
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your securities in New City (Beijing) Development Limited, you should at once hand this circular together with the enclosed form of proxy to the purchaser or other transferee or to the bank, stockbroker or other agent through whom the sale was effected for onward transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

NEW CITY (BEIJING) DEVELOPMENT LIMITED**新城市（北京）建設有限公司**

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0456)

VERY SUBSTANTIAL DISPOSAL**DISPOSAL OF ENTIRE INTEREST IN NEW RANK (BVI 1) LIMITED**

A notice convening an extraordinary general meeting of New City (Beijing) Development Limited to be held at Room 3301, 33/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong on 14 September 2004 at 3:00 p.m. is set out on pages 101 and 102 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the branch share registrar of New City (Beijing) Development Limited, Standard Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of such meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the meeting or any adjourned meeting should you so desire.

28 August 2004

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“Accounts”	the audited consolidated financial statements of the Group as at and for the financial years ended 31 December 2001, 2002, 2003 and six months ended on 30 June 2004 comprising the audited consolidated balance sheet of the Group as at the Accounts Date, the audited consolidated profits and loss accounts of the Group for the financial years ended 31 December 2001, 2002, 2003 and six months ended on 30 June 2004 and all the notes thereto; as set out in Appendix I;
“Accounts Date”	30 June 2004;
“Agreement”	the agreement entered into on 11 June 2004 between the Vendor and the Purchaser in relation to the sale and purchase of the entire interest in New Rank BVI 1;
“associate”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of directors of the Company;
“CNC Building”	Block C and Carparking Space nos. 201 to 206 and 241 to 264, No. 156 Fuxingmen Nei Da Street Xicheng District, Beijing, the PRC;
“Company”	New City (Beijing) Development Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Main Board;
“Completion”	completion of the Disposal;
“Debt”	a non-interest bearing and unsecured debt in the principal amount of approximately HK\$37,000,000 owed by the Vendor to New Rank BVI 1 outstanding as at the date of the Agreement and as at the Completion;
“Disposal”	the sale of the Sale Shares by the Vendor to the Purchaser at a purchase price of HK\$1 in cash and in consideration of the Purchaser assuming the Debt;
“EGM”	an extraordinary general meeting of the Company to be convened for the purpose of considering and (if thinks fit) passing an ordinary resolution to approve the Agreement and the transactions contemplated thereunder by the independent shareholders of the Company who has no interests whatsoever in the Disposal;

DEFINITIONS

“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC;
“Latest Practicable Date”	26 August 2004, being the latest practicable date prior to the printing of this circular for the purposes of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Main Board”	the securities market (excluding the option market) operated by the Stock Exchange, which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange;
“New Rank BVI 1”	New Rank (BVI 1) Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Vendor;
“New Rank International”	New Rank International Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of New Rank BVI 1;
“Plaza”	中國証券大廈 (for identification purposes, in English, China Securities Plaza) which is one block away from the Property;
“PRC”	the People’s Republic of China;
“Property”	portion of Basement Level 1 to 4, the eastern portion of Level 4, Units A0505, A0507, A0508, A0701, A0702, A0703, A2102, B0501 to B0508, B0702, B0703, B0801, B0802, B0804, B0806, B2107, the whole of Level 24 to 27 of Investment Plaza at No. 27 Finance Street (Jin Rong Street), Xicheng District, Beijing, the PRC, which is one block away from the Plaza;

DEFINITIONS

“Purchaser”	Sinoway Properties Limited, a company incorporated in the British Virgin Islands with limited liability and is an investment holding company;
“Remaining Debt”	the remaining non-interest bearing and unsecured debt in the principal amount of approximately HK\$15,000,000 which will remain due and owing by the Vendor to New Rank BVI 1 after the assumption of the Debt;
“RMB”	renminbi yuan, the lawful currency of the PRC;
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time;
“Sale Shares”	11,000 Shares beneficially owned by the Vendor representing the entire issued share capital of New Rank BVI 1;
“Share(s)”	the ordinary shares of US\$1 each in the issued share capital of New Rank BVI 1;
“Sherford”	Sherford Company Limited, a company incorporated in the Cayman Islands with limited liability and a wholly-owned subsidiary of New Rank BVI 1;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subsidiaries”	the wholly-owned subsidiaries of New Rank BVI 1, namely, Treasure Star, New Rank International and Sherford;
“subsidiary”	has the same meaning as in section 2 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as at the date hereof and “subsidiaries” shall be construed accordingly;
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules;
“Treasure Star”	Treasure Star International Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of New Rank BVI 1;

DEFINITIONS

“Vendor”	NR (BVI) Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of the Company;
“US\$”	the United States dollars, the lawful currency of the United States;
“Zhong Zheng”	北京中証房地產開發有限公司 (for identification purposes, in English, Beijing Zhong Zheng Real Estate Development Company Limited), a company incorporated in the PRC with limited liability and a subsidiary of the Company;
“Zhong Zheng Agreement”	the agreement dated 23 December 2003 entered into between Zhong Zheng and China Network Communications Group Corporation relating to the Plaza. The consideration for Zhong Zheng entering into the Zhong Zheng Agreement is payment in cash to Zhong Zheng payable in eight different instalments and the right to transfer the Plaza in exchange for an independent third party transferring its CNC Building to Zhong Zheng, details of which will be the subject of the further announcement to be issued by the Company.

