

To our shareholders:

On behalf of the Board of Director of Neo-China Group (Holdings) Limited ("Neo-China" or the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (the "Group") for the financial year ended 30 April 2006:

FINANCIAL REVIEW

During the year under review, the Group recorded a turnover of HK\$671.1 million (2005: HK\$476.5 million), representing an increase of approximately 41% over the prior year. Profit attributable to shareholders amounted to HK\$104.7 million (2005: HK\$177.8 million, restated). Basic earnings per share was HK3.78 cents (2005: HK9.26 cents, restated) and diluted earnings per share was HK3.50 cents (2005: HK8.55 cents, restated).

DIVIDEND

The Group's Directors do not recommend the payment of a final dividend for the year ended 30 April 2006.

REVIEW OF OPERATIONS AND FUTURE PROSPECTS

During the fiscal year, the Group continued to focus on property development and investment business in the PRC. Under the concerted efforts of all staff, the Company achieved satisfactory results during the year. The consolidated turnover and profit attributable to shareholders of the Group for the financial year 2006 was HK\$671.1 million and HK\$104.7 million respectively. Share capital was increased from HK\$24 million to HK\$41 million, representing an approximately 64% increase as compared to previous year. Total equity per share attributable to the equity holders of the Company was increased from HK\$0.235 to HK\$0.341. Total equity attributable to the equity holders of the Company was increased from 584 million to 1,392 million, representing an approximately 138% increase as compared to prior year. Total advances from customers as at 30 April 2006 were over HK\$1,500 million.

In view of the projects outlined below, the board of the Company anticipates that 2007 will be the year whereby our development properties will experience an unprecedented growth in scale with the commenced construction area reaching a total over 1,000,000 sq.m.. It is expected that the completed area will reach to approximately 550,000 sq.m..

During the fiscal year, and up to the date of this report, there were 6 major projects under development which include 3 projects in Beijing: the American Rock Project; the Youngman Point Project and the Xidiaoyutai Project – Yushuiyuan; the Phoenix Tower Project in Shenzhen; the Tianjin Lacchengxiang Project in Tianjin and the Chongqing Yuanjiagang Project in Chongqing. Total gross floor area (“GFA”) of these 6 projects amounted to approximately 3,049,500 sq.m., representing an increase of approximately 280% as compared to year 2005:–



City, what does it mean to everyone that grows up and lives in it?
Is it a home to rest in, an office to hustle in, a road broad or narrow, a forest with many trees or just one tree, a supermarket round the corner of the street, a shopping mall on the weekend, a theater that is phasing out of memory, a pleasure ground, walking...

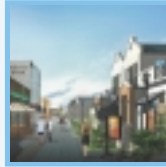
Beijing



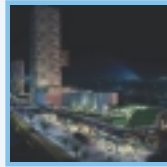
Shanghai



Tianjin



Chengdu



Chongqing



Changsha



Shenzhen



Passion is productivity, integration, a catalyst! *The city has its character. The engine for its liveliness is passion, which can always keep a city maintain its progress. A highly diversified city always brings its dwellers wonders from time to time.*

Projects under development:

(1) The American Rock Project

The project is situated in No. 16 Baiziwang Road, Chaoyang District, Beijing, the PRC and is adjacent to the central business district which is a major financial and commercial center in Beijing, the PRC. The project is targeting young professionals and executives aged from 28 to 35. Total GFA of the project is over 500,000 sq.m.. The development of the whole project is divided into two phases (I and II) which are sub-divided into four zones (Zones A, B, C and D) with different development themes, such as Zones A and B are for the BOBOS, Zones C and D are for the Kidults. The Company currently holds 85% equity interest in the project.

The residential and commercial blocks in Zones A and B are nearly sold out. Zones C and D consist a total of 10 residential/commercial blocks. 2 blocks of Zone D have been sold and recognised as revenue. It is expected that the legal title of 6 blocks out of the 10 blocks, with a total GFA of approximately 144,255 sq.m., will be passed to buyers within the next few months.

(2) The Youngman Point Project

The project is situated in No. 2 Ganluyuan, Zhongli, Qingnian Road, Chaoyang District, Beijing, the PRC. The project's total GFA is over 300,000 sq.m. The development of the project is divided into 2 phases (I and II). Phase I has 1,587 residential units and 25 commercial units in total for sale purpose. Phase II is still at the planning stage. The project is targeting the young executives who just started working in central business district. The construction work for Phase I has been completed and that of Phase II is expected by December 2007. The Company currently holds 70% equity interest in the project.



