effects of the changes in the accounting policies described in note 2 on the results for the current and prior years are as follows:

The following is an analysis in profit for the year ended 30 April 2006 and 30 April 2005 by line items presented according to their function:

	HKAS 1	HKAS 32 and HKAS 39	HKFRS 2	Total effects
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 30 April 2006				
Increase in administrative expenses	–	–	4,287	4,287
Increase in finance costs	–	9,735	–	9,735
Decrease in profit for the year	–	9,735	4,287	14,022
For the year ended 30 April 2005				
Increase in finance costs	–	2,634	–	2,634
Decrease in share of profits of associates	3,663	–	–	3,663
Decrease in income tax expense	(3,663)	–	–	(3,663)
Decrease in profit for the year	–	2,634	–	2,634

The cumulative effects of the application of the new HKFRSs as at 30 April 2005 and 1 May 2005 are summarised below:

	30 April 2005 (originally stated)	Adjustments on 30 April 2005 Impact on HKAS 1	Adjustments on 30 April 2005 Impact on HKAS 32	30 April 2005 (as restated)	Adjustment on 1 May 2005 Impact on HKAS 32 & HKAS 39	1 May 2005 (As restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance sheet items						
Loan payable	(69,065)	–	–	(69,065)	7,474	(61,591)
Convertible note	(104,000)	–	10,046	(93,954)	–	(93,954)
Total effects on assets and liabilities	(173,065)	–	10,046	(163,019)	7,474	(155,545)
Share premium	118,961	–	1,446	120,407	–	120,407
Convertible note equity reserve	–	–	11,234	11,234	–	11,234
Accumulated profits	61,334	–	(2,634)	58,700	7,474	66,174
Equity holders of the Company	180,295	–	10,046	190,341	7,474	197,815
Minority interests	–	242,047	–	242,047	–	242,047
Total effects on equity	180,295	242,047	10,046	432,388	7,474	439,862
Minority interests	242,047	(242,047)	–	–	–	–
	422,342	–	10,046	432,388	7,474	439,862

At 30 April 2005, amount due from minority interest of HK$9,599,000 which was previously included in minority interest has been reclassified to amounts due to a related company.

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. Except for the financial impact on adoption of HKAS 39 & HKFRS 4 (Amendments) "Financial guarantee contracts" which requires financial guarantee contracts within the scope of HKAS 39 to be measured at fair value on initial recognition, the directors of the Company anticipate that these standards, amendments or interpretations will have no material impact on the financial statements of the Group. The Group is not yet in a position to reasonably estimate the impact on adoption of HKAS 39 & HKFRS 4 (Amendments).

HKAS 1 (Amendment)	Capital disclosures[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 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 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 a specific 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 HKFRS 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.*

3. Significant accounting policies

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values at initial recognition, as explained in the accounting policies set out below:

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All inter-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Acquisition of additional interest in a subsidiary

When the Group increases its interest in an enterprise that is already an entity controlled by the Company, goodwill arising on such acquisition represents the difference between the cost of additional interest acquired and the increase in the Group's share of the fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary to current fair value is recognised in the consolidated balance sheet. The difference between the fair value, representing the amount of consideration less the amount of goodwill, and the carrying amount of the net assets attributable to the additional interest acquired is recognised as a reserve movement. This difference represents the portion of the revaluation difference that arose since the original acquisition date that is attributable to the Group's increased interest in the subsidiary.

Goodwill arising on acquisitions on or after 1 May 2004

Goodwill arising on an acquisition of a subsidiary or an associate for which the agreement date is on or after 1 May 2004 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary and associate at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet. Goodwill arising on an acquisition of an associate (which is accounted for using the equity method) is included in the cost of the investment of the relevant associate. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's interest of the net fair value of the identifiable assets, liabilities over the cost of acquisition, after reassessment, is recognised in profit and loss.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary or an associate, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Interests in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's interest of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised in profit or loss.

Where a group entity transacts with an associate of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the relevant associate, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of properties in the ordinary course of business is recognised when all of the following criteria are met:

- the significant risks and rewards of ownership of the properties are transferred to buyers;

- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;

- the amount of revenue can be measured reliably;

- it is probable that the economic benefits associated with the transaction will flow to the Group; and

- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Services income is recognised when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate exactly discounts the estimated future cash receipts through the expected life of the financial asset's net carrying value.

Plant and equipment

Plant and equipment are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account of their estimate residual value, using the straight-line method.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

As lessee

Rentals payable under operating leases are charged to income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the consolidated income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in consolidated income statement in the period in which the foreign operation is disposed of.

Fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 May 2004 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as under other income.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are charged as an expense as they fall due.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable and deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Properties held for sale

Properties held for sale in the ordinary course of business are stated at the lower of cost and net realisable value.

Properties under development

Properties under development for sale are stated at the lower of cost and net realisable value. Cost of property in the course of development comprises costs of land use rights, development costs and borrowing costs during the development period.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including loan to an associate, long-term receivable, amount due from an associate, trade and other receivables and bank deposits and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in the consolidated income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. They are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in the consolidated income statement when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including other payables, loan payable, secured bank borrowings, amount due to related company, amount due to a shareholder and dividend payable are subsequently measured at amortised cost, using the effective interest rate method.

Convertible note

Convertible note issued by the Company that contains both financial liability and equity components is classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible note and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the note into equity, is included in equity (convertible note equity reserve).

In subsequent periods, the liability component of the convertible note is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible note equity reserve until the embedded option is exercised (in which case the balance stated in convertible note equity reserve will be transferred to share capital and share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible note equity reserve will be released to the accumulated profits. No gain or loss is recognised in the consolidated income statement upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible note are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to convertible note equity reserve. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible note using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in the consolidated income statement.

For financial liabilities, they are removed from the Group's consolidated balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in the consolidated income statement.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period or recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated profits.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

4. Key sources of estimation uncertainty

In the process of applying the Group's accounting policies which are described in note 3, management has made certain key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Current and deferred taxation

The Group is subject to income taxes in the PRC. Significant judgement is required in determining the amount of the provision of taxation and the timing of payment of the related taxations. The provision of taxation is calculated based on the budgeted cost of property development projects. Where the final tax outcome of these property development projects is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Land appreciation taxes

PRC land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditure including sales charges, borrowing costs and all property development expenditure.

The Group is subject to land appreciation taxes in PRC. However, the implementation of these taxes varies amongst various PRC cities and the Group has not finalised its land appreciation tax returns with various tax authorities. Accordingly, significant judgments are required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain. The Group recognises these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the cost of sales and related income tax provisions in the period in which such determination is made.

Valuation on long term receivable, loan to an associate and other receivables

The Group assesses periodically if long-term receivable, loan to an associate and other receivables have suffered any impairment in accordance with the accounting policy stated in note 3.

The receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. An impairment losses is recognised in profit and loss when there is objective evidence that the asset is impaired.

In making the judgement, management considers detailed procedures which have been in place to monitor this risk. In determining whether there is objective evidence of impairment, the Group takes into consideration estimation of future cash flows.

5. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, long-term receivables, other payables, convertible note, bank deposits, available-for-sale investment, amounts due from (to) associates/a related company/a shareholder, loan payable and secured bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Cash flow interest rate risk

The Group has variable-rate borrowings and is therefore exposed to cash flow interest rate risk (see note 27 for details of these borrowings). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposures and will consider hedging significant interest rate exposures should the need arise.

Credit risk

The extent of the Group's credit exposure is represented by the aggregate balance of bank balances, trade and other receivables, loan to an associate, amount due from an associate and long-term receivable.

The Group has arranged bank financing for certain purchasers of property units and provided guarantees to secure obligations of such purchasers for repayments. The Group's maximum exposure to credit risk is in the event of the counterparties' failure to perform their obligations at 30 April 2006 in relation to bank borrowings. Detailed disclosure of these guarantees has been made in note 36.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Except for the long-term receivable, the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers. The credit risk for bank deposits and bank balances exposed is considered minimal as such amounts are placed with banks with good credit ratings.

6. Revenue and business and geographical segments

Revenue represents amounts received and receivable for properties sold by the Group to outside customers and services rendered is summarised as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Sales of properties	669,404	475,935
Provision of property management consultancy services	1,736	537
	671,140	476,472

Business segments

For management purposes, the Group is now principally engaged in property development in the People's Republic of China (the "PRC"). Accordingly, no business segment analysis is presented for the year ended 30 April 2006 and 30 April 2005.

Geographical segments

Over 90% of the activities of the Group for the year ended 30 April 2006 and 30 April 2005 are carried out in the PRC and over 90% of the assets of the Group are located in the PRC. Accordingly, no geographical analysis is presented.

7. Other income

	2006	2005
	HK$'000	*HK$'000*
Interest income on:		
Bank deposits	2,112	567
Loan to an associate	24,660	17,594
Other loans	2,446	3,998
Net exchange gain	6,449	–
PRC government subsidies	5,696	7,055
Others	715	134
	42,078	29,348

8. Finance costs

	2006	2005
	HK$'000	*HK$'000*
		(restated)
Interest on:		
Bank borrowings wholly repayable within five years	21,333	11,171
Effective interest expense on convertible note	6,393	3,146
Imputed interest expense on non-current interest-free loan payable	4,381	–
	32,107	14,317
Less: amount capitalised under properties under development	(21,333)	(11,171)
	10,774	3,146

9. Income tax expense

	2006	2005
	HK$'000	*HK$'000*
		(restated)
The income tax expense comprises:		
Current tax in the PRC	29,083	73,374
Deferred taxation *(note 30)*	(14,331)	–
	14,752	73,374

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group did not derive any assessable profit in Hong Kong for both years.

The Group's subsidiaries established in the PRC are subject to PRC income tax on their taxable income at the rate of 33%.

The income tax expense for the year can be reconciled to the profit before taxation as follows:

	2006	2005
	HK$'000	*HK$'000*
		(restated)
Profit before taxation	108,980	332,390
Tax charge at PRC income tax rate of 33%	35,963	109,689
Tax effect of share of results of associates	2,831	(2,607)
Tax effect of expenses not deductible for tax purposes	12,800	1,809
Tax effect of income not taxable for tax purposes	(43,059)	(26,087)
Tax effect of deferred tax assets not recognised	8,436	4,289
Utilisation of deferred tax assets previously not recognised	(293)	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1,926)	(13,719)
Income tax expense for the year	14,752	73,374

10. Profit for the year

	2006	**2005**
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging:		
Auditors' remuneration		
– current year	2,021	923
– underprovision in prior year	13	–
	2,034	923
Staff costs, including directors' emoluments		
– capitalised under properties under development	3,902	1,376
– included in administrative expenses	14,719	4,776
	18,621	6,152
Retirement benefit scheme contributions	707	287
Total staff costs	19,328	6,439
Depreciation	1,396	1,450
Less: capitalised under properties under development	(101)	(499)
	1,295	951
Cost of properties held for sale/properties under development recognised as an expense	610,572	253,809
Share of tax of associates (included in share results of associates)	–	3,663

11. Directors' emoluments

Fees and other emoluments paid or payable to each of the 9 (2005: 12) directors for the year ended 30 April 2006 and 2005 were as follows:

	Year ended 30 April 2006									
	Li Song Xiao	Liu Yi	Niu Xiao Rong	Yuan Kun	Song Xuan	Zhang Huai An	Nie Mei Sheng	Wang Shi Yong	Zheng Kuan	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	–	–	–	–	–	–	–	–	–	–
Other emoluments										
Salaries and other benefits	650	1,250	962	750	962	962	–	–	–	5,536
Contributions to retirement benefit schemes	19	19	19	19	19	19	–	–	–	114
Share-based payment	149	798	798	399	798	798	–	–	–	3,740
Total emoluments	818	2,067	1,779	1,168	1,779	1,779	–	–	–	9,390

	Year ended 30 April 2005												
	Li Song Xiao	Liu Yi	Nin Xiao Rong	Zhang Yao Hui	Song Xuan	Zhang Huai An	Nie Mei Sheng	Wang Shi Yong	Zheng Kuan	Zhang Yuan Duan	Che Han Shu	Zhang Ling	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	–	–	–	–	–	–	–	–	–	–	–	–	–
Other emoluments													
Salaries and other benefits	650	650	–	215	–	–	–	–	–	–	240	–	1,755
Contributions to retirement benefit schemes													
Share-based payment	–	–	–	–	–	–	–	–	–	–	–	–	–
Total emoluments	650	650	–	215	–	–	–	–	–	–	240	–	1,755

No directors waived any emoluments for the years ended 30 April 2006 and 2005.

12. Employees' emoluments

Of the five individuals with the highest emoluments in the Group, all (2005: two) were directors of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining three individuals for the year ended 30 April 2005 were as follows:

	HK$'000
Salaries and other benefits	1,429
Contributions to Mandatory Provident Fund Scheme	24
	1,453

The emoluments of each of the three individuals for the year ended 30 April 2005 were below HK$1,000,000.

13. Dividends

	2006	**2005**
	HK$'000	*HK$'000*
Ordinary shares:		
2006 Interim – HK1.5 cents (2005: Nil) per ordinary share	37,255	–
2005 Final – HK2.2 cents (2004: Nil) per ordinary share	54,640	–
	91,895	–

The directors do not recommend the payment of final dividend (2005: HK2.2 cents per ordinary share).

Pursuant to the sales and purchase agreements for the acquisition of Lucky Merit and New Direction, 499,221,153 and 599,765,384 ordinary shares of the Company with par value of HK$0.01 per share each were issued respectively. The acquisitions in Lucky Merit and New Direction give rise to a deemed distribution of HK$707,278,000 *(see note 33)*.

14. Earnings per share

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company for the year is based on the following data:

	2006	2005
	HK$'000	*HK$'000*
		(restated)
Earnings:		
Earnings for the purposes of basic earnings per share	104,663	177,817
Effect of dilutive potential ordinary shares in respect of interest on convertible note	6,393	3,146
Earnings for the purposes of diluted earnings per share	111,056	180,963
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	2,770,710,769	1,920,041,595
Effect of dilutive potential ordinary shares on:		
Convertible note	400,000,000	196,775,553
Options	316,804	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	3,171,027,573	2,116,817,148

The following table summarised the impact of both basic and diluted earnings per share as a result of:

	Impact on basic earnings per share		Impact on diluted earnings per share	
	2006	2005	2006	2005
	cents	*cents*	*cents*	*cents*
Figure before adjustments	4.29	9.40	3.77	8.55
Adjustments arising from changes in accounting policies *(see note 2A)*	(0.51)	(0.14)	(0.27)	–
Reported/restated	3.78	9.26	3.50	8.55

15. Plant and equipment

	Furniture and fixtures *HK$'000*	Computer and office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
COST				
At 1 May 2004	1,750	1,854	3,394	6,998
Acquisition arising from transfer of an associate to a subsidiary *(note 16)*	225	503	–	728
Additions	209	670	–	879
At 30 April 2005 and 1 May 2005	2,184	3,027	3,394	8,605
Exchange adjustments	9	33	48	90
Acquired on acquisition of subsidiaries *(note 33)*	194	–	41	235
Additions	207	424	2,970	3,601
At 30 April 2006	2,594	3,484	6,453	12,531
DEPRECIATION				
At 1 May 2004	1,177	1,365	425	2,967
Provided for the year	593	207	650	1,450
At 30 April 2005 and 1 May 2005	1,770	1,572	1,075	4,417
Exchange adjustments	1	2	17	20
Provided for the year	135	335	926	1,396
At 30 April 2006	1,906	1,909	2,018	5,833
NET BOOK VALUES				
At 30 April 2006	688	1,575	4,435	6,698
At 30 April 2005	414	1,455	2,319	4,188

The above items of plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Furniture and fixtures	20% – $33^1/_3$%
Computer and office equipment	$33^1/_3$%
Motor vehicles	$12^1/_2$% – 20%

16. Interests in associates

The summarised financial information in respect of the Group's associates is set out below:

	2006	**2005**
	HK$'000	*HK$'000*
Cost of investments in unlisted associates	125,404	141,122
Share of post-acquisition results and reserves, net of dividends received	(8,029)	(41,801)
	117,375	99,321

Particulars of the Group's associates at 30 April 2006 are set out below:

Name	Place of incorporation and operation	Particulars of registered capital	Class of share held	Percentage of registered capital held by the Group	Principal activities
北京新松置地投資顧問有限公司 ("Beijing New Shine Land")	PRC	RMB30,000,000	Registered capital	25%	Investment holding
北京市御水苑房地產開發有限責任公司 ("Beijing Yu Shui Yuan")	PRC	RMB20,000,000	Registered capital	30%*	Development and sale of properties in Beijing
重慶中華企業房地產發展有限公司 ("Chongqing China Enterprises")	PRC	RMB50,000,000	Registered capital	20%	Development and sale of properties in Chongqing

* *Beijing Yu Shui Yuan is 80% owned by Beijing New Shine Land and 10% owned by the Group directly.*

Included in the cost of investment in associates at 30 April 2005 was goodwill of HK$47,941,000 arising on acquisition of associates. The movement of goodwill is set out below:

	Goodwill
	HK$'000
COST	
At 1 May 2004	114,923
Eliminated with accumulated amortisation	(56,864)
Disposal arising from disposal of a subsidiary	(10,118)
At 30 April 2005 and 1 May 2005	47,941
Disposal arising from disposal of a subsidiary	(47,941)
At 30 April 2006	–
ACCUMULATED AMORTISATION	
At 1 May 2004	56,864
Eliminated with cost	(56,864)
At 30 April 2005 and 30 April 2006	–
CARRYING VALUES	
At 30 April 2006	–
At 30 April 2005	47,941

The goodwill arising on the acquisition of associates was amortised on straight-line basis over the estimated useful life of five years. The Group ceased amortisation of goodwill from 1 May 2004 as a result of early adoption of HKFRS 3.

The Group's entitlement to share in profits of its associates is in proportion to its ownership interest.

For the year ended 30 April 2006

On 31 March 2006, the Group entered into an agreement with an independent third party for the acquisition of 30% equity interest in Chongqing China Enterprises, a company established in the PRC and engaged in property development business in Chongqing, the PRC, for a total consideration of approximately HK$173,038,000 in which HK$116,442,000 is for the acquisition of 20% equity interest. On 3 April 2006, the registration of transfer in the 20% equity interest to the Group in Chongqing China Enterprises has been completed. Upon the transfer of the 20% equity interest to the Group, Chongqing China Enterprises became an associate of the Group as the Group has the power to appoint directors in Chongqing China Enterprises and can exercise significant influence.

The remaining 10% equity interest in Chongqing China Enterprises will be transferred to the Group upon the completion of the further acquisition of the remaining 70% equity interest in Chongqing China Enterprises as mentioned in note 44 to the consolidated financial statements. The unpaid consideration of the remaining 10% equity interest is HK$56,596,000. The transfer of the remaining 10% equity interest Chongqing China Enterprises has not been completed as of 30 April 2006.

Details of the acquisition of 30% interest in Chongqing China Enterprises are included in a circular of the Company dated 28 April 2006.

For the year ended 30 April 2005

In August 2004, the Company acquired 100% equity interest in Top Fair Limited ("Top Fair"). Top Fair is an investment holding company which holds 45% equity interest in 北京金馬文華園房地產開發有限公司 ("Beijing Jinma"). The principal business activity of Beijing Jinma is to develop a property project in Beijing, the PRC, and Beijing Jinma was accounted for as an associate since then.

On 15 October 2004, the shareholding of the other shareholders in Beijing Jinma was changed. Subsequent to the change of the shareholding of Beijing Jinma, the Group became the single largest shareholder of Beijing Jinma. At the same date, the shareholders of Beijing Jinma signed an amendment agreement to the Articles and Memorandum of Beijing Jinma under which the Group can appoint the majority of the board of directors of Beijing Jinma. The amendment was approved by 北京市商務局 on 17 October 2004.

As a result, the Group becomes the single largest shareholder of Beijing Jinma and controls its board of directors and therefore accounts for Beijing Jinma as a subsidiary of the Group since 17 October 2004.

Details of the net assets of Beijing Jinma as at the date of transfer from an associate to a subsidiary of the Group are summarised below:

	HK$'000
Plant and equipment	728
Pledged bank deposits	63,064
Properties held for sale	267,185
Properties under development	747,205
Trade and other receivables	131,434
Bank balances and cash	9,902
Trade and other payables	(425,210)
Advances from customers	(142,670)
Amounts due to related companies	(63,139)
Secured bank borrowings	(136,981)
Tax payable	(65,111)
	386,407

The summarised financial information in respect of the Group's associates as at 30 April is set out below:

	2006	**2005**
	HK$'000	*HK$'000*
Total assets	2,091,060	818,727
Total liabilities	(1,601,734)	(690,110)
Net assets	489,326	128,617
Group's share of net assets of associates	117,375	51,380
Revenue	–	157,611
(Loss) profit for the year	(24,678)	22,226
Group's share of results of associates for the year	(8,579)	7,901

Loan to an associate

The loan is lent to Beijing New Shine Land, an associate of the Group, for development of a property project in Beijing, the PRC. The property project is held by Beijing Yu Shui Yuan, which is 80% owned by Beijing New Shine Land and 10% owned by the Group. The development of the property project has been commenced and is expected to be completed in late 2007.

Pursuant to the loan agreement, the loan is secured by the 80% equity interest in Beijing Yu Shui Yuan held by Beijing New Shine Land, bearing effective interest at 8.28% (2005: 7.45%) per annum in the PRC and repayable upon completion of the property project.

The directors consider that the carrying amount approximates the fair value as the loan to an associate bears market interest rate.

Amount due from an associate

The amount is unsecured, non-interest bearing and repayable upon request. The directors consider that the carrying amount of the amount due from an associate approximates its fair value in view of its short-term nature.

17. Long-term receivable

The amount represents an advance to a third party, 臨安三佳房地產開發有限公司, plus interest receivable. The amount is secured by certain properties of the borrower, bearing effective interest at 6.03% per annum in the PRC and is repayable in June 2007. The amount has been subsequently settled in July 2006.

The directors consider that the carrying amount approximates its fair value, in view of the fact that the long-term receivable bears market interest rate.

18. Available-for-sale investment

The available-for-sale investment represents an investment in an unlisted equity security that offers the Group the opportunity for return through dividend income. It is measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors are of the opinion that the fair value cannot be measured reliably.

19. Deposits for acquisition of subsidiaries

The amounts represent deposits paid for acquisitions of certain subsidiaries committed by the Group. The acquisitions of these subsidiaries are subjected to certain conditions which are not yet satisfied at the balance sheet date. Capital commitments in respect of amounts contracted, but not provided in the financial statements in relation to the acquisition of these subsidiaries at 30 April 2006 are approximately HK$364,817,000 (2005: nil).

20. Pledged bank deposits

The amounts represent deposits pledged to banks to secure long-term mortgage loans granted by banks to the buyers of the pre-sold properties and are therefore also classified as non-current assets. These pledged deposits will be released upon the transfer of the properties titles to the respective buyers.

The deposits carry interest rates at respective bank saving deposits ranged from 0.72% to 0.79% for both years. The directors consider that the carrying amounts approximate the fair values, in view of the fact that the pledge bank deposits bear market interest rates.

21. Properties under development

	2006	**2005**
	HK$'000	*HK$'000*
Properties under development of which:		
– will be realised within twelve months	1,162,555	602,334
– will not be realised within twelve months	760,700	184,585
	1,923,255	786,919

The properties under development are located in the PRC.

22. Trade and other receivables

	2006	2005
	HK$'000	*HK$'000*
Trade receivables *(note a)*	9,820	197,720
Other receivables *(note b)*	99,978	96,108
Deposits paid for acquisition of properties under development	65,077	–
Other tax prepayments	89,213	10,750
Other deposits and prepayments	28,275	19,414
	292,363	323,992

Notes:

(a) The following is an aged analysis of trade receivables as at the balance sheet date:

	2006	2005
	HK$'000	*HK$'000*
0 – 90 days	4,948	197,720
90 – 180 days	–	–
Over 180 days	4,872	–
	9,820	197,720

The Group allows a credit period of 90 days to the buyers.

(b) At 30 April 2006, included in other receivable is a loan to a third party of US$10,000,000 (equivalent to approximately HK$77,690,000). The loan is unsecured, bearing effective interest at 9.00% per annum and had been fully repaid in May 2006.

At 30 April 2005, included in other receivables is a loan to a former related company of RMB99,952,000 (equivalent to approximately HK$94,294,000). The loan is unsecured, bearing interest at market rate of one-year bank loan and had been fully repaid in May 2005.

The directors consider that the fair values of the Group's trade and other receivables at the balance sheet date approximate their carrying amounts.

23. Bank balances and cash

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The fair values of these assets at 30 April 2006 approximate their carrying amounts.

All bank saving deposit balances are interest bearing at commercial interest rates, and the effective interest rates of the Group's bank balances ranged from 0.72% to 0.79% for both years.

24. Accruals and other payables

	2006	**2005**
	HK$'000	*HK$'000*
Accruals for properties under development	397,298	314,004
Other payables	61,712	45,412
	459,010	359,416

The directors consider that the fair values of the Group's other payables at the balance sheet date approximate their carrying amounts.

25. Amount due to a related company

The amount is unsecured, non-interest bearing and repayable upon request. The controlling shareholder of the Company, Mr. Li Song Xiao, has beneficiary interest in the related company. The directors consider that the carrying amount of the amount due to a related company approximates the fair value in view of short-term nature of financial liability.

26. Amount due to a shareholder

The amount is unsecured, non-interest bearing and repayable on demand. The directors consider that the fair value of the amount due to a shareholder approximates its carrying amount.

27. Secured bank borrowings

	2006	2005
	HK$'000	*HK$'000*
Secured bank loans repayable within a period of:		
Less than one year	16,750	93,604
More than one year but within two years	244,135	–
	260,885	93,604
Less: Amount due within one year	(16,750)	(93,604)
Amount due after one year	244,135	–

The bank loans are variable-rate borrowings which carry commercial interest rates in the PRC.

All the Group's borrowings are denominated in Renminbi.

The effective interest rate (being the contracted interest rate) on the Group's borrowings is 5.94% (2005: 5.84%) per annum.

The bank borrowings are secured by certain properties under development of the Group with a carrying amount amounting to approximately HK$331,258,000 (2005: HK$142,899,000) located in the PRC.

The directors consider that the fair values of the Group's borrowings approximate to their carrying amounts.

28. Loan payable

The loan payable at a nominal amount of HK$69,065,000 is unsecured, non-interest bearing and will not be repayable before the completion of the development of a property project in Shenzhen, the PRC, which is expected to be completed in late 2006.

The fair value of the Group's loan payable at the balance sheet date, determined based on the present value of the estimated future cash flows discounted using the prevailing market rate at 30 April 2006 approximates to the carrying amount of the loan payable.

The effective interest rate on the loan payable is 6.89% per annum.

29. Convertible note

On 24 January 2005, the Company issued a convertible note at par with a principal amount of HK$210,000,000 to Mr. Wang Yan as the consideration for the acquisition of Top Fair.

The convertible note bears interest at 1% per annum and is redeemable at par on 28 February 2007. The holder of the convertible note has the rights to convert all or any portion of the convertible note into shares of the Company at an initial conversion price of HK$0.26 per share, subject to adjustment. The conversion rights can be exercised at any time from the date of issue until the repayment of the convertible note, provided that the public float of the Company will not be less than 25% immediately after such conversion. For the year ended 30 April 2005, the holder of the convertible note converted part of the convertible note with principal amount of HK$106,000,000 into shares of the Company. Consequently, 407,692,307 new shares of HK$0.01 each in the Company were issued to the holder.