LETTER FROM THE BOARD

NEW CITY (BEIJING) DEVELOPMENT LIMITED

新城市（北京）建設有限公司

(Incorporated in the Cayman Islands with limited liability)

Directors:

Han Junran (*Chairman*)

Fu Yiu Kwong

Tam Biu Sing, Joseph

Chan Yiu Tung, Anthony*

Wong Shing Kay, Oliver*

Registered office:

Scotia Centre

4th Floor

P.O. Box 2804

George Town

Grand Cayman

Cayman Islands

** Independent non-executive Directors*

Principal place of business:

Room 3301, 33/F

Far East Finance Centre

16 Harcourt Road

Hong Kong

28 August 2004

To the shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL DISPOSAL OF ENTIRE INTEREST IN NEW RANK (BVI 1) LIMITED

INTRODUCTION

On 4 August 2004, the Board announced that on 11 June 2004, the Agreement was entered into between the Vendor and the Purchaser, pursuant to which the Vendor, a direct wholly-owned subsidiary of the Company, agreed to sell to the Purchaser the Sale Shares representing the entire issued share capital of New Rank BVI 1 at a purchase price of HK\$1 in cash and in consideration of the Purchaser assuming the Debt. The Debt is in the principal amount of approximately HK\$37,000,000 outstanding as at the date of the Agreement and as at Completion. New Rank BVI 1 is an investment holding company which through the Subsidiaries, namely Treasure Star, New Rank International and Sherford, holds 99% indirect interest in the Property. Upon Completion, the Group will no longer be interested in any issued share capital of New Rank BVI 1 and the Subsidiaries. The Group will cease to hold any interests in the Property and will also cease to owe the Debt to New Rank BVI 1 save and except that the Vendor will still owe the Remaining Debt of approximately HK\$15,000,000 to New Rank BVI 1, which will be repayable by not more than thirty-six (36) consecutive monthly payments commencing from 11 June 2004 and not exceeding HK\$ 430,000 per month.

LETTER FROM THE BOARD

The Disposal constitutes a very substantial disposal of the Company under Rule 14.06 of the Listing Rules. Pursuant to Rule 14.49 of the Listing Rules, the Disposal must be made conditional on approval by independent shareholders of the Company at the EGM. The purpose of this circular is to provide the shareholders of the Company with further details of the Agreement and the transactions contemplated thereunder and to give you notice to convene the EGM to approve the Agreement and the transactions contemplated thereunder.

THE AGREEMENT DATED 11 JUNE 2004

Pursuant to the Agreement dated 11 June 2004, the Vendor, a direct wholly-owned subsidiary of the Company, agreed to sell and the Purchaser agreed to purchase the Sale Shares representing the entire issued share capital of New Rank BVI 1, at a purchase price of HK\$1 in cash and in consideration of the Purchaser assuming the Debt. Details of the Agreement are set out below:-

Parties

Vendor : NR (BVI) Holdings Limited (which is an investment holding company)

Purchaser : Sinoway Properties Limited (which is an investment holding company)

The directors of the Company have confirmed that to the best of their knowledge, information and belief having made all reasonable enquiry the Purchaser and its ultimate beneficial owners are independent third parties not connected with the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates and are third parties independent of the Company and its connected persons as defined under the Listing Rules.

Date of the Agreement

11 June 2004

Asset to be disposed of

The asset to be disposed of is the entire interest held by the Vendor in the issued share capital of New Rank BVI 1. Before the Completion, the Company holds the entire interest in New Rank BVI 1 indirectly through the Vendor, its direct wholly-owned subsidiary. New Rank BVI 1 is an investment holding company which through the Subsidiaries holds 99% indirect interests in the Property. The Property is the sole asset held by New Rank BVI 1 and the Subsidiaries.

LETTER FROM THE BOARD

Consideration

The aggregate consideration for the Disposal shall be: (i) HK\$1 in cash and (ii) assumption of the Debt of approximately HK\$37,000,000 by the Purchaser. The aggregate of the Debt and the Remaining Debt in the sum of approximately HK\$52,000,000 arose from borrowings in around mid 2001 to mid 2002 for the purposes of initial development of the Plaza. Given that the Vendor owed approximately HK\$52,000,000 to New Rank BVI 1, after arm's length negotiation with the Purchaser, the Purchaser agreed to assume the Debt in the sum of HK\$37,000,000 and thus the Vendor still owes the Remaining Debt in the sum of HK\$15,000,000 to New Rank BVI 1.

Based on the audited accounts of New Rank BVI 1 and the Subsidiaries as at 31 December 2003, New Rank BVI 1 and the Subsidiaries had a net consolidated deficit of approximately HK\$122,000,000, which value has already reflected the value of the Property based on the valuation by a qualified and independent valuer, RHL Appraisal Limited, as at 31 December 2003 of approximately RMB261,000,000 (equivalent to approximately HK\$243,925,000) and approximately RMB255,200,000 (equivalent to approximately HK\$238,504,000) as at 30 June 2004. The aggregate consideration was arrived at after arm's length negotiation between the parties.

Condition precedent and completion

The Completion is conditional upon obtaining approval from the independent shareholders of the Company on the Agreement and the transactions contemplated thereunder at the EGM as required by the Listing Rules. Completion shall take place on the date when the said condition precedent is satisfied. In the event that such condition is not fulfilled on or before 15 September 2004 (or such later date as the Vendor and the Purchaser may agree), the Agreement shall be terminated and shall cease to have any further effect thereafter.

