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This announcement is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities.



NEO-CHINA GROUP (HOLDINGS) LIMITED

中新集團（控股）有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 563)

POSSIBLE ISSUE OF US\$ NOTES WITH DETACHABLE WARRANTS

This announcement is issued pursuant to the Company's obligation under Rule 13.09 of the Listing Rules.

The Company is considering to raise capital in the capital markets with an issue of US\$-denominated Notes. The structure of the offering of Notes has not been finalised and may include one or multiple tranches of different maturities. In addition, the Company is considering an issue to subscribers of the Notes Warrants which entitle the holders thereof to subscribe for shares in the Company based on an initial exercise price to be determined on the pricing date. The possible issue of the Notes (with or without Warrants) is expected to be arranged by BOCI Asia Limited and Deutsche Bank Securities Inc.. In connection with the possible issue of the Notes, the Company may provide certain institutional and professional investors with an offering circular which will include the unaudited consolidated financial statements of the Group for the eleven months ended 31st March, 2007 which have not been previously disclosed to the public. An extract of such financial statements are reproduced in this announcement.

Terms and conditions of the Notes, including the issue price, interest rate and redemption price, are still being determined. Once the terms and conditions of the Notes have been finalised, the Company intends to enter into a Purchase Agreement with BOCI and Deutsche Bank, as the initial purchasers of the Notes, who will then offer and sell the Notes to certain selected institutional and professional investors in accordance with the offering restrictions contained therein.

The Notes and if issued, the Warrants, will not be listed on the Hong Kong Stock Exchange but may be listed on a stock exchange outside Hong Kong. As the Shares to be issued on exercise of the subscription rights attaching to the Warrants will be listed on the Hong Kong Stock Exchange, an application for the listing of, and permission to deal in the Shares to be issued on exercise of the subscription rights attaching to the Warrants will be made to the Hong Kong Stock Exchange.

If the Warrants are issued, the Shares underlying the Warrants will be issued by the Directors under the authority of a general mandate granted to them by the Shareholders in general meeting on 25th September, 2006. As such, the number of Shares exercisable by the Warrants in aggregate will not exceed 331,474,878 Shares as those are the number of Shares that remain available for issue under the general mandate.

As the Company is still considering the possibility of this fund raising exercise and no binding agreement in relation to the possible issue of the Notes and Warrants has been entered into, the possible issue of the Notes and Warrants may or may not materialise. Potential investors and shareholders of the Company are urged to exercise caution when dealing in the securities of the Company. Further announcements will be made by the Company as and when appropriate in relation to further updates in connection with the possible issue of Notes and possible issue of Warrants.

This announcement is issued pursuant to the Company's obligation under Rule 13.09 of the Listing Rules.

POSSIBLE ISSUE OF THE NOTES AND WARRANTS

Introduction

The Company is considering to raise capital in the capital markets with an issue of US\$-denominated Notes. The structure of the offering has not been finalised and may take the form of one or multiple tranches of different maturities.

The Company may also issue Warrants to holders of the Notes which will enable the holders thereof to subscribe for Shares in the Company. An application for the listing of, and permission to deal in the Shares to be issued on the exercise of the subscription rights attaching thereto will be made to the Hong Kong Stock Exchange if and when appropriate.

The possible issue of the Notes and Warrants is expected to be arranged by BOCI and Deutsche Bank as joint bookrunners and joint lead managers.

In connection with the possible issue of the Notes and possible issue of Warrants, the Company may provide certain institutional investors with an offering circular which will include the unaudited consolidated financial statements of the Group for the eleven months ended 31st March, 2007 which has not been previously disclosed to the public. An extract of such financial statements are reproduced below.

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE ELEVEN MONTHS ENDED 31 MARCH 2007

		Eleven months ended	
		31.3.2007	31.3.2006
	<i>NOTES</i>	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Revenue	4	2,138,591	37,359
Cost of sales	5	(1,934,857)	(60,429)
		<hr/>	<hr/>
Gross profit (loss)		203,734	(23,070)
Other income		48,835	37,678
Change in fair value of derivative financial instruments	22	16,436	–
Change in fair value of investment properties	12	145,963	–
Fair value gain on transfer of properties held for sale to investment properties		323,083	–
Gain on disposal of subsidiaries	6	–	125,018
Impairment loss on assets classified as held for sale	16	(20,000)	–
Administrative expenses		(172,455)	(41,516)
Selling expenses		(73,570)	(18,087)
Finance costs		(72,399)	(7,420)
Share of losses of associates		(5,258)	(7,453)
		<hr/>	<hr/>
Profit before taxation		394,369	65,150
Income tax credit	7	31,032	14,858
		<hr/>	<hr/>
Profit for the period	8	425,401	80,008
		<hr/> <hr/>	<hr/> <hr/>
Attributable to:			
Equity holders of the Company		438,580	96,808
Minority interests		(13,179)	(16,800)
		<hr/>	<hr/>
		425,401	80,008
		<hr/> <hr/>	<hr/> <hr/>
Dividends	9	96,156	91,895
		<hr/> <hr/>	<hr/> <hr/>
Earnings per share	10		
– Basic		7.87 cents	3.65 cents
		<hr/>	<hr/>
– Diluted		7.41 cents	3.33 cents
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED BALANCE SHEET
AT 31 MARCH 2007

		31.3.2007	30.4.2006
		HK\$'000	HK\$'000
	<i>NOTES</i>	(unaudited)	(audited)
NON-CURRENT ASSETS			
Property, plant and equipment	12	323,738	6,698
Investment properties	12	1,399,371	–
Deposits for acquisition of subsidiaries	13	332,682	185,675
Interests in associates		–	117,375
Loan to an associate		–	483,735
Long-term receivable		–	272,661
Available-for-sale investment		–	9,471
Derivative financial instrument	22	18,000	–
Pledged bank deposits		46,877	77,049
		2,120,668	1,152,664
CURRENT ASSETS			
Properties held for sale		382,334	25,721
Properties under development		8,348,538	1,923,255
Advances to suppliers		764,505	467,452
Trade and other receivables and prepayments	14	447,960	292,363
Amounts due from minority shareholders	15	10,000	–
Amount due from an associate		–	22,248
Tax recoverable		96,029	46,306
Pledged bank deposits		10,000	–
Bank balances and cash		1,891,832	315,664
		11,951,198	3,093,009
Assets classified as held for sale	16	137,097	–
		12,088,295	3,093,009
CURRENT LIABILITIES			
Accruals and other payables	17	1,066,646	459,010
Presale receipts from customers		2,379,689	1,587,456
Amounts due to related companies	18	463,713	5,567
Amount due to a shareholder	15	85,412	1,678
Dividend payable		9	23,121
Tax payable		196,028	141,967
Secured bank borrowings – due within one year	19	870,000	16,750
Loan payables	21	169,721	65,972
Convertible notes	22	–	99,307
		5,231,218	2,400,828
Liabilities directly associated with assets classified as held for sale	16	38,266	–
		5,269,484	2,400,828

