

# MANAGEMENT DISCUSSION AND ANALYSIS



To our Shareholder:

On behalf of the Board of Director of Neo-China Group (Holdings) Limited (“Neo-China” or the “Company”), I am pleased to present the interim results of the Company and its subsidiaries (the “Group”) for the six months ended 31 October 2006:

### MANAGEMENT DISCUSSION AND ANALYSIS

#### Financial Review

During the six months ended 31 October 2006, the Group recorded a turnover of HK\$1,979.3 million (2005: HK\$32.7 million), representing an increase of approximately 5,953% over the prior period. Profit attributable to shareholders amounted to HK\$400.6 million (2005: HK\$127.0 million). Basic earnings per share was HK8.08 cents (2005: HK5.11 cents) and diluted earnings per share was HK7.82 cents (2005: HK4.55 cents). Total advances from customers as at 31 October 2006 were approximately HK\$1,430 million. Total GFA of 173,000 sq.m. of the Group were sold and recognised.

#### Dividend

The Board of Directors (the “Board”) of the Company has made very effort to maintain a stable dividend policy while keeping a sound financial position for further development. For the best interests of shareholders, the Board resolved on distribution of an interim dividend of HK1.5 cents (2005: HK1.5 cents) per share on 5 February 2007 to those shareholders whose name are shown in the register of members of the Company on 31 January 2007.

#### Review of Operations and Future Prospects

In the first half of 2006, the China economy maintained continuous growth with GDP of RMB9,144.3 billion, representing an increase of 10.9% over the same period last year.

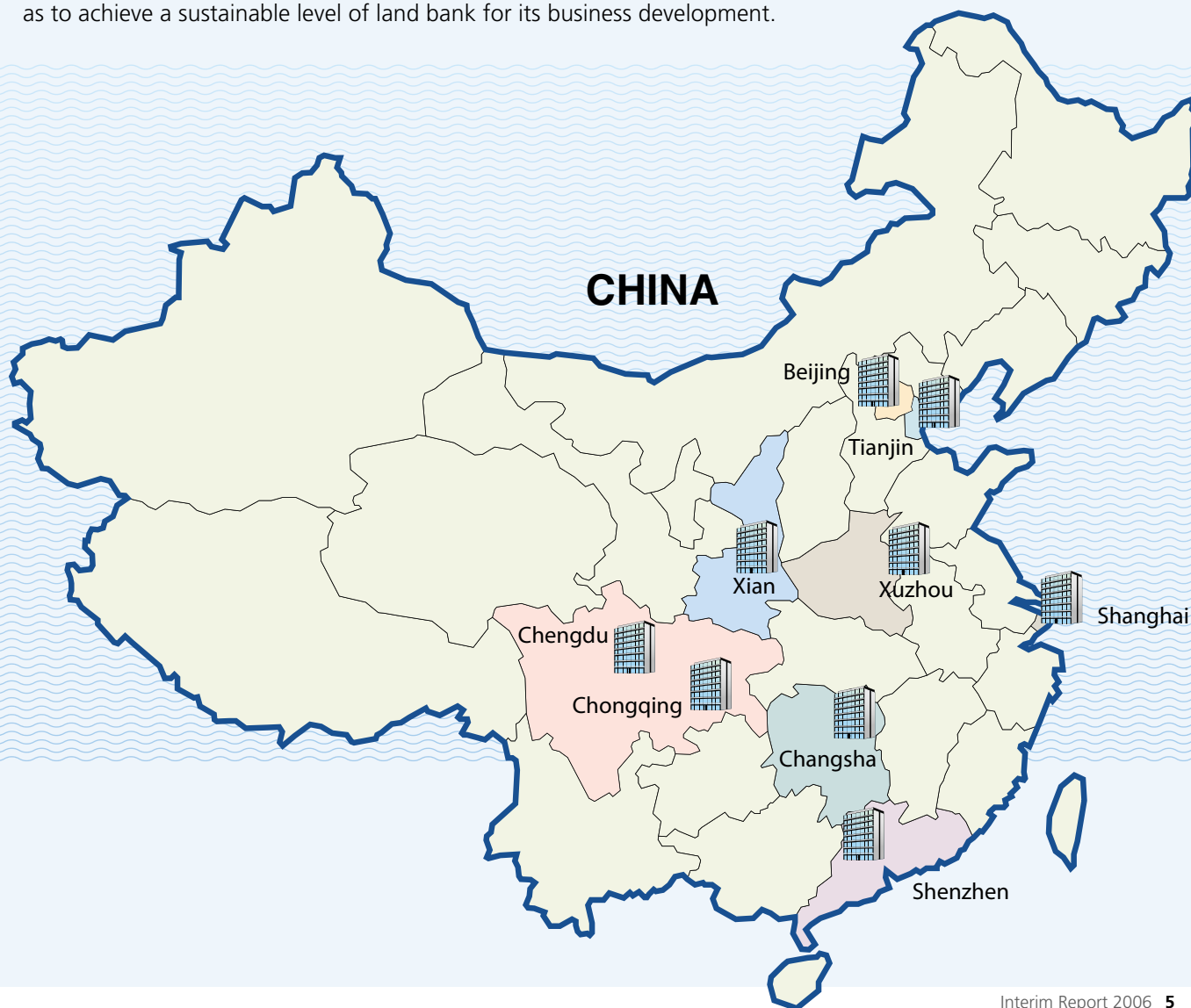
We have staged an expansion strategy in 2006 by consolidating its effort in development in the 4 municipalities directly under the Central Government as well as other first-tier cities.