INFORMATION ABOUT THE PROPERTY AND NEW RANK BVI 1

The Property is located at portion of Basement Level 1 to 4, the eastern portion of Level 4, Units A0505, A0507, A0508, A0701, A0702, A0703, A2102, B0501 to B0508, B0702, B0703, B0801, B0802, B0804, B0806, B2107, the whole of Level 24 to 27 of Investment Plaza at No. 27 Finance Street (Jin Rong Street), Xicheng District, Beijing, the PRC. The permitted use of the Property is office premises and its aggregate gross floor area is 20,911.84 square metres. Units A0505, A0508, B0501 to B0508, B0801, Level 25 (Block A) and the south-eastern portion of Basement Level 2 with an aggregate gross floor area of approximately 2,123.89 square metres have been leased to independent third parties. Units B0702, Level 25 (Block B), Level 26-27 (Whole) with an aggregate gross floor area of approximately 1,681.82 are being self occupied. Units A0507, A0701-3, A02102, B0703, B0802, B0804, B0806, B2107, Level 24 (Whole), portion of Basement Level 1 to 4 except the south-eastern portion of Basement Level 2, the eastern portion of Level 4 of the Property having a total gross floor area of approximately 17,106.13 square metres are vacant as at 30 June 2004.

LETTER FROM THE BOARD

The Group will consider negotiating with the Purchaser with the view to entering into tenancy agreement(s) after the Completion in respect of those premises currently occupied by the Group.

According to the audited consolidated balance sheet of the Group as at 30 June 2004, the Property has an audited net book value of approximately RMB255,200,000 (equivalent to approximately HK\$238,504,000). Based on the audited accounts of New Rank BVI 1 and the Subsidiaries, New Rank BVI 1 and the Subsidiaries recorded a net liabilities of HK\$101,540,000, HK\$122,382,000 and HK\$129,003,000 as at 31 December 2002 and 2003 and 30 June 2004 respectively; in addition, the consolidated turnover of New Rank BVI 1 and the Subsidiaries for the two years ended 31 December 2003 and the six months ended 30 June 2004 amounted to HK\$2,658,000, HK\$3,713,000 and HK\$2,563,000 respectively. According to the audited consolidated accounts of the Group, the net losses before other operating income, unallocated corporate expenses, finance costs and taxation charge attributable to the Property for the two years ended 31 December 2003 and the six months ended 30 June 2004 were approximately HK\$57,511,000, approximately HK\$12,081,000 and HK\$5,025,000 respectively, details of the above information are laid out in Appendix I: Note 5 Business and geographical segments. Set out below are the audited consolidated loss before and after tax and minority interests of New Rank BVI 1 and the Subsidiaries for the years ended 31 December 2002 and 2003 and the six months ended 30 June 2004:—

	For the year ended 31 December 2002 HK\$'000	For the year ended 31 December 2003 HK\$'000	For the six months ended 30 June 2004 HK\$'000
Turnover	<u>2,658</u>	<u>3,713</u>	<u>2,563</u>
Loss before tax	(80,843)	(22,901)	(8,068)
Taxation	<u>34,283</u>	<u>(407)</u>	<u>1,084</u>
Loss after tax	(46,560)	(23,308)	(6,984)
Minority interests	<u>231</u>	<u>63</u>	<u>(23)</u>
Net loss for the year/period	<u>(46,329)</u>	<u>(23,245)</u>	<u>(7,007)</u>
Total assets	638,937	640,536	507,357
Total liabilities	<u>(740,477)</u>	<u>(762,918)</u>	<u>(636,360)</u>
Net liabilities	<u>(101,540)</u>	<u>(122,382)</u>	<u>(129,003)</u>

The turnover of New Rank BVI 1 and the Subsidiaries accounted for 100% of that of the Group for the years ended 31 December 2002 and 2003 and the six months ended 30 June 2004. The loss incurred by New Rank BVI I and the Subsidiaries accounted for 45%, 35% and 38% of the loss incurred by the Group for the years ended 31 December 2002 and 2003 and the six months ended 30 June 2004 respectively.

LETTER FROM THE BOARD

In March 1994, New Rank International entered into an agreement with Beijing Yintou Economic Development Corporation and Beijing Finance Street Construction & Development Co Ltd, both of which are independent third parties, to establish Beijing New Rank Real Estate Development Co Ltd for the development of Investment Plaza at No.21 Finance Street (Jin Rong Street), Xicheng District, Beijing, the PRC. Under the agreement, New Rank International owned 40%, Beijing Yintou Economic Development Corporation owned 40% and Beijing Finance Street Construction & Development Co Ltd owned 20%. In October 1994, New Rank International acquired 40% from Beijing Yintou Economic Development Corporation and Beijing Finance Street Construction & Development Co Ltd disposed of its 19% to Sherford in December 1995. New Rank BVI 1 was incorporated in 22 September 1999. New Rank BVI 1 through its wholly owned subsidiaries, namely New Rank International and Sherford, acquired an aggregate of 99% equity interest in Beijing New Rank Real Estate Development Co., Ltd. in January 2000. An independent third party, Beijing Finance Street-Construction & Development, holds the remaining 1% equity interest in Beijing New Rank Real Estate Development. The Property is wholly-owned by Beijing New Rank Real Estate Development.

Upon the Completion, the Group will no longer be interested in any issued share capital of New Rank BVI 1 and the Subsidiaries. The Group will cease to hold any interests in the Property and will also cease to owe the Debt to New Rank BVI 1 save and except that the Vendor will still owe the Remaining Debt, which is non-interest bearing and unsecured debt, to New Rank BVI 1. Such loan will be repayable by not more than thirty-six (36) consecutive monthly payments commencing from 11 June 2004 and not exceeding HK\$430,000 per month. There are no other specific terms set out in the agreement or side letter between the Vendor and New Rank BVI 1 in relation to the details of repayment arrangement. The Company will finance such repayment from its working capital or if insufficient, additional bank loans secured by its interest in CNC Building which will be transferred by China Network Communications Group Corporation to the Company in exchange for the Plaza pursuant to the Zhong Zheng Agreement upon completion of the construction of the Plaza which is expected to be in the third quarter of 2005, the details of which are stated at page nos. 71 to 73 of the annual report of the Company for the year 2003.