		31.3.2007	30.4.2006
		HK\$'000	HK\$'000
	<i>NOTES</i>	(unaudited)	(audited)
NET CURRENT ASSETS		6,818,811	692,181
TOTAL ASSETS LESS CURRENT LIABILITIES		8,939,479	1,844,845
NON-CURRENT LIABILITIES			
Secured bank borrowings – due after one year	19	1,290,000	244,135
Deferred tax liabilities	20	945,077	59,309
Loan payables	21	448,269	–
Derivative financial instrument	22	35,000	–
Convertible notes	22	1,244,807	–
		3,963,153	303,444
		4,976,326	1,541,401
CAPITAL AND RESERVES			
Share capital	23	68,754	40,793
Share premium and reserves		4,378,331	1,350,909
Equity attributable to equity holders of the Company		4,447,085	1,391,702
Minority interests		529,241	149,699
		4,976,326	1,541,401

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE ELEVEN MONTHS ENDED 31 MARCH 2007

	Attributable to equity holders of the Company										Minority interests HK\$'000	Equity total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000 (note a)	Contributed surplus HK\$'000 (note b)	Convertible note equity reserve HK\$'000	Special reserve HK\$'000 (note c)	Revaluation reserve HK\$'000 (note d)	Share options reserve HK\$'000	Exchange reserve HK\$'000	Accumulated (losses) profits HK\$'000	Total HK\$'000		
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	-	-	-	-	-	-	-	5,280	-	5,280	3,633	8,913
Profit for the period	-	-	-	-	-	-	-	-	96,808	96,808	(16,800)	80,008
Total recognised income for the period	-	-	-	-	-	-	-	5,280	96,808	102,088	(13,167)	88,921
Issue of shares for a private placement	4,967	418,740	-	-	-	-	-	-	-	423,707	-	423,707
Issue of shares for acquisition of subsidiaries	10,990	1,071,079	-	-	-	-	-	-	-	1,082,069	-	1,082,069
Direct cost on issue of shares	-	(5,178)	-	-	-	-	-	-	-	(5,178)	-	(5,178)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	70,385	70,385
Acquisition of additional interest in a subsidiary	-	-	-	-	(18,653)	-	-	-	-	(18,653)	(166,723)	(185,376)
Release of special reserve arising on sales of properties	-	-	-	-	183	-	-	-	-	183	-	183
Deemed distribution	-	-	(276,339)	-	-	-	-	-	(430,939)	(707,278)	-	(707,278)
Dividend	-	-	(91,895)	-	-	-	-	-	-	(91,895)	-	(91,895)
At 31 March 2006	<u>40,793</u>	<u>1,605,048</u>	<u>-</u>	<u>11,234</u>	<u>(18,470)</u>	<u>-</u>	<u>-</u>	<u>5,420</u>	<u>(267,957)</u>	<u>1,376,068</u>	<u>132,542</u>	<u>1,508,610</u>
At 1 May 2006	<u>40,793</u>	<u>1,605,048</u>	<u>-</u>	<u>11,234</u>	<u>(13,813)</u>	<u>-</u>	<u>4,287</u>	<u>4,255</u>	<u>(260,102)</u>	<u>1,391,702</u>	<u>149,699</u>	<u>1,541,401</u>
Exchange differences arising on translation of foreign operations and net income recognised directly in equity	-	-	-	-	-	-	-	83,627	-	83,627	7,074	90,701
Profit for the period	-	-	-	-	-	-	-	-	438,580	438,580	(13,179)	425,401
Total recognised income for the period	-	-	-	-	-	-	-	83,627	438,580	522,207	(6,105)	516,102

Attributable to equity holders of the Company

	Share capital		Convertible		Special Revaluation		Share	Exchange	Accumulated	Total	Minority interests	Equity total
	HK\$'000	HK\$'000	surplus	note equity reserve	reserve	reserve	options reserve	reserve	(losses) profits			
	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)	(note d)						
Issue of shares by conversion of convertible note	4,000	106,541	-	(11,234)	-	-	-	-	-	99,307	-	99,307
Issue of shares for a private placement	6,880	763,005	-	-	-	-	-	-	-	769,885	-	769,885
Issue of shares for the acquisition of subsidiaries	17,081	1,201,521	-	-	-	-	-	-	-	1,218,602	-	1,218,602
Transaction costs attributable to issue of shares	-	(2,177)	-	-	-	-	-	-	-	(2,177)	-	(2,177)
Capital contribution by minority shareholders	-	-	-	-	-	-	-	-	-	-	45,000	45,000
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	551,123	691,351
Acquisition of additional interest in subsidiaries	-	-	-	-	(40,528)	-	-	-	-	(40,528)	(210,476)	(251,004)
Release of special reserve arising on sales of properties	-	-	-	-	9,749	(52,433)	-	(285)	-	(42,969)	-	(42,969)
Deemed contribution (note 24(b) and 25(ii))	-	-	331,149	-	-	-	-	-	-	331,149	-	331,149
Dividend	-	-	-	-	-	-	-	-	(96,156)	(96,156)	-	(96,156)
Recognition of share based payments	-	-	-	-	-	-	88,003	-	-	88,003	-	88,003
Transfer to accumulated profits upon forfeiture of share options	-	-	-	-	-	-	(957)	-	957	-	-	-
At 31 March 2007	<u>68,754</u>	<u>3,673,938</u>	<u>331,149</u>	<u>67,832</u>	<u>(44,592)</u>	<u>87,795</u>	<u>91,333</u>	<u>87,597</u>	<u>83,279</u>	<u>4,447,085</u>	<u>529,241</u>	<u>4,976,326</u>

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 at 1 May 2005 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. The deemed contribution (distribution) represents the shortfall (excess) of the fair value of the consideration below (over) the fair value of the net assets acquired from acquisition of subsidiaries from (to) the controlling shareholder.
- (c) Special reserve represents the difference between the fair value and the carrying amount of the net assets attributable to the additional interest in subsidiaries being acquired from minority shareholders. 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.
- (d) Revaluation reserve represents the difference between the fair value, net of deferred tax, and the carrying amount of additional interest 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.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE ELEVEN MONTHS ENDED 31 MARCH 2007

		Eleven months ended	
		31.3.2007	31.3.2006
		HK\$'000	HK\$'000
	<i>NOTES</i>	(unaudited)	(unaudited)
Net cash used in operating activities		(974,226)	(362,215)
Net cash used in investing activities:			
Acquisition of subsidiaries	24	(623,032)	2,399
Deposits paid for acquisition of subsidiaries		(307,849)	–
Acquisition of additional interest in subsidiaries	24(i), 25(i) & (ii)	(249,900)	–
Investment in available-for-sale investment		(140,000)	–
Acquisition of additional interest in an associate	24(ii)	(128,713)	–
Purchase of property, plant and equipment		(22,642)	(3,601)
Disposal of subsidiaries		–	214,997
Decrease in long-term receivable		272,661	–
Repayments from (advance to) associate		135,696	(117,988)
Other investing cash flows		2,502	1,247
		(1,061,277)	97,054
Net cash generated from financing activities:			
New bank borrowings raised		1,564,356	244,135
Proceeds on issue of convertible notes		1,340,000	–
Proceeds from issue of shares		769,885	423,707
Increase in loan payable		420,110	–
Capital injection by minority shareholders		35,000	–
Dividends paid		(119,268)	(68,773)
Repayment of bank borrowings		(406,007)	(89,356)
Expenses on issue of shares		(2,177)	–
Other financing cash flows		867	(23,684)
		3,602,766	486,029
Net increase in cash and cash equivalents		1,567,263	220,868
Cash and cash equivalents at the beginning of the period		315,664	69,648
Effect of foreign exchange rate changes		8,905	1,330
Cash and cash equivalents at the end of the period		1,891,832	291,846

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE ELEVEN MONTHS ENDED 31 MARCH 2007

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”).