At the same time, the Group has also proactively sought to accelerate its development in other medium and large PRC cities with promising growth potentials, and has achieved significant progress with several acquisitions of attractive sites which are illustrated in the following sections of this report.

### Land Bank

Land Bank replenishment is one of the key strategies of the Company for boosting our sustainable development. During the year 2006, the Company has secured plots of land by acquiring the equity interest of several project companies, they are located in Beijing, Tianjin, Chongqing, Chengdu, Changsha and Xian as outlined below. As at the date of this report, and upon completion of acquiring interests in various projects illustrated in the later part of this report, the Company's total land bank amounted to a GFA of approximately 7.20 million sq.m., representing an increase of 136% compared to the amount of a total GFA of 3.05 million sq.m. as announced in the Company's 2006 annual report.

During the period under review, and up to the date of this report, there were 9 major projects which are under development/will be developed. These include 3 projects in Beijing: American Rock Project; Youngman Point Project and Xidiaoyutai Project – Yushuiyuan. Other projects include Phoenix Tower Project in Shenzhen; Tianjin Laochengxiang Project in Tianjin; Chongqing Yuanjiagang Project – Chongqing China New City in Chongqing; Xian Project – The Number One Water City in Western China in Xian, Neo-China Flower City Project in Changsha and Wen Jiang Project in Chengdu. Additionally, the Group marks a further step towards its investment in two respective primary land developments in Tianjin and Chengdu. Besides, the Group is proactively focusing various high potential investments and opportunities in several main cities in the PRC, such as Shanghai, Xuzhou, etc, so as to achieve a sustainable level of land bank for its business development.



**Current Projects Under Development and Newly Acquired Projects / Investment In Primary Land Developments By Region**

- **Shenzhen**

*The Phoenix Tower Project*

The Phoenix Tower 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 construction work of the project is completed. During the period under review, a GFA of approximately 42,000 sq.m. was sold and recognised. The remaining area will be kept by the Group planning for rental investment purpose.



- **Beijing**

*Xidiaoyutai Project – Yushuiyuan*



In May 2006, the Company acquired a 20% effective interest in the Xidiaoyutai Project – Yushuiyuan. In September 2006, the Company further acquired a 40% equity interest in the property project with a consideration of RMB260,000,000 in cash. Currently, the Company holds 90% effective interest in the property project.

The property is situated at the riverside of Kunyu River, the most prestigious area in Beijing, the PRC, and is targeting at the elite of the society. The project is developed into waterfront luxury apartments and hotel. Total GFA of this property project amounted to approximately 255,000 sq.m., and the development of the whole project is divided into Phase I and Phase II with GFA of 102,000 sq.m. and 153,000 sq.m. respectively. During the period under review, a total GFA of 68,000 sq.m. was sold and recognised.