VERY SUBSTANTIAL DISPOSAL

The Disposal constitutes a very substantial disposal of the Company under Rule 14.06 of the Listing Rules. Pursuant to Rule 14.49 of the Listing Rules, the Disposal must be made conditional on approval by independent shareholders of the Company at the EGM. Any shareholder with a material interest in the Disposal and his associates shall abstain from voting on the resolution approving the Disposal. Since the Purchaser and its ultimate beneficial owners are independent third parties not connected with the Company and the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates and no shareholder and his associates have any interest in the transaction, therefore no shareholder is required to abstain from voting at the EGM.

LETTER FROM THE BOARD

GENERAL INFORMATION ABOUT THE COMPANY

The Group is principally engaged in property development and investment. The properties currently held and/or developed by the Group are the Property and the Plaza. The directors of the Company consider that the Company is now disposing a subsidiary with a net liabilities, the terms and conditions of the Disposal are made under normal commercial terms and are fair and reasonable and are in the best interest of the Company and its shareholders as a whole. New Rank BVI 1 and the Subsidiaries have a net consolidated deficit of approximately HK\$129,000,000 based on the audited accounts of New Rank BVI 1 and the Subsidiaries as at 30 June 2004. The Group would realize a gain of approximately HK\$171,000,000 from the Disposal by accounting for the reduction of the net liabilities of New Rank BVI 1 and the Subsidiaries plus realizing investment properties revaluation reserve, gain on exchange reserve and the Debt, which is calculated as follows:—

	<i>HK\$'000</i>
Net deficit of New Rank BVI 1 and the Subsidiaries as at 30 June 2004	129,000
Realization on investment properties revaluation reserve	3,000
Realization on exchange gain reserve	2,000
Debt	37,000
Gain on disposal of New Rank BVI 1 and the Subsidiaries as at 30 June 2004	171,000

Turnover of the Group for the last financial year was dependent on New Rank BVI 1 and the Subsidiaries.

Turnover represents the aggregate of sales of properties, net of applicable business tax and rental income.

	Year ended			Six months ended	
	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>	<i>(audited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of properties	33,392	—	—	—	—
Rental income	3,835	2,658	2,609	872	1,966
	37,227	2,658	2,609	872	1,966

LETTER FROM THE BOARD

Following the Completion, the Company will not have any turnover from the Property and New Rank BVI 1 and the Subsidiaries. The remaining operation of the Company will be the development of the Plaza. The Company through Zhong Zheng entered into the Zhong Zheng Agreement with China Network Communications Group Corporation (“CNC Group”), an independent third party, relating to financial and construction arrangements for the Plaza. Pursuant to the Zhong Zheng Agreement, the Group has agreed, subject to satisfaction of certain conditions precedent, to dispose to the CNC Group the Plaza under development upon completion for an aggregate consideration of approximately HK\$1,875.8 million. The consideration will be settled by a cash consideration of approximately HK\$1,455 million payable in eight separate instalments in 2004 and 2005 and an office building of CNC Group at an agreed value of approximately HK\$420.8 million. The instalments are to be used to solely finance the development of the property. The conditions precedent to the completion of the sale include, among other things, the passing of the examinations of the completed property by relevant government authorities and the satisfaction of certain quality standards as required by the purchaser. The directors consider that the instalment payments to be received by the Group will be sufficient to enable the Group to complete the Plaza and to satisfy the conditions precedent to the sale. The Plaza is currently under construction and the construction is expected to be completed by June 2005. The Plaza is intended to be an office building with an estimated gross floor areas of approximately 128,827 square meters to be erected on a parcel of land held by Zhong Zheng. Relevant details on the Zhong Zheng Agreement will be disclosed in a separate announcement to be issued by the Company.

The transaction contemplated under the Zhong Zheng Agreement would constitute a major transaction under the Listing Rules effective before 31 March 2004.

The effect of the entering into the Agreement by the Group on the Group’s net asset is that it will strengthen the financial position of the Group by reducing its liability.

The carrying amounts of assets and liabilities of the Group after Completion at the proforma balance sheet date as follows:

	31 December 2003	31 June 2004
	<i>HK\$’000</i>	<i>HK\$’000</i>
Total assets	881,388	978,258
Total liabilities	<u>1,002,784</u>	<u>1,111,002</u>
Net liabilities	<u>121,396</u>	<u>132,774</u>
Net current assets	<u>880,851</u>	<u>975,254</u>

LETTER FROM THE BOARD

The Group is dependent upon the continued support of its bankers and creditors. The Group has defaulted in respect of the repayment of certain bank loans totalling approximately HK\$92 million and such amounts have become repayable on demand. Also, certain creditors of the Group have taken legal action to recover overdue balances which amounted to approximately HK\$137 million. Certain of these bankers and creditors have applied to the court in Beijing to freeze certain land and buildings and investment properties of the Group, which is 26th and 27th Floor of the Investment Plaza.

Under the terms of the Zhong Zheng Agreement, the instalment payments will be received by the Group and will be sufficient to enable the Group to complete the project.

Against this background, the Group is negotiating with its bankers for the rescheduling or extension of the existing loan facilities which are currently in default and plans also to seek to initiate negotiations with creditors for the restructuring of amounts due to them. On the basis that the disposal of the Plaza under development will be successfully completed and that the completion of the Zhong Zheng Agreement will as described above be self-financing out of the instalment payments, and provided that the negotiations with the bankers and creditors can be satisfactorily concluded, the directors consider that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future.