In November 2006, the Company has changed its functional currency from Hong Kong dollars to Renminbi as the Company substantially reduced its activity in trading of investments and as a consequence mainly holds its investments in subsidiaries whose operations are primarily in the People’s Republic of China (the “PRC”).

The interim financial report is presented in Hong Kong dollars for the convenience of the readers.

2. BASIS OF PREPARATION

The interim financial report for the eleven months period from 1 May 2006 to 31 March 2007 and as at 31 March 2007 has been prepared solely to provide financial information for inclusion in the offering circular of the Company in respect of a proposed bond offering.

The interim financial report has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

3. PRINCIPAL ACCOUNTING POLICIES

Accounting policies

The interim financial report has been prepared on the historical cost basis except for investment properties and certain financial instruments which are measured at fair values.

The interim financial report has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA. The accounting policies used in the interim financial report 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:

Business combination under common control

Acquisition of subsidiaries and businesses under common control are accounted for using the purchase method of accounting. The shortfall (excess) of the cost of the business combination below (over) the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities are recognised as deemed contribution (distribution) from (to) the controlling shareholder as an adjustment to special reserve in equity.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

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 recognised directly in income statement in the period in which they arise.

Derivative financial instruments

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.

Adoption of new/revised accounting standards, amendments and interpretations

In the current period, the Group has adopted a number of new standards, amendments and interpretations issued by 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 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, 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.

Potential impact on new/revised accounting standards, amendments or interpretations issued but not effective

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

HKAS 1 (Amendment)	Capital Disclosure ¹
HKAS 23 (Revised)	Bank Borrowings ²
HKFRS 7	Financial Instruments: Disclosures ¹
HKFRS 8	Operating Segments ²
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives ³
HK(IFRIC) – INT 10	Interim financial reporting and impairment ⁴
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions ⁵
HK(IFRIC) – INT 12	Service Concession Arrangements ⁶

- 1 Effective for annual periods beginning on or after 1 January 2007.
- 2 Effective for annual periods beginning on or after 1 January 2009.
- 3 Effective for annual periods beginning on or after 1 June 2006.
- 4 Effective for annual periods beginning on or after 1 November 2006.
- 5 Effective for annual periods beginning on or after 1 March 2007.
- 6 Effective for annual periods beginning on or after 1 January 2008.

4. REVENUE AND BUSINESS SEGMENTS

Revenue represents amounts received and receivable for properties sold by the Group to outside customers.

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 primarily engaged in one operating division of sales of properties for the eleven months ended 31 March 2006 and so no business segment analysis is presented for the eleven months ended 31 March 2006.

The Group's revenue and contribution to profit analysed by business segments for the eleven months ended 31 March 2007 are as followings:

	Sales of properties HK\$'000	Property investment HK\$'000	Consolidated HK\$'000
REVENUE			
External sales	<u>2,138,591</u>	<u>–</u>	<u>2,138,591</u>
RESULT			
Segment result	<u>385,287</u>	<u>139,142</u>	524,429
Unallocated corporate expenses			(117,674)
Other income			48,835
Change in fair value of derivative financial instruments			16,436
Finance costs			(72,399)
Share of losses of associates	(5,258)	–	<u>(5,258)</u>
Profit before taxation			394,369
Income tax credit			<u>31,032</u>
Profit for the period			<u><u>425,401</u></u>

5. COST OF SALES

Cost of sales included land appreciation tax in the PRC of approximately HK\$203,019,000 (2006: nil).

6. GAIN ON DISPOSAL OF SUBSIDIARIES

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 together with its 100% direct interest in a subsidiary, Best Modern Properties Limited, and indirect 39% interest in an associate, 上海新耀房地產開發有限公司, 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.

7. INCOME TAX CREDIT

Eleven months ended	
31.3.2007	31.3.2006
HK\$'000	HK\$'000
(unaudited)	(unaudited)

The income tax credit (charge) comprises:

Current tax – PRC enterprise income tax	(114,539)	14,858
Deferred taxation (<i>note 20</i>)		
– current period	21,898	–
– attributable to a change in tax rate	123,673	–
	145,571	–
	<u>31,032</u>	<u>14,858</u>

No provision for Hong Kong Profits Tax has been made in the interim financial report 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 Administrative Region in the PRC is entitled to a preferential rate of 15%.

During the period, the National People's Congress of the PRC approved the new PRC enterprise income tax law. With effect from 1 January 2008, the tax rate will be unified for both domestic and foreign investment enterprises at the rate of 25%. As a result of the change in tax rate, a deferred tax credit of HK\$123,673,000 has been recognised in the income statement for the period.

8. PROFIT FOR THE PERIOD

Eleven months ended	
31.3.2007	31.3.2006
<i>HK\$'000</i>	<i>HK\$'000</i>
(unaudited)	(unaudited)

Profit for the period has been arrived at after charging (crediting):

Depreciation of property, plant and equipment	3,103	1,030
<i>Less: capitalised in property under development</i>	<u>(319)</u>	<u>(93)</u>
	<u>2,784</u>	<u>937</u>
Effective interest on convertible notes	86,740	4,913
Imputed interest expense on loan payables	31,695	2,507
Interest on bank borrowings	103,831	19,386
Interest on amount due to a related company	5,706	–
<i>Less: amount capitalised in property, plant and equipment and property under development</i>	<u>(155,573)</u>	<u>(19,386)</u>
	<u>72,399</u>	<u>7,420</u>
Share based payments	88,003	–
Interest income on:		
Bank deposits	(6,405)	(1,981)
Loan to an associate	(5,440)	(24,390)
Other loans	(6,543)	(616)
Exchange gain	(15,488)	–
Dividend income from unlisted investments held for trading	<u>(14,286)</u>	<u>–</u>

9. DIVIDENDS

31.3.2007	31.3.2006
<i>HK\$'000</i>	<i>HK\$'000</i>
(unaudited)	(unaudited)

Ordinary shares:

2007 Interim – HK1.5 cents (2006: HK1.5 cents) per ordinary share	96,156	37,255
2006 Final – Nil (2005: HK2.2 cents) per ordinary share	<u>–</u>	<u>54,640</u>
	<u>96,156</u>	<u>91,895</u>

10. 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:

	Eleven months ended	
	31.3.2007	31.3.2006
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Earnings:		
Earnings for the purposes of basic earnings per share	438,580	96,808
Effect of dilutive potential ordinary shares in respect of interest and change in fair value of derivative financial instruments on Convertible Note 2011 and Convertible Note 2005 (<i>see note 22</i>)	32,077	4,913
Earnings for the purposes of diluted earnings per share	<u>470,657</u>	<u>101,721</u>
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	5,572,216,401	2,653,520,137
Effect of dilutive potential ordinary shares on Convertible Note 2011 and Convertible Note 2005	780,035,072	400,000,000
Options	320,759	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>6,352,572,232</u>	<u>3,053,520,137</u>

During the period ended 31 March 2007, the computation of diluted earnings per share does not assume the conversion of the Company's outstanding share options granted on 17 November 2006 and 14 March 2007 since the exercise price of the options granted on these two days was higher than the average market price for shares for the period. No share option was granted as at 31 March 2006.

11. SHARE OPTIONS

The Company has a share option scheme for eligible employees of the Group. Details of the share options outstanding during the current period are as follows:

	Number of share options
Outstanding at the beginning of the period	86,000,000
Granted during the period	500,000,000
Forfeited during the period	(16,000,000)
Outstanding at the end of the period	<u>570,000,000</u>

In the current period, share options were granted on 17 November 2006 and 14 March 2007. The fair values per option determined at the dates of grant on 17 November 2006 and 14 March 2007 using the Binomial model were approximately HK\$0.55 and HK\$0.43 respectively.

The aggregate amount of share based payments charged to income statement was HK\$88,003,000.

The following assumptions were used to calculate the fair values of share options:

	17 November 2006	14 March 2007
Closing share price at the date of grant	HK\$1.08	HK\$0.99
Exercise price	HK\$0.93	HK\$0.98
Expected life	6.3 years	5.2 years
Expected volatility	50%	50%
Expected dividend yield	1.5%	1.5%
Risk free rate	3.8%	4.1%

Where share options have been forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share options reserve will be transferred to accumulated profits.

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

12. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired investment properties, through acquisition of subsidiaries, at a cost of approximately HK\$560,924,000 (*note 24*).

During the period, properties held for sale with a carrying amount of approximately HK\$296,758,000 has been transferred from properties held for sale to investment properties as the management change the use upon entering of operating leases with tenants. The properties were fair-valued by external valuers, Savills Valuations and Professional Services Limited at the date of transfer. The resulting increase in fair value of approximately HK\$323,083,000 has been recognised directly in the income statement.

The Group's investment properties were fair-valued by external valuers, Savills Valuations and Professional Services Limited, at 31 March 2007. The resulting increase in fair value of investment properties of approximately HK\$145,963,000 has been recognised directly in the income statement.

During the period, the Group acquired certain property, plant and equipment at a cost of approximately HK\$22,642,000. In addition, property, plant and equipment at a cost of approximately HK\$297,769,000 was acquired through the acquisition of subsidiaries (*note 24*).

13. 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 interim financial report in relation to the acquisition of these subsidiaries at 31 March 2007 are approximately HK\$57,830,000 (*note 26*).

14. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	31.3.2007 HK\$'000 (unaudited)	31.3.2006 HK\$'000 (unaudited)
Trade receivables	49,257	9,820
Other receivables	210,783	99,978
Other tax recoverable	142,367	89,213
Other deposits and prepayments	45,553	28,275
Deposits paid for acquisition of properties under development	—	65,077
	447,960	292,363

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

	31.3.2007 HK\$'000 (unaudited)	31.3.2006 HK\$'000 (unaudited)
0 – 90 days	49,257	4,948
Over 180 days	–	4,872
	<u>49,257</u>	<u>9,820</u>

15. AMOUNTS DUE FROM (TO) MINORITY SHAREHOLDERS/A SHAREHOLDER

The amounts are unsecured, non-interest bearing and repayable on demand. The directors consider that the fair value of the amounts due from (to) minority shareholders/a shareholder approximate their carrying amounts.

16. NON-CURRENT ASSETS HELD FOR SALE

The Group entered into a sale and purchase agreement on 26 March 2007 with an independent third party for the disposal of the entire equity interest in 天津中新名仕房地產開發有限公司 (“Tianjin Zhongxin Mingshi”). The transaction has not been completed up to the date of report. The assets and liabilities attributable to Tianjin Zhongxin Mingshi, which are expected to be sold within twelve months, have been classified as a disposal group held for sale and are presented separately in the balance sheet. The operations are included in the Group’s sales of property for segment reporting purposes (*see note 4*).

The proceeds of disposal are expected to be less than the net carrying amount of the relevant assets and liabilities and, accordingly, an impairment loss of approximately HK\$20,000,000 has been recognised on assets classified as held for sale.

The major classes of assets and liabilities comprising the disposal group classified as held for sale are as follows:

	<i>HK\$'000</i>
Property under development	137,096
Bank and cash	1
	<u>137,097</u>
Total assets classified as held for sale	137,097
Deferred tax liabilities associated with assets classified as held for sale	(38,266)
	<u>98,831</u>
Amounts due from fellow subsidiaries	15,890
	<u>114,721</u>

17. ACCRUALS AND OTHER PAYABLES

	31.3.2007 HK\$'000 (unaudited)	31.3.2006 HK\$'000 (unaudited)
Accruals for properties under development	517,993	397,298
Other payables	439,508	61,712
Payables for acquisition of subsidiaries	109,145	–
	<u>1,066,646</u>	<u>459,010</u>

18. AMOUNTS DUE TO RELATED COMPANIES

The amounts are unsecured, interest free, 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 fair value of amounts due to related companies approximate their carrying amounts.

19. SECURED BANK BORROWINGS

During the period, the Group obtained new bank borrowings amounting to HK\$1,564,356,000 and acquired bank borrowings, through acquisition of subsidiaries, at a cost of approximately HK\$711,631,000. The borrowings are repayable over a period of five years. The proceeds were used to finance the development of properties. The bank borrowings carry interest rates ranging from 5.76% to 6.80% per annum.

The bank borrowings are secured by:

- (i) certain properties under development of the Group with a carrying amount amounting to approximately HK\$3,909,039,000 (2006: HK\$331,258,000) located in the PRC;
- (ii) the pledge of certain of the Group's bank deposits amounting to approximately HK\$56,877,000 (2006: HK\$77,049,000). Deposits amounting to HK\$10,000,000 (2006: Nil) have been pledged to secure short-term borrowings and are therefore classified as current assets. The remaining deposits amounting to approximately HK\$46,877,000 (2006: HK\$77,049,000) have been pledged to secure long-term borrowings and are therefore classified as non-current assets.