*American Rock Project*

On 2 January 2007, the Company entered into an agreement through its wholly-owned subsidiary – Beijing New Shine Land Investment Consultancy Limited to acquire 15% equity interest in The Beijing Jin Ma Wen Hua Yuan Properties Development Limited for a cash consideration of RMB100 million in cash. According to the valuation report issued by independent valuer, Savills Valuation and Professional Services Ltd, (“Savills”), the market value of the American Rock Project was RMB804.70 million as at 31 October 2006. The acquisition enables the Group to gain a further 15% equity interest in the American Rock Project.





The American Rock Project is solely developed by Beijing Jin Ma Wen Hua Yuan. It is situated in No. 16 Baizhuan Road, Chaoyang District, Beijing, the PRC and is adjacent to the central business district in Beijing. The whole project consists of 2 phases (Phase I and Phase II) and 4 zones (Zones A, B, C and D) with approximately 5,400 residential and commercial units in total for sale purposes. The project is designed for different development themes, such as Zones A and B are for the BOBOS and Zones C and D are for the Kidults. Zones A and B were completed in December 2003 and September 2004 respectively. During the period under review, a total GFA of approximately 58,000 sq.m. of Zone D was sold. Pre-sale of two residential blocks of Zone C with a total GFA of approximately 54,910 sq.m. has commenced.

The entering into of the agreement constitutes a major and connected transaction under the Listing Rules. A circular and notice will be dispatched to shareholders for convening a special general meeting for approving the aforesaid transaction by independent shareholders of the Company as soon as practicable. The acquisition is expected for completion by February 2007. Upon completion of the acquisition, the effective equity interest of the Group in the Beijing American Rock Project will increase from 85% to 100%.

#### *Youngman Point Project*

On 2 January 2007, the Company entered into an agreement through its wholly-owned subsidiary – Beijing New Shine Land Investment Consultancy Limited to acquire 22.1% equity interest in The Beijing New Shine Properties Development Company Limited for a cash consideration of RMB90 million. The acquisition enables the Group to gain a further 22.1% equity interest in the Youngman Point Project. According to the valuation report issued by independent valuer, Savills, the market value of the Youngman Point Project was RMB621.52 million as at 31 October 2006.



The Youngman Point Project is solely developed by New Shine Properties Development Company Limited. It is situated in No. 2 Ganluyuan, Zhongli, Qingnian Road, Chaoyang District, Beijing, the PRC, with an aggregate site area and GFA of 114,000 sq.m. and 353,000 sq.m. respectively, comprising GFA of approximately 144,000 sq.m. for Phase I and approximately 209,000 sq.m. for Phase II. Approximately 73% residential and commercial units of Phase I were sold and recognised during the fiscal year 2006. During the period under review, a total GFA of approximately 5,000 sq.m. of Phase I was sold and recognised. Pre-sale of Phase II has started. The expected completion date of Phase II is in December 2007. The project is targeting at the young executives who just start working in the central business district.

The entering into of the agreement constitutes a major and connected transaction under the Listing Rules. A circular and notice will be dispatched to shareholders for convening a special general meeting for approving the aforesaid transaction by independent shareholders of the Company as soon as practicable. The acquisition is expected to be completed by February 2007. Upon completion of the acquisition, the effective equity interest of the Group in the Youngman Point Project will increase from 51.6% to 73.7%.

Both the acquisitions of equity interest of 15% and 22.1% in the American Rock Project and the Youngman Point Project respectively represent a good opportunity for the Group to further expand its business in the property market in Beijing, a market with which our directors are very familiar. It is one of the most attractive areas for investment which will strengthen the assets and income base of the Group.

- **Chongqing**

*The Chongqing Yuanjiagang Project: Chongqing China New City*

In May 2006, the Company further acquired 70% equity interest in the Chongqing Yuanjiagang Project with a cash consideration of RMB422,100,000. Currently, the Company holds 100% equity interest in the property project.



The total GFA of the property project is approximately 799,000 sq.m. and is divided into five different sites for development purpose. Construction work for three of the five sites have started. It is anticipated that the whole project development will be completed by end of 2009. The property project is located at 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 development of the whole project is divided into 2 phases with GFA of 648,000 sq.m. and 151,000 sq.m. respectively. The pre-sale of Phase I has started.