The convertible note contains two components, liability and equity elements. Upon the application of HKAS 32 (see note 2 for details), the convertible note is split between the liability and equity elements, on a retrospective basis. The equity element is presented in equity heading “convertible note equity reserve”. The effective interest rate of the liability component is 6.89%.

The fair value of the liability component of the convertible note at 30 April 2006 determined based on the present value of the estimated future cash flows discounted at the prevailing market rate for an equivalent non-convertible loan at the balance sheet date, was approximately HK$99,307,000.

The convertible note at 30 April 2006 is converted into new shares of the Company subsequent to the year end.

30. Deferred tax liabilities

The following is the major deferred tax liability recognised and movement thereon during the current and prior accounting period:

	Fair value adjustment on properties under development/ properties held for sale
	HK$
At 1 May 2004 and 1 May 2005	–
Acquisition of subsidiaries	73,640
Credit to income for the year	(14,331)
At 30 April 2006	59,309

At 30 April 2006, the Group had unused tax losses of HK$131,838,000 (2005: HK$106,275,000) available for offset against future profits. In addition, at 30 April 2006, the Group had other deductible temporary differences of HK$229,000 (2005: HK$1,117,000). No deferred tax asset has been recognised in relation to tax losses and deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Included in unrecognised tax losses, approximately HK$19,030,000 (2005: HK$4,153,000) will expire at various dates up to 2011. Other losses may be carried toward indefinitely.

31. Share capital

	Number of shares	Nominal value *HK$'000*
Authorised:		
Shares of HK$0.01 per share at 30 April 2005 and 30 April 2006	40,000,000,000	400,000
Issued and fully paid:		
Shares of HK$0.01 per share at 30 April 2004	2,075,940,643	20,759
Issue of shares by conversion of convertible note *(see note 29)*	407,692,307	4,077
Shares of HK$0.01 per share at 30 April 2005	2,483,632,950	24,836
Issue of shares for a private placement *(note a)*	496,720,000	4,967
Issue of shares for the acquisition of Lucky Merit Development Limited ("Lucky Merit") *(note b)*	499,221,153	4,992
Issued of shares for the acquisition of New Direction Development Limited ("New Direction") *(note c)*	599,765,384	5,998
	4,079,339,487	40,793

Notes:

(a) On 10 February 2006, arrangements were made for a private placement to independent private investors of 496,720,000 ordinary shares of HK$0.01 each in the Company held by Mr. Li Song Xiao, the chairman of the Company, at a price of HK$0.89 per share representing a discount of approximately 9.2% to the closing market price of the Company's share on 10 February 2006.

Pursuant to a subscription agreement of the same date, Mr. Li Song Xiao subscribed for 496,720,000 new ordinary shares of HK$0.01 each in the Company at a price of HK$0.89 per share. The proceeds were used for the proposed acquisition of a subsidiary, Chongqing China Enterprises, or other property projects in the PRC and for general working capital of the Group. These new shares were issued under the general mandate granted to the directors at the general meeting of the Company held on 12 September 2005 and rank pari passu with other shares in issue in all respects.

(b) On 28 February 2006, 499,221,153 ordinary shares of HK$0.01 each were issued at a price of HK$0.87 per share for a total consideration of approximately HK$434,322,000 for the acquisition of Lucky Merit *(note 33)*.

(c) On 30 March 2006, 599,765,384 ordinary shares of HK$0.01 each were issued at a price of HK$1.08 per share for a total consideration of approximately HK$647,747,000 for the acquisition of New Direction *(note 33)*.

32. Share options

Pursuant to a special general meeting of the Company held on 12 December 2002, the share option scheme adopted by the Company is called a new scheme (the "New Scheme"). Pursuant to the New Scheme, the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and options granted and yet to be exercised under any other schemes shall not exceed 30% of the issued share capital of the Company from time to time. The maximum number of shares issued and to be issued upon exercise of the options granted to each participant in any 12-month period must not exceed 1% of the issued share capital of the Company at any time. The offer of a grant of options may be accepted within 21 days from the date of the offer with signed acceptance letter comprising consideration of HK$1.00 received by the Company. The exercise period of the share options granted is determinable by the directors, but no later than 10 years from the date of the offer. The subscription price for the shares in respect of which options are granted is determinable by the directors of the Company, but in any case must be the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of the grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

At 30 April 2006, the number of shares of the Company in respect of which options had been granted and remained outstanding under the New Scheme of the Company was 86,000,000, representing 2.11% of the shares of the Company in issue at that date.

The following table discloses details of the share options of the Company held by directors and employees and movements in such holdings during the year.

For the year ended 30 April 2006

Grantees	Date of grant	Outstanding at 1 May 2005	Granted during the year *(note)*	Cancelled during the year	Exercised during the year	Outstanding at 30 April 2006	Exercisable period	Exercise price per share (subject to adjustment) *HK$*
Directors of the Company	4 April 2006	–	75,000,000	–	–	75,000,000	4 April 2006 – 3 April 2016	0.90
Other employees of the Group	4 April 2006	–	11,000,000	–	–	11,000,000	4 April 2006 – 3 April 2016	0.90
		–	86,000,000	–	–	86,000,000		
Exercisable at the end of the year						17,200,000		

Note:

The interests are by virtue of 75,000,000 share options accepted by the common directors and 11,000,000 share options accepted by the employees of the Company on 4 April 2006, would entitle the relevant directors and employees to subscribe for shares in the Company at an exercise price of HK$0.90 per share. The share options are exercisable in whole or in part at the staggered manner within 5 options period, commencing 4 April 2006, 4 April 2007, 4 April 2008, 4 April 2009 and 4 April 2010 respectively and all ending on 3 April 2016.

No share option was outstanding under the New Scheme at 1 May 2004 and 30 April 2005.

The estimated fair values of the options granted are HK$18,542,000 of which HK$4,287,000 was charged to the consolidated income statement during the year.

These fair values were calculated using the Binomial model. The inputs into the model were as follows:

	2006
Closing share price at the date of offer	HK$0.90
Exercise price	HK$0.90
Expect volatility	40%
Expected life	10 years
Risk-free rate	4.58%
Expected dividend yield	5%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous one year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

33. Acquisition of subsidiaries

For the year ended 30 April 2006

(i) On 30 March 2006, the Company acquired 100% equity interest in New Direction at a consideration of HK$650,595,000 which was settled by the issue of 599,765,384 ordinary shares of the Company *(note a)* and incurred cost of HK$2,848,000. New Direction owns 70% equity interest in 北京新松房地產開發有限公司, a company established in the PRC and engaged in properties development project in Beijing. This acquisition has been accounted for by the purchase method of accounting.

Details of the net assets acquired in respect of the acquisition of New Direction are summarised below:

	2006			
	Acquiree's carrying amount before combination	**Fair value adjustments**	**Fair value**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
NET ASSETS ACQUIRED				
Plant and equipment	235	–	235	–
Available-for-sale investment	9,471	–	9,471	–
Long-term receivable	270,831	–	270,831	–
Interest in an associate	–	–	–	209,945
Properties under development	663,168	223,152	886,320	–
Trade and other receivables	76,731	–	76,731	–
Advances to suppliers	123,716	–	123,716	–
Tax recoverable	14,519	–	14,519	–
Amounts due from related companies	32	–	32	–
Pledged bank deposits	6,239	–	6,239	–
Bank balances and cash	7,577	–	7,577	55
Accruals and other payables	(389,431)	–	(389,431)	–
Advances from customers	(614,994)	–	(614,994)	–
Tax payable	(14,519)	–	(14,519)	–
Amounts due to related companies	(15,237)	–	(15,237)	–
Secured bank borrowings	(17,259)	–	(17,259)	–
Deferred tax liabilities	–	(73,640)	(73,640)	–
	121,079	149,512	270,591	210,000
Minority interests			(81,177)	
			189,414	

	2006			
	Acquiree's carrying amount before combination	**Fair value adjustments**	**Fair value**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Represented by:				
Equity instruments of the Company *(note a)*			650,595	–
Cost directly attributable to the acquisition of New Direction			(2,848)	–
Deemed distribution to the controlling shareholder *(note b)*			(458,333)	–
Convertible note liability component			–	187,317
Convertible note equity component			–	22,683
			189,414	210,000
Net cash inflow arising on acquisition:				
Cash paid			–	–
Cost directly attributable to the acquisition of New Direction			(2,848)	–
Bank balances and cash acquired			7,577	55
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries			4,729	55

The subsidiary acquired during the year contributed HK$429,418,000 to the Group's revenue and HK$7,855,000 to the Group's profit.

If the acquisition had been completed on 1 May 2005, total group's revenue for the period would have been HK$671,140,000, and profit for the year would have been HK$115,736,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 May 2005, nor is it intended to be a projection of future results.

(ii) On 28 February 2006, the Group completed the acquisition of 100% equity interest in Lucky Merit at a consideration of HK$436,652,000, which was settled by the issue of 499,221,153 ordinary shares of the Company *(note a)*. Lucky Merit owns 40% equity interest in Beijing Jinma, a 45% owned subsidiary of the Group. The acquisition in Lucky Merit gives rise to a deemed distribution *(note b)* to the controlling shareholder of HK$248,945,000, cost directly attributable to the acquisition of Lucky Merit of HK$2,330,000 and a special reserve of HK$18,653,000. The difference between the fair value of the consideration and the fair value of net assets attributable to the additional interest in the subsidiary being acquired from a minority shareholder is considered as deemed distribution to the controlling shareholder. Due to the acquisition of the additional interest in Beijing Jinma, the minority interest was decreased by HK$166,723,000.

Note:

(a) Pursuant to the sales and purchase agreements for the acquisition of Lucky Merit and New Direction, 499,221,153 and 599,765,384 ordinary shares of the Company with par value of HK$0.01 each were issued respectively. The fair values of the shares issued for the acquisition of Lucky Merit and New Direction amount to approximately HK$434,322,000 and HK$647,747,000 respectively determined using the published prices available at the dates of the acquisition.

(b) Lucky Merit and New Direction are acquired from a controlling shareholder. The deemed distribution represents the difference between the fair value of the consideration and the fair value of the net assets acquired.

For the year ended 30 April 2005

On 12 August 2004, the Company acquired 100% equity interest in Top Fair for a consideration of HK$210 million. This acquisition has been accounted for by the purchase method of accounting. Details of the net assets acquired are summarised in note 16.

34. Disposal of subsidiaries

For the year ended 30 April 2006

In October 2005, the Group entered into a sale and purchase agreement with an independent third party to dispose of the entire interest in Spot On Assets Limited ("Spot On") together with its 100% direct interest in a subsidiary, Best Modern Properties Limited, and its indirect 39% interest in an associate, Shanghai Xin Yao Property Development Company Limited, for a consideration of HK$180,000,000. The disposal was completed in October 2005. A gain of disposal of HK$90,019,000 arose from this disposal.

In October 2005, the Group entered into a sales and purchase agreement with an independent third party to dispose of the entire interest in Neo-China Industrial Limited and its 26.12% interest in an associate, 新疆光正鋼結構工程技術有限公司, for a consideration of HK$35,000,000. The disposal was completed in October 2005. A gain of disposal of HK$34,999,000 arose from this disposal.

For the year ended 30 April 2005

In March 2005, the Group entered into a sale and purchase agreement with an independent third party to dispose of the entire interest in Noble Time Development Inc. together with its 42% interest in subsidiary, Newshine Development Limited and its 14.7% interest in associate, Beijing New Shine Garden Property Development Company Limited, for a consideration of HK$123,000,000. The disposal was completed in June 2005. A gain of HK$100,011,000 arose on the disposal of the entire interest in Noble Time Development Inc..

Details of the net assets disposed of in respect of the disposal of subsidiaries are summarised below:

	2006	2005
	HK$'000	*HK$'000*
NET ASSETS DISPOSED OF		
Interests in associates	42,040	40,969
Trade and other receivables	–	6
Bank balances and cash	3	–
Other payables	(2)	–
Amounts due to group companies	(156,162)	–
Minority interests	–	(17,765)
	(114,121)	23,210
Attributable goodwill	47,941	–
Attributable capital reserve	–	(221)
	(66,180)	22,989
Gain on disposal of subsidiaries	125,018	100,011
	58,838	123,000
Satisfied by:		
Cash consideration	215,000	358
Deposit received	–	122,642
Waiver of amounts due to the Company by the subsidiaries	(156,162)	–
	58,838	123,000
Net cash inflow arising on disposal:		
Cash received	215,000	358
Bank balances and cash disposed of	(3)	–
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	214,997	358

The subsidiaries disposed of during the year did not contribute significantly to the Group's results and cash flows.

35. Commitments

	2006	2005
	HK$'000	*HK$'000*
Development expenditure of properties in the PRC contracted for but not provided in the consolidated financial statements	285,220	321,744
Capital expenditure in respect or of acquisitions of subsidiaries contracted for but not provided for in the consolidated financial statements	364,817	–
	650,037	321,744

36. Contingent liabilities

(i) As at 30 April 2006, the Group gave a guarantee in favour of Phoenix Satellite Television Company Limited ("Phoenix Satellite TV"), under which the Group guaranteed the due performance of Oasiscity Limited, a wholly own subsidiary of the Group, of its obligations under the subscription and shareholders' agreement related to a joint development property project.

(ii) The Group has given guarantees to banks amounting to approximately HK$672,074,000 (2005: HK$704,389,000) in respect of certain facilities granted to the buyers of subsidiaries' completed properties.

(iii) A subsidiary together with two associates of the Group have been named as joint defendants in a court action in the PRC in respect of an alleged breach of contractual undertakings for an amount of HK$35,976,000. The subsidiary and its legal counsel are strongly resisting this claim and the directors are of the opinions that settlement of the claim is remote. Accordingly, no provision for any potential liability has been made in the consolidated financial statements.

(iv) The following contingent liabilities arise from interests in associates:

	2006	2005
	HK$'000	*HK$'000*
Share of contingent liabilities of associates arising from guarantees given to banks in respect of bank facilities utilised by buyers of associates' properties	38,553	–

(v) The State Administration of Taxation of the PRC issued a circular as Guo Shui Han 2004 No. 938 on 2 August 2004 to strengthen the levy of land appreciation tax on property developers. In the opinion of the directors, land appreciation tax shall not be levied in respect of properties already completed and full provision for land appreciation tax has not been made in the financial statements. The Group has not, however, been able to secure written confirmation of those individual city policies, and the directors consider that the chance that full land appreciation tax might be levied is less than probable in accordance with the rule of State Administration of Taxation. Should such levies take place, land appreciation tax would be approximately HK$26,013,000 (2005: HK$26,013,000).

37. Major non-cash transactions

The consideration for the purchase of Lucky Merit and New Direction that occurred during the year was settled by issue of ordinary shares of the Company. Further details of the acquisitions are set out in note 33.

38. Pledge of assets

As at 30 April 2006, the Group pledged 30% equity interest in Phoenix Real Property Limited to Phoenix Satellite TV. Details of this are set out in note 42(a). The Group also has pledged bank deposits. Details of this are set out in note 20.

Included in the properties under development with a carrying amount of approximately HK$331,258,000 (2005: HK$142,899,000) has been pledged as security for bank borrowings of the Group.

39. Operating lease commitments

As lessee

	2006	2005
	HK$'000	*HK$'000*
Minimum lease payments paid under operating leases during the year for premises	2,715	1,370

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2006	2005
	HK$'000	*HK$'000*
Within one year	1,717	471
In the second to fifth year inclusive	457	108
Over five years	360	–
	2,534	579

Operating lease payments represent rentals payable by the Group for its office properties. Leases are negotiated for an average term of 3 years.

40. Retirement benefit schemes

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, and the contribution by employees is at 5%. The maximum contribution for each employee is limited to HK$12,000 per annum.

Employees of subsidiaries in the PRC are members of the state-managed retirement benefit scheme operated by the PRC government. The subsidiaries are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions.

The total cost charged to the consolidated income statement of HK$707,000 (2005: HK$287,000) represents contributions payable to the schemes by the Group for the year.

41. Balance sheet of the company

	2006	2005
	HK$'000	*HK$'000*
		(restated)
Non-current assets		
Plant and equipment	1,086	709
Investments in subsidiaries	510,314	25,368
Amounts due from subsidiaries	712,377	546,151
	1,223,777	572,228
Current assets		
Other receivables	134,589	501
Bank balances and cash	101,408	413
	235,997	914
Current liabilities		
Dividend payable	23,121	–
Accruals and other payables	6,262	1,458
Amount due to a shareholder	1,947	7,298
Amounts due to subsidiaries	28,037	–
Convertible note	99,307	–
	158,674	8,756
Net current assets (liabilities)	77,323	(7,842)
Total assets less current liabilities	1,301,100	564,386
Non-current liability		
Convertible note	–	93,954
NET ASSETS	1,301,100	470,432
Capital and reserves		
Share capital	40,793	24,836
Reserves	1,260,307	445,596
Equity attributable to the equity holders of the Company	1,301,100	470,432

42. Investments in subsidiaries

Particulars of the Company's subsidiaries at 30 April 2006 are set out below:

Name	Place of incorporation/ registration and operation	Particulars of issued share capital/ registered capital	Percentage of issued share capital/ registered capital held	Principal activities
Directly held by the Company				
Active Power Development Limited	British Virgin Islands/Hong Kong	1 ordinary share of US$1	100%	Investment holding
Far Eagle Investments Limited	British Virgin Islands/Hong Kong	1 ordinary share of US$1	100%	Investment holding
Glorious Star Development Limited	British Virgin Islands/Hong Kong	1 ordinary share of US$1	100%	Inactive
High Step Trading Limited	British Virgin Islands/Hong Kong	1 ordinary share of US$1	100%	Investment holding
Sano Group Limited	British Virgin Islands/Hong Kong	1 ordinary share of US$1	100%	Investment holding
Indirectly held by the Company				
Lucky Merit Development Limited ("Lucky Merit")	British Virgin Islands/Hong Kong	1 ordinary share of US$1	100%	Investment holding
Neo-China Property Limited	British Virgin Islands/Hong Kong	1 ordinary share of US$1	100%	Investment holding
Neo-China Technology Limited	British Virgin Islands/Hong Kong	1 ordinary share of US$1	100%	Investment holding
New Direction Development Limited ("New Direction")	British Virgin Islands/Hong Kong	1 ordinary share of US$1	100%	Investment holding
Oasiscity Limited ("Oasiscity")	British Virgin Islands/Hong Kong	1 ordinary share of US$1	100%	Investment holding
Phoenix Real Property Limited ("Phoenix Real Property", *note a*)	British Virgin Islands/Hong Kong	100 ordinary shares of US$1 each	100%	Investment holding

Name	Place of incorporation/ registration and operation	Particulars of issued share capital/ registered capital	Percentage of issued share capital/ registered capital held	Principal activities
Shenzhen Phoenix Real Estates Company Limited ("Shezhen Phoenix", *notes a and b*)	The PRC	US$10,000,000	100%	Property development
Sunkit Development Limited	British Virgin Islands/Hong Kong	1 ordinary share of US$1	100%	Investment holding
Top Fair Limited	British Virgin Islands/Hong Kong	50,000 ordinary shares of US$1 each	100%	Investment holding
Wellink Services Limited	Hong Kong	2 ordinary shares of HK$1 each	100%	Inactive
中新方圓科技(深圳)有限公司 *(note c)*	The PRC	HK$10,000,000	100%	Inactive
中置(北京)企業管理有限公司 *(note c)*	The PRC	HK$30,000,000	100%	Investment holding
北京金馬文華園房地產開發有限公司 ("Beijing Jinma, *note b*")	The PRC	US$12,000,000	85%	Property development
新松房地產開發有限公司 *(note b)*	The PRC	RMB140,000,000	70%	Property development

Notes:

(a) In October 2003, Oasiscity entered into a subscription and shareholders' agreement ("Agreement") with Phoenix Satellite TV and Phoenix Real Property in relation to the joint development of a property project (the "Phoenix Tower") in Shenzhen, the PRC.

Pursuant to the Agreement, Oasiscity subscribed for 60 new shares at par value of US$1 each issued by Phoenix Real Property, representing 60% of its enlarged issued share capital. Upon the issue of the new shares, Oasiscity executed a share charge in favour of Phoenix Satellite TV, under which it charges 30 new shares of Phoenix Real Property, representing 30% of the enlarged issued share capital, as security for the due performance of the Group's obligations under the Agreement. In addition, Oasiscity paid approximately HK$4.7 million to Phoenix Satellite TV in accordance with the terms of the Agreement.

Furthermore, pursuant to the Agreement, Oasiscity will increase its shareholding interests to 100% in Phoenix Real Property upon providing further financing for the development of Phoenix Tower and fulfillment of certain other terms and conditions in future.

Oasiscity, through its interest in Phoenix Real Property, the 90% shareholder of Shenzhen Phoenix, will be responsible for the implementation of the property project of Phoenix Tower, with the cooperation of Phoenix Satellite TV and Beijing Honda Construction Company Limited ("Honda"), the other 10% shareholder of Shenzhen Phoenix.

Under the Agreement, Phoenix Satellite TV and Honda, will have the property right over 25,000 square metres, in aggregate, of the self-use area of the Phoenix Tower.

Oasiscity will be responsible for providing all the required financing for the development of Phoenix Tower in future and in return it will has ownership title over all the saleable floor area of Phoenix Tower and the remaining portion of the self-use area after allowed for the entitlement of Phoenix Satellite TV and Honda as mentioned above. As Oasiscity is entitled to 100% of the results of Phoenix Real Property and Shenzhen Phoenix ultimately, they are therefore classified as wholly owned subsidiaries of the Group.

The development of Phoenix Tower commenced during the year ended 30 April 2004 and was expected to be completed in late 2006. If the development of Phoenix Tower cannot meet the timetable as stated in the Agreement, the Group needs to pay a penalty of approximately HK$33,000 to Phoenix Satellite TV each day until completion of the property project.

(b) These companies were established in the PRC in the form of sino-foreign equity joint ventures.

(c) These companies were established in the PRC in the form of wholly owned foreign enterprises.

43. Related parties transactions

During the year, the Group entered into the following transactions with related parties:

	Management fee expense		Interest income	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
A related company	1,977	433	–	–
An associate	–	–	24,660	17,594

The controlling shareholder of the Company, Mr. Li Song Xiao, has beneficiary interest in the above related company.

Details of the balances with related parties as at balance sheet date are set out in the balance sheet and relevant notes to the consolidated financial statements.

A group entity had entered into agreements with Beijing Newshine Decoration Company Limited ("Newshine Decoration") with a total considerations of RMB145,065,000 prior to the group entity became a subsidiary of the Company. Pursuant to the agreements, Newshine Decoration will provide decoration services for the properties under development held by the group entity. At 30 April 2006, RMB127,113,000 (2005: RMB93,641,000) has been paid to Newshine Decoration and was included in advances to suppliers account. The controlling shareholder of the Company, Mr. Li Song Xiao, has beneficiary interest in Newshine Decoration.

During the year ended 30 April 2006, a group entity had entered into agreements with 北京新松沃克建築裝飾工程有限公司 ("北京新松沃克"), with a total consideration of RMB2,361,000. Pursuant to the agreements, 北京新松沃克 provides decoration services for the properties under development held by the group entity. At 30 April 2006, RMB1,281,000 has been paid to 北京新松沃克 and was included in property under development. The controlling shareholder of the Company, Mr. Li Song Xiao, has beneficiary interest in 北京新松沃克.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Short-term benefits	7,049	3,180
Other long-term benefits	182	48
Share-based payments	4,287	–
	11,518	3,228

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

44. Post balance sheet events

(a) On 22 May 2006, the Group entered an equity transfer agreement with an independent third party for acquisition of additional 25% equity interest in Beijing New Shine Land for a consideration of approximately HK$125,000,000. Prior to the acquisition, the Group held 25% equity interest in Beijing New Shine Land and subsequent to the acquisition, the Group is entitled to 50% equity interest in Beijing New Shine Land. Details of the acquisition of 25% equity interest in Beijing New Shine Land are included in a circular of the Company dated 15 June 2006.

(b) The Group has signed a memorandum of understanding ("the MOU") during the year with two shareholders of Chongqing China Enterprises for the possible acquisition of 70% equity interest in Chonging China Enterprises at a consideration of approximately HK$405,865,000. The Group executed the MOU on 26 May 2006 through successfully tendering the right to acquire 70% interest in Chongqing China Enterprises in Shanghai United Assets and Equity Exchange. The transfer of 70% equity interest has been completed in July 2006 and Chongqing China Enterprises became a subsidiary of the Group accordingly. In the view point of directors, it is impracticable to disclose the assets and liabilities of the subsidiary as of the date of completion.

Details of the acquisition of 70% interest in Chongqing China Enterprises are included in a circular of the Company dated 26 June 2006.

(c) The Company has entered into a conditional subscription agreement with J.P. Morgan Securities Limited, and BOCI Asia Limited, in connection with the issue by the Company of zero coupon convertible bonds due 2011 ("the Bonds") with an aggregated principal amount of HK$1,340,000,000. The Bonds are convertible into ordinary shares at an initial conversion price of HK$1.5048 per share which is at a premium of approximately 32 per cent over the closing price of the share of the Company on the Stock Exchange on 12 May 2006. The issue of the Bonds was completed on 12 June 2006. Details of the Bonds issued are included in an announcement of the Company on 15 May 2006.

(d) On 26 June 2006, the Group entered into a sale and purchase agreement with Mr. Li Song Xiao, the chairman and controlling shareholder of the Group, to acquire the entire interest in DIVO Success Limited and Lead Mix Limited, which own certain properties in Tianjin, the PRC, for a consideration of HK$845,263,700. The consideration is to be satisfied by the allotment and issue of 1,243,034,853 ordinary shares at HK$0.01 each of the Company at an issue price of HK$0.68 each. Details of the acquisition is included in the circular dated 20 July 2006.

The following is the text of a report received from the reporting accountants of the Company, CCIF CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of inclusion in this circular.

CCIF
CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

31 January 2007

The Directors
Neo-China Group (Holdings) Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to 北京金馬文華園房地產開發有限公司 ("American Rock JV") for each of the three years ended 31 December 2003, 2004 and 2005 and for the seven months ended 31 July 2006 (the "Relevant Periods"), for inclusion in the circular of Neo-China Group (Holdings) Limited dated 31 January 2007 (the "Circular").

American Rock JV was established as a collectively owned enterprise in mainland China on 9 August 2000 with registered capital of RMB30,000,000. The principal activity of American Rock JV is engaged in property development. In February 2002, American Rock JV proposed to restructure from a collectively owned enterprise to a sino-foreign equity joint venture and increased the registered capital from RMB30,000,000 to US$12,000,000.

The restructuring was approved by the Beijing Foreign Economic Relation & Trade Commission in May 2002 and was completed when American Rock JV obtained the revised business license on 15 October 2002.

The statutory financial statements of American Rock JV for each of the three years ended 31 December 2003, 2004 and 2005 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in mainland China (the "PRC GAAP") and were audited by 北京馳創會計師事務所有限責任公司, certified public accountants registered in mainland China.