American Rock Project



Youngman Point Project

(3) The Phoenix Tower Project

The project is situated in the central district of Futian District, Shenzhen, the PRC. The project is planned to develop into a complex of office building, service apartment and shopping arcade with a GFA of approximately 106,000 sq.m. The project is now under construction and is expected to be completed later this year. Up to now, area of approximately 46,000 sq.m. have been pre-sold. The remaining area will be kept by the Group planning for investment purpose. The Company currently holds 82% interest of the project.



Phoenix Tower Project

(4) The Xidiaoyutai Project – Yushuiyuan

The project is situated at the riverside of Kunyu River, the most prestigious area in Beijing, the PRC, and is targeting the elite of the society. The project is developed into waterfront luxury apartments and hotel. The project's total GFA is 254,625 sq.m. and the development of the whole project is divided into Phase I and Phase II with GFA of 101,724 sq.m. and 152,901 sq.m. respectively.

On 22 May 2006, the Company entered into an agreement to acquire a further 20% effective interest in the project. Up to the date of this report, the acquisition has already been completed. It is expected that the legal title of the whole Phase I will be passed to buyers within the next few months. The Company currently holds 50% effective interest in the project.



Xidiaoyutai Project – Yushuiyuan

(5) The Chongqing Yuanjiagang Project

The project is located at a premier location at Yuanjiagang District, Hi-Tech Zone, Chongqing, the PRC, which is a popular residential and commercial area with stable residential and commercial market conditions. The project's total GFA is 798,650 sq.m. and is divided into five different sites for development purpose. Construction work for three of these sites have been started and it is anticipated that the whole project will be completed by the end of 2007.

On 26 May 2006, the Company received the confirmation from the Shanghai United Assets and Equity Exchange in relation to the acquisition of a further 70% effective equity interest in the project with a consideration of HK\$405,865,385. Up to the date of this report, the acquisition has already been completed. Currently, the Company holds 90% effective interest in the project.

(6) The Tianjin Project

On 26 June 2006, the Company entered into the agreement with Mr. Li Song Xiao (the Chairman and the controlling shareholder of the Company) in relation to the acquisition of seven parcels of land in Tianjin (the "Tianjin Project") for an aggregate consideration of HK\$845,263,700. The consideration will be satisfied at completion by the allotment and issue by the Company to Mr. Li Song Xiao (or his nominee) of 1,243,034,853 consideration shares at the issue price of HK\$0.68 per share. The acquisition constituted a major and connected transaction under the relevant listing rules. The Special General Meeting for approving the acquisition transaction by the independent shareholders was held on 8 August 2006 and the relevant resolution was passed subsequently. The acquisition transaction is expected to be completed by August 2006. Upon completion of the acquisition, the Company will hold 100% equity interest in the project.



Chongqing Yuanjiagang Project: Chongqing China New City



Tianjin Project: No.9 District and No.13 district, Post Modern City, Tianjin

The project is a residential and commercial property project located at Old Urban Area, which is the heart of Tianjin City, the PRC, with total GFA of approximately 1,087,000 sq.m. As mentioned above, the project consists seven parcels of land (Land Lot Nos. 1, 2, 9, 11, 12, 13 and 15), of which, the legal title of Land Lot No. 11, with GFA of 53,231 sq.m., will be passed to buyers in the next few months.

In the coming year, the Company will endeavor to complete existing projects to a high standard and will also ensure the development of various new development projects will be progressed on schedule. Developing new projects and increasing land reserves will form an integral part of the Company's business in coming year. The Company will converge its human resources and capital assets to enlarge the development and investment of its new projects. The Company will focus its attention and keep track on the new districts in Beijing as well as cities outside Beijing with potentials for development projects. It will also participate in land auction, projects or company equity transfers to enlarge the development of the new projects.

The continuous steady growth of the PRC economy, persistent urbanization and increasing consumption power of Chinese citizens have produced strong demand for residential housing. Renminbi appreciation and upward market growth are likely to reinforce the property market as the key sector of consumption in the coming year.



Tianjin Project: No. 11 Old Town

Furthermore, as the 2008 Olympic Games is approaching, the overall business environment in Beijing city, and the cities nearby, continue to maintain a steady growth with GDP recording a 11.1% increase, while per capita GDP is growing at 8.1% for 2005. During the year, 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 nation's overall investment in the Beijing property market experienced a soft landing resulting from these measures. The effects of the austerity measures have just begun to take effect in the property market with investment growth starting to gradually subside. However, due to the strong local economy, demand for properties will continue to remain buoyant with market growth at a steady and healthy pace.

With existing edges, the Company will capture any future industry opportunities, implement the nationwide expansion strategy, pursue acquisition and consolidate resources in order to achieve better development.

The Company will implement a nationwide expansion strategy to increase its land bank portfolio. By maintaining and enhancing its capability of obtaining land bank resources, the Company will tap into new markets in the interest of diversifying development between major cities and second-tier cities, improving efficiency and further enjoying economies of scale.