- **Tianjin**

*Tianjin Laochengxiang Project*



In June 2006, the Company acquired 100% equity interest in the Tianjin Laochengxiang Project with an aggregate consideration of HK\$845,263,000 for the development of seven parcels of lands in the center of Tianjin city. The consideration was satisfied in full by the allotment and issue of 1,243,034,853 consideration shares to the vendor at the issue price of HK\$0.68 each.

The total GFA of the property project is approximately 1,189,000 sq.m. and is divided into seven parcels of land (Land Lot Nos. 1, 2, 9, 11, 12, 13 and 15) for commercial and residential development purposes. Construction work for land Nos 15 and 1 has started and Land No. 11 with approximately 54,000 sq.m. has been completed for rental investment purpose. It is anticipated that the whole project development will be completed by end of 2010.

*Investment in Primary Land Development Project*

On 22 November 2006, the Company entered into a joint venture agreement with The Tianjin Dianshi Investment Consulting Limited and The Tianjin Xin Zhuang Economic Development Centre in relation to the establishment of a joint venture in Tianjin or a primary land development project at Land Lot No. 2003-181 Jinnanke, west side of Keyan East Road, Nankai District in Tianjin.

The joint venture will engage the said primary land development project in relation to land development, relocation and construction of city infrastructure for a plot of land of approximately 7,000,000 sq.m. The Municipal Government of Tianjin Jin Nan District has approved the project and the establishment of the joint venture.

The Municipal Government of Tianjin has further confirmed that the joint venture is engaged to exclusively assist the Municipal Government of Tianjin in the investment and development of the project in order to fulfill the conditions for public auction of the land. The Municipal Government of Tianjin has further agreed that it will retain not more than 25% of the revenue when the land is sold through public auction and the joint venture will retain the rest of the profits.

The Company holds 65% effective interest in the joint venture for an investment amount of US\$15,000,000 to be injected by the Company. The establishment of the joint venture represents a good opportunity for the Group to further expand its business in the property market in Tianjin.

- **Changsha**

*The Neo-China Flower City Project*

On 2 January 2007, the Company entered into an agreement through its wholly-owned subsidiary – Beijing New Shine Land Investment Consultancy Limited to acquire 67% equity interest in The Wunan Qianshuiwan Shuangya Wanquan Huayuen Company Limited for a cash consideration of RMB216 million. The acquisition enables the Group to gain development equity of the Neo-China Flower City Project in Changsha. According to the valuation report issued by the independent valuer, Savills, the market value of the Neo-China Flower City Project was RMB372.3 million as at 31 October 2006.



The Neo-China Flower City Project is solely developed by Wunan Qianshuiwan. It is situated in Wancheng County, Changsha City, the PRC. It comprises five parcels of land with an aggregated site area of 666,000 sq.m. The Neo-China Flower City Project will be developed into a large scale residential development, including villa, low to high-rise residential buildings, clubhouse and other ancillary facilities with a total GFA of approximately 800,000 sq.m. It is planned to be developed by two phases and scheduled for completion in around 2010.

The entering into of the agreement constitutes a major and connected transaction under the Listing Rules. A circular and notice will be dispatched to shareholders for convening a special general meeting for approving the aforesaid transaction by independent shareholders of the Company as soon as practicable. The acquisition is expected for completion by February 2007. Upon completion of the acquisition, the Company will hold 67% equity interest in the Neo-China Flower City Project.

Through the acquisition of equity interest of 67% in the Neo-China Flower City Project, the Company can achieve its nationwide expansion strategy to increase its land bank portfolio for investment which will again strengthen the assets and income base of the Group.

- **Xian**

*The Number One Water City in Western China*

On 31 October 2006, the Company, through Richspeed Investment Limited and Zhongzhi (Beijing) Enterprises Management Company Limited, its wholly-owned subsidiaries, entered into equity acquisition agreements, to acquire a 71.5% effective equity interest in Xian Chanba Jian She Kai Fa Limited. The acquisition enables the Group to gain development equity of the property project – “The Number One Water City in Western China” for a total consideration of RMB876 million. The consideration will be satisfied in cash in the amount of RMB536 million, of which RMB170 million will be secured by the issue of 170 million convertible bonds, and by the allotment issue of 340 million consideration shares at issue price of HK\$1 by the Company.