The Financial Information has been prepared by the directors of American Rock JV based on the PRC GAAP statutory financial statements and the unaudited management accounts of American Rock JV after making adjustments as appropriate in compliance with the Hong Kong Financial Reporting Standards ("HKFRSs"), the collective terms of which include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The directors of American Rock JV are responsible for preparing the Financial Information which gives a true and fair view. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our examination, on the Financial Information, and to report our opinion.

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the financial statements of American Rock JV for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA and carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. We have not audited any financial statements of American Rock JV in respect to any period subsequent to 31 July 2006.

In our opinion, for the purpose of this report, the Financial Information give a true and fair view of the state of affairs of American Rock JV as at 31 December 2003, 2004, 2005 and 31 July 2006, and of the results and cash flows of American Rock JV for the Relevant Periods.

The directors of American Rock JV are also responsible for preparing the unaudited financial information of American Rock JV including the income statement, cash flow statement and statement of changes in equity for the seven months ended 31 July 2005 (the "31 July 2005 Comparative Financial Information") together with the notes thereon. It is our responsibility to form an independent conclusion, based on our review, on the 31 July 2005 Comparative Financial Information. For the purpose of this report, we have reviewed the 31 July 2005 Comparative Financial Information in accordance with the Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. Our review consisted principally of making enquiries of management and applying analytical procedures to the 31 July 2005 Comparative Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the 31 July 2005 Comparative Financial Information.

On the basis of our review, which does not constitute an audit, for the purpose of this report, we are not aware of any material modifications that should be made to the 31 July 2005 Comparative Financial Information.

A. FINANCIAL INFORMATION

INCOME STATEMENTS

		Year ended 31 December			Seven months ended 31 July	
	Note	**2003**	**2004**	**2005**	**2005**	**2006**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
TURNOVER	*6*	69,648	1,064,750	342,778	314,241	272,731
COST OF SALES		(50,808)	(714,868)	(203,245)	(185,972)	(190,159)
GROSS PROFIT		18,840	349,882	139,533	128,269	82,572
OTHER REVENUE	*6*	2,013	12,150	14,561	8,177	602
Selling expenses		(14,957)	(27,077)	(42,264)	(11,269)	(12,288)
Administrative expenses		(3,931)	(5,019)	(4,810)	(4,508)	(3,195)
PROFIT FROM OPERATIONS		1,965	329,936	107,020	120,669	67,691
Finance costs	*7*	–	–	–	–	–
PROFIT BEFORE TAXATION	*8*	1,965	329,936	107,020	120,669	67,691
Income tax expense	*9*	–	(104,895)	(36,368)	(41,343)	(22,338)
PROFIT FOR THE YEAR/PERIOD		1,965	225,041	70,652	79,326	45,353

BALANCE SHEETS

	Note	At 31 December			At 31 July
		2003	**2004**	**2005**	**2006**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
		(Audited)	(Audited)	(Audited)	(Audited)
Non-current assets					
Plant and equipment	*11*	561	1,066	1,248	2,627
Pledged bank deposits	*12*	38,516	46,447	49,304	37,574
		39,077	47,513	50,552	40,201
Current assets					
Properties held for sale		434,499	196,181	14,622	318,752
Properties under development	*13*	441,131	439,050	672,309	475,769
Investment	*14*	–	5,026	–	–
Trade and other receivables	*15*	249,250	308,871	447,899	406,082
Loan to a former fellow subsidiary	*16*	100,000	99,952	–	–
Amount due from a fellow subsidiary	*17*	72,300	100,000	460,952	699,330
Income tax recoverable		1,000	–	–	–
Bank balances and cash		65,478	31,688	140,783	40,198
		1,363,658	1,180,768	1,736,565	1,940,131
Current liabilities					
Other payables and accruals	*18*	283,800	384,823	202,912	266,341
Advances from customers		718,910	52,954	807,238	989,202
Income tax payable		–	90,295	92,212	96,021
Amount due to immediate holding company	*17*	–	100,000	100,000	100,000
Amounts due to shareholders	*19*	39,557	78,616	7,060	–
Loan payable	*20*	35,000	–	–	–
Bank borrowings – due within one year	*21*	145,200	203,330	–	5,330
		1,222,467	910,018	1,209,422	1,456,894
Net current assets		141,191	270,750	527,143	483,237

	Notes	At 31 December			At 31 July
		2003	**2004**	**2005**	**2006**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
		(Audited)	(Audited)	(Audited)	(Audited)
Total assets less current liabilities		180,268	318,263	577,695	523,438
Non-current liabilities					
Bank borrowings – due after one year	*21*	125,040	–	188,780	89,170
Net assets		55,228	318,263	388,915	434,268
Capital and reserves					
Paid-in capital	*22*	61,474	99,468	99,468	99,468
Reserves		(6,246)	218,795	289,447	334,800
Total equity		55,228	318,263	388,915	434,268

STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital *RMB'000*	Capital reserve *RMB'000* *(Note)*	(Accumulated losses)/ retained profits *RMB'000*	Total equity *RMB'000*
At 1 January 2003	30,000	–	(14,751)	15,249
Capital injection during the year	31,474	6,540	–	38,014
Profit for the year	–	–	1,965	1,965
At 31 December 2003	61,474	6,540	(12,786)	55,228
Capital injection during the year	37,994	–	–	37,994
Profit for the year	–	–	225,041	225,041
At 31 December 2004	99,468	6,540	212,255	318,263
Profit for the year	–	–	70,652	70,652
At 31 December 2005	99,468	6,540	282,907	388,915
Profit for the period	–	–	45,353	45,353
At 31 July 2006	99,468	6,540	328,260	434,268
At 1 January 2005	99,468	6,540	212,255	318,263
Profit for the period (Unaudited)	–	–	79,326	79,326
At 31 July 2005 (Unaudited)	99,468	6,540	291,581	397,589

Note: The amount represented the additional capital injected by a shareholder in excess of his share of the registered capital.

CASH FLOW STATEMENTS

	Year ended 31 December			Seven months ended 31 July	
	2003	2004	2005	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
OPERATING ACTIVITIES					
Profit before taxation	1,965	329,936	107,020	120,669	67,691
Adjustments for:					
Depreciation of plant and equipment	141	185	310	169	337
Interest income	(432)	(569)	(793)	(395)	(527)
Gain on disposal of investment	–	–	(154)	(154)	–
Loss on disposal of plant and equipment	10	–	–	–	–
OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL	1,684	329,552	106,383	120,289	67,501
(Increase)/decrease in trade and other receivables	(242,744)	(59,621)	(140,079)	(34,823)	41,817
(Increase)/decrease in properties held for sale	(421,740)	255,873	197,998	–	(299,369)
(Increase)/decrease in properties under development	6,672	2,081	(233,259)	58,582	196,540
Increase/(decrease) in advances from customers	587,845	(665,956)	754,284	347,450	181,964
Increase/(decrease) in other payables and accruals	186,827	101,023	(181,911)	(100,605)	63,429
CASH GENERATED FROM/ (USED IN) OPERATIONS	118,544	(37,048)	503,416	390,893	251,882
Income tax paid in mainland China	(1,000)	(13,600)	(33,400)	(23,400)	(18,529)

	Year ended 31 December			Seven months ended 31 July	
	2003	2004	2005	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	117,544	(50,648)	470,016	367,493	233,353
INVESTING ACTIVITIES					
Interest received	432	569	793	395	527
(Increase)/decrease in pledged bank deposits	(32,767)	(7,930)	(2,857)	(10,279)	11,730
Advance to a fellow subsidiary	(72,100)	(27,700)	(360,952)	(307,590)	(238,378)
Purchase of plant and equipment	(142)	(690)	(492)	(412)	(1,716)
Proceeds from disposal of plant and equipment	1	–	–	–	–
(Advance to)/repayment from a former fellow subsidiary	(100,000)	48	99,952	99,952	–
Acquisition of investment	–	(5,026)	–	–	–
Proceeds from disposal of investment	–	–	5,180	5,180	–
NET CASH USED IN INVESTING ACTIVITIES	(204,576)	(40,729)	(258,376)	(212,754)	(227,837)
FINANCING ACTIVITIES					
New bank borrowings raised	105,040	–	350,000	144,990	–
(Repayment to)/advance from shareholders	(62,712)	39,059	(71,556)	(43,273)	(7,060)
Interest paid	(12,758)	(17,556)	(16,439)	(8,168)	(4,761)
Proceeds on capital injection	38,014	37,994	–	–	–
Increase/(decrease) in loan payable	35,000	(35,000)	–	–	–
Repayments of bank borrowings	–	(66,910)	(364,550)	(203,330)	(94,280)
Advance from/(repayment to) immediate holding company	–	100,000	–	(20,000)	–
NET CASH FROM/(USED IN) FINANCING ACTIVITIES	102,584	57,587	(102,545)	(129,781)	(106,101)

	Year ended 31 December			Seven months ended 31 July	
	2003	2004	2005	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	15,552	(33,790)	109,095	24,958	(100,585)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD	49,926	65,478	31,688	31,688	140,783
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD					
Representing bank balances and cash	65,478	31,688	140,783	56,646	40,198

NOTES TO THE FINANCIAL STATEMENTS

1. General

American Rock JV is a sino-foreign equity joint venture established in mainland China. The address of its registered office and principal place of business is 北京海淀區四季香鄉杏石路六十五號 (No. 65 Xing Shi Kou Lu, Si Ji Qing Xiang, Hai Dian District, Beijing). The principal activity of American Rock JV is engaged in property development.

The financial information is presented in Renminbi ("RMB"), which is the same as the functional currency of American Rock JV.

2. Significant accounting policies

a) Statement of compliance

The Financial Information has been prepared in accordance with the significant accounting policies set out below. These accounting policies are in accordance with all applicable HKFRSs (which collective term includes all applicable individual Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong, and have been consistently applied throughout the Relevant Periods.

The new and revised HKFRSs which are effective for accounting periods beginning on or after 1 January 2006 have been early adopted as at the beginning of the Relevant Periods.

The Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

b) Basis of preparation of the Financial Information

The measurement basis used in the preparation of the Financial Information is the historical cost basis except for certain financial assets and financial liabilities, which are measured at fair values, as explained in the accounting policies set out below.

c) Revenue recognition

Revenue from sale of properties in the ordinary course of business is recognised when all of the following criteria are met:

- the significant risks and rewards of ownership of the properties are transferred to buyers;
- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to American Rock JV; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Deposits and instalments received from the purchasers prior to the recognition of revenue from sale of properties are recorded as advances from customers.

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset's net carrying amount.

d) Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method as follows:

Furniture and fixtures	3 years
Computer and office equipment	5 – 7 years

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period in which the item is derecognised.

e) Properties held for sale

Properties held for sale in the ordinary course of business are stated at the lower of cost and net realisable value.

f) Properties under development

Properties under development for sale are stated at the lower of cost and net realisable value. Cost of property in the course of development comprises prepaid lease payments of leasehold land, borrowing costs and development costs during the development period.

g) Impairment

At each balance sheet date, American Rock JV reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

h) Foreign currencies

In preparing the Financial Information, transactions in currencies other than the functional currency (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which American Rock JV operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange difference are also recognised directly in equity.

i) Operating leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the rewards and risks of ownership to the lessee. All other leases are classified as operating leases.

Rental paid and payable under such operating leases are charged to the income statement on a straight-line basis over the relevant lease term. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

j) Government subsidy

Government subsidy are recognised as income over the periods necessary to match them with the related costs. Subsidy related to expense items are recognised in the same period as those expenses are charged in the income statement and are reported separately as under other revenue.

k) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in income statement in the period in which they are incurred.

l) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

m) Retirement benefit costs

Payments to state-managed retirement benefit schemes are charged as an expense when they fall due.

Retirement benefit costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such retirement benefit costs ceases when the assets are substantially ready for their intended use or sale.

n) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when American Rock JV becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

i) Financial assets

American Rock JV's financial assets are classified into loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, loan to a fellow subsidiary and amount due from a fellow subsidiary and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in the income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. They are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in the income statement when there is objective evidence that the assets is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

iv) Financial liabilities

Financial liabilities issued by American Rock JV are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability. The financial liabilities are generally classified into other financial liabilities.

Other financial liabilities including bank borrowings, other payables, advances to customers, amount due to immediate holding company/shareholders and loan payable are subsequently measured at amortised cost, using the effective interest rate method.

o) Provisions

Provisions are recognised when American Rock JV has a present obligation as a result of a past event, and it is probable that American Rock JV will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash equivalents include investments and advances denominated in foreign currencies provided that they fulfill the above criteria.

q) Related parties

For the purposes of these Financial Information, parties are considered to be related to American Rock JV if American Rock JV has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where American Rock JV and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/ or their close family members) or other entities and include entities which are under the significant influence of related parties of American Rock JV where those parties are individuals, and post employment benefit plans which are for the benefit of employees of American Rock JV or of any entity that is a related party of American Rock JV.

3. Critical accounting estimates and judgements

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

a) Valuation on properties held for sale and properties under development

American Rock JV assesses periodically if the properties held for sale and properties under development have suffered any impairment in accordance with the accounting policy stated in notes 2(e) and 2(f). Properties held sale and properties under development are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. The review requires estimation and judgements based on the most reliable evidence available at the time the estimates are made and other relevant information.

b) Valuation on trade and other receivables

American Rock JV assesses periodically if trade and other receivables have suffered any impairment in accordance with the accounting policy stated in note 2(g).

The receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. An impairment losses is recognized in income statement when there is objective evidence that the asset is impaired.

In making the judgement, management considers detailed procedures which have been in place to monitor this risk. In determining whether there is objective evidence of impairment, American Rock JV takes into consideration estimation of future cash flows.

c) Current and deferred taxation

American Rock JV is subject to income taxes in mainland China. Significant judgement is required in determining the amount of the provision of taxation and the timing of payment of the related taxations. The provision of taxation is calculated based on the budgeted cost of property development projects. Where the final tax outcome of these property development projects is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

d) Land appreciation taxes

Mainland China land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditure including sales charges, borrowing costs and all property development expenditure.

American Rock JV is subject to land appreciation taxes in mainland China. However, the implementation of these taxes varies amongst various mainland China cities and American Rock JV has not finalized its land appreciation tax returns with various tax authorities. Accordingly, significant judgements are required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain. American Rock JV recognises these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the cost of sales and related income tax provisions in the period in which such determination is made.

4. Financial risk management objectives and policies

American Rock JV's major financial instruments mainly include available-for-sale investments, trade and other receivables, other payables, loan payable, bank borrowings, pledged bank deposits, loan to a former fellow subsidiary and amounts due from/(to) a fellow subsidiary/immediate holding company/shareholders. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

a) Cash flow interest rate risk

American Rock JV has variable-rate borrowings and is therefore exposed to cash flow interest rate risk (see note 21 for details of these borrowings). American Rock JV currently does not have an interest rate hedging policy. However, the management monitors interest rate exposures and will consider hedging significant interest rate exposures should the need arise.

b) Credit risk

The extent of the American Rock JV credit exposure is represented by the aggregate balance of bank balances, trade and other receivables and amount due from a fellow subsidiary.

American Rock JV has arranged bank financing for certain purchasers of property units and provided guarantees to secure obligations of such purchasers for repayments. American Rock JV's maximum exposure to credit risk is in the event of the counterparties' failure to perform their obligations at the period ended in relation to bank borrowings. Detailed disclosure of these guarantees has been made in note 25.

The American Rock JV has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers. The credit risk for bank deposits and bank balances exposed is considered minimal as such amounts are placed with banks with good credit ratings.

5. Segment information

No business segment information is presented for the Relevant Periods as over 90% of the business activities of American Rock JV are the property development in mainland China.

No geographical segment information is presented as over 90% of the activities of American Rock JV during the Relevant Periods were carried out in mainland China and over 90% of assets and liabilities of American Rock JV were located in mainland China.

6. Turnover and other revenue

Revenue represents amounts received and receivables for properties sold by American Rock JV to outside customers as follows:

	Year ended 31 December			Seven months ended 31 July	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Turnover					
Sales of properties	69,648	1,064,750	342,778	314,241	272,731
Other revenue					
Bank interest income	432	569	793	395	527
Gain on disposal of investment	–	–	154	154	–
Mainland China government subsidy	–	11,526	13,403	7,480	–
Others	1,581	55	211	148	75
	2,013	12,150	14,561	8,177	602
	71,661	1,076,900	357,339	322,418	273,333

7. Finance costs

	Year ended 31 December			Seven months ended 31 July	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Interest on bank borrowings wholly repayable within five years	12,758	17,556	16,439	8,168	4,761
Less: amount capitalised under properties under development	(12,758)	(17,556)	(16,439)	(8,168)	(4,761)
	–	–	–	–	–

8. Profit before taxation

Profit before taxation has been arrived at after charging:

	Year ended 31 December			Seven months ended 31 July	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Auditors' remuneration	20	20	20	20	20
Cost of properties held for sale recognise as an expense	50,808	714,868	203,245	185,972	190,159
Depreciation of plant and equipment	141	185	310	169	337
Loss on disposal of plant and equipment	10	–	–	–	–
Staff costs					
Directors' emoluments	–	–	181	59	130
Other staff salaries	2,002	2,136	2,564	1,731	2,125
Retirement benefit scheme contributions	97	102	236	137	147
Less: amount capitalised under properties under development	(866)	(1,855)	(2,981)	(1,927)	(2,402)
Total staff costs	1,233	383	–	–	–

9. Income tax expense

a) Taxation in the income statement represents:

	Year ended 31 December			Seven months ended 31 July	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Current tax – Mainland China					
– Provision for the year/period	–	104,895	36,368	41,343	22,338
– Over-provision in respect of prior years	–	–	–	–	–
	–	104,895	36,368	41,343	22,338

American Rock JV is subject to the income tax law concerning enterprises in mainland China registered as a sino-foreign equity joint venture ("SFEJV"). According to the relevant income tax rules and regulations applicable to SEFJV in mainland China, taxation for American Rock JV is charged at 33% on its estimated assessable profit for the year/period.

b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Year ended 31 December			Seven months ended 31 July	
	2003	2004	2005	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Profit before taxation	1,965	329,936	107,020	120,669	67,691
Tax at the applicable tax rate of 33%	648	108,879	35,317	39,821	22,338
Tax effect of non-deductible expense	–	1,285	–	1,152	–
Utilisation of tax losses previously not recognized	(648)	(4,219)	–	–	–
Others	–	(1,050)	1,051	370	–
Income tax expense	–	104,895	36,368	41,343	22,338

c) At 31 December 2003, American Rock JV had unused tax losses of approximately RMB12,786,000. No provision for deferred taxation has been recognised in the Financial Information as the amount involved is insignificant.

10. Directors and five highest paid employees' emoluments

a) Directors' emoluments

The aggregate amounts of emoluments to directors of American Rock JV are as follows:

No emoluments were paid by American Rock JV to any of the directors for the years ended 31 December 2003 and 2004.

Details of directors' emoluments for the year ended 31 December 2005 and for the seven months ended 31 July 2005 and 2006 are as follows:

31 December 2005

Directors	Fees	Salary	Retirement benefit scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Ms. Chan Yim Kum	–	–	–	–
Mr. Li Song Xiao	–	–	–	–
Mr. Liu Yi	–	102	–	102
Mr. Wang Zhing Yu	–	79	–	79
Mr. Zhang Yao Hui	–	–	–	–
	–	181	–	181

31 July 2005

Directors	Fees	Salary	Retirement benefit scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Ms. Chan Yim Kum	–	–	–	–
Mr. Li Song Xiao	–	–	–	–
Mr. Liu Yi	–	59	–	59
Mr. Wang Zhing Yu	–	–	–	–
Mr. Zhang Yao Hui	–	–	–	–
	–	59	–	59

31 July 2006

Directors	Fees	Salary	Retirement benefit scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Ms. Chan Yim Kum	–	–	–	–
Mr. Li Song Xiao	–	–	–	–
Mr. Liu Yi	–	60	–	60
Mr. Wang Zhing Yu	–	70	–	70
Mr. Zhang Yao Hui	–	–	–	–
	–	130	–	130

b) Five highest paid employees

Of the five individuals with the highest emoluments in American Rock JV for the year ended 31 December 2005 and for the seven months ended 31 July 2005 and 2006, one, one and two were directors of American Rock JV respectively.

The remaining five, five, four, four and three highest paid non-director individuals for the years ended 31 December 2003, 2004 and 2005 and for the seven months ended 31 July 2005 and 2006, which are individually below RMB1,000,000, are as follows:

	Year ended 31 December			Seven months ended 31 July	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Salaries and other benefits	210	277	406	163	301
Retirement benefit scheme contributions	23	26	9	17	1
	233	303	415	180	302

11. Plant and equipment

	Furniture and fixtures *RMB'000*	Computer and office equipment *RMB'000*	Total *RMB'000*
Cost			
At 1 January 2003	232	419	651
Additions	142	–	142
Disposals	(14)	–	(14)
At 31 December 2003	360	419	779
Additions	153	537	690
At 31 December 2004	513	956	1,469
Additions	231	261	492
At 31 December 2005	744	1,217	1,961
Additions	98	1,618	1,716
At 31 July 2006	842	2,835	3,677
Depreciation			
At 1 January 2003	21	59	80
Provided for the year	60	81	141
Eliminated on disposals	(3)	–	(3)
At 31 December 2003	78	140	218
Provided for the year	77	108	185
At 31 December 2004	155	248	403
Provided for the year	115	195	310
At 31 December 2005	270	443	713
Provided for the period	82	255	337
At 31 July 2006	352	698	1,050
Net book value			
At 31 December 2003	282	279	561
At 31 December 2004	358	708	1,066
At 31 December 2005	474	774	1,248
At 31 July 2006	490	2,137	2,627

12. Pledged bank deposits

The amount represents deposits pledged as security for the long-term mortgage loans granted by banks to the buyers (who are unrelated to American Rock JV) of the completed properties and are therefore classified as non-current assets. The deposits carry interest rate at respective bank saving deposits rate. The fair value of American Rock JV's pledged bank deposits approximate to the corresponding carrying value at each year/period end.

13. Properties under development

	At 31 December			At 31 July
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Properties under development of which:				
– will be realised within twelve months	–	–	311,720	475,769
– will not be realised within twelve months	441,131	439,050	360,589	–
	441,131	439,050	672,309	475,769

The properties under development are located in mainland China.

14. Investment

	At 31 December			At 31 July
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Available-for-sale investment				
Unlisted equity securities, at fair value	–	5,026	–	–

The investment offers American Rock JV the opportunity for return through fair value gains. It has no fixed maturity or coupon rate. The fair value of this security is based on quoted market bid prices.

15. Trade and other receivables

	At 31 December			At 31 July
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Trade receivables	–	42,406	24,476	5,175
Advances to suppliers	165,938	259,668	287,855	307,073
Prepaid business taxes	22,042	–	10,182	40,499
Prepaid sales commission	9,684	–	–	–
Other receivables	51,586	6,797	125,386	53,335
	249,250	308,871	447,899	406,082

American Rock JV allows a credit period of 90 days to its trade customers. The following is an aging analysis of trade receivables at the reporting dates:

	At 31 December			At 31 July
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
0 – 90 days	–	25,352	24,049	4,748
91 – 180 days	–	494	160	–
Over 180 days	–	16,560	267	427
	–	42,406	24,476	5,175

The directors of American Rock JV consider that the fair value of the American Rock JV's trade and other receivables approximates to the corresponding carrying amounts at each year/period end.

16. Loan to a former fellow subsidiary

American Rock JV entered into an agreement to lend RMB100,000,000 to China Damen Co., Ltd., a former fellow subsidiary of American Rock JV, on 31 December 2003. The amount was unsecured, bearing interest at market rates of one-year bank loans and was fully repaid in May 2005. The directors considered that the carrying amount at 31 December 2003 and 2004 approximated its fair value, due to the short-term nature.

17. Amounts due from/(to) a fellow subsidiary/immediate holding company

The amounts were unsecured, interest-free and repayable on demand. The directors of American Rock JV consider that the carrying amounts approximate their fair value, due to the short-term nature of these financial assets and liabilities.

The amount due from a fellow subsidiary represents short-term advances to 中置（北京）企業管理有限公司 (Zhongzhi (Beijing) Enterprise Management Company Limited), a wholly-owned subsidiary of Neo-China Group (Holdings) Limited.

18. Other payables and accruals

	At 31 December			At 31 July
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Other payables	27,572	51,097	21,232	14,642
Accruals for properties under development	256,228	333,726	181,680	251,699
	283,800	384,823	202,912	266,341

The directors of American Rock JV consider that the carrying amounts of other payables and accruals approximate their fair value, due to the short-term nature.

19. Amounts due to shareholders

	At 31 December			At 31 July
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
北京西華偉業建材經貿有限公司	–	–	7,060	–
北京新松投資集團有限公司 *(note b)*	–	78,616	–	–
北京新松房地產開發有限公司 *(note c)*	39,557	–	–	–
	39,557	78,616	7,060	–

(a) The amounts were unsecured, interest-free and repayable on demand. The directors of American Rock JV consider that the carrying amounts approximate their fair value, due to the short-term nature.

(b) 北京新松投資集團有限公司 (Beijing New Shine Investment Group Company Limited) ceased to be a shareholder of American Rock JV since 28 March 2005 upon the disposed of all its equity interest in American Rock JV.

(c) 北京新松房地產開發有限公司 ceased to be a shareholder of American Rock JV since 15 October 2004 upon the disposed of all its equity interest in American Rock JV.

20. Loan payable

In 2003, American Rock JV borrowed RMB35,000,000 from Shenzhen Chiyuan Industry Co., Ltd. The amount was secured by certain properties held for sale and properties under development of approximately RMB47,770,000, bore interest at 10.57% per annum and had been fully repaid during the year ended 31 December 2004. The directors considered that the carrying amount at 31 December 2003 approximated its fair value, due to the short-term nature.

21. Bank borrowings

	At 31 December			At 31 July
	2003	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Secured bank borrowings repayable as follows:				
Within one year	145,200	203,330	–	5,330
After one year but within two years	125,040	–	188,780	89,170
	270,240	203,330	188,780	94,500
Less: amount due within one year	(145,200)	(203,330)	–	(5,330)
Amount due after one year	125,040	–	188,780	89,170

The bank borrowings bear fixed interest rates and range of effective interest rates (which are equal to contracted interest rates) on American Rock JV's borrowings are as follows:

	Year ended 31 December			Seven months ended 31 July	
	2003	2004	2005	2005	2006
Effective interest rate on fixed rate borrowings	5.31% to 5.84%	5.49% to 5.84%	5.76% to 5.84%	5.76% to 5.84%	5.76% to 5.84%

The borrowings are denominated in RMB. The directors of American Rock JV consider that the carrying amounts approximate their fair value in view of the fact that the interest rate of such borrowings approximate those which would have been available at the respective balance sheet dates for debts of similar remaining maturities and credit rating.

The bank borrowings are secured by:

i) a charge for certain properties held for sale and properties under development at 31 December 2003, 2004, 2005 and 31 July 2006 of approximately RMB522,000,000, RMB186,631,000, RMB311,721,000 and RMB309,771,000 respectively;

ii) a corporate guarantee amounted to RMB150,000,000 given by a related company, 北京新松投資集團有限公司 (Beijing New Shine Investment Group Company Limited) of which ultimately controlled by Mr. Li Song Xiao; and

iii) a charge for certain properties with value of approximately RMB295,000,000 held by a related company, 北京三九建業房地產開發有限公司 of which ultimately controlled by Mr. Li Song Xiao.