During the period, in respect of a bank loan with a carrying amount of HK\$500,000,000 as at 31 March 2007, the Group breached certain of the terms of the bank loan, which are primarily related to a financial covenants in regards of a group entity. On discovery of the breach, the directors of the Company informed the bank and commenced a renegotiation of the terms of the loan with the relevant bank. As at 31 March 2007, those negotiations had not been concluded. Since the lender has not agreed to waive its right to demand immediate payment as at the balance sheet date, the loan has been classified as a current liability at 31 March 2007. In any event, should the lender calls for immediate repayment of the loan, the directors of the Company believe that adequate alternative sources of finance are available to ensure that there is no threat to the continuing operations of the Group. The negotiation process has been completed subsequent to the balance sheet date and the bank has issued consent to revise the financial undertakings.

20. DEFERRED TAX LIABILITIES

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

	Convertible notes <i>HK\$'000</i> (unaudited)	Revaluation of investment properties <i>HK\$'000</i> (unaudited)	Fair value adjustment on properties under development/ properties held for sale <i>HK\$'000</i> (unaudited)	Fair value adjustment on property, plant and equipment <i>HK\$'000</i> (unaudited)	Total <i>HK\$'000</i> (unaudited)
At 1 May 2006	–	–	59,309	–	59,309
Exchange differences	–	517	7,587	–	8,104
Acquisition of subsidiaries	–	69,091	933,270	27,310	1,029,671
Effect of change in tax rate	–	(16,749)	(106,924)	–	(123,673)
Charge to equity for the period	31,830	–	–	–	31,830
(Credit) charge to income statement for the period	(3,396)	84,351	(102,853)	–	(21,898)
Reclassify to liabilities associated with assets classified as held for sale	–	–	(38,266)	–	(38,266)
	<u>28,434</u>	<u>137,210</u>	<u>752,123</u>	<u>27,310</u>	<u>945,077</u>
At 31 March 2007	<u>28,434</u>	<u>137,210</u>	<u>752,123</u>	<u>27,310</u>	<u>945,077</u>

At 31 March 2007, the Group had unused tax losses of approximately HK\$132,541,000 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\$19,596,000 has been utilised to offset assessable profit for the period.

21. LOAN PAYABLES

The loan payables represent a capital injection of 26.3% registered capital in a group entity at a nominal amount approximately HK\$250,000,000 from an independent third party with a fixed dividend at 6.5% per annum (“Loan Payable A”), a capital injection of 30% registered capital in a group entity at a nominal amount approximately HK\$60,000,000 plus a loan of approximately HK\$240,000,000 from an independent third party (“Loan Payable B”) and a loan issued as part of the consideration for the acquisition of 西安滄灞建設開發有限公司 (“Xian Chen Ba Construction”) of HK\$169,000,000 (“Loan Payable Xian”).

According to an agreement regarding Loan Payable A, the independent third party has no right to share further profit of the group entity other than the 6.5% annual dividend. The Group shall 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\$289,000,000. The effective interest rate of Loan Payable A is 7.27%

According to an agreement regarding Loan Payable B, the independent third party has no right to share profit of the group entity and the loan is interest-free. The Group will purchase from the independent third party the 30% registered capital and repay the loan in January 2009 in accordance with the contractual agreement at a price of approximately HK\$400,000,000 plus an amount which will be determined based on the pre-sales price of the property developed by the group entity. At 31 March 2007, approximately HK\$170,110,000 out of Loan Payable B has been received from the lender. The effective interest rate of Loan Payable B is 14.47%

The Group completed the acquisition of 54.5% equity interest in Xian Chen Ba Construction on 28 February 2007. In relation to this acquisition, the Group issued Loan Payable Xian, which is with a nominal amount of RMB170,000,000 at an annual interest rate of 3.88% with a term of six months to the vendors in association with this acquisition. The effective interest rate of Loan Payable Xian is 5.14%.

The loan payable at 30 April 2006 has been fully repaid during the period.

22. CONVERTIBLE NOTES

At 31 March 2007

On 12 June 2006, the Company issued zero coupon convertible notes at par with a principal amount of HK\$1,340,000,000 (“Convertible Note 2011”). Convertible Note 2011 will be redeemed at 135.7% of the principal amount on 11 May 2011 (“Maturity Date”). The Convertible Note 2011 is listed on the Stock Exchange.

The holders of Convertible Note 2011 have the right to convert all or any portion of Convertible Note 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 Note 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 Note 2011 can put back Convertible Note 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 derivative financial instrument. The fair value of the Redemption Right of the Holder at 12 June 2006 and 31 March 2007 was HK\$33,436,000 and HK\$35,000,000, respectively. Accordingly, a change in fair value of derivative financial instrument of approximately HK\$1,564,000 is debited to the 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 Note 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 least 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 12 June 2006. The fair value of the Redemption Right of the Issuer at 31 March 2007 is HK\$18,000,000. Accordingly, a change in fair value of derivative financial instrument of HK\$18,000,000 is credited to the income statement for the period.

In the event of the Company’s shares cease to be listed or admitted to trading on the Stock Exchange, each holder of the Convertible Note 2011 shall have right, at such holder’s option, to require the Company to redeem Convertible Note 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 Delisted Put Right is insignificant at both 12 June 2006 and 31 March 2007.

Convertible Note 2011 contains liability element, early redemption rights, Delisted Put 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%.

At 30 April 2006

The convertible note outstanding at 30 April 2006 (“Convertible Note 2005”) has been converted into 400,000,000 shares of the Company on 2 May 2006.

23. SHARE CAPITAL

	Number of shares	Nominal value HK\$'000
Authorised:		
Shares of HK\$0.01 per share at 31 March 2007	<u>40,000,000,000</u>	<u>400,000</u>
Issued and fully paid:		
Shares of HK\$0.01 per share at 1 May 2006	4,079,339,487	40,793
Issue of shares for a private placement	688,000,000	6,880
Issue of shares by conversion of Convertible Note 2005 (<i>note 22</i>)	400,000,000	4,000
Issue of shares for acquisition of subsidiaries	<u>1,708,034,853</u>	<u>17,081</u>
	<u>6,875,374,340</u>	<u>68,754</u>

On 28 November 2006, arrangements were made for a private placement to independent private investors of 688,000,000 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\$1.132 per share representing a discount of approximately 5.98% to the average closing market price of the Company's share of the last five trading days before 28 November 2006.

Pursuant to a subscription agreement of the same date, Mr. Li Song Xiao subscribed for 688,000,000 new ordinary shares of HK\$0.01 each in the Company at a price of HK\$1.132 per share. The proceeds were used for the acquisition of subsidiaries 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 25 September 2006 and rank *pari passu* with other shares in issue in all respects.

24. ACQUISITION OF SUBSIDIARIES

For the period ended 31 March 2007, the Group acquired the following subsidiaries with details below:

(i) 重慶中華企業房地產發展有限公司 (“*Chongqing China Enterprises*”)

On 30 June 2006, the Group acquired 70% equity interest in 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 this has been accounted for as interest in an associate. 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.