The project is located at a premier location in Xian with GFA of approximately 3,000,000 sq.m. which is the only large ecological community in Xian and is a popular residential and commercial area. The project comprises 2,000,000 sq.m. of residential units, 68,000 sq.m. of hotel complex and 932,000 sq.m. of commercial/underground car park. The project is divided into 3 phases for 3 to 4 years' development. It is anticipated that the whole project will be completed by the end of 2011. The pre-sale of Phase I will start in the 2nd quarter of 2007.

The entering into of the aforesaid agreements constitutes a discloseable transaction of the Company under the Listing Rules. A Special General Meeting for approving the issue the consideration shares and the convertible bonds will be held on 19 January 2007.

The acquisition transaction is expected for completion by February 2007. Upon completion of the acquisition, the Company will hold 71.5% effective equity interest in the property project. It is the Group's second move to the lucrative property market of western part of China after its triumphant launch of the Chongqing China New City in Chongqing, the PRC.



- **Chengdu**

*Investment in Primary Land Development Project – Pi Xian Project*

On 31 December 2006, the Company, through its subsidiary, entered into a Cooperation Development Agreement with the Pi Xian People's Government to jointly develop a primary land development project situated in Pi Xian Xi Pu Town Longzi Wanpian District in Chengdu City ("Pi Xian Project"). The duration of the Pi Xian Project is 30 months.

The project will be developed in 2 stages. The first stage is approximately 1,100,000 sq.m. while the second stage is approximately 300,000 sq.m. According to the development agreement, the Company shall be responsible for the capital injection to the Pi Xian Project and the implementation of construction of city infrastructure (including water supply, drainage, road construction, electricity supply, gas supply, telecommunication set-up, optical fibers connection as well as ground leveling of the land), while Pi Xian Government shall be responsible for land expropriation, relocation, compensation, recalls and acquisitions of use rights of land. It is expected that the Company will invest RMB700 million for the first stage. Subject to the approval of the related government authority, the intended uses of the Pi Xian Land include city commercial use, living and residential use, administration and office use, educational and cultural use, etc. The Company shall appropriate profits based on the selling price of each developed land of the project.

The execution of the agreement marks a further step towards the Company's investment in the primary land and property development business, in particular in the rapidly developing Chengdu of the PRC.

*Wen Jiang Project*

On 3 January 2007, the Company entered into a Cooperation Framework Agreement with Chengdu Zhongtai Communication Construction Development Company Limited ("Zhongtai Communication") to set up a project company to jointly develop a project situated at Wen Jiang Xin Cheng District in Chengdu City ("Wen Jiang Project"). The move is in line with the Group's development strategy in China's property market to further expand its business into Chengdu City.

Upon completion of the transaction, the Company will hold 70% equity interest in the project company of the Wen Jiang Project. According to the Framework Agreement, the Wen Jiang Project will be wholly owned under the Company's operation and management. The Company shall contribute to the project company RMB200 million of which RMB140 million is for the share capital of its 70% share and RMB60 million is the shareholder loan to the project company.

The Wen Jiang Project is located at Wen Jiang Xin Cheng District in Chengdu City and is planned to be developed for residential use. The project comprises 2 pieces of land (Land No. 1 and Land No.2), with a total GFA of approximately 700,000 sq.m. The aforesaid 2 pieces of land had been acquired by Zhongtai Communication through lawful land auction. The auction prices of Land No. 1 and Land No. 2 were RMB261 million and RMB514 million respectively, totaling RMB775 million.

Through the aforesaid projects, the Company successfully taps into the property market in Chengdu and further strengthens the Group's business. Of which, the Framework Agreement will help the Group to obtain development interests in the Wen Jiang Project with a relatively low cost.

### ***Future Prospects***

The real estate industry has been a key pillar of the Chinese economy. The related departments of the PRC Government has already implemented a series of austerity measures to the real estate industry in respect of its taxation, financing and land supply. The purpose of such measures is to protect the benefit of the consumers and encourage long term investment activities, so as to restrict short term speculations. Stringent requirements and conditions on property developers clearly demonstrated that the PRC Government is proactively striving for a continual healthy development of property industry. This helps to make a significant and positive impact on the whole real estate industry in the long run, which in turns provides opportunities for resources reallocation within this sector. It is expected that the development of the real estate industry will be in a regulatory manner, while the excellent property developers will have great development opportunities under this favourable environment. Apart from these, market demand and supply will further maintain a balance and match the practical needs of customers, and therefore, a sustainable, stable and rational orderly market will be established. Driven by the rapid urbanization progress and increasing demand of housing, the real estate industry in the PRC will have great potential for development in the long run.