22. Paid-in capital

	Registered capital *USD'000*	**Paid-in capital** *USD'000*	**RMB equivalent** *RMB'000*
At 1 January 2003	12,000	3,614	30,000
Capital injection during the year	–	3,796	31,474
At 31 December 2003	12,000	7,410	61,474
Capital injection during the year	–	4,590	37,994
At 31 December 2004, 2005 and 31 July 2006	12,000	12,000	99,468

23. Operating lease commitments

	Year ended 31 December			Seven months ended 31 July	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Minimum lease payments under operating leases in respect of premises recognised in income statement	2,218	1,834	450	–	450

At the respective balance sheet dates, American Rock JV had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	At 31 December			At 31 July
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Within one year	1,826	–	450	–

Operating lease payments represent rentals payable by American Rock JV for certain of its office properties. Leases were negotiated and rental are fixed for an average term of 1 year.

24. Commitments

	At 31 December			At 31 July
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Future expenditure contracted for but not provided in the Financial Information in respect of the completion of properties under development	436,126	52,565	352,083	143,583

25. Contingent liabilities

As at 31 December 2003, 2004 and 2005 and 31 July 2006, American Rock JV has provided guarantees of approximately RMB480,596,000, RMB715,482,000, RMB790,537,000 and RMB1,157,817,000, respectively to banks in respect of credit facilities granted to prospective purchasers of properties developed by American Rock JV.

26. Employee benefits

Employees of American Rock JV are members of the state-managed retirement benefit scheme operated by the mainland China government. American Rock JV is required to contribute a certain percentage of the payroll of the employees to the pension scheme to fund the benefits. The only obligation of American Rock JV with respect to the pension scheme is to make the required contributions.

27. Material related party transactions

In addition to the transactions and balances disclosed elsewhere in the Financial Information, American Rock JV entered into the following material related party transactions.

American Rock JV has entered into contracts with Beijing Newshine Decoration Co., Ltd. ("Newshine Decoration") with a total considerations of RMB138,000,000. Newshine Decoration is under the control of 北京新松投資集團有限公司, a shareholder of the American Rock JV prior to 21 April 2005. Newshine Decoration will supply decoration services for the properties under development held by American Rock JV. As at 31 December 2003, 2004, 2005 and 31 July 2006, approximately RMB19,298,000, RMB93,622,000, RMB138,000,000 and RMB138,000,000 have been paid to Newshine Decoration and included in advances to suppliers.

Compensation of key management personnel

Details of compensation paid to key management of American Rock JV (all being directors of American Rock JV) are as follows:

	Year ended 31 December			Seven months ended 31 July	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Salaries and other benefits	–	–	181	59	130
Retirement benefit scheme contributions	–	–	–	–	–
	–	–	181	59	130

28. Possible impact of amendments, new standards and interpretations issued but not effective for the Relevant Periods

The HKICPA has issued the following new HKFRSs that are not yet effective. American Rock JV has considered the following standards and interpretations and they may have a material effect on how the results of operations and financial position of American Rock JV are prepared and presented but the potential impact is not reasonably estimated. American Rock JV is continuing its assessment of the impact of the following new HKFRSs.

HKAS 1 (Amendment)	Presentation of financial statements: Capital Disclosures*
HKFRS 7	Financial Instruments: Disclosures*

* *Effective for annual period beginning on or after 1 January 2007*

B. ULTIMATE HOLDING COMPANY

As at 31 July 2006, the ultimate holding company of American Rock JV is Neo-China Group (Holdings) Limited which is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Stock Exchange.

C. SUBSEQUENT EVENTS

There was no material subsequent events that occurred since 31 July 2006 to the date of this report.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by American Rock JV in respect any period subsequent to 31 July 2006.

Yours faithfully
CCIF CPA Limited
Certified Public Accountants
Hong Kong

Delores Teh
Practising Certificate Number P03207

The following is the text of a report received from the reporting accountants of the Company, CCIF CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of inclusion in this circular.

CCIF

CCIF CPA LIMITED

20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

31 January 2007

The Directors
Neo-China Group (Holdings) Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to 北京新松房地產開發有限公司 ("Youngman Point JV") for each of the three years ended 31 December 2003, 2004 and 2005 and for the seven months ended 31 July 2006 (the "Relevant Periods"), for inclusion in the circular of Neo-China Group (Holdings) Limited dated 31 January 2007 (the "Circular").

Youngman Point JV was established as a limited liability company in mainland China on 29 May 2000 with registered capital of RMB30,000,000. The principal activity of Youngman Point JV is engaged in property development. In June 2002, by the resolution of shareholders' meeting, the registered capital was increased to RMB50,000,000. In February 2005, Youngman Point JV proposed to restructure from a limited liability to a sino-foreign equity joint venture and increased the registered capital from RMB50,000,000 to RMB140,000,000. The restructuring was approved by 北京市商務局 in August 2005 and was completed when Youngman Point JV obtained the revised business license on 18 August 2005.

The statutory financial statements of Youngman Point JV for each of the three years ended 31 December 2003, 2004 and 2005 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in mainland China (the "PRC GAAP") and were audited by 北京馳創會計師事務所有限責任公司, certified public accountants registered in mainland China.

The Financial Information has been prepared by the directors of Youngman Point JV based on the PRC GAAP statutory financial statements and the unaudited management accounts of Youngman Point JV after making adjustments as appropriate in compliance with the Hong Kong Financial Reporting Standards ("HKFRSs"), the collective terms of which include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The directors of Youngman Point JV are responsible for preparing the Financial Information which gives a true and fair view. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our examination, on the Financial Information, and to report our opinion.

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the financial statements of Youngman Point JV for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA and carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. We have not audited any financial statements of Youngman Point JV in respect to any period subsequent to 31 July 2006.

In our opinion, for the purpose of this report, the Financial Information give a true and fair view of the state of affairs of Youngman Point JV as at 31 December 2003, 2004, 2005 and 31 July 2006, and of the results and cash flows of Youngman Point JV for the Relevant Periods.

The directors of Youngman Point JV are also responsible for preparing the unaudited financial information of Youngman Point JV including the income statement, cash flow statement and statement of changes in equity for the seven months ended 31 July 2005 (the "31 July 2005 Comparative Financial Information") together with the notes thereon. It is our responsibility to form an independent conclusion, based on our review, on the 31 July 2005 Comparative Financial Information. For the purpose of this report, we have reviewed the 31 July 2005 Comparative Financial Information in accordance with the Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. Our review consisted principally of making enquiries of management and applying analytical procedures to the 31 July 2005 Comparative Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the 31 July 2005 Comparative Financial Information.

On the basis of our review, which does not constitute an audit, for the purpose of this report, we are not aware of any material modifications that should be made to the 31 July 2005 Comparative Financial Information.

A. FINANCIAL INFORMATION

INCOME STATEMENTS

		Year ended 31 December			Seven months ended 31 July	
	Note	**2003**	**2004**	**2005**	**2005**	**2006**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
TURNOVER	*6*	–	–	–	–	489,948
COST OF SALES		–	–	–	–	(392,897)
GROSS PROFIT		–	–	–	–	97,051
OTHER REVENUE	*6*	66	301	8,774	82	8,795
Selling expenses		(20)	(10,147)	(2,133)	(1,568)	(11,439)
Administrative expenses		(1,578)	(4,361)	(5,847)	(3,754)	(6,602)
PROFIT/(LOSS) FROM OPERATIONS		(1,532)	(14,207)	794	(5,240)	87,805
Finance costs	*7*	–	–	–	–	–
PROFIT/(LOSS) BEFORE TAXATION	*8*	(1,532)	(14,207)	794	(5,240)	87,805
Income tax expense	*9*	–	–	(262)	–	(28,976)
PROFIT/(LOSS) FOR THE YEAR/PERIOD		(1,532)	(14,207)	532	(5,240)	58,829

BALANCE SHEETS

		As at 31 December			At 31 July
		2003	**2004**	**2005**	**2006**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Audited)	(Audited)	(Audited)	(Audited)
Non-current assets					
Plant and equipment	*11*	119	364	610	467
Investments in fellow subsidiaries	*12*	26,350	9,850	9,850	–
Deposit for acquisition of a subsidiary		–	–	15,097	77,512
Long-term receivable	*13*	–	–	270,000	–
Pledged bank deposits	*14*	–	–	10,846	11,120
		26,469	10,214	306,403	89,099
Current assets					
Properties held for sale		–	–	–	8,429
Properties under development	*15*	75,115	390,800	542,128	308,543
Trade and other receivables	*16*	16,581	77,039	93,551	128,545
Amount due from immediate holding company	*17*	–	145,442	–	–
Amounts due from fellow subsidiaries	*17*	39,591	42,114	23,218	–
Amounts due from related companies	*18*	–	49,450	–	100
Amount due from intermediate holding company	*17*	500	–	–	–
Bank balances and cash		10,244	5,951	1,279	110,187
		142,031	710,796	660,176	555,804
Current liabilities					
Other payables and accruals	*19*	10,085	175,211	215,579	46,226
Advances from customers		–	346,967	624,257	167,692
Amount due to immediate holding company	*17*	85,569	–	56,500	–
Amounts due to fellow subsidiaries	*17*	25,200	8,163	5,520	235,467
Amount due to intermediate holding company	*17*	–	3,500	3,500	–
Tax payable		–	–	262	12,718
Bank borrowings – due within one year	*20*	–	80,000	26,990	–
		120,854	613,841	932,608	462,103
Net current assets/(liabilities)		21,177	96,955	(272,432)	93,701

		As at 31 December			At 31 July
		2003	**2004**	**2005**	**2006**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Audited)	(Audited)	(Audited)	(Audited)
Total assets less current liabilities		47,646	107,169	33,971	182,800
Non-current liabilities					
Bank borrowings					
– due after one year	*20*	–	73,730	–	–
Net assets		47,646	33,439	33,971	182,800
Capital and reserves					
Paid-in capital	*21*	50,000	50,000	50,000	140,000
Accumulated losses		(2,354)	(16,561)	(16,029)	42,800
Total equity		47,646	33,439	33,971	182,800

STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital	(Accumulated losses)/ retained profits	Total equity
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2003	50,000	(822)	49,178
Loss for the year	–	(1,532)	(1,532)
At 31 December 2003	50,000	(2,354)	47,646
Loss for the year	–	(14,207)	(14,207)
At 31 December 2004	50,000	(16,561)	33,439
Profit for the year	–	532	532
At 31 December 2005	50,000	(16,029)	33,971
Capital injection during the period	90,000	–	90,000
Profit for the period	–	58,829	58,829
At 31 July 2006	140,000	42,800	182,800
At 1 January 2005	50,000	(16,561)	33,439
Loss for the period (Unaudited)	–	(5,240)	(5,240)
At 31 July 2005 (Unaudited)	50,000	(21,801)	28,199

CASH FLOW STATEMENTS

	Year ended 31 December			Seven months ended 31 July	
	2003	2004	2005	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
OPERATING ACTIVITIES					
Profit/(loss) before taxation	(1,532)	(14,207)	794	(5,240)	87,805
Adjustments for:					
Depreciation of plant and equipment	30	71	167	86	90
Interest income	(66)	(301)	(8,747)	(73)	(8,577)
Written off of plant and equipment	–	2	–	–	–
Gain on disposal of plant and equipment	–	–	–	–	(52)
Gain on disposal of investment	–	–	–	–	(150)
Impairment loss on receivable	–	–	1,900	1,900	–
OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL	(1,568)	(14,435)	(5,886)	(3,327)	79,116
(Increase)/decrease in trade and other receivables	(579)	(60,458)	(18,411)	3,429	(34,994)
Increase in properties held for sale	–	–	–	–	(8,429)
Decrease/(increase) in properties under development	(6,378)	(310,241)	(143,373)	(102,909)	234,354
(Decrease)/increase in advances from customers	–	346,967	277,290	193,252	(456,564)
(Decrease)/increase in other payables and accruals	10,060	165,126	40,368	17,351	(169,353)
CASH GENERATED FROM/(USED IN) OPERATIONS	1,535	126,959	149,988	107,796	(355,870)
Income tax paid in mainland China	–	–	–	–	(16,520)
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	1,535	126,959	149,988	107,796	(372,390)

	Year ended 31 December			Seven months ended 31 July	
	2003	2004	2005	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
INVESTING ACTIVITIES					
Interest received	66	301	8,747	73	8,577
Increase in pledged bank deposits	–	–	(10,846)	–	(274)
Deposit for acquisition of a subsidiary	–	–	(15,097)	–	(62,416)
Purchase of plant and equipment	(6)	(318)	(413)	(254)	(27)
(Advance to)/repayment from fellow subsidiaries	(33)	(2,523)	16,252	39,900	253,164
Proceeds from disposal of plant and equipment	–	–	–	–	132
Proceeds from disposal of investment in fellow subsidiaries	–	16,500	–	–	10,000
(Advance to)/repayment from immediate holding company	–	(145,442)	145,442	145,442	–
(Advance to)/repayment from related parties	–	(49,450)	49,450	47,550	(100)
Repayment from a shareholder	–	500	–	–	–
(Increase)/decrease in long-term receivable	–	–	(270,000)	(270,000)	270,000
NET CASH FROM/(USED IN) INVESTING ACTIVITIES	27	(180,432)	(76,465)	(37,289)	479,056
FINANCING ACTIVITIES					
Advance from/(repayment to) immediate holding company	8,600	(85,569)	56,500	5,300	(56,500)
Proceeds on capital injection	–	–	–	–	90,000
New bank borrowings raised	–	180,000	37,000	37,000	–
Advance from/(repayment to) an intermediate holding company	–	3,500	–	–	(3,500)
Repayment of bank borrowings	–	(26,270)	(163,740)	(73,730)	(26,990)
(Repayment to)/advance from fellow subsidiaries	–	(17,037)	–	15,048	–
Interest paid	–	(5,444)	(7,955)	(4,886)	(768)
NET CASH FROM/(USED IN) FINANCING ACTIVITIES	8,600	49,180	(78,195)	(21,268)	2,242

	Year ended 31 December			Seven months ended 31 July	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	10,162	(4,293)	(4,672)	49,239	108,908
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD	82	10,244	5,951	5,951	1,279
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD					
Representing bank balances and cash	10,244	5,951	1,279	55,190	110,187

NOTES TO THE FINANCIAL STATEMENTS

1. General

Youngman Point JV is a sino-foreign equity joint venture established in mainland China. The address of its registered office and principal place of business is 北京大興區龐各莊工業開發九排九號 (No. 9 Line 9, Pang Ge Zhuang Industrial Development Zone, Da Xing District, Beijing). The principal activity of Youngman Point JV is engaged in property development.

The financial information is presented in Renminbi ("RMB"), which is the same as the functional currency of Youngman Point JV.

2. Significant accounting policies

a) Statement of compliance

The Financial Information has been prepared in accordance with the significant accounting policies set out below. These accounting policies are in accordance with all applicable HKFRSs (which collective term includes all applicable individual Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong, and have been consistently applied throughout the Relevant Periods.

The new and revised HKFRSs which are effective for accounting periods beginning on or after 1 January 2006 have been early adopted as at the beginning of the Relevant Periods.

The Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

b) Basis of preparation of the Financial Information

The measurement basis used in the preparation of the Financial Information is the historical cost basis except for certain financial assets and financial liabilities, which are measured at fair values, as explained in the accounting policies set out below.

c) Revenue recognition

Revenue from sale of properties in the ordinary course of business is recognised when all of the following criteria are met:

- the significant risks and rewards of ownership of the properties are transferred to buyers;
- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to Youngman Point JV; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Deposits and instalments received from the purchasers prior to the recognition of revenue from sale of properties are recorded as advances from customers.

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset's net carrying amount.

d) Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method as follows:

Leasehold improvements	5 years
Motor vehicles	5 years
Furniture, fixtures and equipment	5 years

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period in which the item is derecognised.

e) Properties held for sale

Properties held for sale in the ordinary course of business are stated at the lower of cost and net realisable value.

f) Properties under development

Properties under development for sale are stated at the lower of cost and net realisable value. Cost of property in the course of development comprises prepaid lease payments of leasehold land, borrowing cost and development costs during the development period.

g) Impairment

At each balance sheet date, Youngman Point JV reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

h) Foreign currencies

In preparing the Financial Information, transactions in currencies other than the functional currency (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which Youngman Point JV operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in income statement in the periods in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange difference are also recognised directly in equity.

i) Operating leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the rewards and risks of ownership to the lessee. All other leases are classified as operating leases.

Rental paid and payable under such operating leases are charged to the income statement on a straight-line basis over the relevant lease term. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

j) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in income statement in the period in which they are incurred.

k) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

l) Retirement benefit costs

Payments to stated-managed retirement benefit scheme are charged as an expense when they fall due.

Retirements benefit costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such retirements benefits costs ceases when the assets are substantially ready for their intended use or sale.

m) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when Youngman Point JV becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

i) Financial assets

Youngman Point JV's financial assets are classified into loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, long-term receivable, other receivables, amount due from fellow subsidiaries/immediate holding company/related companies/intermediate holding company and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in the income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. They are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in the income statement when there is objective evidence that the assets is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

iv) Financial liability and equity instruments

Financial liabilities issued by Youngman Point JV are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability. The financial liabilities are generally classified into other financial liabilities.

Other financial liabilities including bank borrowings, other payables, advances to customers, amount due to immediate holding company/shareholders and loan payable are subsequently measured at amortised cost, using the effective interest rate method.

n) Provisions

Provisions are recognised when Youngman Point JV has a present obligation as a result of a past event, and it is probable that Youngman Point JV will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash equivalents include investments and advances denominated in foreign currencies provided that they fulfill the above criteria.

p) Related parties

For the purposes of these Financial Information, parties are considered to be related to Youngman Point JV if Youngman Point JV has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where Youngman Point JV and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/ or their close family members) or other entities and include entities which are under the significant influence of related parties of Youngman Point JV where those parties are individuals, and post employment benefit plans which are for the benefit of employees of Youngman Point JV or of any entity that is a related party of Youngman Point JV.

3. Critical accounting estimates and judgements

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

a) Valuation on properties held for sale and properties under development

Youngman Point JV assesses periodically if the properties held for sale and properties under development have suffered any impairment in accordance with the accounting policy stated in note 2(e) and 2(f). Properties held for sale and properties under development are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. The review requires estimation and judgements based on the most reliable evidence available at the time the estimates are made and other relevant information.

b) Valuation on long-term receivable, trade and other receivables

Youngman Point JV assesses periodically if long-term receivable, trade and other receivables have suffered any impairment in accordance with the accounting policy stated in note 2(g).

The receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. An impairment losses is recognized in income statement when there is objective evidence that the asset is impaired.

In making the judgement, management considers detailed procedures which have been in place to monitor this risk. In determining whether there is objective evidence of impairment, Youngman Point JV takes into consideration estimation of future cash flows.

c) Current and deferred taxation

Youngman Point JV is subject to income taxes in mainland China. Significant judgement is required in determining the amount of the provision of taxation and the timing of payment of the related taxations. The provision of taxation is calculated based on the budgeted cost of property development projects. Where the final tax outcome of these property development projects is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

d) Land appreciation taxes

Mainland China land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditure including sales charges, borrowing costs and all property development expenditure.

Youngman Point JV is subject to land appreciation taxes in mainland China. However, the implementation of these taxes varies amongst various mainland China cities and Youngman Point JV has not finalized its land appreciation tax returns with various tax authorities. Accordingly, significant judgements are required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain. Youngman Point JV recognises these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the cost of sales and related income tax provisions in the period in which such determination is made.

4. Financial risk management objectives and policies

Youngman Point JV's major financial instruments include available-for-sale investments, long-term, trade and other receivables, other payables, bank borrowings, pledged bank deposits and amounts due from (to) fellow subsidiaries/immediate holding company/an intermediate holding company/related companies. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

a) Cash flow interest rate risk

Youngman Point JV has variable-rate borrowings and is therefore exposed to cash flow interest rate risk (see note 20 for details of these borrowings). Youngman Point JV currently does not have an interest rate hedging policy. However, the management monitors interest rate exposures and will consider hedging significant interest rate exposures should the need arise.

b) Credit risk

The extent of the Youngman Point JV's credit exposure is represented by the aggregate balance of bank balances, trade and other receivables and long-term receivable.

Youngman Point JV has arranged bank financing for certain purchasers of property units and provided guarantees to secure obligations of such purchasers for repayments. Youngman Point JV's maximum exposure to credit risk is in the event of the counterparties' failure to perform their obligations at the period ended in relation to bank borrowings. Detailed disclosure of these guarantees has been made in note 24.

Except for the long-term receivable, Youngman Point JV has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers. The credit risk for bank deposits and bank balances exposed is considered minimal as such amounts are placed with banks with good credit ratings.

5. Segment information

No business segment information is presented for the Relevant Periods as over 90% of the business activities of Youngman Point JV are the property development in mainland China.

No geographical segment information is presented as over 90% of the activities of Youngman Point JV during the Relevant Periods were carried out in mainland China and over 90% of assets and liabilities of Youngman Point JV were located in mainland China.

6. Turnover and other revenue

Revenue represents amounts received and receivables for properties sold by Youngman Point JV to outside customers as follows:

	Year ended 31 December			Seven months ended 31 July	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Turnover					
Sales of properties	–	–	–	–	489,948
Other revenue					
Bank interest income	66	301	8,747	73	8,577
Gain on disposal of investment	–	–	–	–	150
Gain on disposal of plant and equipment	–	–	–	–	52
Others	–	–	27	9	16
	66	301	8,774	82	8,795
	66	301	8,774	82	498,743

7. Finance costs

	Year ended 31 December			Seven months ended 31 July	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Interest on bank borrowings wholly repayable within five years	–	5,444	7,955	4,886	768
Less: amount capitalised under properties under development	–	(5,444)	(7,955)	(4,886)	(768)
	–	–	–	–	–

8. Profit/(loss) before taxation

Profit/(loss) before taxation has been arrived at after charging:

	Year ended 31 December			Seven months ended 31 July	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Auditors' remuneration	32	32	45	45	150
Cost of properties held for sale recognise as an expense	–	–	–	–	392,897
Depreciation of plant and equipment	30	71	167	86	90
Written off of plant and equipment	–	2	–	–	–
Impairment loss on receivable	–	–	1,900	1,900	–
Staff costs					
Directors' emoluments	–	–	–	–	–
Other staff salaries	581	921	1,767	1,013	823
Retirement benefit scheme contribution	81	129	96	38	95
Less: amount capitalised under properties under development	(421)	(668)	(1,148)	(725)	(535)
Total staff costs	241	382	715	326	383

9. Income tax expense

a) Taxation in the income statement represents:

	Year ended 31 December			Seven months ended 31 July	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Current tax – Mainland China					
– Provision for the year/period	–	–	262	–	28,976
– Over-provision in respect of prior years	–	–	–	–	–
	–	–	262	–	28,976

Youngman Point JV is subject to the income tax law concerning enterprises in mainland China registered as a sino-foreign equity joint venture ("SFEJV"). According to the relevant income tax rules and regulations applicable to SEFJV in mainland China, taxation for Youngman Point JV is charged at 33% of the estimated assessable profit for the year/period.

b) Reconciliation between tax expense and accounting profit/(loss) at applicable tax rates:

	Year ended 31 December			Seven months ended 31 July	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Profit/(loss) before taxation	(1,532)	(14,207)	794	(5,240)	87,805
Tax at the applicable tax rate of 33%	(506)	(4,688)	262	(1,729)	28,976
Tax effect of tax losses not recognised	506	4,688	–	1,729	–
Income tax expense	–	–	262	–	28,976

c) At 31 December 2003, 2004 and 2005, Youngman Point JV had unused tax losses of approximately RMB2,172,000, RMB16,379,000, and RMB15,585,000, respectively. No deferred tax asset has been recognised in relation to the tax losses as it is not probable that future taxable profit will be available against which the tax losses can be utilised. The unused tax losses will gradually expire from 2007 to 2010.

No provision for deferred taxation has been recognised in the Financial Information as the amount involved is insignificant.

10. Directors and five highest paid employees' emoluments

a) Directors' emoluments

No emoluments were paid by Youngman Point JV to any of the directors for the Relevant Periods and for the seven months ended 31 July 2005.

b) Five highest paid employees

The five highest paid individuals for the Relevant Periods and for the seven months ended 31 July 2005, which are individually below RMB1,000,000, are as follows:

	Year ended 31 December			Seven months ended 31 July	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Salaries and other benefits	54	296	526	294	268
Retirement benefit scheme contributions	–	16	3	5	2
	54	312	529	299	270

11. Plant and equipment

	Leasehold improvements *RMB'000*	Motor vehicles *RMB'000*	Furniture, fixtures and equipment *RMB'000*	Total *RMB'000*
Cost				
At 1 January 2003	–	137	16	153
Additions	–	–	6	6
At 31 December 2003	–	137	22	159
Additions	–	126	192	318
Written off	–	–	(2)	(2)
At 31 December 2004	–	263	212	475
Additions	345	–	68	413
At 31 December 2005	345	263	280	888
Additions	–	–	27	27
Disposals	–	(126)	–	(126)
At 31 July 2006	345	137	307	789
Depreciation				
At 1 January 2003	–	9	1	10
Provided for the year	–	26	4	30
At 31 December 2003	–	35	5	40
Provided for the year	–	47	24	71
Eliminated on written off	–	–	–	–
At 31 December 2004	–	82	29	111
Provided for the year	69	50	48	167
At 31 December 2005	69	132	77	278
Provided for the period	40	18	32	90
Eliminated on disposals	–	(46)	–	(46)
At 31 July 2006	109	104	109	322
Net book value				
At 31 December 2003	–	102	17	119
At 31 December 2004	–	181	183	364
At 31 December 2005	276	131	203	610
At 31 July 2006	236	33	198	467

12. Investments in fellow subsidiaries

	At 31 December			At 31 July
	2003	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Available-for-sale investments, at cost	26,350	9,850	9,850	–

The investments included above represent investments in unlisted equity securities that offer Youngman Point JV the opportunity for return through dividend income. They have no fixed maturity or coupon rate. The investment stated at cost of RMB16,500,000 was disposed at cost in 2004. The remaining investment stated at cost of RMB9,850,000 was disposed in 2006 at RMB10,000,000 and recognized the gain on investment on the income statement of RMB150,000.

13. Long-term receivable

The amount represents an advance to an independent third party, 臨安三佳房地產開發有限公司. This amount is secured by certain properties of the borrower, bearing interest at bank borrowing rate and is repayable in June 2007.

The directors consider that the carrying amount approximates its fair value, in view of the fact that the long-term receivable bears market interest rate.

The receivable is settled in full in June 2006.

14. Pledged bank deposits

The amount represents deposits pledged as security for the long-term mortgage loans granted by banks to the buyers (who are unrelated to Youngman Point JV) of the completed properties and are therefore also classified as non-current assets. The deposits carry interest rate at respective bank saving deposits rate. The fair value of Youngman Point JV's pledged bank deposits approximate to the corresponding carrying value at each year/period end.

15. Properties under development

	At 31 December			At 31 July
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Properties under development of which:				
– will be realised within twelve months	–	–	418,405	147,723
– will not be realised within twelve months	75,115	390,800	123,723	160,820
	75,115	390,800	542,128	308,543

The properties under development are located in mainland China.