In the past year, the Company acquired numerous high quality property development projects as outlined above, the returns and appreciation of which will be shown in the years ahead. Accordingly, we have strong confidence in the development prospects of the Group and will accomplish our mission and achieve greater results for the Company's development and give fruitful returns to investors.

EQUITY

The Company's issued and fully paid share capital as at 30 April 2006 amounted to HK\$40,793,395 divided into 4,079,339,487 ordinary shares of HK\$0.01 each. During the year, there was no conversion made by the holder of the Company's convertible note. The holder of convertible note has the rights to convert the convertible note into 400,000,000 ordinary shares of the Company within the specified period.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 April 2006, the Group had cash and bank balance of HK\$315.7 million with net current assets totaling to HK\$692.2 million and current ratio at approximately 1.29. The total borrowings of the Group as at 30 April 2006 amounted to HK\$426.2 million making the Group's gearing ratio at 27.7% at 30 April 2006 calculated by total borrowings over total equity of HK\$1,541.4 million.

The board of directors believes that liquid assets, funds and future revenue will be sufficient to finance future expansion and working capital requirement.

CONTINGENCIES AND COMMITMENTS

- (1) At 30 April 2006, the Company gave a guarantee in favour of Phoenix Satellite Television Company Limited, under which the Company guaranteed the due performance of Oasiscity Limited, a wholly-owned subsidiary of the Group, of the Group's obligations under the subscription and shareholders' agreement related to Phoenix Tower Project.
- (2) At 30 April 2006, the Group has given guarantees to banks amounting to approximately HK\$672.1 million (30 April 2005: HK\$704.4 million) in respect of certain facilities granted to the buyers of the Group's completed properties.
- (3) 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\$36.0 million. The subsidiary and its legal counsel are strongly resisting this claim and accordingly, no provision for any potential liability has been made in the consolidated financial statements.
- (4) The following contingent liabilities arise from interest in associates:

	2006 HK\$'000	2005 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	–

- (5) 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\$26.0 million (2005: HK\$26.0 million).

At 30 April 2006, the Group was committed to development expenditure of approximately HK\$285.2 million (30 April 2005: HK\$321.7 million) for the completion of properties under development in PRC. The Group also has committed capital expenditure of HK\$364.8 million (30 April 2005: Nil) in respect of acquisitions of subsidiaries contracted for but not provided for in the consolidated financial statements.

CHARGE ON GROUP'S ASSETS

At 30 April 2006, the Group pledged 30% equity interest in Phoenix Real Property Limited to Phoenix Satellite Television Company Limited. The Group also has pledged bank deposits of HK\$77 million to banks to secure long-term mortgage loans granted by banks to the buyers of the pre-sold properties of the Group.

Included in the properties under development with a carrying amount of HK\$331.3 million (2005: HK\$142.9 million) has been pledged as security for bank borrowings of the Group.

EMPLOYEES AND REMUNERATION POLICY

As at 30 April 2006, the Group had a total of 233 employees (including Hong Kong and PRC offices). The remuneration packages consist of basic salary, mandatory provident fund and other benefits considered as appropriate. Remuneration packages are generally structured by reference to market terms, individual qualification and the performance of individual staff. They are under periodic review based on individual merit and other market factors.

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 Investment Consultancy Limited ("Beijing New Shine Land") for a consideration of RMB130,000,000 (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 also signed a memorandum of understanding ("the MOU") during the year with two other shareholders of Chongqing China Enterprises Property Development Company Limited ("Chongqing China Enterprises") for the possible acquisition of 70% equity interest in Chongqing China Enterprises at a consideration of RMB422,100,000 (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. 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 owns 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.

CODE OF CORPORATE GOVERNANCE PRACTICE

In the opinion of the Directors, the Company has complied with the Code on Corporate Governance Practice (the “Code”) as set out in Appendix 14 of the Listing Rules throughout the year, except for the deviations disclosed in the Company’s latest interim report for the six months ended 31 October 2005. Detailed information is set out in the Corporate Governance Report included in this Annual Report pages 27 to 31.

The Company has adopted the Model Code (Appendix 10 to the Listing Rules) as its own code of conduct regarding securities transactions by directors. Having made specific enquiry of all directors, all directors declared that they have complied with the Model Code throughout the year.

The Company has received, from each the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

APPRECIATION

Finally, for and on behalf of the Group and the board of directors, I would like to express my heartfelt thanks to our shareholders for their enduring support and to all of my colleagues for their dedication and hard work throughout the year. Your dedication and involvement will be the most valuable asset for the growth of the Group.

Li Song Xiao

Chairman

19 August 2006