In future, the Company will continue to implement its development strategy and obtain land development rights through public auctions, mergers and acquisitions with other small to medium-sized property developers. Such strategy will not only increase the Group's land bank, but also control the development cost effectively which enhance the Group's profitability significantly.

Upon completion of transaction of various projects being acquired as outlined above , the Company has 9 projects under development/will be developed in 7 cities in the PRC with aggregated GFA of approximately 7.2 million sq.m., together with the above mentioned two primary land agreements (in Tianjin and Pi Xian Project in Chengdu), will effectively allow the Company to acquire lands at lower costs in future. The Board is confident that the land bank of the Group can reach 10 million sq.m. GFA in the next 2 to 3 months.

The property market in China now undergoes a big room development, with a great market demand for residential property in major cities. The Group is confident that its nationwide property development and investment projects will proceed according to schedule and achieve satisfactory results.

## Liquidity and Financial Resources

As at 31 October 2006, the Group had cash and bank balance of approximately HK\$946.2 million with net assets totaling to HK\$3,382.9 million and current ratio at approximately 2.38. The total borrowings of the Group as at 31 October 2006 amounted to 2,780.4 million making the Group's gearing ratio at 82.2% at 31 October 2006 calculated by total borrowings over total equity of HK\$3,382.9 million.

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

## Contingent Liabilities

(i) The Group had the following contingent liabilities as at 31 October 2006:

	<i>HK\$'000</i> (unaudited)
Guarantees in respect of mortgage facilities for certain purchasers	1,789,620

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.

The directors consider that in case of default in payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made in the unaudited condensed consolidated financial statements for the guarantees.

- (ii) Three subsidiaries of the Group have been named as joint defendants in a court action in the PRC in respect of an alleged breach of contractual undertakings for an amount of HK\$37,045,000. The subsidiaries and their legal counsel are strongly resisting this claim and the directors are of the opinion that settlement of the claim is remote. Accordingly, no provision for any potential liability has been made in the unaudited condensed consolidated financial statements.
- (iii) The State Administration of Taxation of the PRC issued a circular as Guo Shui Han 2004 No. 938 on 2 August 2004 to strengthen the levy of land appreciation tax on property developers. In the opinion of the directors, land appreciation tax shall not be levied in respect of properties already completed and full provision for land appreciation tax has not been made in the unaudited condensed consolidated financial statements. The Group has not, however, been able to secure written confirmation of those individual city policies, and the directors consider that the chance that full land appreciation tax might be levied is less than probable in accordance with the rule of State Administration of Taxation. Should such levies take place, land appreciation tax would be approximately HK\$55,160,000.

### Charge on Group's assets

Included in the properties under development with a carrying amount of approximately HK\$1,904,585,000 (30.4.2006: HK\$331,258,000) has been pledged as security for borrowings of the Group.

### Equity

The Company's issued and fully paid share capital as at 31 October 2006 amounted to HK\$57,223,743 divided into 5,722,374,340 ordinary shares of HK\$0.01 each.

During the period under review, convertible notes of HK\$99,307,000 were converted into 400,000,000 ordinary shares of the Company.

### Closure of Register of Members

The Register of Members of the Company will be closed from 31 January 2007 to 3 February 2007, both dates inclusive. In order to entitle for the said interim dividend, all transfers of share accompanied by the relevant share certificates must be lodged with Share Registrar, Secretaries Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 pm on 30 January 2007, Monday.

### Human Resources

As at 31 October 2006, the Group employed 258 employees (including Hong Kong and PRC offices).

The Group continues to review remuneration packages of employees with reference to the level and composition of pay, the general market condition and individual performance. Staff benefits include contributions to the Mandatory Provident Fund Schemes and discretionary bonus payment which is linked to the profit performance of the Group and individual performance. A share option scheme has also been established for employees of the Group.