The Stock Exchange has concern whether the Company would have sufficient level of operations or tangible assets of sufficient value to warrant the continued listing of the shares of the Company on the Stock Exchange pursuant to Rule 13.24 of the Listing Rules in light of the Agreement and the Zhong Zheng Agreement.

Trading of shares in the Company was already suspended on the Stock Exchange since 30 December 2003 at the request of the Company pending release of an announcement in relation to the Zhong Zheng Agreement. Such announcement will be made by the Company as soon as possible.

Trading in the shares of the Company will remain suspended pending release of such announcement. The Company has yet to demonstrate to the satisfaction of the Stock Exchange the nature of the transaction contemplated under the Zhong Zheng Agreement and whether the Company would have sufficient level of operations or tangible assets of sufficient value to warrant the continued listing of the shares of the Company on the Stock Exchange pursuant to Rules 13.24 of the Listing rules in light of the Agreement and the Zhong Zheng Agreement.

LETTER FROM THE BOARD

RECOMMENDATION FROM THE DIRECTORS

Based on the above, the directors of the Company, including the independent non-executive directors, believe that the terms and conditions of the Agreement and the transactions contemplated thereunder are fair and reasonable and the entering into of the Agreement and the completion of the Agreement are all in the best interest of the Company and its shareholders as a whole. Accordingly, the directors of the Company recommend that all shareholders of the Company should vote in favour of the resolutions to be proposed as set out in the notice of the EGM set out on pages 101 to 102 of this circular.

EXTRAORDINARY GENERAL MEETING

The EGM will be held at Room 3301, 33/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong on 14 September 2004 at 3:00 p.m. for the purposes of considering and, if thought fit, passing the ordinary resolution to approve the Agreement and the transactions contemplated thereunder. Notice of the EGM is set out on pages 101 and 102 of this circular. Whether or not you are intending to attend the EGM, you are requested to return the enclosed form of proxy to the office of the Company's branch share registrar in Hong Kong, Standard Registrars Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as practicable, but in any event not less than 48 hours prior to the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM should you so desire.

ADDITIONAL INFORMATION

Your attention is drawn to the appendices to this circular setting out the financial information on the Group and the remaining Group, pro forma financial information on the Group after the Completion, comfort letter on pro forma financial information, the property valuation report in relation to the Property, the general information of the Group and the procedures to demand a poll.

Yours faithfully,
New City (Beijing) Development Limited
Han Junran
Chairman

1. ACCOUNTANTS' REPORT

The following is the text of a letter prepared for the purpose of incorporation in this circular by, and received from, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the auditors of and the reporting accountants to the Company. The following is not extracted from any published accountants' report of the Company.

Deloitte.
德勤

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香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

28 August 2004

The Directors
New City (Beijing) Development Limited

Dear Sirs,

We set out below our report on the financial information of New City (Beijing) Development Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 December 2003 and six months ended 30 June 2003 and 2004 (the “Relevant Period”) for inclusion in the circular of the Company dated 28 August 2004 (the “Circular”) in connection with the proposed disposal of the entire interest in New Rank (BVI 1) Limited and its subsidiaries.

The Company was incorporated in the Cayman Islands on 10 August 1998 with limited liability.

We have acted as auditors of the Group throughout the Relevant Period.

We have examined the audited financial statements of the Company and the Group for each of the three years ended 31 December 2003 and six months ended 30 June 2004 (the “Underlying Financial Statements”) in accordance with the Auditing Guideline “Prospectus and the reporting accountant” as recommended by the Hong Kong Society of Accountants except that the scope of our audit was limited as explained below.

The consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Group for each of the three years ended 31 December 2003 and six months ended 30 June 2004 and the consolidated balance sheets of the Group as at 31 December 2001, 2002 and 2003 and 30 June 2004 together with the notes thereon (the “Financial Information”) set out in this report have been prepared from the Underlying Financial Statements after making such adjustments as we consider appropriate for the purpose of

preparing our report for inclusion in the circular. We have complied the financial information of the Group for the six months ended 30 June 2003 based on the management consolidation working papers used for the preparation of the interim financial report of the Group which had been reviewed by the audit committee of the Company and distributed to the shareholders on 19 September 2003, after adjusting for the impact of the adoption of the Statement of Standard Accounting Practice 12 (Revised) Income taxes.

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

Included in prepayments and other receivables as at 30 June 2004 was an interest free loan to a third party of approximately HK\$38 million. We were unable to obtain sufficient financial information relating to the financial position of this third party so as to assess its recoverability. Any adjustments found to be necessary would affect the net liabilities of the Group as at 30 June 2004 and the loss of the Group for the period then ended.

Note 2 to the Financial Information describes the liquidity position of the Group explaining that the Group is dependent upon the continued support of its bankers and creditors. As explained in note 25 to the Financial Information, the Group has defaulted in respect of the repayment of certain bank loans totalling approximately HK\$92 million and such amounts have become repayable on demand. Also, certain creditors of the Group have taken legal action to recover overdue balances which amounted to approximately HK\$137 million. Certain of these bankers and creditors have applied to the court in Beijing to freeze certain land and buildings and investment properties of the Group.