16. Trade and other receivables

	At 31 December			At 31 July
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Trade receivables	–	–	–	981
Advance to suppliers	–	–	3,961	95,000
Prepaid business taxes	–	18,807	33,337	9,351
Prepaid sales commission	–	17,588	18,189	11,267
Other receivables	16,581	40,644	38,064	11,946
	16,581	77,039	93,551	128,545

Youngman Point JV allows an average credit period of 90 days to its trade customers. The following is an aging analysis of trade receivables at the reporting dates:

	At 31 December			At 31 July
	2003	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
0 – 90 days	–	–	–	981
91 – 180 days	–	–	–	–
Over 180 days	–	–	–	–
	–	–	–	981

The directors of Youngman Point JV consider that the carrying amounts of trade and other receivables approximate their fair value, due to the short-term nature of these financial assets.

17. Amounts due from/(to) immediate holding company/intermediate holding company/fellow subsidiaries

The amounts were unsecured, interest-free and repayable on demand. The directors of Youngman Point JV consider that the carrying amounts approximate their fair value, due to the short-term nature of these financial assets and liabilities.

18. Amounts due from related companies

Name of related companies	At 31 December			At 31 July	Maximum amount outstanding during: Year ended 31 December			Seven months ended 31 July
	2003	2004	2005	2006	2003	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
中置 (北京) 企業管理有限公司	–	41,800	–	–	–	41,800	41,800	–
北京和喬興業投資有限公司	–	7,650	–	–	–	7,650	7,650	–
北京香山新怡投資有限公司	–	–	1,900	–	–	–	1,900	–
北京格蘭浩泰物業管理有限公司	–	–	–	100	–	–	–	100
Less: accumulated impairment loss	–	–	(1,900)	–				
	–	49,450	–	100				

The amounts were unsecured, interest-free and repayable on demand. The directors of Youngman Point JV consider that the amounts due from related companies approximate their fair value, due to the short-term nature of these financial assets.

The above related companies are ultimately controlled by Mr. Li Song Xiao.

19. Other payables and accruals

	At 31 December			At 31 July
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Other payables	10,085	54,632	86,162	23,342
Accruals for properties under development	–	120,579	129,417	22,884
	10,085	175,211	215,579	46,226

The directors of Youngman Point JV consider that the carrying amounts of other payables and accruals approximate their fair value, due to the short-term nature of these financial liabilities.

20. Bank borrowings

	At 31 December			At 31 July
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Secured bank borrowings repayable as follows:				
Within one year	–	80,000	26,990	–
After one year but within two years	–	73,730	–	–
	–	153,730	26,990	–
Less: amount due within one year	–	(80,000)	(26,990)	–
Amount due after one year	–	73,730	–	–

The bank borrowings bear fixed interest rates and the range of effective interest rates (which are equal to contracted interest rates) on Youngman Point JV's borrowings are as follows:

	Year ended 31 December			Seven months ended 31 July	
	2003	2004	2005	2005	2006
Effective interest rate on fixed rate borrowings	–	5.22% to 8.50%	5.22% to 7.20%	5.22% to 7.20%	5.22% to 6.14%

The borrowings are denominated in RMB. The directors of Youngman Point JV consider that the carrying amounts of borrowings approximate their fair value in view of the fact that the interest rate of such borrowing approximate those which would have been available at the respective balance sheet dates for debts of similar remaining maturities and credit rating.

The bank borrowings are secured by:

i) a charge for certain properties held for sale and properties under development at 31 December 2004 and 2005 of approximately RMB265,844,734 and RMB97,935,230 respectively; and

ii) a charge for certain properties held by a related company, 北京新松家園房地產開發有限公司 of which ultimately controlled by Mr. Li Song Xiao.

21. Paid-in capital

	Registered and paid-in capital *RMB'000*
At 31 December 2003, 31 December 2004, 31 December 2005	50,000
Capital injection during the period	90,000
At 31 July 2006	140,000

Subsequent to the Relevant Periods, on 12 September 2006, as approved by 北京市商務局, the registered capital of Youngman Point JV increased to RMB190,000,000 by RMB50,000,000 of which contributed by 北京國際信託投資有限公司 in cash.

22. Operating lease commitments

	Year ended 31 December			Seven months ended 31 July	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Minimum lease payments under operating leases in respect of premises recognised in income statement	22	1,063	583	344	340

At the respective balance sheet dates, Youngman Point JV had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	At 31 December			At 31 July
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Within one year	1,303	1,303	340	–
In the second to fifth year inclusive	1,303	–	–	–
	2,606	1,303	340	–

Operating lease payments represent rentals payable by Youngman Point JV for certain of its office properties. Leases are negotiated and rental are fixed for an average term of 2 years.

23. Commitments

	At 31 December			At 31 July
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Future expenditure contracted for but not provided in the Financial Information in respect of the completion of properties under development	–	107,623	140,598	63,892
Capital expenditure contracted for but not provided for in the Financial Information in respect of acquisition of a subsidiary	–	–	75,415	13,000

24. Contingent liabilities

As at 31 December 2004, 2005 and 31 July 2006, Youngman Point JV has provided guarantees of approximately RMB39,250,000, RMB216,137,000 and RMB227,017,000, respectively to banks in respect of credit facilities granted to prospective purchasers of properties developed by Youngman Point JV.

25. Employee benefits

Employees of Youngman Point JV are members of the state-managed retirement benefit scheme operated by the mainland China government. Youngman Point JV is required to contribute a certain percentage of the payroll of the employees to the pension scheme to fund the benefits. The only obligation of Youngman Point JV with respect to the pension scheme is to make the required contributions.

26. Post balance sheet event

On 12 September 2006, 北京市商務局 approved the increased in registered capital of Youngman Point JV from RMB140,000,000 to RMB190,000,000. The additional registered capital amounted to RMB50,000,000 was contributed by 北京國際信託投資有限公司 in cash.

27. Possible impact of amendments, new standards and interpretations issued but not effective for the Relevant Periods

The HKICPA has issued the following new HKFRSs that are not yet effective. Youngman Point JV has considered the following standards and interpretations and they may have a material effect on how the results of operations and financial position of Youngman Point JV are prepared and presented, but the potential impact is not reasonably estimated. Youngman Point JV is continuing its assessment of the impact of the following new HKFRSs.

HKAS 1 (Amendment)	Presentation of financial statements: Capital Disclosures*
HKFRS 7	Financial Instruments: Disclosures*

* *Effective for annual period beginning on or after 1 January 2007*

B. ULTIMATE HOLDING COMPANY

As at 31 July 2006, the ultimate holding company of Youngman Point JV is Neo-China Group (Holdings) Limited which is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Stock Exchange.

C. SUBSEQUENT EVENTS

Except for as disclosure in section A note 26 to the Financial Information, there was no material subsequent events that occurred since 31 July 2006 to the date of this report.

E. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Youngman Point JV in respect any period subsequent to 31 July 2006.

Yours faithfully
CCIF CPA Limited
Certified Public Accountants
Hong Kong

Delores Teh
Practising Certificate Number P03207

The following is the text of a report received from the reporting accountants of the Company, CCIF CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of inclusion in this circular.

CCIF
CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

31 January 2007

The Directors
Neo-China Group (Holdings) Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to 湖南淺水灣湘雅溫泉花園有限公司 ("Changsha JV") for the period from 14 September 2005 (date of incorporation) to 31 December 2005 and for the seven months ended 31 July 2006 (the "Relevant Periods"), for inclusion in the circular of Neo-China Group (Holdings) Limited dated 31 January 2007 (the "Circular").

Changsha JV was established as a limited liability company in mainland China on 14 September 2005 with a registered capital of RMB30,000,000. The principal activity of Changsha JV is engaged in property development.

The Financial Information has been prepared by the directors of Changsha JV based on the unaudited management accounts of Changsha JV after making adjustments as appropriate in compliance with the Hong Kong Financial Reporting Standards ("HKFRSs"), the collective terms of which include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The directors of Changsha JV are responsible for preparing the Financial Information which gives a true and fair view. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our examination, on the Financial Information, and to report our opinion.

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the financial statements of Changsha JV for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA and carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. We have not audited any financial statements of Changsha JV in respect to any period subsequent to 31 July 2006.

In our opinion, for the purpose of this report, the Financial Information give a true and fair view of the state of affairs of Changsha JV as at 31 December 2005 and 31 July 2006, and of the results and cash flows of Changsha JV for the Relevant Periods.

A. FINANCIAL INFORMATION

INCOME STATEMENTS

	Note	**14 September 2005 to 31 December 2005** *RMB'000*	**1 January 2006 to 31 July 2006** *RMB'000*
Administrative expenses		(260)	(32)
LOSS BEFORE TAXATION	*5*	(260)	(32)
Income tax expense	*6*	–	–
LOSS FOR THE PERIOD		(260)	(32)

BALANCE SHEETS

	Note	At 31 December 2005 RMB'000	At 31 July 2006 RMB'000
Non-current assets			
Plant and equipment	8	858	810
Current assets			
Properties under development	9	59,899	72,601
Amount due from a shareholder	10	6	–
Other receivables		20,683	707
Bank balances and cash		31,374	39,671
		111,962	112,979
Current liabilities			
Other payables and accruals		80	99
Amount due to holding company	11	83,000	74,000
Amount due to a shareholder	10	–	9,982
		83,080	84,081
Net current assets		28,882	28,898
Net assets		29,740	29,708
Capital and reserves			
Paid-in capital	12	30,000	30,000
Accumulated losses		(260)	(292)
Total equity		29,740	29,708

STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital	**Accumulated losses**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*
Capital injection	30,000	–	30,000
Loss for the period	–	(260)	(260)
At 31 December 2005	30,000	(260)	29,740
Loss for the period	–	(32)	(32)
At 31 July 2006	30,000	(292)	29,708

CASH FLOW STATEMENTS

	14 September 2005 to 31 December 2005	1 January 2006 to 31 July 2006
	RMB'000	*RMB'000*
OPERATING ACTIVITIES		
Loss before taxation	(260)	(32)
OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL	(260)	(32)
(Increase)/decrease in due from a shareholder	(6)	6
Increase in properties under development	(59,889)	(12,602)
(Increase)/decrease in other receivables	(20,683)	19,976
Increase in other payables and accruals	80	19
Increase in due to a shareholder	–	9,982
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	(80,758)	17,349
INVESTING ACTIVITIES		
Purchase of plant and equipment	(868)	(52)
NET CASH USED IN INVESTING ACTIVITIES	(868)	(52)
FINANCING ACTIVITIES		
Proceeds from capital injection	30,000	–
Increase/(decrease) in amount due to holding company	83,000	(9,000)
NET CASH FROM/(USED IN) FINANCING ACTIVITIES	113,000	(9,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	31,374	8,297
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	–	31,374
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Representing bank balances and cash	31,374	39,671

NOTES TO THE FINANCIAL STATEMENTS

1. General information

Changsha JV is a limited company established in mainland China and has its registered office and principal place of business at 湖南省長沙市咸家花園窑塘新村98號. The principle activity of Changsha JV is engaged in property development.

The financial information are presented in Renminbi ("RMB"), which is the same as the functional currency of Changsha JV.

2. Significant accounting policies

a) Statement of compliance

The Financial Information has been prepared in accordance with the significant accounting policies set out below. These accounting policies are in accordance with all applicable HKFRSs (which collective term includes all applicable individual Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong, and have been consistently applied throughout the Relevant Periods.

The new and revised HKFRSs which are effective for accounting periods beginning on or after 1 January 2006 have been early adopted as at the beginning of the Relevant Periods.

The Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

b) Basis of preparation of the Financial Information

The measurement basis used in the preparation of the Financial Information is the historical cost basis, except for certain financial assets and financial liabilities, which are measured at fair values, as explained in the accounting policies set out below.

c) Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method as follows:

Furniture and fixtures	5 years
Office equipment	5 years
Motor vehicles	5 years

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period in which the items is derecognised.

d) Properties under development

Properties under development for sale are stated at the lower of cost and net realisable value. Cost of property in the course of development comprises prepaid lease payments of leasehold land and development costs during the development period.

e) Impairment

At each balance sheet date, Changsha JV reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

f) Foreign currencies

In preparing the Financial Information, transactions in currencies other than the functional currency (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which Changsha JV operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange difference are also recognised directly in equity.

g) Operating leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the rewards and risks of ownership to the lessee. All other leases are classified as operating leases.

Rental paid and payable under such operating leases are charged to the income statement on a straight-line basis over the relevant lease term. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

h) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when Changsha JV becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

i) Financial assets

Changsha JV's financial assets are classified into other receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

ii) Financial liabilities

Financial liabilities issued by Changsha JV are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability. The financial liabilities are generally classified into other financial liabilities.

Other financial liabilities including other payables and amount due to holding company/shareholders are subsequently measured at amortised cost, using the effective interest rate method.

i) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash equivalents include investments and advances denominated in foreign currencies provided that they fulfill the above criteria.

j) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

k) Retirement benefit costs

Payments to state-managed retirement benefit scheme are charged as an expense when they fall due.

Retirement benefit costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalized as part of the cost of those assets. Capitalisation of such retirement benefit cost ceases when the assets are substantially ready for their intended use or sale.

l) Provisions

Provisions are recognised when Changsha JV has a present obligation as a result of a past event, and it is probable that Changsha JV will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

m) Related parties

For the purposes of these Financial Information, parties are considered to be related to Changsha JV if Changsha JV has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where Changsha JV and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/ or their close family members) or other entities and include entities which are under the significant influence of related parties of Changsha JV where those parties are individuals, and post employment benefit plans which are for the benefit of employees of Changsha JV or of any entity that is a related party of Changsha JV.

3. Critical accounting estimates and judgements

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

a) Valuation on properties under development

Changsha JV assesses periodically if the properties under development have suffered any impairment in accordance with the accounting policy stated in note 2(d). Properties under development are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. The review requires estimation and judgements based on the most reliable evidence available at the time the estimates are made and other relevant information.

b) Valuation on other receivables

Changsha JV assesses periodically if other receivables have suffered any impairment in accordance with the accounting policy stated in note 2(e).

The receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. An impairment losses is recognized in income statement when there is objective evidence that the asset is impaired.

In making the judgement, management considers detailed procedures which have been in place to monitor this risk. In determining whether there is objective evidence of impairment, Changsha JV takes into consideration estimation of future cash flows.

c) Current and deferred taxation

Changsha JV is subject to income taxes in mainland China. Significant judgement is required in determining the amount of the provision of taxation and the timing of payment of the related taxations. The provision of taxation is calculated based on the budgeted cost of property development projects. Where the final tax outcome of these property development projects is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

d) Land appreciation taxes

Mainland China land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditure including sales charges, borrowing costs and all property development expenditure.

Changsha JV is subject to land appreciation taxes in mainland China. However, the implementation of these taxes varies amongst various mainland China cities and Changsha JV has not finalized its land appreciation tax returns with various tax authorities. Accordingly, significant judgements are required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain. Changsha JV recognises these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the cost of sales and related income tax provisions in the period in which such determination is made.

4. Financial risk management objectives and policies

Changsha JV's major financial instruments mainly include other receivables, other payables, and amounts due from/(to) holding company/a shareholder. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The extent of the Changsha JV's credit exposure is represented by the aggregate balance of bank balances, other receivables and amount due from/(to) holding company/ a shareholder.

5. Loss before taxation

Loss before taxation has been arrived at after charging:

	14 September 2005 to 31 December 2005	1 January 2006 to 31 July 2006
	RMB'000	*RMB'000*
Depreciation	10	100
Less: amount capitalised under properties under development	(10)	(100)
	–	–
Staff costs		
Staff salaries	41	243
Retirement benefit scheme contributions	6	64
Less: amount capitalised under properties under development	(47)	(277)
Total staff costs	–	30

6. Income tax expense

a) No provision for enterprise income tax in mainland China has been made as Changsha JV did not derive any assessable profit for both periods.

b) No provision for deferred taxation has been recognized in the Financial Information as the amount involved is insignificant.

7. Directors' emoluments

No emoluments were paid by Changsha JV to any of the directors for both periods.

8. Plant and equipment

	Furniture and fixtures *RMB'000*	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
Cost				
Additions and at 31 December 2005	187	156	525	868
At 1 January 2006	187	156	525	868
Additions	4	20	28	52
At 31 July 2006	191	176	553	920
Accumulated depreciation				
Provided during the period and at 31 December 2005	–	1	9	10
At 1 January 2006	–	1	9	10
Provided during the period	21	18	61	100
At 31 July 2006	21	19	70	110
Net book value				
At 31 December 2005	187	155	516	858
At 31 July 2006	170	157	483	810

9. Properties under development

	At 31 December 2005 *RMB'000*	At 31 July 2006 *RMB'000*
At beginning of the period	–	59,899
Additions	59,899	12,702
At end of the period	59,899	72,601

The properties under development are located in mainland China and will not be realised within twelve months.

10. Amount due from/(to) a shareholder

The amount was unsecured, interest-free and repayable on demand. The directors of Changsha JV consider that the carrying amount approximate its fair value in view of its short-term nature.

11. Amount due to holding company

The amount was unsecured, interest-free and repayable on demand. The directors of Changsha JV consider that the carrying amount approximate its fair value in view of its short-term nature.

12. Paid-in capital

	At 31 December 2005 *RMB'000*	At 31 July 2006 *RMB'000*
At beginning of the period	–	30,000
Capital injection	30,000	–
At end of the period	30,000	30,000

Changsha JV was established on 14 September 2005 in mainland China as a limited company. Per Memorandum of Article, the registered capital of Changsha JV was RMB30,000,000. According to the capital verification report dated 13 September 2005, the shareholders have injected the capital in full.

13. Operating lease commitments

	14 September 2005 to 31 December 2005	**1 January 2006 to 31 July 2006**
	RMB'000	*RMB'000*
Minimum lease payments under operating lease in respect of premises of which capitalised in properties under development	73	145

At the respective balance sheet dates, Changsha JV had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	At 31 December 2005	**At 31 July 2006**
	RMB'000	*RMB'000*
Within one year	290	290
After one year and within five years	509	363
	799	653

Operating lease payments represent rentals payable by Changsha JV for its office properties. Leases were negotiated and rental are fixed for an average term of 3 years.

14. Commitments

	At 31 December 2005	At 31 July 2006
	RMB'000	*RMB'000*
Future expenditure contracted for but not provided in the Financial Information in respect of the completion of properties under development	79,000	70,244

15. Employee benefits

Employees of Changsha JV are members of the state-managed retirement benefit scheme operated by the mainland China government. Changsha JV is required to contribute a certain percentage of the payroll of the employees to the pension scheme to fund the benefits. The only obligation of Changsha JV with respect to the pension scheme is to made the required contributions.

16. Possible impact of amendments, new standards and interpretations issued but not effective for the Relevant Periods

The HKICPA has issued the following new HKFRSs that are not yet effective. Changsha JV has considered the following standards and interpretations and they may have a material effect on how the results of operations and financial position of Changsha JV are prepared and presented but the potential impact is not reasonably estimated. Changsha JV is continuing its assessment of the impact of the following new HKFRSs.

HKAS 1 (Amendment)	Presentation of financial statements: Capital Disclosures*
HKFRS 7	Financial Instruments: Disclosures*

* *Effective for annual period beginning on or after 1 January 2007*

B. SUBSEQUENT EVENTS

There were no material subsequent events that occurred since 31 July 2006 to the date of this report.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Changsha JV in respect of any period subsequent to 31 July 2006.

Yours faithfully
CCIF CPA Limited
Certified Public Accountants
Hong Kong

Delores Teh
Practising Certificate Number P03207

1) UNAUDITED PRO FORMA STATEMENT OF THE ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The unaudited pro forma statement of the assets and liabilities of the Enlarged Group has been prepared to illustrate the effect of the proposed acquisition of the 67% of the registered capital of the Changsha JV, 22.1% of the registered capital of the Youngman Point JV and 15% of the registered capital of the American Rock JV (the "Acquisition") as if the Acquisition had been completed on 31 October 2006.

The unaudited pro forma statement of assets and liabilities has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group as at 31 October 2006 or at any future date.

The unaudited pro forma statement of the assets and liabilities of the Enlarged Group was prepared based on the Group's unaudited consolidated balance sheet as at 31 October 2006, as set out in the interim report of Neo-China Group (Holdings) Limited, after making pro forma adjustments as set out in notes 1 to 5 below.

UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

	Statement of assets and liabilities of the Group as at 31 October 2006	Statement of assets and liabilities of Changsha JV as at 31 July 2006	Sub-total	Others pro forma adjustments								Sub-total	Pro forma balance of the Enlarge group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Unaudited	audited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	Note 1	*Note 2*		*Note 3a*	*Note 3b*	*Note 3c*	*Note 4a*	*Note 4b*	*Note 5a*	*Note 5b*	*Note 5c*		
NON-CURRENT ASSETS													
Plant and equipment	11,261	810	12,071									–	12,071
Investment properties	1,340,587	–	1,340,587									–	1,340,587
Deposits for acquisitions of subsidiaries	424,270	–	424,270									–	424,270
Pledged bank deposits	56,292	–	56,292									–	56,292
Goodwill	–	–	–			11,981		4,352		(39,204)	39,204	16,333	16,333
	1,832,410	810	1,833,220	–	–	11,981	–	4,352	–	(39,204)	39,204	16,333	1,849,553
CURRENT ASSETS													
Properties held for sale	451,783	–	451,783									–	451,783
Properties under development	5,309,911	72,601	5,382,512	299,699			269,656		258,831			828,186	6,210,698
Advances to suppliers	722,029	–	722,029									–	722,029
Trade and other receivables and prepayments	308,785	707	309,492									–	309,492
Investments held for trading	1,485	–	1,485									–	1,485
Tax recoverable	55,655	–	55,655									–	55,655
Pledged bank deposits	9,911	–	9,911									–	9,911
Bank balances and cash	946,152	39,671	985,823			(216,000)		(100,000)		(90,000)		(406,000)	579,823
	7,805,711	112,979	7,918,690	299,699	–	(216,000)	269,656	(100,000)	258,831	(90,000)	–	422,186	8,340,876

	Statement of assets and liabilities of the Group as at 31 October 2006	Statement of assets and liabilities of Changsha JV as at 31 July 2006	Sub-total	Others pro forma adjustments								Sub-total	Pro forma balance of the Enlarge group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Unaudited	audited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	Note 1	*Note 2*		*Note 3a*	*Note 3b*	*Note 3c*	*Note 4a*	*Note 4b*	*Note 5a*	*Note 5b*	*Note 5c*		
CURRENT LIABILITIES													
Accruals and other payables	908,626	99	908,725									–	908,725
Advance from customers	1,429,921	–	1,429,921									–	1,429,921
Amounts due to related companies	84,143	–	84,143									–	84,143
Amounts due to shareholders	21,294	83,982	105,276		(74,000)							(74,000)	31,276
Tax payable	231,931	–	231,931									–	231,931
Dividend payable	44	–	44									–	44
Secured bank borrowings – due within one year	601,730	–	601,730									–	601,730
	3,277,689	84,081	3,361,770	–	(74,000)	–	–	–	–	–	–	(74,000)	3,287,770
NET CURRENT ASSETS	4,528,022	28,898	4,556,920	299,699	74,000	(216,000)	269,656	(100,000)	258,831	(90,000)	–	496,186	5,053,106
TOTAL ASSETS LESS CURRENT LIABILITIES	6,360,432	29,708	6,390,140	299,699	74,000	(204,019)	269,656	(95,648)	258,831	(129,204)	39,204	512,519	6,902,659
NON-CURRENT LIABILITIES													
Secured bank borrowings – due after one year	722,772	–	722,772									–	722,772
Deferred tax liabilities	774,206	–	774,206	98,901			88,986		85,414			273,301	1,047,507
Loan payable	256,660	–	256,660									–	256,660
Derivative financial instrument	24,656	–	24,656									–	24,656
Convertible notes	1,199,196	–	1,199,196									–	1,199,196
	2,977,490	–	2,977,490	98,901	–	–	88,986	–	85,414	–	–	273,301	3,250,791
NET ASSETS	3,382,942	29,708	3,412,650	200,798	74,000	(204,019)	180,670	(95,648)	173,417	(129,204)	39,204	239,218	3,651,868

Notes to the unaudited pro forma statement of assets and liabilities of the Enlarged Group

1. The statement of assets and liabilities (unaudited) are extracted from the unaudited consolidated balance sheet of the Group as at 31 October 2006.

2. The statement of assets and liabilities (audited) are extracted from the audited balance sheet of Changsha JV as at 31 July 2006 as extracted from the Accountants' Report set out in Appendix IV(C) of this circular.

3. Proforma adjustments for Changsha JV represent the following:

   a. To record the fair value adjustment of inventories of Changsha JV amounting to HK$299,699,000 and the respective deferred tax liabilities amounting to HK$98,901,000. Such adjustments led to a corresponding increase in property revaluation reserve amounting to HK$200,798,000.

      The adjustment is made by reference to the valuation report dated 31 January 2007 prepared by Savills Valuation and Professional Services Limited, an independent property valuer and the carrying value of the inventories as at 31 July 2006.

   b. To record the capitalization of amount due to a shareholder, 北京新松集團投資有限公司 amounting to HK$74,000,000 to equity upon the completion of the Acquisition.

   c. To record the goodwill arising on the acquisition of 67% interest in Changsha JV, which represents the difference between the cost of consideration amounting to HK$216,000,000 and the sum of 67% fair value of the net asset of Changsha JV amounting to HK$204,019,000 as at 31 July 2006, after the fair value adjustment of inventories as stated in note 3 (a) and the capitalization of amount due to a shareholder as stated in note 3 (b).

4. Proforma adjustments for American Rock JV represent the following:

   a. To record the fair value adjustment of inventories of American Rock JV amounting to HK$269,656,000 and the respective deferred tax liabilities amounting to HK$88,986,000. Such adjustments led to a corresponding increase in property revaluation reserve amounting to HK$180,670,000.

      The adjustment is made by reference to the valuation report dated 31 January 2007 prepared by Savills Valuation and Professional Services Limited, an independent property valuer and the carrying value of the inventories as at 31 October 2006.

   b. To record the goodwill arising on the acquisition of 15% interest in American Rock JV, which represents the difference between the cost of consideration amounting to HK$100,000,000 and the sum of 15% fair value of the net asset of American Rock JV amounting to HK$95,648,000 as at 31 October 2006, after the fair value adjustment as stated in note 4 (a).

5. Proforma adjustments for Youngman Point JV represent the following:

   a. To record the fair value adjustment of inventories of Youngman Point JV amounting to HK$258,831,000 and the respective deferred tax liabilities amounting to HK$85,414,000. Such adjustments led to a corresponding increase in property revaluation reserve amounting to HK$173,417,000.

      The adjustment is made by reference to the valuation report dated 31 January 2007 prepared by Savills Valuation and Professional Services Limited, an independent property valuer and the carrying value of the inventories as at 31 October 2006.

   b. To record the negative goodwill arising on the acquisition of 22.1% interest in Youngman Point JV, which represents the difference between the cost of consideration amounting to HK$90,000,000 and the sum of 22.1% fair value of the net asset of Youngman Point JV amounting to HK$129,204,000 as at 31 October 2006, after the fair value adjustment as stated in note 5 (a).

   c. To recognize the negative goodwill arising on the acquisition of Youngman Point JV amounting to HK$39,204,000 as stated in note 5 (b).