On 31 August 2006, the Group completed the acquisition of the remaining 10% equity interest in Chongqing China Enterprises at a cash consideration of HK\$59,900,000.

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

	Acquiree's carrying amount before combination	Fair value adjustments	Fair value
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NET ASSETS ACQUIRED			
Property, 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)
	<u>471,785</u>	<u>163,767</u>	635,552
Minority interests			(63,556)
Revaluation reserve			(8,006)
			<u>563,990</u>
<i>Less: interest in an associate held prior to the acquisition</i>			(119,104)
			<u>444,886</u>
Satisfied by:			
Cash consideration paid			(203,472)
Payables for acquisition of a subsidiary			(73,145)
Deposits for acquisition of a subsidiary in prior period			(168,269)
			<u>(444,886)</u>

(ii) 北京新松置業投資顧問有限公司 (“Beijing New Shine Land Investment”)

On 30 June 2006, 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. Prior to this acquisition, the Group held 25% interest in Beijing New Shine Land Investment and Beijing New Shine Land Investment then became a 50% owned associate.

On 31 August 2006, the Group acquired the remaining 50% equity interest in Beijing New Shine Land Investment at a cash consideration of HK\$257,426,000 and Beijing New Shine Land Investment then became a wholly-owned subsidiary of the Group. Beijing New Shine Land Investment owns 80% equity interest in 北京市御水苑房地產開發有限公司, 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:

	Acquiree's carrying amount before combination HK\$'000	Fair value adjustments HK\$'000	Fair value HK\$'000
NET ASSETS ACQUIRED			
Property, 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)
Presale receipts from customers	(929,807)		(929,807)
Tax payable	(29,272)		(29,272)
Amounts due to group companies	(399,786)		(399,786)
Secured bank borrowings	(186,878)		(186,878)
Deferred tax liabilities	–	(286,419)	(286,419)
	<u>(8,514)</u>	<u>581,518</u>	<u>573,004</u>
Minority interests			(58,152)
Revaluation reserve			(132,222)
			<u>382,630</u>
<i>Less:</i> interest in associates held prior to the acquisition			(125,204)
			<u>257,426</u>
Satisfied by:			
Cash consideration paid			<u>(257,426)</u>

(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(i)).

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 天津中新華安房地產開發有限公司, 天津中新信捷房地產開發有限公司, 天津中新濱海房地產開發有限公司, Tianjin Zhongxin Mingshi and 天津中新嘉業房地產開發有限公司 which are established in the PRC and engaged in property development in Tianjin, the PRC.

DIVO Success directly owns 100% of 天津中新華城房地產有限公司 and 天津新潤房地產開發有限公司, which are established in the PRC and engaged in property development in Tianjin, the PRC.

Lead Mix and DIVO Success are acquired from the controlling shareholder. The acquisitions of Lead Mix and DIVO Success give rise to a deemed contribution from the controlling shareholder of HK\$305,611,000, represents the shortfall of the fair value of the consideration below the fair value of the net assets acquired.

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:

	Acquiree's carrying amount before combination HK\$'000	Fair value adjustments HK\$'000	Fair value HK\$'000
NET ASSETS ACQUIRED			
Property, 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)
Presale receipts 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)
	<u>391,818</u>	<u>672,045</u>	<u>1,063,863</u>
Deemed contribution from the controlling shareholder (<i>note b</i>)			<u>(305,611)</u>
			<u>758,252</u>
Satisfied by:			
Equity instruments of the Company (<i>note a(i)</i>)			<u>(758,252)</u>

(iv) Xian Chan Ba Construction

On 28 February 2007, the Group completed the acquisition of 54.5% equity interest in Xian Chan Ba Construction, a company established in the PRC and engaged in property development in Xian, the PRC plus a former shareholder loan of approximately HK\$50,000,000, at a total consideration of RMB781,600,000, satisfied by cash of HK\$276,000,000, 340,000,000 shares of the Company and the issuance of Loan Payable Xian with a fair value of HK\$169,000,000 (note 21), from independent parties. Prior to the acquisition, the Group had 17% interest in Xian Chan Ba Construction which was acquired on 6 November 2006 for a consideration of HK\$140,000,000 and this has been accounted for as an available-for-sale investment. Xian Chan Ba Construction then became a 71.5% 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 Xian Chen Ba Construction are summarized below:

	Acquiree's carrying amount before combination <i>HK\$'000</i>	Fair value adjustments <i>HK\$'000</i>	Fair value <i>HK\$'000</i>
NET ASSETS ACQUIRED			
Property, plant and equipment	182,988	109,242	292,230
Properties under development	624,661	743,369	1,368,030
Trade and other receivables and prepayments	1,632		1,632
Advances to suppliers	30,700		30,700
Bank balances and cash	4,810		4,810
Accruals and other payables	(83,728)		(83,728)
Amounts due to group companies	(131,500)		(131,500)
Deferred tax liabilities	–	(213,153)	(213,153)
	<u>629,563</u>	<u>639,458</u>	1,269,021
Minority interests			<u>(347,421)</u>
			921,600
<i>Less:</i> available-for-sale investment held prior to the acquisition			<u>(140,000)</u>
			<u>781,600</u>
Satisfied by:			
Cash consideration paid			(240,000)
Payables for acquisition of a subsidiary			(36,000)
Loan Payable Xian (<i>note a(ii)</i>)			(169,000)
Equity instruments of the Company (<i>note a(ii)</i>)			<u>(336,600)</u>
			<u>(781,600)</u>

(v) 湖南淺水灣湘雅溫泉花園有限公司 (“*Hunan Qianshuiwan Shuangya*”)

On 28 February 2007, the Group completed the acquisition of 67% equity interest in Hunan Qianshuiwan Shuangya, a company established in the PRC and engaged in property development in Changsha, the PRC, at a cash consideration of HK\$216,000,000, including waive of a former shareholder loan of HK\$74,000,000. This acquisition has been accounted for by the purchase method of accounting.

Hunan Qianshuiwan Shuangya is acquired from the controlling shareholder. The acquisition of Hunan Qianshuiwan Shuangya gives rise to a deemed contribution of HK\$24,474,000, represents the shortfall of the fair value of the consideration below the fair value of the net assets acquired.

(vi) 中住佳展地產(徐州)有限公司 (“*Zhongzhu Jiazhan Real Estate*”)

On 28 February 2007, the Group acquired 100% equity interest in Zhongzhu Jiazhan Real Estate, a company established in the PRC and engaged in property development in Xuzhou, the PRC, at a cash consideration of HK\$150,000,000 plus the issuance of 125,000,000 of the Company's shares (*note a(iii)*). This acquisition has been accounted for by the purchase method of accounting.