In December 2003, the Group entered into a conditional agreement with an independent third party in relation to certain financial and construction arrangements for the Group's principal project, being the development of a site in Beijing. Pursuant to the agreement, the Group has agreed, subject to satisfaction of certain conditions precedent, to dispose to the independent third party the property under development upon completion for an aggregate consideration of approximately HK\$1,875.8 million. The consideration will be settled by a cash consideration of approximately HK\$1,455 million payable in eight separate instalments in 2004 and 2005 and properties at an agreed value of approximately HK\$420.8 million. During the six months ended 30 June 2004, cash consideration of HK\$233.6 million has been received. The instalments are to be used to solely finance the development of the property. The conditions precedent to the completion of the sale include, among other things, the passing of the examination of the

completed property by relevant government authorities and the satisfaction of certain quality standards as required by the purchaser. The directors consider that the instalment payments to be received by the Group will be sufficient to enable the Group to complete the project.

Against this background, the Group is negotiating with its bankers for the rescheduling or extension of the existing loan facilities which are currently in default and plans also to seek to initiate negotiations with creditors for the restructuring of amounts due to them. On the basis that the disposal of the property under development will be successfully completed and that the completion of the project will as described above be self-financing out of the instalment payments, and assumed the negotiations with the bankers and creditors can be satisfactorily concluded, the directors consider that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future.

The Financial Information have been prepared on a going concern basis, the validity of which depends upon sufficient future funding being available. The Financial Information does not include any adjustments that may result from the failure of the Group to obtain such funding.

Because of the significance of the possible effect of the limitation in evidence available to us relating to the interest free loan to a third party and because of the fundamental uncertainty relating to the going concern basis, we are unable to form an opinion as to whether the Financial Information gives a true and fair view of the state of the affairs of the Company and the Group as at 31 December 2001, 2002 and 2003 and 30 June 2004 and of the loss and cash flows of the Group for each of the years ended 31 December 2001, 2002 and 2003 and six months ended 30 June 2004.

APPENDIX I**ACCOUNTANTS' REPORT ON THE GROUP****A. FINANCIAL INFORMATION****CONSOLIDATED INCOME STATEMENT**

	NOTES	Year ended			Six months ended	
		31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Turnover	4	37,227	2,658	2,609	872	1,966
Cost of sales		(49,509)	—	—	—	—
Gross (loss) profit		(12,282)	2,658	2,609	872	1,966
Other operating income	6	47	2,571	1,608	147	47
Selling expenses		(1,068)	—	—	—	—
(Deficit) surplus arising from revaluation of investment properties	14	—	(55,745)	662	—	—
General and administrative expenses		(43,654)	(50,895)	(42,788)	(33,551)	(16,500)
Allowance for accounts receivable	22	—	(4,190)	—	—	—
Allowance for loan receivable	19	—	(5,000)	—	—	—
Loss on other investment written off	7	(1,774)	—	—	—	—
Loss from operations	8	(58,731)	(110,601)	(37,909)	(32,532)	(14,487)
Finance costs	9	(16,433)	(26,739)	(27,241)	(11,545)	(4,929)
Loss before taxation		(75,164)	(137,340)	(65,150)	(44,077)	(19,416)
Taxation	12	—	34,283	(407)	—	1,084
Loss after taxation		(75,164)	(103,057)	(65,557)	(44,077)	(18,332)
Minority interests		575	231	63	—	(23)
Net loss for the year/period		<u>(74,589)</u>	<u>(102,826)</u>	<u>(65,494)</u>	<u>(44,077)</u>	<u>(18,355)</u>
Loss per share (HK cent)	13					
Basic		<u>(28.1)</u>	<u>(37.8)</u>	<u>(24.1)</u>	<u>(16.22)</u>	<u>(6.8)</u>

CONSOLIDATED BALANCE SHEET

	NOTES	31.12.2001 HK\$'000 (Audited)	31.12.2002 HK\$'000 (Audited)	31.12.2003 HK\$'000 (Audited)	30.6.2003 HK\$'000 (Unaudited)	30.6.2004 HK\$'000 (Audited)
Non-current assets						
Investment properties	14	260,562	156,852	157,514	156,852	157,514
Property, plant and equipment	15	108,937	83,734	87,625	82,531	84,482
Restricted cash	17	518	521	118	487	161
		<u>370,017</u>	<u>241,107</u>	<u>245,257</u>	<u>239,870</u>	<u>242,157</u>
Current assets						
Property under development for sale	18	623,088	710,307	744,400	718,113	824,715
Prepayments and other receivables	19	14,130	54,097	57,039	54,417	68,340
Amount due from a former director	20	—	986	3,761	2,148	3,709
Amounts due from former related companies	21	—	7,009	6,473	6,369	6,570
Instalment contract receivables		3,886	—	—	—	—
Accounts receivable	22	39,329	18,993	18,760	18,619	18,527
Restricted bank balances	23	—	23,434	—	—	—
Bank balances and cash		<u>196,306</u>	<u>1,879</u>	<u>69,181</u>	<u>50,590</u>	<u>77,018</u>
		<u>876,739</u>	<u>816,705</u>	<u>899,614</u>	<u>850,256</u>	<u>998,879</u>
Current liabilities						
Taxes payable		168,258	169,942	165,311	169,157	166,852
Accruals and other payables		122,815	180,972	159,986	174,064	180,567
Advances from customers		28,286	51,053	67,642	62,750	248,167
Accounts payable	24	171,675	201,119	207,614	205,796	221,254
Bank borrowings	25	200,311	337,496	91,621	337,814	91,621
Amounts due to former related companies	26	2,951	179	179	179	179
Land development cost payable	27	263,679	277,107	204,140	204,140	138,720
Current portion of obligations under finance leases	28	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>95</u>
		<u>958,075</u>	<u>1,217,968</u>	<u>896,593</u>	<u>1,154,000</u>	<u>1,047,455</u>
Net current (liabilities) assets		<u>(81,336)</u>	<u>(401,263)</u>	<u>3,021</u>	<u>(303,744)</u>	<u>(48,576)</u>
Total assets less current liabilities		<u>288,681</u>	<u>(160,156)</u>	<u>248,278</u>	<u>(63,874)</u>	<u>193,581</u>
Minority interests		<u>1,177</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