2) LETTER ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a letter, received from the reporting accountants of the Company, CCIF CPA Limited, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information for the purpose of incorporation in this circular.

CCIF

CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

31 January 2007

The Directors
Neo-China Group (Holdings) Limited

We report on the unaudited pro forma financial information of Neo-China Group (Holdings) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 233 to 237 under the heading of "Unaudited Pro Forma Financial Information of the Enlarged Group" (the "unaudited pro forma financial information") as set out in Appendix V of the Company's circular (the "Circular") dated 31 January 2007 in connection with the acquisition of interest in three PRC joint ventures (the "Acquisition") by the Company. The unaudited pro forma financial information has been prepared by the directors of the Company, for illustrative purpose only, to provide information on how the Acquisition might have affected the relevant financial information of the Group. The basis of preparing the unaudited pro forma financial information is set out on pages 233 to 237 of the Circular.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the sole responsibility of the directors of the Company to prepare the unaudited pro forma financial information in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by Rule 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 October 2006 or any future date.

OPINION

In our opinion:

a. the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

b. such basis is consistent with the accounting policies of the Group; and

c. the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully,
CCIF CPA Limited
Certified Public Accountants
Hong Kong

Delores Teh
Practising Certificate Number P03207

WORKING CAPITAL

Taking into account the financial resources available to the Enlarged Group, including internally generated funds and the available banking facilities, the Directors are of the opinion that the Enlarged Group will have sufficient working capital for its present requirements for at least the next 12 months from the date of publication of this circular.

NO MATERIAL ADVERSE CHANGE

Save for the Proposed Acquisitions as disclosed in the Letter from the Board as in this circular, there has been no material adverse change in the financial or operating position or prospects of the Group since 30 April 2006 (being the date to which the latest audited financial statements of the Group were made up).

INDEBTEDNESS OF GROUP

As at the close of business on 30 November 2006, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding secured bank loans of approximately HK$1,565,747,000, outstanding loan from an independent third party (including unpaid dividend) of approximately HK$259,227,000 and a zero coupon convertible bond with a principal amount of HK$1,340,000,000. The aggregate amount repayable at 30 November 2006 was as follows:

	HK$'000
Bank loans repayable	
Within one year	747,747,000
Between one and two years	318,000,000
Between two and five years	500,000,000
Loan payable to an independent third party	259,227,000
Zero coupon convertible bond	1,340,000,000

The Group provided guarantees in respect of mortgage facilities granted by certain banks of approximately HK$1,476,331,000 relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends when the Group obtained the "property title certificate" for the mortgagees, or when the Group obtained the "master property title certificate" upon completion of construction.

Three subsidiaries of the Group have been named as joint defendants in a court action in the PRC in respect of an alleged breach of contractual undertakings for an amount of HK37,415,000. The subsidiaries and their legal counsel are strongly resisting this claim and the Directors are of the opinion that settlement of the claim is remote. Accordingly, no provision for any potential liability has been made in the financial statements of the Group.

The State Administration of Taxation of the PRC issued a circular as Guo Shui Han 2004 No. 938 on 2 August 2004 to strengthen the levy of land appreciation tax on property developers. In the opinion of the Directors, land appreciation tax shall not be levied in respect of properties already completed and full provision for land appreciation tax has not been made in the financial statements of the Group. The Group has not, however, been able to secure written confirmation of those individual city policies, and the Directors consider that the chance that full land appreciation tax might be levied is less than probable in accordance with the rule of State Administration of Taxation. Should such levies take place, land appreciation tax would be approximately HK$55,712,000.

As at 30 November 2006, save as disclosed in this circular and apart from intra-Group liabilities, the Group did not have any debt securities issued and outstanding, or authorised/otherwise created but un-issued, any term loans (secured, unsecured, guaranteed or not), any other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments (whether secured/ unsecured, guaranteed or not), any mortgages and charges, any contingent liabilities or guarantees.

Foreign currency amounts have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 30 November 2006.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Enlarged Group is principally engaged in property development and investment in the PRC. The properties market in the PRC maintains a steady growth for the past few years. The Directors are of the view that despite the recent stringent economic control measures adopted in the PRC to streamline its economic growth, the property market in many major cities, like Beijing, still maintains a steady growth. The Directors expect that there will not be any major adverse impact on the property market in this regard and the property market can maintain a healthy growth for the coming year. The Board is also of the view that in light of the continuing economic growth in the PRC, increases in spending power and the upcoming opportunities from the 2008 Olympics and 2010 World's Expo, demand in the property market will continue to grow and hence provide an opportunity for investment in this market.

The Board is confident that the investment in properties development in the PRC will enhance the asset base of the Enlarged Group which in turn will maximize the shareholders' return in the future. The management will continue to look for potential project investment projects in the PRC with the aim to further leverage the resources of the Enlarged Group and further strengthen the asset base of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL POSITION AND RESULTS OF OPERATIONS OF THE CHANGSHA JV, THE YOUNGMAN POINT JV AND THE AMERICAN ROCK JV

Review of operations, management analysis and discussion

Business review for the year ended 31 April 2003

(a) Financial performance

During the financial year under review, the Group recorded a turnover of approximately HK$522,000. The Group's loss attributable to shareholders for the year ended 30 April 2003 was approximately HK$35 million.

In view of the global economic downturn and the difficult operating environment encountered by internet-related companies in recent years, the Group had been taking steps to refocus the Group's core business by shifting its business focus from Internet-related businesses to property investments in the PRC.

American Rock JV had made a loss of approximately HK$4.7 million and there was no turnover for the period ended 31 December 2002. The construction work of American Rock Property Project was in progress. Pre-sales had started during the period and pre-sales proceeds of approximately HK$126 million were received as at 31 December 2002. The loss was mainly related to selling expenses and administration expenses incurred for the period. The pre-sales could not be recognized as income because the reorganization criteria have not yet been fulfilled and so there was no turnover during the year.

Youngman Point JV had made a loss of approximately HK$615,000 and there was no turnover for the year ended 31 December 2002. The Youngman Point Property Project was still at the planning and development stage and the construction work had not yet started. The loss was mainly related to administration expenses incurred for the period.

(b) Liquidity and financial resources

The Group had total bank borrowings of approximately HK$23.6 million as at 30 April 2003. American Rock JV had bank borrowings of approximately HK$158.8 million and Youngman Point JV had no bank borrowing as at 31 December 2002.

The value of shareholders' fund and net assets value of the Group as at 30 April 2003 was approximately HK$247.3 million. The value of shareholders' fund and net assets value of American Rock JV and Youngman Point JV as at 31 December 2002 were approximately HK$14.7 million and HK$47.3 million respectively.

The sources of funding for the business operation were mainly by internal resources, shareholders loans, and bank borrowings. During the year, the Group and American Rock JV had raised new bank loans of approximately HK$23.6 million and HK$120.4 million respectively.

The Group had bank and cash balances of approximately HK$1.2 million. American Rock JV and Youngman Point JV had bank and cash balances of approximately HK$48 million and HK$79,000 respectively as at 31 December 2002.

(c) Capital structure of the Group

The currency of bank borrowings of the Group and American Rock JV was in RMB. The interest rate of the bank borrowings was from 5.31% p.a. to 5.84% p.a.. The bank loans of the Group were repayable as approximately HK$7.5 million within one year; approximately HK$7.5 million between one to two years; approximately HK$8.5 million between two to five years. The bank loans of American Rock JV were repayable within one year.

The gear ratio of the Group was 9%. The gear ratio of American Rock JV was 756% and Youngman Point JV had no gear ratio as no bank borrowings as at 31 December 2002.

(d) Significant investments held and material acquisitions and disposals during the year

(i) significant investments held:

As at the year ended 30 April 2003, the Company had one significant investments in property project in the PRC that was a commercial building at Yinkou Road Yangpo District in Shanghai, the PRC. The basic construction works for the commercial building of Jia Tai Garden located at 789 Yinkou Road, Yangpo District, Shanghai, the PRC which the Company's 90%-owned subsidiary, Shanghai Xing Ye Property Management Company Limited, sino-foreign joint venture company incorporated on 31 May 2002.

(ii) material acquisitions and disposals during the year:

Disposal:

On 9 January 2003, the Directors of the Company announced that a sale and purchase agreement was entered into between Premier Goodwill and the Company, under which the Company agreed to dispose of its 45% interest in the issued share capital of WebVideoShop for a total consideration of HK$72 million. The consideration was be satisfied by cash. The disposal was to ensure the adherences of the Group strategy to focus its activities in the areas of property investments in the PRC. The disposal was subsequently completed in August 2003. As at 30 April 2003, the Company received from the independent third party a deposit of HK$3,600,000 which was included in trade and other and other payables under current liabilities.

As a result, internet-related business was reported in the financial statements for the year ended 30 April 2003 as a discontinuing operation.

WebVideoShop was an internet related business and the Company was changing its core business from internet-related business to property investments in the PRC.

Acquisition:

On 31 May 2002, the Company contract to acquire at a total consideration of RMB38,002,978. The acquired asset basic construction works for a commercial building of Jia Tai Garden located at 789 Yingkou Road, Yangpo District, Shanghai, the PRC which was the Company's 90% owned subsidiary (Shanghai Xing Ye Property Management Company Limited, a sino-foreign joint venture company). The property was held by the Company as an investment and a steady source of income.

(e) Charges on assets

The Group did not have any charge on assets as at 30 April 2003. Youngman Point JV did not have any charge on assets. American Rock JV had pledged inventories of approximately HK$5.5 million to secure credit facilities granted to it as at 31 December 2002. American Rock JV also pledged bank deposits of approximately HK$ 5.5 million to secure long-term mortgaged loans granted by banks to the buyers of the properties of American Rock JV as at 31 December 2002.

(f) Contingent liabilities

The Group did not have any significant contingent liability as at 30 April 2003. Youngman Point JV did not have any significant contingent liability and American Rock JV had provided a guarantee of approximately HK$61.2 million to banks in respect of credit facilities granted to prospective purchasers of properties developed by it as at 31 December 2002.

Business review for the year ended 30 April 2004

(a) Financial performance

The global economy had shown sign of recovery during the year under review; Hong Kong's economic also rebound after the severe acute respiratory syndrome ("SARS"), and the PRC economic was forecasted to continue to grow. With an aim to prepare for the revival of the economy and the upcoming new investment opportunities, a capital reorganization of the Company ("Capital Reorganisation") was proposed and was subsequently implemented and completed on 19 June 2003, which allowed flexibility to facilitate any future capital raising when circumstances arose. Immediately following completion of the Capital Reorganisation, the Company issued 1,200 million new shares to an new investor, Invest Gain Limited, of HK$0.025 each for a total cash consideration of HK$30 million.

Following completion of the Capital Reorganisation, the new investor intended that the Group would continue its existing business and would conduct a review of the financial positions and operation of the Group with a view to strengthening the operations and future development of the Group.

During the financial year under review, the Group displayed a significant improvement in performance with the profit attributable to shareholders increased substantially to approximately HK$9.7 million (2003: loss of HK$20.3 million). Earnings per share was approximately HK$0.51 cents (2003: loss of HK$2.32 cents). The turnover of the Group amounted to approximately HK$654,000 for the year ended 30 April 2004, representing an increase of approximately 25 per cent as compared with that in 2003. The significant improvement was attributable to the change of management team in October 2003 upon the Capital Reorganisation together with the Group's effective strategies in consolidating resources on the Group's core business with profit prospects.

Given that the Group intended to focus in the field of property investments and development in the PRC, the Group was seeking to explore and review new potential investment opportunities and to start replenishing its land bank in order to strengthen the earning base and to generate a more steady source of income, thus to enhance the investment value of the Company.

American Rock JV had made a profit of approximately HK$1.9 million and turnover of approximately HK$67 million for the year ended 31 December 2003. The construction work of American Rock Property Project was in progress. Pre-sales proceeds of approximately HK$691 million were received as at 31 December 2003. The profit was mainly related to recognition of turnover of approximately HK$67 million as some of the pre-sales properties were passed to the buyers during the year. At the same time selling expenses and administrative expenses of approximately HK$14 million and HK$3.8 million respectively were incurred during the year.

Youngman Point JV has made a loss of approximately HK$1.5 million and there was no turnover for the year ended 31 December 2003. The Youngman Point Property Project had started construction work during the year. The loss was mainly related to administration expenses incurred for the year.

(b) Liquidity and financial resources

The Group had a loan repayable of approximately HK$69 million as at 30 April 2004. American Rock JV had bank borrowings and loan payable of approximately HK$259.8 million and HK$33.7 million respectively and Youngman Point JV had no bank borrowing as at 31 December 2003.

The value of shareholders' fund and net assets value of the Group as at 30 April 2004 was approximately HK$287.2 million. The value of shareholders' fund and net assets value of American Rock JV and Youngman Point JV as at 31 December 2003 were approximately HK$53.1 million and HK$45.8 million respectively.

The sources of funding for the business operation were mainly by internal resources, shareholders loans, and bank borrowings. During the year, the Group had a new loan payable of approximately HK$69 million. American Rock JV had a new loan payable approximately HK$33.7 million and additional capital injection of approximately HK$36.6 million from its shareholders.

The Group had bank and cash balances of approximately HK$12.2 million as at 30 April 2004. American Rock JV and Youngman Point JV had bank and cash balances of approximately HK$63 million and HK$9.8 million respectively as at 31 December 2003.

(c) Capital structure of the Group

The currency of loan payable and bank borrowings of the Group and American Rock JV was in RMB. The loan payable of the Group was non-interest bearing and the interest rate of the bank borrowings were from 5.31% p.a. to 5.84% p.a.. The loan payable of the Group will not be repayable before the completion of the development of Phoenix Tower Project and was classified as non-current liabilities. The bank borrowings of American Rock JV were repayable as approximately HK$139.6 million within one year; approximately HK$120.2 million between one to two years.

The gear ratio of the Group was 19.8%. The gear ratio of American Rock JV was 434% and Youngman Point JV had no gear ratio as no bank borrowings as at 31 December 2003.

(d) Significant investments held and material acquisitions and disposals during the year

(i) significant investments held:

The Company made an agreement with Phoenix Satellite Television Company Limited in October 2003 for a joint development of Phoenix Tower in Shenzhen, the PRC. The Phoenix Tower project was a complex of office building, service apartments and shopping arcade with gross floor area of approximately 80,000 sq.m

(ii) material acquisitions and disposals during the year:

Disposal:

On 10 October 2003, the Directors announced that the Agreement was entered into between the Company and independent third party (Ultrabonus), under which the Company agreed to dispose of the assets to Ultrabonus for a consideration of HK$62 million in cash. The asset was disposed of the Company's 100% equity interest in Graceful Sun and the Company's interest and rights in the current account with Graceful Sun. Graceful Sun was an investment holding company. Its only investment was entire interest in Ray Gold whose only investment is a 90% equity interest in Shanghai Xing Ye. Shanghai Xing Ye was a sino-foreign joint ventue company incorporated in the PRC on 31 May 2002.

Acquisition:

On 29 October 2003, Oasiscity, a wholly-owned subsidiary of the Company, Phoenix Satellite Television Co Ltd and Phoenix Real Properties Co Ltd, entered into a subscription and shareholders' agreement in relation to the joint agreement of Phoenix Tower in Shenzhen, the PRC. The amount of the shareholders' loan was contributed initially by Oasiscity of HK$28.3 million was agreed by the parties to the agreement.

(e) Charges on assets

The Group pledged 30% equity interest of Phoenix Real Property Limited (a subsidiary of the Group) to Phoenix Satellite Television Company Limited to secure the due performance of Oasiscity Limited (a wholly owned subsidiary of the Group) in Phoenix Tower Project as at 30 April 2004. Youngman Point JV did not have any charge on assets as at 31 December 2003. American Rock JV had pledged inventories of approximately HK$502 million to secure credit facilities granted to it as at 31 December 2003. In addition, American Rock JV had pledged inventories of approximately HK$46 million to secure the loan payable as at 31 December 2003. American Rock JV also pledged bank deposits of approximately HK$ 37 million to secure long term mortgaged loans granted by banks to the buyers of the properties of American Rock JV as at 31 December 2003.

(f) Contingent liabilities

The Group did not have any significant contingent liability as at 30 April 2004. Youngman Point JV did not have any significant contingent liability and American Rock JV had provided a guarantee of approximately HK$462.1 million to banks in respect of credit facilities granted to prospective purchasers of properties developed by it as at 31 December 2003.

Business review for the year ended 30 April 2005

(a) Financial performance

For the year ended 30 April 2005, the Group displayed a significant improvement in performance with profit attributable to shareholders increasing to HK$180.4 million (equivalent to approximately 17.6 times the profit of HK$9.7 million over the previous accounting year ended 30 April 2004). Basic earnings per share was HK9.40 cents (2004: HK0.51 cents). The turnover of the Group was HK$476.5 million for the year ended 30 April 2005, representing an increase of approximately 727.6 times over 2004 (2004: HK$0.7 million). The remarkable improvement was attributable to the efficient management of the Company by focusing its resources on the Group's core business of property development and investment.

American Rock JV had made a profit after tax of approximately HK$216 million and turnover of approximately HK$1,204 million for the year ended 31 December 2004. The construction works of Phase I (Zone A) and Phase II (Zone B) of American Rock Property Project were substantially completed. Many pre-sales properties of Phase I (Zone A) and Phase II (Zone B) were passed to the corresponding buyers during the year and therefore a significant amount of turnover of about HK$1,204 million was recognized during the year. Pre-sales proceeds of approximately HK$51 million were received and not yet recognized as at 31 December 2004. The profit was mainly related to recognition of turnover of approximately HK1,204 million during the year.

Youngman Point JV has made a loss of approximately HK$13.7 million and there was no turnover for the year ended 31 December 2004. The construction work of Youngman Point Property Project was in progress. Pre-sales had started during the year and pre-sales proceeds of approximately HK$333.6 million were received as at 31 December 2004. The loss was mainly related to administration incurred for the year. The pre-sales could not be recognized as income because the reorganization criteria have not yet been fulfilled and so there was no turnover during the year.

(b) Liquidity and financial resources

The Group (which included American Rock JV as it was a subsidiary of the Group as at 30 April 2005) had bank borrowings of approximately HK$93.6 million, a loan repayable of approximately HK$69 million, and a convertible note of HK$104 million as at 30 April 2005. Youngman Point JV had bank borrowings of approximately HK$147.8 million as at 31 December 2004.

The value of shareholders' fund and net assets value of the Group as at 30 April 2005 was approximately HK$573.5 million. The value of shareholders' fund and net assets value of Youngman Point JV as at 31 December 2004 were approximately HK$53.1 million and HK$32.2 million respectively.

The sources of funding for the business operation were mainly by internal resources, shareholders loans, and bank borrowings. During the year, the Group had no new bank borrowings. Youngman Point JV had made new bank loans of approximately HK$173 million.

The Group had bank and cash balances of approximately HK$69.6 million as at 30 April 2005. Youngman Point JV had bank and cash balances of approximately HK$5.7 million as at 31 December 2004.

(c) Capital structure of the Group

The currency of loan payable and bank borrowings of the Group and Youngman Point JV was in RMB, and the convertible note was in HKD. The loan payable of the Group was noninterest bearing and the interest rate of the bank borrowings were from 5.76% p.a. to 5.84% p.a.. The loan payable of the Group will not be repayable before the completion of the development of Phoenix Tower Project and was classified as non-current liabilities. The bank borrowings of the Group were repayable within one year. The bank borrowings of Youngman Point JV were repayable as approximately HK$76.9 million within one year and approximately HK$70.9 million between one to two years.

The gear ratio of the Group (which included American Rock JV as it was a subsidiary of the Group as at 30 April 2005) was 34%. The gear ratio of Youngman Point JV was 442% as at 31 December 2004.

(d) Significant investments held and material acquisitions and disposals during the year

(i) significant investments held:

American Rock Project:

The property project "American Rock" is situated in Baiziwan Road of Chaoyang District, Beijing, the PRC and is adjacent to the central business district of Beijing which is a major financial and commercial center in Beijing. The project's total gross floor area is over 500,000 sq.m. and the development of whole project is divided into two phases (I and II) which are sub-divided into four zones (A, B, C and D)

Phoenix Tower Project:

The project of "Phoenix Tower" is situated in the Central district of Futian District, Shen Zhen, the PRC. "Phoenix Tower" is planned to develop into a complex of office building service apartments and shopping arcade with a gross floor area of approximately 80,000 sq.m.

(ii) material acquisitions and disposals during the year:

Disposal:

On 25 March 2004, the Company entered into a sale and purchase agreement with and independent third party (Northwest) relating to the disposal of its 100% interest in Noble Time (a wholly-owned subsidiary of the Company) for a consideration of HK$123 million payable in cash. Noble Time held 42% in New Shine Development Limited (a company established in Hong Kong with limited liability) which held 35% interest in the JV (Beijing New Shine Garden Property Development Co Ltd, a company established in the PRC with limited liability). The disposal was completed on 16 August 2004.

Acquisition:

On 13 February 2004, Neo-China Property Limited (a wholly-owned subsidiary of the Company) entered into a sale and purchase agreement with Mr. Wang Yan under which Neo-China Property Limited would purchase and Mr. Wang Yan would sell the entire issued share capital of Top Fair Limited which holds an 45% interest in the JV (which is engaged in a PRC property development), and the Debt, being an account payable by the JV to Top Fair in the sum of RMB100,000,000. The consideration was satisfied by way of the convertible note to be issued by the Company to Mr. Wang Yan or his nominee. The acquisition was completed on 12 August 2004.

(e) Charges on assets

The Group (which included American Rock JV as it was a subsidiary of the Group as at 30 April 2005) pledged 30% equity interest of Phoenix Real Property Limited (a subsidiary of the Group) to Phoenix Satellite Television Company Limited to secure the due performance of Oasiscity Limited (a wholly owned subsidiary of the Group) in Phoenix Tower Project as at 30 April 2005. The Group had pledged inventories of approximately HK$142.9 million to secure credit facilities granted to it. The Group pledged deposits of approximately HK$387,000 in order to obtain a guarantee from the bank to a constructor of Phoenix Tower Project and also pledged bank deposits of approximately HK$41.5 million to secure long-term mortgaged loans granted by banks to the buyers of its properties. Youngman Point JV had pledged properties under development of approximately HK$254.7 million to secure the bank borrowings as at 31 December 2004.

(f) Contingent liabilities

The Group (which included American Rock JV as it was a subsidiary of the Group as at 30 April 2005) had provided a guarantee of approximately HK$704.4 million to banks in respect of credit facilities granted to prospective purchasers of properties developed as at 30 April 2005. Youngman Point JV had provided a guarantee of approximately HK$37.7 million to banks in respect of credit facilities granted to prospective purchasers of properties developed by it as at 31 December 2004.

Property Projects of the Group in PRC

American Rock Project

The property project "American Rock" is situated in Baiziwan Road of Chaoyang District, Beijing, the PRC and is adjacent to the central business district of Beijing which is a major financial and commercial center in Beijing. The project's total gross floor area is over 500,000 sq.m. and the development of whole project is divided into two phases (Phase I and II) which are sub-divided into four zones (Zone A, B, C and D).

Phase I (Zone A) and Phase II (Zone B) of the project have substantially been sold out and contributed to the Group's turnover of HK$475.9 million and net profit of HK$80.7 million for the year ended 30 April 2005. Phase II (Zone D) is now under construction and is expected to complete in 2006. Over 50% of the units of Phase II (Zone D) have been pre-sold and the corresponding total contracted amount is about HK$389.8 million. For Phase II (Zone C), the construction permit has been obtained and its pre-sales permit was obtain in August 2005. The management expects the "American Rock" project will continue to make substantial contribution to the Group's future results.

Phoenix Tower Project

The project of "Phoenix Tower" is situated in the central district of Futian District, Shenzhen, the PRC. "Phoenix Tower" is planned to develop into a complex of office building, service apartments and shopping arcade with a gross floor area of approximately 106,000 sq.m. The project is now under construction and is expected to complete on or before December 2006. The pre-sales of "Phoenix Tower" were started in November 2005.

Final Dividend

The Board distributed a dividend payment of HK2.2 cents per share for the year ended 30 April 2005, representing 30% of the net profit attributable to shareholders. It was the first dividend payment since the current management took over the control of the Company in 2003. The Board believes that this dividend payment will definitely enable all shareholders to participate immediately in the success of the Company. In the absence of any unforeseeable circumstances to the contrary, it is the policy of the Board to maintain dividend distribution annually in the future.

Review of Past Performance

a) Wunan Qianshuiwan Shuangya Wanquan Huayuen Company Limited (湖南淺水灣湘雅溫泉花園有限公司)

For the 7 months ended 31 July 2006 and for the period from 14 September 2005 (date of incorporation) to 31 December 2005, the audited net loss after taxation of Wunan Qianshuiwan Shuangya Wanquan Huayuen Company Limited (湖南淺水灣湘雅溫泉花園有限公司) amounted to approximately HK$0.03 million and approximately HK$0.26 million respectively.

For the 7 months ended 31 July 2006 and for the period from 14 September 2005 (date of incorporation) to 31 December 2005, the audited net loss attributable to shareholders of the Holding Companies amounted to approximately HK$0.03 million and approximately HK$0.26 million respectively (no taxation expense was incurred during the financial periods).

b) Beijing New Shine Properties Development Company Limited (北京新松房地產開發有限公司)

For the seven months ended 31 July 2006, the audited net profit before and after taxation of the Youngman Point JV amounted to approximately HK$87.81 million and approximately HK$58.83 respectively. For the year ended 31 December 2005, the audited net profit before and after taxation of the Youngman Point JV amounted to approximately HK$0.79 million and approximately HK$0.53 million respectively. The audit was carried out applying the Hong Kong accounting principles. For the year ended 31 December 2004, the audited net loss of the Youngman Point JV amounted to approximately HK$14.21 million (no taxation expense was incurred during the year).

c) ***Beijing Jin Ma Wen Hua Yuan Properties Development Company Limited (北京金馬文華園房地產開發有限公司)***

For the seven months ended 31 July 2006, the audited net profit before and after taxation of the American Rock JV amounted to approximately HK$67.69 million and approximately HK$45.35 million respectively. The audit was carried out applying the Hong Kong accounting principles. For the year ended 31 December 2005, the audited net profit before and after taxation of the American Rock JV amounted to approximately HK$107.02 million and approximately HK$70.65 million respectively. For the year ended 31 December 2004, the audited net profit before and after taxation of the American Rock JV amounted to approximately HK$329.94 million and approximately HK$225.04 million respectively.

Review of Financial Position, including Liquidity and Financial Resources

a) ***Wunan Qianchuiwan Shuangya Wanquan Huayuen Company Limited (湖南淺水灣湘雅溫泉花園有限公司)***

The audited total assets of Wunan Qianchuiwan Shuangya Wanquan Huayuen Company Limited (湖南淺水灣湘雅溫泉花園有限公司) as at 31 July 2006 and 31 December 2005 were approximately HK$113.79 million and approximately HK$112.82 million. The audited total liabilities as at 31 July 2006 and 31 December 2005 were approximately HK$84.08 million and approximately HK$83.08 million.