Details of the net assets acquired in respect of the acquisition of Hunan Qianshuiwan Shuangya and Zhongzhu Jiazhan Real Estate are summarized below:

	Acquiree's carrying amount before combination	Fair value adjustments	Fair value
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NET ASSETS ACQUIRED			
Property, plant and equipment	1,560		1,560
Properties under development	343,796	473,730	817,526
Trade and other receivables and prepayments	7,238		7,238
Advances to suppliers	20,000		20,000
Bank balances and cash	37,801		37,801
Accruals and other payables	(21,761)		(21,761)
Amounts due to related companies	(59,000)		(59,000)
Amounts due to group companies	(88,715)		(88,715)
Deferred tax liabilities	–	(118,431)	(118,431)
	<u>240,919</u>	<u>355,299</u>	596,218
Minority interests			(81,994)
Deemed contribution from the controlling shareholder (<i>note b</i>)			<u>(24,474)</u>
			<u>489,750</u>
Satisfied by:			
Cash consideration paid			(366,000)
Equity instruments of the Company (<i>note a(iii)</i>)			<u>(123,750)</u>
			<u>(489,750)</u>

Details of the net assets acquired in respect of the acquisition of the above subsidiaries are summarised below:

	Acquiree's carrying amount before combination	Fair value adjustments	Fair value
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NET ASSETS ACQUIRED			
Property, plant and equipment	188,527	109,242	297,769
Investment properties	351,557	209,367	560,924
Properties under development	3,137,524	3,123,149	6,260,673
Trade and other receivables and prepayments	159,819	–	159,819
Advances to suppliers	451,412	–	451,412
Tax recoverable	50,485	–	50,485
Amounts due from related companies	35,939	–	35,939
Pledged bank deposits	7,246	–	7,246
Bank balances and cash	443,866	–	443,866
Accruals and other payables	(324,342)	–	(324,342)
Presale receipts from customers	(1,177,699)	–	(1,177,699)
Tax payable	(29,272)	–	(29,272)
Amounts due to related companies	(584,587)	–	(584,587)
Amounts due to group companies	(253,051)	–	(253,051)
Amount due to a shareholder	(20,222)	–	(20,222)
Secured bank borrowings	(711,631)	–	(711,631)
Deferred tax liabilities	–	(1,029,671)	(1,029,671)
	<u>1,725,571</u>	<u>2,412,087</u>	4,137,658
Minority interests			(551,123)
Revaluation reserve			(140,228)
Deemed contribution from the controlling shareholder (<i>note b</i>)			<u>(330,085)</u>
			3,116,222
<i>Less:</i> interest held prior to the acquisition interests in associates			(244,308)
available-for-sale investment			<u>(140,000)</u>
			<u><u>2,731,914</u></u>

	Acquiree's carrying amount before combination HK\$'000	Fair value adjustments HK\$'000	Fair value HK\$'000
Satisfied by:			
Cash consideration paid			(1,066,898)
Deposit for acquisition of a subsidiary in prior period			(168,269)
Payable for acquisition of subsidiaries			(109,145)
Loan Payable Xian (<i>note a(ii)</i>)			(169,000)
Equity instruments of the Company			
– Lead Mix Limited and DIVO Success Limited (<i>note a(i)</i>)			(758,252)
– Xian Chan Ba Construction (<i>noted a(ii)</i>)			(336,600)
– Zhongzhu Jiazhan Real Estate (<i>note a(iii)</i>)			(123,750)
			<u>(2,731,914)</u>
Net cash outflow arising on acquisition:			
Cash consideration paid			(1,066,898)
Bank balances and cash acquired			443,866
			<u>623,032</u>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			
			<u>623,032</u>

The subsidiaries acquired during the period contributed HK\$1,011,537,000 to the Group's revenue and profit of HK\$258,573,000.

If the acquisitions had been completed on 1 May 2006, total Group's revenue for the period would have been HK\$2,138,591,000, and profit for the period would have been HK\$437,698,000. 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 acquisitions been completed on 1 May 2006, nor is it intended to be a projection of future results.

The fair values of the property, plant and equipment and property under development have been determined on a provisional basis, awaiting the receipt of professional valuations.

Notes:

- (a) (i) 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 bid price at the date of the acquisition.
- (ii) Pursuant to the sales and purchase agreements for the acquisition of Xian Chan Ba Construction, 340,000,000 ordinary shares of the Company with par value of HK\$0.01 each and Loan Payable Xian were issued. The fair values of the 340,000,000 shares and Loan Payable Xian at 28 February 2007 issued for the acquisition of Xian Chan Ba Construction are HK\$336,600,000 and HK\$169,000,000 respectively, which are determined using the quoted bid price and the valuation on Loan Payable Xian performed by Knight Frank Hong Kong Limited at the date of the acquisition, respectively.
- (iii) Pursuant to the sales and purchase agreements for the acquisition of Zhongzhu Jiazhan Real Estate, 125,000,000 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 Zhongzhu Jiazhan amount to approximately HK\$123,750,000 determined using the quoted bid price at the date of the acquisition.
- (b) Lead Mix, DIVO Success and Hunan Qianshuiwan Shuangya are acquired from the controlling shareholder. The deemed contribution represents the shortfall of the fair value of the consideration below the fair value of the net assets acquired.

25. ACQUISITION OF ADDITIONAL INTEREST IN SUBSIDIARIES

- (i) On 28 February 2007, the Group completed the acquisition of 15% equity interest in 北京金馬文華園房地產開發有限公司 (“Beijing Jinma”) at a cash consideration of HK\$100,000,000 from an independent third party. Prior to the acquisition, the Group had 85% interest in Beijing Jinma and Beijing Jinma then became a wholly-owned subsidiary of the Group. The acquisition in Beijing Jinma gives rise to a special reserve of HK\$33,860,000, represents the difference between the fair value and the carrying amount of net assets attributable to the additional interest in a subsidiary being acquired from a minority shareholder. Due to the acquisition of additional interest in Beijing Jinma, the minority interest was decreased by HK\$66,140,000.
- (ii) On 28 February 2007, the Group completed the acquisition of 22.1% equity interest in 北京新松房地產開發有限公司 (“Beijing Newshine”) at a cash consideration of HK\$90,000,000 from a related company controlled by the controlling shareholder. Prior to the acquisition, the Group had 51.6% interest in Beijing Newshine and Beijing Newshine then became a 73.7% owned subsidiary of the Group. The acquisition of 22.1% interest in Beijing Newshine gives rise to a deemed contribution from the controlling shareholder of HK\$1,064,000 and a special reserve of HK\$10,636,000. The shortfall from the fair value of the consideration below the fair value of net assets attributable to the additional interest in the subsidiary being acquired from a minority shareholder is considered as deemed contribution from the controlling shareholder. Due to the acquisition of the additional interest in Beijing Newshine, the minority interest was decreased by HK\$80,428,000.