APPENDIX I**ACCOUNTANTS' REPORT ON THE GROUP**

	<i>NOTES</i>	31.12.2001 <i>HK\$'000</i> (Audited)	31.12.2002 <i>HK\$'000</i> (Audited)	31.12.2003 <i>HK\$'000</i> (Audited)	30.6.2003 <i>HK\$'000</i> (Unaudited)	30.6.2004 <i>HK\$'000</i> (Audited)
Non-current liabilities						
Long-term payable	30	46,642	46,642	46,642	46,642	—
Bank borrowings	25	242,913	101	280,374	—	280,374
Other borrowings	29	—	—	187,000	140,000	197,280
Obligations under finance leases	28	292	200	92	158	1,119
Deferred taxation	34	83,048	11,789	16,015	11,789	14,622
		<u>372,895</u>	<u>58,732</u>	<u>530,123</u>	<u>198,589</u>	<u>493,395</u>
		<u>(85,391)</u>	<u>(218,888)</u>	<u>(281,845)</u>	<u>(262,463)</u>	<u>(299,814)</u>
Capital and reserves						
Share capital	31	272	272	272	272	272
Reserves	33	<u>(85,663)</u>	<u>(219,160)</u>	<u>(282,117)</u>	<u>(262,735)</u>	<u>(300,086)</u>
		<u>(85,391)</u>	<u>(218,888)</u>	<u>(281,845)</u>	<u>(262,463)</u>	<u>(299,814)</u>

APPENDIX I**ACCOUNTANTS' REPORT ON THE GROUP****BALANCE SHEET**

	<i>NOTES</i>	31.12.2001 <i>HK\$'000</i> (Audited)	31.12.2002 <i>HK\$'000</i> (Audited)	31.12.2003 <i>HK\$'000</i> (Audited)	30.6.2003 <i>HK\$'000</i> (Unaudited)	30.6.2004 <i>HK\$'000</i> (Audited)
Non-current assets						
Investments in subsidiaries	16	<u>253,695</u>	<u>23,695</u>	<u>23,695</u>	<u>23,695</u>	<u>23,695</u>
Current assets						
Amounts due from subsidiaries		111,120	111,455	119,315	113,315	39,281
Amount due from a former director	20	—	986	2,460	986	2,460
Other receivables		465	1	60	1	7,034
Bank balances and cash		<u>7</u>	<u>8</u>	<u>8</u>	<u>7</u>	<u>16</u>
		<u>111,592</u>	<u>112,450</u>	<u>121,843</u>	<u>114,309</u>	<u>48,791</u>
Current liabilities						
Other payables		1,000	12,262	8,239	14,905	9,875
Amounts due to subsidiaries		<u>123,848</u>	<u>125,803</u>	<u>143,874</u>	<u>128,811</u>	<u>93,750</u>
		<u>124,848</u>	<u>138,065</u>	<u>152,113</u>	<u>143,716</u>	<u>103,625</u>
Net current liabilities		<u>(13,256)</u>	<u>(25,615)</u>	<u>(30,270)</u>	<u>(29,407)</u>	<u>(54,834)</u>
Total assets less current liabilities		240,439	(1,920)	(6,575)	(5,712)	(31,139)
Non-current liabilities						
Other borrowings	29	<u>—</u>	<u>—</u>	<u>45,000</u>	<u>45,000</u>	<u>45,000</u>
		<u>240,439</u>	<u>(1,920)</u>	<u>(51,575)</u>	<u>(50,712)</u>	<u>(76,139)</u>
Capital and reserves						
Share capital	31	272	272	272	272	272
Reserves	33	<u>240,167</u>	<u>(2,192)</u>	<u>(51,847)</u>	<u>(50,984)</u>	<u>(76,411)</u>
		<u>240,439</u>	<u>(1,920)</u>	<u>(51,575)</u>	<u>(50,712)</u>	<u>(76,139)</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Property revaluation reserve HK\$'000	Investment property revaluation reserve HK\$'000 (Note 33)	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2001	252	2,390	4,755	13,888	7,722	1,664	(104,900)	(74,229)
Net surplus on revaluation not recognised in income statement	—	—	—	44,451	36,029	—	—	80,480
Deferred tax liability arising on revaluation of properties	—	—	—	(14,071)	(23,391)	—	—	(37,462)
Net gain not recognised in the consolidated income statement	—	—	—	30,380	12,638	—	—	43,018
Placing of shares	8	9,743	—	—	—	—	—	9,751
Issue of shares on exercise of share options	12	8,640	—	—	—	—	—	8,652
Realised on disposals of investment properties	—	—	—	—	2,006	—	—	2,006
Net loss for the year	—	—	—	—	—	—	(74,589)	(74,589)
Realised on disposals of land and buildings	—	—	—	(1,812)	—	—	1,812	—
At 31 December 2001	272	20,773	4,755	42,456	22,366	1,664	(177,677)	(85,391)
Deferred tax liability arising on reclassification	—	—	—	2,205	(4,109)	—	—	(1,904)
Net deficit on revaluation of properties	—	—	—	(9,554)	(58,093)	—	—	(67,647)
Deferred tax liability arising on revaluation of properties	—	—	—	3,153	35,727	—	—	38,880
Net loss not recognised in the consolidated income statement	—	—	—	(4,196)	(26,475)	—	—	(30,671)
Net loss for the year	—	—	—	—	—	—	(102,826)	(102,826)
Reclassification	—	—	—	(6,681)	6,681	—	—	—
At 31 December 2002	272	20,773	4,755	31,579	2,572	1,664	(280,503)	(218,888)
Exchange difference on translation of overseas operations	—	—	—	—	—	147	—	147
Net surplus on revaluation of properties	—	—	—	6,209	—	—	—	6,209
Deferred tax liability arising on revaluation of properties	—	—	—	(3,819)	—	—	—	(3,819)
Net gain not recognised in the consolidated income statement	—	—	—	2,390	—	147	—	2,537
Net loss for the year	—	—	—	—	—	—	(65,494)	(65,494)
At 31 December 2003	272	20,773	4,755	33,969	2,572	1,811	(345,997)	(281,845)
Net surplus on revaluation of properties	—	—	—	1,002	—	—	—	1,002
Deferred tax liability arising on revaluation of properties	—	—	—	(616)	—	—	—	(616)
Net gain not recognised in the consolidated income statement	—	—	—	386	—	—	—	386
Net loss for the period	—	—	—	—	—	—	(18,355)	(18,355)
Realised on disposals of land and buildings	—	—	—	(1,249)	—	—	1,249	—
At 30 June 2004	<u>272</u>	<u>20,773</u>	<u>4,755</u>	<u>33,106</u>	<u>2,572</u>	<u>1,811</u>	<u>(363,103)</u>	<u>(299,814)</u>
At 1 January 2003	272	20,773	4,755	31,579	2,572	1,664	(280,503)	(218,888)
Net loss for the period	—	—	—	—	—	—	(44,077)	(44,077)
Exchange difference on the translation of overseas operation	—	—	—	—	—	502	—	502
At 30 June 2003	<u>272</u>	<u>20,773</u>	<u>4,755</u>	<u>31,579</u>	<u>2,572</u>	<u>2,166</u>	<u>(324,580)</u>	<u>(262,463)</u>