The audited net asset value of Wunan Qianchuiwan Shuangya Wanquan Huayuen Company Limited (湖南淺水灣湘雅溫泉花園有限公司) as at 31 July 2006 and 31 December 2005 were approximately HK$29.71 million and approximately HK$29.74 million respectively.

As at 31 July 2006, Wunan Qianchuiwan Shuangya Wanquan Huayuen Company Limited (湖南淺水灣湘雅溫泉花園有限公司) had a net shareholder loan amount outstanding of approximately HK$74.00 million. Such shareholder loan shall be capitalized on or before the Completion Date.

b) ***Beijing New Shine Properties Development Company Limited (北京新松房地產開發有限公司)***

The audited total assets of Beijing New Shine Properties Development Company Limited (北京新松房地產開發有限公司) as at 31 July 2006, 31 December 2005 and 31 December 2004 were approximately HK$644.90 million, approximately HK$966.58 million and approximately HK$721.01. The audited total liabilities as at 31 July 2006, 31 December 2005 and 31 December 2004 were approximately HK$462.10 million, approximately HK$932.61 million and approximately HK$687.57 million.

The audited net asset value of Beijing New Shine Properties Development Company Limited (北京新松房地產開發有限公司) as at 31 July 2006, 31 December 2005 and 31 December 2004 was approximately HK$182.80 million, approximately HK$33.97 million and approximately HK$33.44 million respectively.

As at 31 July 2006, Beijing New Shine Properties Development Company Limited (北京新松房地產開發有限公司) had an amount due to a fellow subsidiary of approximately HK$235.47 million. Such liability was unsecured, interest-free and repayable on demand.

c) Beijing Jin Ma Wen Hua Yuen Properties Development Company Limited (北京金馬文華園房地產開發有限公司)

The audited total assets of Beijing Jin Ma Wen Hua Yuen Properties Development Company Limited (北京金馬文華園房地產開發有限公司) as at 31 July 2006, 31 December 2005 and 31 December 2004 were approximately HK$1,980.33 million, approximately HK$1,787.12 million and approximately HK$1,228.28 million. The audited total liabilities as at 31 July 2006, 31 December 2005 and 31 December 2004 were approximately HK$1,546.06 million, approximately HK$1,398.20 million and approximately HK$910.02 million.

The audited net asset value of Beijing Jin Ma Wen Hua Yuen Properties Development Company Limited (北京金馬文華園房地產開發有限公司) as at 31 July 2006, 31 December 2005 and 31 December 2004 was approximately HK$$434.27 million, approximately HK$388.92 million and approximately HK$318.26 million respectively.

As at 31 July 2006, Beijing Jin Ma Wen Hua Yuen Properties Development Company Limited (北京金馬文華園房地產開發有限公司) had an amount due to immediate holding company approximately HK$100 million. Such debt was unsecured, interest-free and repayable on demand.

The following is the text of a letter, summary of values and valuation certificate, prepared for the purpose of incorporation in this Circular and received from Savills Valuation and Professional Services Limited, an independent valuer, in connection with their valuations as at 31 October 2006 of the property interests which are to be acquired by the Group.

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31 January 2007

The Directors
Neo-China Group (Holdings) Limited
Units 1908-09, 19/F
Office Tower, Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the properties in the People's Republic of China (the "PRC") held by entities in which an interests to be acquired by Beijing New Shine Land Investment Consultancy Limited (hereinafter referred to as the "Purchaser"), an indirectly wholly-owned subsidiary of Neo-China Group (Holdings) Limited (hereinafter referred to as the "Company", the Purchaser and the Company together referred to as the "Group"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of values of such properties as at 31 October 2006 ("date of valuation").

Our valuation of each of the properties is our opinion of its market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, deferred term contracts, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

In valuing the properties which are to be acquired by the Purchaser, we have valued property no. 1 which is held for sale by using the "Direct Comparison Approach" by making reference to comparable sales evidence as available in the market assuming vacant possession of the property would be readily available upon completion of sale. In valuing property no. 2 which is held under development, we have valued such property on the basis that the property will be developed and completed in accordance with the latest development proposals provided to us. We have assumed that approvals for the proposals have been granted without any onerous conditions which would affect the value of the property. In arriving at our opinion of value, we have valued by making reference to comparable market transactions in the localities and have also taken into account the construction costs that will be expended to complete the development to reflect the quality of the proposed developments.

We have been provided with copies of extracts of title documents relating to the properties, such as state-owned land use rights certificates, planning permits for construction projects, commencement permits for construction works, pre-sale permits, etc. However, we have not inspected the original documents to verify the ownership or to verify the existence of any amendments, which may not appear on the copies handed to us. In the course of our valuation, we have relied to a considerable extent on information given by the Company and its PRC legal advisers, Guantao Law Firm, on PRC laws regarding the titles and other legal matters relating to the properties. We have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, particulars of occupancy, identification of the properties and site and floor areas. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us and are therefore only approximations. We have not been able to carry out detailed on-site measurements to verify the correctness of the site and the floor areas of the properties and have assumed that the site and the floor areas shown on the documents handed to us are correct. We have no reason to doubt the truth and accuracy of the information provided to us by the Company and its PRC legal advisers which is material to our valuation. We were also advised by the Company that no material facts have been omitted from the information provided.

We have inspected the properties valued and did not note any serious defects. However, no structural survey has been made and we are therefore unable to report whether the properties are free from rot, infestation and any other defects. No tests were carried out on any of the services. We have also not carried out investigations on site to determine the suitability of the ground conditions and services etc. for any future development. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delay will be incurred during the construction period.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any properties or for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that all properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

In valuing the properties, we have complied with the requirements as set out in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong. We have had also regard to the requirements contained in the Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors.

Unless otherwise stated, all money amounts stated in our valuation are in Renminbi ("RMB").

Our summary of values and valuation certificate are attached.

Yours faithfully
For and on behalf of
Savills Valuation and Professional Services Limited
Charles C K Chan
Chartered Estate Surveyor
MSc FRICS FHKIS MCIArb RPS(GP)
Managing Director

Note: Charles C K Chan, MSc., F.R.I.C.S., F.H.K.I.S., M.C.I.Arb., R.P.S. (G.P.), is a qualified valuer and has about 22 years' experience in the valuation of properties in Hong Kong and has about 17 years' extensive experience in the valuation of properties in the PRC.

SUMMARY OF VALUES

	Property	Market value in existing state as at 31 October 2006
		RMB
Properties to be acquired by the Purchaser in the PRC		
1.	The remaining 8 commercial units, 26 residential units and 782 car parks of Phase I & portion of Phase II in Zones A, B and D American Rock, 16 Baiziwan Road Chaoyang District Beijing The PRC	103,030,000
2.	Portion of Phase II in Zone C American Rock, 16 Baiziwan Road Chaoyang District Beijing The PRC	701,670,000
	Total:	804,700,000

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 October 2006
				RMB

Properties to be acquired by the Purchaser in the PRC

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 October 2006 *RMB*
1.	The remaining 8 commercial units, 26 residential units and 782 car parks of Phase I & portion of Phase II in Zones A, B and D American Rock 16 Baiziwan Road Chaoyang District Beijing The PRC	American Rock (the "development") is a large-scale residential and commercial development which is scheduled to be developed in two phases. Phase I and portion of Phase II were completed in 2004. The remaining portion of Phase II is under construction.	The property is currently vacant.	103,030,000

The development comprises 4 parcels of land named as Zones A, B, C and D with a total site area of approximately 121,498.50 sq m (1,307,810 sq ft). According to the information provided, Phase I stands on Zone A whilst Phase II stands on Zones B, C and D.

The property comprises the remaining 8 commercial units, 26 residential units in eight 3 to 28-storey residential/commercial buildings in Phases I & II of the development, and 782 car parks in a 2-storey basement erected on Zones A, B and D. The uses and approximate gross floor areas of the property are as follows:

Use	Approximate gross floor area *sq m*	*sq ft*
Residential	2,619.39	28,195
Commercial	1,011.26	10,885
Car park *	33,645.53	362,160
Total	37,276.18	401,240

(	There are total 782 car parks.)*

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 October 2006
			RMB
	The land use rights of the property of Zones A, B and D have been granted for various terms. Details of the land use rights, please see notes (2), (3) and (4).		

Notes:

(1) Pursuant to the PRC legal opinion issued by the Company's PRC legal advisers and the information provided by the Company, 北京金馬文華園地產有限公司(Beijing Jin Ma Wen Hua Yuan Properties Development Company Limited) (the "American Rock JV"), a project company which is formed between the following parties with salient co-operating conditions cited as listed below:

Cooperating parties and shares	:	Top Fair Limited (45%), an indirectly wholly-owned subsidiary of the Company Lucky Merit Development Limited (40%), an indirectly wholly-owned subsidiary of the Company Beijing Xi Hua Wei Yie Construction Materials Trading Company Limited (15%)
Period of operation	:	20 years (from 15 October 2002 to 14 October 2022)
Registered capital	:	USD12,000,000
Profit sharing	:	According to the share ratio and co-operating conditions
Business scope	:	Real estate development and sale

(2) Pursuant to the State-owned Land Use Rights Certificate No. Jing Chao Guo Yong (2002 Chu) 0240（京朝國用（2002出）字第0240號）dated 10 October 2002 issued by the People's Government of Beijing, the land use rights of Phase I of the property in Zone A with a site area of 27,820.26 sq m have been granted to the American Rock JV for various respective terms expiring on 9 February 2042 for commercial and ancillary facilities uses, expiring on 9 February 2052 for basement car parking use and expiring on 9 February 2072 for residential uses.

(3) Pursuant to the State-owned Land Use Rights Certificate No. Jing Chao Guo Yong (2003 Chu) 0052（京朝國用（2003出）字第0052號）issued by the People's Government of Beijing in March 2002, the land use rights of Phase II of the development in Zone B with a site area of 35,011.07 sq m have been granted to the American Rock JV for terms expiring on 14 January 2043 for ancillary facilities uses and expiring on 14 January 2073 for residential use.

(4) Pursuant to the State-owned Land Use Rights Certificate No. Jing Chao Guo Yong (2003 Chu) 0125（京朝國用（2003出）字第0125號）issued by the People's Government of Beijing in April 2003, the land use rights of Phase II of the development in Zone D with a site area of 22,922.77 sq m have been granted to the American Rock JV for terms expiring on 8 February 2053 for basement car parking use and expiring on 8 February 2073 for residential use.

(5) Pursuant to four Building Ownership Certificates issued by Beijing Land, Resources and Housing Administration Bureau provided by the Group, a gross floor area of approximately 15,698.83 sq m is held by the American Rock JV for commercial, residential and ancillary facilities uses. Detailed breakdown of these Building Ownership Certificates is as follows:

No.	Building Ownership Certificate No.	Gross floor area *("GFA") (sq m)*	Issuance date	Remaining GFA and use *(sq m)*
(i)	Jing Fang Quan Zheng Chao She Wai 04 No. 00075	57,159.16	29 June 2004	426.51 (Residential)
(ii)	Jing Fang Quan Zheng Chao She Wai 05 No. 0088	22,039.37	September 2005	11,176.03 (Car park) 305 (Commercial)
(iii)	Jing Fang Quan Zheng Chao She Wai 04 No. 0087	8,555.10	24 January 2005	892.15 (Car park) 706.26 (Commercial)
(iv)	Jing Fang Quan Zheng Chao She Wai Zi 06 No. 00178	36,755.34	23 August 2006	2,192.88 (Residential)
	Total:	124,508.97		15,698.83

For the remaining portion of the property, the gross floor area of approximately 21,577.35 sq m which is for car parking use cannot be sold in the market. Accordingly, we have assigned no commercial value to the said portion of car parking area in the course of our valuation.

(6) We have been provided with a legal opinion on the title to the property issued by the Company's PRC legal advisers, Guantao Law Firm, which contains, inter alia, the following information:

(i) The American Rock JV has obtained State-owned Land Use Rights Certificates as stated in notes (2), (3) and (4) above and the land use rights of the property are held by the American Rock JV legally. Accordingly, the American Rock JV has the rights to transfer, lease or mortgage the land use rights of the property during the residual land use term.

(ii) As at the issuance date of this legal opinion, there is no outstanding land premium to be payable in relation to the land use rights of the property.

(iii) The requisite permits and approvals, such as the Planning Permit for Construction Project, the Commencement Permit for Construction Work and the Pre-sale Permit for the construction and sale of the property, have been obtained by the American Rock JV.

(iv) The American Rock JV has obtained Building Ownership Certificates as stated in note (5) above for the property. The American Rock JV has the rights to transfer, lease or mortgage the buildings of the property legally.

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 October 2006
				RMB
2.	Portion of Phase II in Zone C American Rock 16 Baiziwan Road Chaoyang District Beijing The PRC	American Rock (the "development") is a large-scale residential and commercial development, which is scheduled to be developed in two phases. Phase I and portion of Phase II were completed in 2004. The remaining portion of Phase II is under construction. The development comprises four land parcels named as Zones A, B, C and D with a total site area of approximately 121,498.50 sq m (1,307,810 sq ft). According to the information provided by the Group, Phase I stands on Zone A whilst Phase II stands on Zones B, C and D. The property comprises portion of Phase II which is to be erected on Zone C with a site area of approximately 35,744.40 sq m (384,753 sq ft).	The property is currently under construction.	701,670,000

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 October 2006
			RMB
	According to the information provided, the property will be developed into six buildings and ancillary facilities plus one level basement with a total gross floor area of approximately 160,124.40 sq m (1,723,580 sq ft) and is scheduled for completion by the end of 2008. Details of the uses and approximate gross floor areas of the property are as follows:		

Use	Approximate gross floor area	
	sq m	*sq ft*
Residential (Block 7,8,11 & 12)	90,939.77	978,876
Residential (Block 9 & 10)	52,336.37	563,349
Ancillary facilities	338.12	3,640
Basement	16,510.14	177,715
Total	160,124.40	1,723,580

The land use rights of the property have been granted for respective terms expiring on 8 February 2053 and 8 February 2073 for basement car parking and residential uses.

Notes:

(1) Pursuant to the State-owned Land Use Rights Certificate No. Jing Chao Guo Yong (2005 Chu) 0477（京朝國用（2005出）字第0477號）dated 22 July 2003 issued by the People's Government of Beijing, the land use rights of the property with a site area of 35,744.40 sq m have been granted to the American Rock JV for respective terms expiring on 8 February 2053 and 8 February 2073 for basement car parking and residential uses.

(2) Pursuant to four Planning Permits for Construction Project all issued by Beijing Municipal Commission of Urban Planning, the approved construction scale of the property is approximately 169,782.54 sq m. Details of these planning permits are as follows:

	Planning Permit for Construction Project No.	**Construction scale** *(sq m)*	**Block no.**	**Issuance date**
(i)	2005 Gui (Chao) Jian Zi 0096（2005規（朝）建字0096號）	43,865.80	7 & 8	7 February 2005
(ii)	2005 Gui (Chao) Jian Zi 0094（2005規（朝）建字0094號）	54,010.00	11 & 12 and ancillary facilities	7 February 2005
(iii)	2005 Gui (Chao) Jian Zi 0095（2005規（朝）建字0095號）	16,401.24	Basement	7 February 2005
(iv)	2006 Gui (Chao) Jian Zi 0382（2006規（朝）建字0382號）	55,505.50	9 & 10 and basement	28 August 2006
	Total	169,782.54		

(3) Pursuant to two Commencement Permits for Construction Work both issued by Beijing Municipal Commission of Construction, construction of the property was permitted to commence from 1 May 2005 to 15 November 2008 and the approved construction scale is 169,782 sq m.

	Commencement Permit for Construction Work No.	**Construction scale** *(sq m)*	**Construction period**	**Issuance date**
(i)	No.2005 (Jian) 083	114,277	From 1 May 2005 to 15 November 2008	28 June 2005
(ii)	2006 Shi (Chao) Jian Zi 0214	55,505	From 1 October 2006 to 24 December 2007	29 September 2006
	Total	169,782		

(4) Pursuant to two Pre-sale Permits both issued by Beijjing Municipal Commission of Urban Planning, a total gross floor area of approximately 143,276.14 sq m is permitted to be pre-sold. Details of these pre-sale permits are as follows:

	Pre-sale Permit No.	Pre-sale scale *(sq m)*	Issuance date
(i)	Jing Fang Shou Zheng Zi (2005) 400	90,939.77	20 August 2005
(ii)	Jing Fang Shou Zheng Zi (2006) 498	52,336.37	19 November 2006
	Total	143,276.14	

(5) As advised by the Group, total construction cost expended as at the date of valuation was approximately RMB129,240,000 whereas the total construction cost to be expended was approximately RMB386,227,741. Accordingly, we have taken into account the said amounts of construction cost in our valuation. In our opinion, the market value of the development, assuming it was completed as at the date of valuation, was estimated approximately RMB1,304,020,000.

(6) As advised by the Group, a total gross floor area of approximately 90,939.77 sq m of Blocks 7, 8, 11 and 12 was pre-sold under various sales and purchases agreements at a total consideration of approximately RMB686,458,661. Accordingly, we have taken into account the said consideration in our valuation.

(7) We have been provided with a legal opinion on the title to the property issued by the Company's PRC legal advisers, Guantao Law Firm, which contains, inter alia, the following information:

(i) The American Rock JV has obtained State-owned Land Use Rights Certificate for the property in Zone C and the State-owned Land Use Rights Certificate is legal and valid. Accordingly, the Amercian Rock JV has the rights to transfer, lease or mortgage the land use rights of the property as long as the paid-up investment of the property has reached 25% of the total investment.

(ii) As at the issuance date of this legal opinion, there is no outstanding land premium to be payable in relation to the land use rights of the property.

(iii) The requisite permits and approvals, such as the Planning Permit for Construction Project, the Commencement Permit for Construction Work and the Pre-sale Permit for the construction and sale of the property, have been obtained by the American Rock JV.

The following is the text of a letter, summary of values and valuation certificate, prepared for the purpose of incorporation in this Circular and received from Savills Valuation and Professional Services Limited, an independent valuer, in connection with their valuations as at 31 October 2006 of the property interests which are to be acquired by the Group.

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31 January 2007

The Directors
Neo-China Group (Holdings) Limited
Units 1908-09, 19/F
Office Tower, Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the properties in the People's Republic of China (the "PRC") held by entities in which an interests to be acquired by Beijing New Shine Land Investment Consultancy Limited (hereinafter referred to as the "Purchaser"), an indirectly wholly-owned subsidiary of Neo-China Group (Holdings) Limited (hereinafter referred to as the "Company", the Purchaser and the Company are together referred to as the "Group"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of values of such properties as at 31 October 2006 ("date of valuation").

Our valuation of each of the properties is our opinion of its market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, deferred term contracts, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

In valuing the properties which are to be acquired by the Purchaser, we have valued property nos. 1 and 2 which are held under development on the basis that the properties will be developed and completed in accordance with the latest development proposals provided to us. We have assumed that approvals for the proposals have been granted without any onerous conditions which would affect the value of the properties. In arriving at our opinion of value, we have valued by making reference to comparable market transactions in the localities and have also taken into account the construction costs that will be expended to complete the development to reflect the quality of the proposed developments.

In respect of property no. 3 which is a vacant land and held for future development, we have valued this property by making reference to comparable site transactions as available in the market.

We have been provided with copies of extracts of title documents relating to the properties, such as state-owned land use rights certificates, planning permits for construction projects, commencement permits for construction works, pre-sale permits, etc. However, we have not inspected the original documents to verify the ownership or to verify the existence of any amendments, which may not appear on the copies handed to us. In the course of our valuation, we have relied to a considerable extent on information given by the Company and its PRC legal advisers, Guantao Law Firm, on PRC laws regarding the titles and other legal matters relating to the properties. We have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, particulars of occupancy, identification of the properties and site and floor areas. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us and are therefore only approximations. We have not been able to carry out detailed on-site measurements to verify the correctness of the site and the floor areas of the properties and have assumed that the site and the floor areas shown on the documents handed to us are correct. We have no reason to doubt the truth and accuracy of the information provided to us by the Company and its PRC legal advisers which is material to our valuation. We were also advised by the Company that no material facts have been omitted from the information provided.

We have inspected the properties valued and did not note any serious defects. However, no structural survey has been made and we are therefore unable to report whether the properties are free from rot, infestation and any other defects. No tests were carried out on any of the services. We have also not carried out investigations on site to determine the suitability of the ground conditions and services etc. for any future development. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delay will be incurred during the construction period.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any properties or for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that all properties are free from emcubrances, restrictions and outgoings of any onerous nature which could affect their values.

In valuing the properties, we have complied with the requirements as set out in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong. We have had also regard to the requirements contained in the Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors.

Unless otherwise stated, all money amounts stated in our valuation are in Renminbi ("RMB").

Our summary of values and valuation certificate are attached.

Yours faithfully
For and on behalf of
Savills Valuation and Professional Services Limited
Charles C K Chan
Chartered Estate Surveyor
MSc FRICS FHKIS MCIArb RPS(GP)
Managing Director

Note: Charles C K Chan, MSc., F.R.I.C.S., F.H.K.I.S., M.C.I.Arb., R.P.S. (G.P.), is a qualified valuer and has about 22 years' experience in the valuation of properties in Hong Kong and has about 17 years' extensive experience in the valuation of properties in the PRC.

SUMMARY OF VALUES

Property	Market value in existing state as at 31 October 2006
	RMB
Properties to be acquired by the Purchaser in the PRC	
1. The remaining portion of Phase I Youngman Point, 2 Ganluyuan Chaoyang District Beijing The PRC	113,690,000
2. Phase II of Youngman Point 2 Ganluyuan Chaoyang District Beijing The PRC	507,820,000
3. Five parcels of land located at Lianhu Village, Gao Tang Ling Town Wangcheng County, Changsha Hunan Province The PRC	372,300,000
Total:	993,810,000

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 October 2006
				RMB

Properties to be acquired by the Purchaser in the PRC

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 October 2006 (RMB)
1.	The remaining portion of Phase I Youngman Point 2 Ganluyuan Chaoyang District Beijing The PRC	Youngman Point is a large-scale commercial and residential development erected on five parcels of land with a total site area of approximately 113,166.20 sq m (1,218,121 sq ft).	The property is currently under construction.	113,690,000

According to the information provided by the Group, a portion of Phase I is completed. The property comprises the remaining portion of Phase I which will accommodate two residential buildings and the commercial portion plus other ancillary facilities erected on part of the site of Phase I of Youngman Point with a site area of approximately 40,917.30 sq m (440,434 sq ft). As advised by the Group, the property is scheduled for completion in March 2007.

Upon completion, the property will have a total gross floor area of approximately 50,517.50 sq m (543,769 sq ft). Details of the uses and approximate gross floor areas are as follows:

Use	Approximate gross floor area *sq m*	*sq ft*
Residential	25,151.00	270,725
Commercial	2,029.08	21,841
Commercial (on basement)	1,474.46	15,871
Ancillary facilities	8,597.96	92,548
Basement	13,265.00	142,784
Total	50,517.50	543,769

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 October 2006
			RMB
	The land use rights of the property have been granted for terms expiring on 20 June 2043 for ancillary facilities uses, expiring on 20 June 2053 for basement car parking use and expiring on 20 June 2073 for residential use.		

Notes:

(1) Pursuant to the PRC legal opinion issued by the Company's PRC legal advisers and the information provided by the Company, 北京新松房地產開發有限公司 (Beijing New Shine Properties Development Limited) (the "Youngman Point JV") is a project company which is formed between the following parties with salient co-operating conditions cited as listed below:

Cooperating parties and shares	:	New Direction Development Limited (51.6%), an indirectly wholly-owned subsidiary of the Company Beijing Guoke Xinye Technology Development Company Limited (22.1%) Beijing International Trust Investment Company Limited (26.3%)
Period of operation	:	20 years (from 29 May 2000 to 28 May 2020)
Registered capital	:	RMB190,000,000
Profit sharing	:	According to the share ratio and co-operating conditions
Business scope	:	Real estate development and sale

(2) Pursuant to the State-owned Land Use Rights Certificate No. Jing Chao Guo Yong (2004 Chu) 0232（京朝國用（2004出）字第0232號）dated 20 May 2004 issued by the People's Government of Beijing, the land use rights of Phase I of Youngman Point with a site area of approximately 40,917.30 sq m have been granted to the Youngman Point JV, for terms expiring on 20 June 2043 for ancillary facilities uses, expiring on 20 June 2053 for basement car parking use and expiring on 20 June 2073 for residential use.

(3) Pursuant to five Planning Permits for Construction Project all issued by Beijing Municipal Commission of Urban Planning, the approved construction scale of the property is approximately 162,432 sq m. Details of the planning permits are set out as follows:

	Planning Permit for Construction Project No.	Issuance date	Construction scale *(sq m)*
(i)	2003 Gui Jian No. 0666（2003規建字0666號）	21 May 2003	61,680.00
(ii)	2003 Gui Jian No. 1116（2003規建字1116號）	25 August 2003	17,008.00
(iii)	2004 Gui Jian No. 0183（2004規建字0183號）	15 April 2004	42,672.00
(iv)	2004 Gui Jian No. 0184（2004規建字0184號）	15 April 2004	27,568.00
(v)	2004 Gui Jian No. 0381（2004規建字0381號）	30 July 2004	13,504.00
		Total:	162,432.00

(4) Pursuant to two Commencement Permits for Construction Work both issued by Beijing Municipal Commission of Construction, the construction of the property has been permitted to commence from July 2004 and the total approved construction scale is approximately 145,424 sq m.

	Commencement Permit for Construction Work No.	Construction scale *(sq m)*	Construction period	Issuance date
(i)	00 (Jian) 2004.1762	131,920	Commence from July 2004	15 July 2004
(ii)	00 (Jian) 2005.0345	13,504	Commence from January 2005	21 February 2005
	Total:	145,424		

(5) Pursuant to five Pre-sale Permits all issued by Beijing Municipal Commission of Construction, a total gross floor area of approximately of 138,974.32 sq m of Phase I of Youngman Point were permitted to be pre-sold. Details of these pre-sale permits are as follows:

	Pre-sale Permits No.	Pre-sale scale *(sq m)*	Issuance date
(i)	Jin Fang Shou Zheng No. (2004) 312（京房售証字(2004) 312號）	26,482.00	30 July 2004
(ii)	Jin Fang Shou Zheng No. (2004) 213（京房售証字(2004) 213號）	26,408.00	9 June 2004
(iii)	Jin Fang Shou Zheng No. (2005) 214（京房售証字(2005) 214號）	25,406.32	30 May 2005
(iv)	Jin Fang Shou Zheng No. (2004) 381（京房售証字(2004) 381號）	26,818.00	20 Aug 2004
(v)	Jin Fang Shou Zheng No. (2004) 286（京房售証字(2004) 286號）	33,860.00	20 July 2004
	Total:	138,974.32	

(6) As advised by the Group, the total construction cost expended for the property as at the date of valuation was approximately RMB47,517,818 whereas the total construction cost to be expended was estimated approximately RMB80,460,848. Accordingly, we have taken into account the said amounts of construction cost in our valuation. In our opinion, the market value of the development, assuming it was completed as at the date of valuation, was estimated approximately RMB216,650,000.

(7) As advised by the Group, a portion of the property with a total gross floor area of approximately 27,592.44 sq m has been pre-sold under various sales and purchases agreements at a consideration of approximately RMB168,629,013. Accordingly, we have taken into account the said consideration in our valuation.