26. COMMITMENTS

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

	31.3.2007	30.4.2006
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Authorised and contracted for but not provided:		
Development expenditure of properties in the PRC	2,306,782	285,220
Capital expenditure in respect of acquisition of subsidiaries (<i>note 13</i>)	57,830	364,817
	<u>2,364,612</u>	<u>650,037</u>

Note: The Group entered into sales and purchase agreements with independent third parties for acquisition of equity interests of several companies. The total purchase consideration is approximately HK\$390,512,000 in cash, plus the allotment and issue of 717,592,592 ordinary shares of the Company. At 31 March 2007, approximately HK\$332,682,000 had been paid, resulting in a capital commitment of approximately HK\$57,830,000.

27. CONTINGENCIES

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

	31.3.2007 HK\$'000 (unaudited)	30.4.2006 <i>HK\$'000</i> (unaudited)
Guarantees in respect of mortgage facilities for certain purchasers	<u>765,674</u>	<u>672,074</u>

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 interim financial report 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\$37,415,000 (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 interim financial report.

28. RELATED PARTY TRANSACTIONS

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

	Agency fee expenses <i>HK\$'000</i> (unaudited)	Interest expenses <i>HK\$'000</i> (unaudited)	Interest income <i>HK\$'000</i> (unaudited)
Related companies	<u>11,789</u>	<u>5,706</u>	<u>–</u>
An associate	<u>–</u>	<u>–</u>	<u>5,440</u>

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 notes 15 and 18 to the interim financial report.

Details of acquisition of subsidiaries from Mr. Li Song Xiao are set out in notes 24 and 25 to the interim financial report.

A group entity had entered into agreements with 北京新松建築裝飾工程有限公司 (「新松裝飾」) with a total consideration of RMB145,065,000 prior to the group entity became a subsidiary of the Company. Pursuant to the agreements, 新松裝飾 will provide decoration services for the properties under development held by the group entity. At 31 March 2007, approximately RMB15,103,000 has been paid to 新松裝飾 and was included in advances to suppliers.

The Group 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 contracted amount of RMB7,640,000 and RMB2,800,000 for design services and decoration services respectively. Pursuant to the agreements, 北京新松沃克 will provide design services and decoration services for the properties under development held by the Group. At 31 March 2007, RMB1,674,000 and RMB900,000 for design services and decoration services has been paid to 北京新松沃克 and was included in property under development.

北京新松投資集團有限公司（「新松投資集團」）and 北京新松家園房地產開發有限公司（「新松家園」），the related companies of the Group, provided corporate guarantee amounting to approximately HK\$320,000,000 (2006: HK\$320,000,000) and HK\$176,000,000 (2006: HK\$176,000,000) respectively to banks to secure bank borrowings to the Group at no charge.

The controlling shareholder of the Company, Mr. Li Song Xiao, is also the controlling shareholder of the above related companies.

Compensation of key management personnel

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

	Eleven months ended	
	31.3.2007	31.3.2006
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Short-term benefits	5,445	5,235
Share based payments	73,011	–
	<u>78,456</u>	<u>5,235</u>

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

29. POST BALANCE SHEET EVENTS

- (a) On 26 March 2007, the Group entered into a sale and purchase agreement with Invest Gain Limited, which is controlled by Mr. Li Song Xiao, the chairman and controlling shareholder of the Group, to acquire the entire interest in One Alliance Investment Limited for a consideration of approximately HK\$505,000,000. One Alliance Investment Limited hold 100% equity interest in a property project in Shanghai, the PRC. The consideration is to be satisfied by the allotment and issue of 467,592,592 ordinary shares at HK\$0.01 each of the Company. The transaction has not yet been completed as at 31 March 2007. Details of the acquisition are included in an announcement of the Company dated 3 April 2007.
- (b) On 26 April 2007, the Group entered into two sale and purchase agreements with an independent third party for the disposal of the entire equity interest in Zhongzhu Jiazhan Real Estate for a consideration of approximately HK\$670,000,000. Details of the disposal of 100% equity interest in Zhongzhu Jiazhan Real Estate are included in an announcement of the Company dated 30 April 2007.

Terms and conditions of the Notes, including the issue price, interest rate and the redemption price have not been finalised. Once the terms and conditions of the Notes have been finalised, the Company intends to enter into a Purchase Agreement with Deutsche Bank and BOCI as the initial purchasers of the Notes, who will then offer and sell the Notes to certain selected institutional investors in accordance with the offering restrictions contained therein. The Company will make a further announcement upon the execution of the Purchase Agreement. **As the Company is still considering the possibility of this fund raising exercise and no binding agreement in relation to the possible issue of the Notes and/or Warrants has been entered into, the possible issue of the Notes and/or Warrants may or may not materialise. Potential investors and shareholders of the Company are urged to exercise caution when dealing in the securities of the Company. Further announcements will be made by the Company as and when appropriate in relation to further updates in connection with the possible issue of Notes and Warrants.**

POSSIBLE ISSUE OF WARRANTS

Basis of possible issue of Warrants

The Board may issue Warrants to the holders of the Notes. The number of Warrants (if any), Shares initially issuable on exercise of Warrants, subscription price and ratio and subscription period will be determined on the pricing date of the Notes. If the Warrants are issued, an application will be made to the Listing Committee of the Hong Kong Stock Exchange for the listing of and permission to deal in the Shares which may fall to be issued upon the exercise of the subscription rights attaching to the Warrants (if issued). If Warrants are issued, the Shares underlying the Warrants will be issued by the Directors under the authority of a general mandate granted to them by the Shareholders in general meeting on 25th September, 2006 and Shareholders' approval of the issue of the Warrants is not required. Since the granting of the general mandate, 813,000,000 Shares have been issued under the general mandate and 331,474,868 Shares remain available for issue under the general mandate.

DEFINITIONS

In this announcement, the following expressions have the meanings set opposite them below unless the context requires otherwise:

“BOCI”	BOCI Asia Limited
“China” or “PRC”	the People’s Republic of China. Except where the context requires, references in this announcement to the PRC or China exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Company”	Neo-China Group (Holdings) Limited, a company incorporated in Bermuda with limited liability, the Shares in which are listed on the main board of the Stock Exchange
“connected person”	the meaning ascribed to it under the Listing Rules
“Deutsche Bank”	Deutsche Bank Securities Inc.
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Notes”	US\$-denominated notes that may be issued by the Company as described in this announcement
“Purchase Agreement”	the agreement proposed that may be entered into between, among others, the Company, BOCI in relation to the issue of the Notes, pursuant to which Deutsche Bank and Citigroup will act as the initial purchasers of the Notes
“Shares”	shares of HK\$0.01 nominal value each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$”	US dollars, the lawful currency of the United States
“Warrants”	warrant(s) that may be constituted by an instrument by way of deed poll to be executed by the Company and to be issued by the Company entitling the holders to subscribe new Shares at a subscription price

As at the date of this announcement, Mr. Li Song Xiao, Mr. Liu Yi, Ms. Niu Xiao Rong, Mr. Yuan Kun and Ms. Liu Yan are the executive Directors and Ms. Nie Mei Sheng, Mr. Zhang Qing Lin and Mr. Gao Ling are independent non-executive Directors.

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

Hong Kong, 5 July, 2007

* *for identification purpose only*