(8) We have been provided with a legal opinion on the title to the property issued by the Company's PRC legal advisers, Guantao Law Firm, which contains, inter alia, the following information:

(i) The Youngman Point JV has obtained State-owned Land Use Rights Certificate for the proeprty of Phase I of Youngman Point and the State-owned Land Use Rights Certificate is legal and valid. Accordingly, the Youngman Point JV has the rights to transfer, lease or mortgage the land use rights of the property as long as the paid-up investment of the property has reached 25% of the total investment.

(ii) As at the issuance date of the legal opinion, there is no outstanding land premium to be payable in relation to the land use rights of the property.

(iii) The requisite permits and approvals, such as the Planning Permit for Construction Project, the Commencement Permit for Construction Work and the Pre-sale Permit for the construction and sale of the property, have been obtained by the Youngman Point JV.

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 October 2006
				RMB
2.	Phase II of Youngman Point 2 Ganluyuan Chaoyang District Beijing The PRC	Youngman Point is a large-scale commercial and residential development erected on five parcels of land with a total site area of approximately 113,166.20 sq m (1,218,121 sq ft). The property comprises four parcels of contiguous land with a total site area of approximately 72,248.90 sq m (777,687 sq ft). According to the latest development proposal provided by the Group, the property will be developed into a mixed commercial/residential development known as Phase II of Youngman Point with a total gross floor area of approximately 160,107.00 sq m (1,723,393 sq ft). Details of the uses and approximate gross floor areas of the property are as follows:	Currently, two parcels of land of the property are under construction whereas the remaining two parcels of land are vacant.	507,820,000

Use	Approximate gross floor area	
	sq m	*sq ft*
Residential	99,841.00	1,074,689
Commercial	18,368.50	197,719
Ancillary facilities	5,994.50	64,525
Basement	35,903.00	386,460
Total	160,107.00	1,723,393

The land use rights of the property have been granted for terms of 40 years, 50 years and 70 years respectively for commercial and ancillary facilities, basement car parking and storage and residential uses.

Notes:

(1) Pursuant to the State-owned Land Use Rights Certificate No. Jing Chao Guo Yong (2004 Chu) 0459 (京朝國用(2004出)字第0459號) dated 20 September 2004 issued by the People's Government of Beijing, the land use rights of a portion of the property with a site area of 17,472.30 sq m have been granted to the Youngman Point JV for a term expiring on 5 February 2044 for commercial use.

(2) Pursuant to the State-owned Land Use Rights Certificate No. Jing Chao Guo Yong (2004 Chu) 0460 (京朝國用(2004出)字第0460號) dated 20 September 2004 issued by the People's Government of Beijing, the land use rights of a portion of the property with a site area of 12,128.50 sq m have been granted to the Youngman Point JV for a term expiring on 5 February 2044 for commercial use.

(3) Pursuant to the State-owned Land Use Rights Certificate No. Jing Chao Guo Yong (2004 Chu) 0461 (京朝國用(2004出)字第0461號) dated 20 September 2004 issued by the People's Government of Beijing, the land use rights of a portion of the property with a site area of 13,664.55 sq m have been granted to the Youngman Point JV for terms expiring on 5 February 2074, 5 February 2044 and 5 February 2054 for residential, ancillary facilities and basement car parking uses.

(4) Pursuant to the State-owned Land Use Rights Certificate No. Jing Chao Guo Yong (2006 Chu) 0262 (京朝國用(2006出)字第0262號) dated 21 August 2006 issued by the People's Government of Beijing, the land use rights of a portion of the property with a site area of 28,983.55 sq m have been granted to the Youngman Point JV for terms expiring on 30 August 2074, 30 August 2044 and 30 August 2054 for residential, commercial and basement car parking and storage uses.

(5) Pursuant to three Planning Permits for Construction Project all issued by Beijing Municipal Commission of Urban Planning, the approved construction scale of the property is approximately 102,844 sq m. Details of the planning permits are set out as follows:

	Planning Permit for Construction Project No.	**Construction scale** *(sq m)*	**Issuance date**
(i)	2005 Gui (Chao) Jian Zi 0663	47,700	23 December 2005
(ii)	2006 Gui (Chao) Jian Zi 0439	7,122	30 September 2006
(iii)	2006 Gui (Chao) Jian Zi 0440	48,022	30 September 2006
	Total:	102,844	

(6) Pursuant to two Commencement Permits for Construction Work both issued by Beijing Municipal Commission of Construction, the construction of the property has been permitted to commence from 20 November 2006 and the total approved construction scale is approximately 102,844 sq m.

	Commencement Permit for Construction Work No.	Construction scale *(sq m)*	Construction period	Issuance date
(i)	2006 Shi (Chao) Jian Zi 0270	55,144	Commence from 20 November 2006	15 November 2006
(ii)	2006 Shi (Chao) Jian Zi 0271	47,700	Commence from 20 November 2006	15 November 2006
	Total:	102,844		

(7) As advised by the Group, the total construction cost expended for the property as at the date of valuation was approximately RMB9,574,370 whereas the total construction cost to be expended was estimated approximately RMB423,470,000. Accordingly, we have taken into account the said amounts of construction cost in our valuation. In our opinion, the market value of the development, assuming it was completed as at the date of valuation, was estimated approximately RMB1,253,010,000.

(8) We have been provided with a legal opinion on the title to the property issued by the Company's PRC legal advisers, Guantao Law Firm, which contains, inter alia, the following information:

(i) The Youngman Point JV has obtained State-owned Land Use Rights Certificate for Phase I of Youngman Point and the State-owned Land Use Rights Certificate is legal and valid. Accordingly, the Youngman Point JV has the rights to transfer, lease or mortgage the land use rights of the property as long as the paid-up investment of the property has reached 25% of the total investment.

(ii) As at the issuance date of the legal opinion, there is no outstanding land premium to be payable in relation to the land use rights of the property.

(iii) The requisite permits and approvals, such as the Planning Permit for Construction Project and the Commencement Permit for Construction Work for the construction of the property, have been obtained by the Youngman Point JV.

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 October 2006
				RMB
3.	Five parcels of land located at Lianhu Village Gao Tang Ling Town Wangcheng County Changsha Hunan Province The PRC	The property comprises five parcels of land with a total site area of approximately 665,987.00 sq m (7,168,684 sq ft). According to the latest development proposal provided by the Group, the property will be developed into a residential and commercial development plus ancillary facilities in two phases. Upon completion, the property will provide a total gross floor area of approximately 774,450 sq m (8,336,180 sq ft). Details of the uses and gross floor areas of the property is as follows:	The property is currently vacant sites.	372,300,000

Phase I

Use	Approximate gross floor area	
	sq m	*sq ft*
Residential	286,000.00	3,078,504
Commercial	12,000.00	129,168
Ancillary facilities	3,000.00	32,292
Total	301,000.00	3,239,964

Phase II

Use	Approximate gross floor area	
	sq m	*sq ft*
Residential	428,680.00	4,614,312
Commercial	7,770.00	83,636
Ancillary facilities	10,500.00	113,022
Basement	26,500.00	285,246
Total	473,450.00	5,096,216

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 October 2006
			RMB
	The land use rights of the property have been granted for terms of 70 years for residential uses.		

Notes:

(1) Pursuant to five State-owned Land Use Rights Grant Contract entered into between Wangcheng County Land Resources Administration Bureau ("Party A") and 湖南淺水灣湘雅溫泉花園有限公司 (the "Changsha JV"), Party A agreed to grant the land use rights of five parcels of land with a total site area of approximately 665,987.00 sq m to the Changsha JV for a total land grant fee of RMB33,111,878. The land use rights of the five parcels of land have been granted for terms of 70 years for residential uses. According to the legal opinion of the Company's PRC legal advisers, the land grant fee has been fully settled.

(2) According to the legal opinion of the Group's PRC legal advisers, the Changsha JV has fully paid the consideration of RMB88,000,000 to 湖南省湘投控股有限公司 ("Party B", the previous owner of the five parcels of land) for purchasing the rights of the land from Party B.

(3) Pursuant to two State-owned Land Use Rights Certificates issued by Wangcheng County Land Resources Administration Bureau, the Changsha JV has obtained the land use rights of the two parcels of land with a total site area of approximately 280,734.00 sq m. Details of these State-owned Land Use Rights Certificates are as follows:

	State-owned Land Use Rights Certificate No.	Site area	Land use term	Issuance date
		(sq m)		
(i)	Wang Guo Yong (2005) Di 547	93,744.00	70 years, to be expired on 21 October 2075	22 October 2005
(ii)	Wang Guo Yong (2005) Di 547	186,990.00	70 years, to be expired on 21 October 2075	22 October 2005
	Total	280,734.00		

As advised by the Group, the Changsha JV is in the process of applying for State-owned Land Use Rights Certificates for the remaining three parcels of land with a total site area of approximately 385,253 sq m.

(4) We have been provided with a legal opinion on the title to the property issued by the Company's PRC legal advisers, Guantao Law Firm, which contains, inter alia, the following information:

(i) The Changsha JV has obtained the land use rights of the five parcels of land through the State-owned Land Use Rights Grant Contracts. Those State-owned Land Use Rights Grant Contracts are legal and valid. The Changsha JV has fully settled the land grant fee as stipulated in the State-owned Land Use Rights Grant Contracts as stated in note (1) above.

(ii) As at the date of valuation, the Changsha JV has obtained two State-owned Land Use Rights Certificates for two parcels of the land as stated in note (3) above. There shall be no legal impediment for the Changsha JV to obtain the State-owned Land Use Rights Certificates for the remaining parcels of land. The Changsha JV is in the process of applying for the State-owned Land Use Rights Certificates for the remaining three parcels of land.

(iii) The Changsha JV has the rights to transfer, lease or mortgage the land use rights of the property as long as the paid-up investment of the property has reached 25% of the total investment.

RESPONSIBILITY STATEMENTS

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this circular misleading.

DISCLOSURE OF INTERESTS

Interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered into the register required to be kept under section 352 of the SFO were as follows:–

(1) Issued Share of the Company

Name of Director	Long/short position	Capacity	No. of Shares	Percentage of issued share capital
Li Song Xiao	long	Interest in corporation	3,605,381,390	56.2%

Note: Mr Li Song Xiao was deemed to be interested in 2,992,751,390 Shares and 600,000,000 Shares in the Company by virtue of his 100% interest in Invest Gain Limited and Sinoeagle Pacific Ltd respectively. For the remaining 12,630,000 Shares, 3,000,000 of which are held pursuant to the options outstanding under the share option scheme of the Company and 9,630,000 Shares are held directly by Mr. Li himself.

(2) Options outstanding under the share option scheme of the Company

Name of Director	Date of grant	Date of expiry	Exercise price *(HK$)*	Number of Share options outstanding
Li Song Xiao	4 April 2006	3 April 2016	0.90	3,000,000
Liu Yi	4 April 2006	3 April 2016	0.90	16,000,000
	17 November 2006	22 October 2016	0.93	24,000,000
Niu Xiao Rong	4 April 2006	3 April 2016	0.90	16,000,000
	17 November 2006	22 October 2016	0.93	24,000,000
Yuan Kun	4 April 2006	3 April 2016	0.90	8,000,000
	17 November 2006	22 October 2016	0.93	16,000,000
Liu Yan	17 November 2006	22 October 2016	0.93	16,000,000

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests and short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered into the register required to be kept under section 352 of the SFO.

SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, the following persons had interest or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, were directly or indirectly, interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group:

Name of substantial shareholder	**Long/short position**	**Capacity**	**No. of Shares**	**Percentage of issued share capital**
Invest Gain	Long	Beneficial owner	2,992,751,390	47%
Sinoeagle Pacific	Long	Beneficial owner	600,000,000	9%
Mr Li Song Xiao	Long	Interest in corporation *(note a)*	3,605,381,390	56.2%
Ms Liu Hui	Long	Spouse *(note b)*	3,605,381,390	56.2%
Penta Investment Advisers Ltd.	Long	Investment Manager	319,890,000	5%
Mr John Zwaanstra	Long	Interest in corporation *(note c)*	319,890,000	5%

Notes:

(a) 2,992,751,390 and 600,000,000 of these Shares are held by Invest Gain and Sinoeagle Pacific respectively, which are beneficially wholly owned by Mr Li Song Xiao. For the remaining 12,630,000 Shares, 3,000,000 of which are held pursuant to the options outstanding under the share option scheme of the Company and 9,630,000 Shares are held directly by Mr. Li himself.

(b) Ms Liu Hui is deemed to be interested in 3,605,381,390 ordinary Shares of the Company, being the interests held by her spouse, Mr Li Song Xiao.

(c) These Shares are held by Penta Investment Advisers Ltd which is beneficially owned by Mr John Zwaanstra.

Save as disclosed, as at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, no person (other than a Director) had interests or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, were directly or indirectly, interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

SERVICE CONTRACTS

None of the Directors has entered (or proposes to enter) into, with any member of the Group, a service agreement which does not expire and is not terminable within one year without payment of compensation (other than statutory compensation).

MATERIAL CONTRACTS

In addition to the agreements for the Proposed Acquisitions, the following contracts have been entered into by the Company or its subsidiaries within the two years last preceding the date of this circular otherwise than in the ordinary course of business and are or may be material:–

(1) On 12 May 2005, Oasiscity Limited ("Oasiscity") (a wholly-owned subsidiary of the Company) and Phoenix Real Properties Limited ("Phoenix") entered into an agreement under which Phoenix transferred 10,000 sq.m of the development of a building (the "Building") situated in Shenzhen to which Phoenix would be entitled after completion of the construction of the Building to Oasiscity at RBM60,000,000 payable in cash.

(2) On 15 September 2005, a wholly-owned subsidiary of the Company and Mr. Li Song Xiao, entered into agreement, for the acquisition by the Group's interest in the American Rock JV and the Youngman Point JV. The consideration for acquisition of an interest in the Amercian Rock JV of HK$259,595,000 which was satisfied by the allotment and issue by the Company to Mr. Li of 499,221,153 Shares at the issue price of HK$0.52 each. The consideration for acquisition of an interest in the Youngman Point JV of 311,878,000 which was satisfied by the allotment and issue by the Company to Mr. Li of 599,765,384 shares at the issue price of HK$0.52 each. The entering into of the agreements constituted very substantial acquisitions and connected transactions under the Listing Rules. The transactions for the two projects were completed on February 2006 and March 2006 respectively.

(3) On 5 October 2005, the Company (as the vendor) entered into a sale and purchase agreement with an independent third party Bright Super Investment Limited (as the purchaser) relating to the disposal of its 100% interest in Spot On Assets Limited (a then wholly-owned subsidiary of the Company) for a consideration of HK$180 million payable in cash. Spot On Assets Limited holds a 100% interest in Best Modern Properties Limited which in turn holds a 39% interest in Shanghai Xin Yao Properties Property Development Company Limited.

(4) On 10 February 2006, Deutsche Bank AG, Hong Kong Branch agreed to place, 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 for the subscription of an aggregate of 496,720,000 new shares at the same price per share. The net proceeds from the subscription were approximately HK$434 million. The placement has been completed.

(5) On 31 March 2006 a wholly-owned subsidiary of the Company entered into the agreement with Shanghai Haotai Property Investment Management Co Ltd, the Vendor, for the acquisition of 30% equity interest in Chongqing China Enterprises Property Development Co Ltd for development of a piece of land located at Yuanjiagang District, Hi-Tech Zone, Chongqing, the PRC, for a consideration of RMB181,00,000 in cash. The entering into the agreement constituted a discloseable transaction under the Listing Rules. The transaction has been completed.

(6) On 22 May 2006, a wholly owned subsidiary of the Company entered into the agreement with the Vendor, Beijing Xi Hua Wei Ye Construction Trading Co Ltd, for the acquisition of a 25% equity interest in Beijing New Shine Land Investment Consultancy Limited the development of "Xidiaoyutai" Project in Beijing, for a consideration of RMB130,000,000 in cash. The entering into of the agreement constituted a discloseable transaction for the Company under the Listing Rules. The transaction has been completed.

(7) The Company entered into a subscription agreement dated 12 May 2006 with J.P. Morgan Securities Ltd, and BOCI Asia Limited, in relation to an issue of HK$1,340,000,000 zero coupon convertible bonds due 2011. The issue of the convertible bonds was completed on 12 June 2006. Listing of the convertible bonds on The Stock Exchange of Hong Kong Limited became effective on 13 June 2006.

(8) On 5 June 2006, the Company announced the execution of a memorandum of understanding with Gubei and Zhonghwa, the vendors, on 8 February 2006, the Company successfully secured through a tender the right to acquire a further 70% equity in the Chongqing China Enterprises Property Development Co Ltd (the "Target") and received the confirmation from the PRC authority on 26 May 2006 in relation to such acquisition for a consideration of RMB422,100,000 in cash. The acquisition when aggregated with the acquisition of 30% equity interest in the Target as disclosed by the Company on 6 April 2006 constituted a discloseable transaction of the Company under the Listing Rules. The transaction has been completed.

(9) On 26 June 2006, Mr. Li Song Xiao (the chairman and the controlling shareholder of the Company) (as vendor) and a wholly-owned subsidiary of the Company (as purchaser) entered into the agreement pursuant to which inter alia the purchaser conditionally agreed to acquire and the vendor agreed to sell the entire issue share capital of the holding companies (Divo Ltd and Lead Mix Ltd) for an aggregate consideration of HK$845,263,700 for the development of seven parcels of lands in Tianjin, the PRC. The consideration was satisfied in full by the allotment and issue of 1,243,034,853 consideration shares to the vendor at the issue price of HK$0.68 each. The entering into of the agreement constituted a major and connected transaction under the Listing Rules. The transaction has been completed.

(10) On 5 September 2006, a wholly-owned subsidiary of the Company entered into the agreement with the vendor, Beijing Xi Hua Wei Ye Construction Trading Co Ltd, for the acquisition of a 50% equity interest in Beijing New Shine Land Investment Consultancy Limited for the development of "Xidiaoyutai" Project in Beijing for a consideration of RMB260,000,000 in cash. The entering into of the agreement, when aggregated with the 25% acquisition, constituted a discloseable transaction for the Company under the Listing Rules. The transaction has been completed.

(11) On 28 November 2006, the Company, Invest Gain and J. P. Morgan entered into the Placing and Subscription Agreement. Pursuant to the Placing and Subscription Agreement, Invest Gain agreed to place on a fully-underwritten basis, through J.P. Morgan, an aggregate of 688,000,00 existing shares, to twelve independent investors, at placing price of HK$1.132 per share. Invest Gain conditionally agreed to subscribe for the new shares representing an aggregate of 688,000,000 new shares at the subscription of HK$1.132 per share. The subscription was a connected transaction for the Company but was exempt from approval by the Company's independent shareholders under the Listing Rules. The transaction was completed on 12 December 2006.

QUALIFICATION OF EXPERTS

The following is the qualification of the experts who have given opinions or advice which is contained in this circular:

Name	Qualification
First Shanghai Capital Limited	Independent financial adviser, licenced to engage in type 6 (advising on corporate finance) regulated activity as defined in the SFO
CCIF CPA Limited	Certified Public Accountants
Savills Valuation and Professional Services Limited	Member of Hong Kong Institute of Surveyors

The experts named above have given and have not withdrawn their respective written consents to the issue of this circular and with their statements and references to their names included in the form and context in which they are included.

EXPERTS' INTERESTS

As at the Latest Practicable Date, none of the experts named above or their respective associates had any shareholding interest in any member of the Group, or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

CONSENTS

Each of First Shanghai Capital Limited, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders, CCIF CPA Limited, being the independent reporting accountants of the Company, and Savills Valuation and Professional Services Limited, being the independent valuer, has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and reference to its name and letter in the form and context in which they appear.

DIRECTORS' AND EXPERTS' INTERESTS

As the Latest Practicable Date and save as disclosed herein, none of the experts named above nor the Directors nor their respective associates had any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did they have any interest, either direct or indirect, in any assets which had been, since the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to any member of the Group.

None of the Directors is materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Group.

COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and his/her respective associates was considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group other than those businesses to which the Directors and his/her associates were appointed to represent the interests of the Company and/or the Group.

LITIGATION

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors or the Company to be pending or threatened by or against any member of the Group.

GENERAL

(a) The English text of this circular shall prevail over the Chinese text.

(b) The secretary of the Company is Ms Chan Yim Kum who is a member of the Institute of Chartered Secretaries and Administrators of the United Kingdom, the Hong Kong Institute of Company Secretaries and the Taxation Institute of Hong Kong. Ms Chan holds a bachelor's degree (honours) in business administration from the United Kingdom and a master's degree in professional accountancy from Hong Kong.

(c) The registered office of the Company is at 6 Front Street, Hamilton HM12, Bermuda and its principal place of business is at Unit 1908-09, 19th Floor, Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Company at Unit 1908-09, 19th Floor, Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong, during normal business hours (i.e. from 9:00 a.m. to 5:30 p.m.) on any day (except Saturdays, Sundays and public holidays) until the SGM:

(a) the Changsha Agreement;

(b) the Youngman Point Agreement;

(c) the American Rock Agreement;

(d) the Memorandum of Association and bye-laws of the Company;

(e) the annual reports of the Group for the two financial years ended 30 April 2005 and 2006;

(f) the letter from the Independent Board Committee, the text of which is set out in this circular;

(g) the letter from First Shanghai Capital Limited, the text of which is set out in this circular;

(h) the written consents from First Shanghai Capital Limited, CCIF CPA Limited, Savills Valuation and Professional Services Limited referred to on page 289 of this circular;

(i) the valuation report prepared by Savills Valuation and Professional Services Limited the text of which is set out in Appendix VII to this circular;

(j) the circular of a discloseable transaction for the acquisition of 30% equity interest in Chongqing China Enterprises Property Development Company Limited;

(k) the circular of a discloseable transaction for the acquisition of 25% equity interest in Beijing New Shine Land Investment Consultancy Limited;

(l) the circular of a discloseable transaction for the acquisition of 70% equity interest in Chongqing China Enterprises Property Development Limited;

(m) the circular of a major and connected transaction for the acquisition of the Tianjin project with gross floor area of 1.087 million square metres;

(n) the circular of a discloseable transaction for the acquisition of a further 50% interest in Beijing New Shine Land Investment Consultancy Limited;

(o) the circular of a discloseable transaction for the acquisition of a 71.5% equity interest in Xian Chan Ba Construction Development Company Limited;

(p) the audited accounts of the Group for the two financial years ended 30 April 2005 and 2006;

(q) the accountants' reports on each of the Changsha JV, the Youngman Point JV and American Rock JV which is set out in Appendix IV of this circular; and

(r) the material contracts referred to in paragraph headed "Material Contracts" in this circular.

The following paragraphs set out the procedure by which the Shareholders may demand a poll at a general meeting of the Company (including the Special General Meeting) pursuant to the Bye-laws.

According to Bye-law 66(1) of the Bye-laws, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by:

(a) the chairman of such meeting; or

(b) at least three Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

(c) a Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or

(d) a Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right.

In addition, in compliance with the Listing Rules, any vote of shareholders at a general meeting will be taken on a poll where:

(i) the chairman of the general meeting and/or the directors individually or collectively hold proxies in respect of shares representing 5% or more of the total voting rights at the general meeting, and the meeting votes, on a show of hands, in the opposite manner to that instructed in those proxies unless it is apparent from the total proxies held that a vote taken on a poll will not reverse the vote taken on a show of hands;

(ii) the meeting is to approve connected transactions;

(iii) the meeting is to approve transactions that are subject to independent shareholders' approval pursuant to the Listing Rules;

(iv) the meeting is to approve the granting of options to a substantial shareholder or an independent non-executive director of the issuer, or any of their respective associates, as required under the Listing Rules; or

(v) the meeting is to approve any other transactions in which a shareholder has a material interest and is therefore required to abstain from voting at the general meeting.

NEO-CHINA GROUP (HOLDINGS) LIMITED

中新集團（控股）有限公司 *

(Incorporated in Bermuda with limited liability)

(Stock Code: 563)

NOTICE IS HEREBY GIVEN that an Special General Meeting of Neo-China Group (Holdings) Limited (the "Company") will be held at Unit 1908-9, 19th Floor, Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong on 27 February 2007 at 10:00 am for the purpose of considering and if though fit, passing the following resolution each of which will be proposed with or without amendment as an ordinary resolution:–

ORDINARY RESOLUTIONS

(1) **THAT** the agreement relating to the sale and purchase of 67% of the registered capital of 湖南淺水灣湘雅溫泉花園有限公司(Hunan Qianshuiwan Shuangya Wanquan Huayuen Company Limited), dated 21 December 2006 between 北京新松投資集團有限公司(Beijing New Shine Investment Group Company Limited) and 北京新松置地投資顧問有限公司(Beijing New Shine Land Investment Consultancy Limited) (the "Purchaser"), a wholly-owned subsidiary of the Company (a copy of which has been produced to this meeting marked "A" and initialled by the chairman of the meeting for identification) be and is hereby approved, ratified and confirmed, and the directors of the Company be and are hereby authorised to do all such acts and things and execute all such documents as they shall in their absolute discretion consider necessary or desirable to give effect to this agreement and the arrangements contemplated thereunder;

(2) **THAT** the agreement relating to the sale and purchase of 22.1% of the registered capital of 北京新松房地產開發有限公司(Beijing New Shine Properties Development Company Limited), dated 21 December 2006 between 北京國科新業科技開發有限公司(Beijing Guoke Xinye Technology Development Company Limited) and the Purchaser (a copy of which has been produced to this meeting marked "B" and initialled by the chairman of the meeting for identification) be and is hereby approved, ratified and confirmed, and the directors of the Company be and are hereby authorised to do all such acts and things and execute all such documents as they shall in their absolute discretion consider necessary or desirable to give effect to this agreement and the arrangements contemplated thereunder; and

* *For identification only*

(3) **THAT** the agreement relating to the sale and purchase of 15% of the registered capital of 北京金馬文華園房地產開發有限公司(Beijing Jin Ma Wen Hua Yuan Properties Development Company Limited), dated 21 December 2006 between 北京西華偉業建材經貿有限公司(Beijing Xi Hua Wei Yie Construction Materials Trading Company Limited) and the Purchaser (a copy of which has been produced to this meeting marked "C" and initialled by the chairman of the meeting for identification) be and is hereby approved, ratified and confirmed, and the directors of the Company be and are hereby authorised to do all such acts and things and execute all such documents as they shall in their absolute discretion consider necessary or desirable to give effect to this agreement and the arrangements contemplated thereunder.

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

31 January 2007

Registered Office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal Place of Business:
Unit 1908-9, 19th Floor
Office Tower, Convention Plaza
No.1 Harbour Road
Wanchai, Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company. A member who is the holder of two or more shares of the Company may appoint more than one proxy to represent him to attend and vote on his behalf. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

2. To be effective, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, must be deposited at the Share Registrar of the Company in Hong Kong, Secretaries Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting. Delivery of the form of proxy shall not preclude a Member of the Company from attending and voting in person at the meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

3. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled hereto but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased member in whose name any share stands shall for this purpose deemed joint holders thereof.

4. At the date of this notice, the executive directors of the Company are Mr Li Song Xiao (chairman), Mr Liu Yi, Ms Niu Xiao Rong, Mr Yuan Kun and Ms. Liu Yan, and the independent non-executive directors of the Company are Ms Nie Mei Sheng, Mr Wang Shiyong and Mr. Zhang Qing Lin.