CONSOLIDATED CASH FLOW STATEMENT

	Year ended			Six months ended	
	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
OPERATING ACTIVITIES					
Loss before taxation	(75,164)	(137,340)	(65,150)	(44,077)	(19,416)
Adjustments for:					
Deficit (surplus) arising from revaluation of investment properties	—	55,745	(662)	—	—
Depreciation of property, plant and equipment	2,697	3,264	2,509	1,271	1,348
Loss on disposal of property, plant and equipment	4,015	1,480	—	—	1,123
Loss on other investment written off	1,774	—	—	—	—
Allowance for accounts receivable	—	4,190	—	—	—
Allowance for loan receivable	—	5,000	—	—	—
Interest income	(47)	(1,247)	(62)	(55)	(14)
Interest expenses	16,433	26,739	27,241	11,545	4,929
Operating cash flows before movements in working capital	(50,292)	(42,169)	(36,124)	(31,316)	(12,030)
Decrease in completed property for sale	45,623	—	—	—	—
Increase in property under development for sale	(61,368)	(86,129)	(31,691)	(5,817)	(70,215)
Decrease (increase) in prepayments and other receivables	21,398	(44,967)	(2,942)	(320)	(11,301)
(Increase) decrease in amount due from a former director	—	(986)	(2,775)	(1,162)	52
(Increase) decrease in amounts due from former related companies	—	(7,009)	536	640	(97)
Decrease in instalment contract receivables	5,257	3,886	—	—	—
(Increase) decrease in accounts receivable	(1,535)	16,146	233	374	233
(Increase) decrease in restricted bank balances	—	(23,434)	23,434	23,434	—
Increase (decrease) in taxes payable	1,877	1,684	(4,631)	(785)	616
Increase (decrease) in accruals and other payables	15,152	58,157	(20,986)	(6,908)	20,581
Increase in advances from customers	2,578	22,767	16,589	11,697	180,525
Increase in accounts payable	6,410	29,444	6,495	4,677	13,640
Decrease in amounts due to former related companies	—	(2,772)	—	—	—
Increase (decrease) in land development cost payable	—	13,428	(72,967)	(72,967)	(65,420)
Decrease in long term payable	—	—	—	—	(46,642)
Exchange rate adjustment	—	—	127	483	—
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(14,900)	(61,954)	(124,702)	(77,970)	9,942

APPENDIX I**ACCOUNTANTS' REPORT ON THE GROUP**

	Year ended			Six months ended	
	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
INVESTING ACTIVITIES					
Interest received	47	1,247	62	55	14
Additions to investment properties	(4,780)	—	—	—	—
Purchase of property, plant and equipment	(413)	(681)	(124)	(65)	(793)
Proceeds from disposal of property, plant and equipment	1,831	512	16	16	4,254
Decrease (increase) of restricted cash	81	(3)	403	34	(43)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(3,234)	1,075	357	40	3,432
FINANCING ACTIVITIES					
Interest paid	(22,600)	(27,829)	(29,643)	(13,534)	(15,062)
Issue of new shares	18,403	—	—	—	—
Drawdown of other borrowings	—	—	187,000	140,000	—
Drawdown of bank loans	242,762	50,420	34,398	217	10,280
Repayment of bank loans	(30,538)	(156,047)	—	—	—
Repayment of obligations under finance leases	(100)	(92)	(108)	(42)	(755)
Advance from a related company	507	—	—	—	—
NET CASH FROM (USED IN) FINANCING ACTIVITIES	208,434	(133,548)	191,647	126,641	(5,537)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	190,300	(194,427)	67,302	48,711	7,837
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR/PERIOD	6,006	196,306	1,879	1,879	69,181
CASH AND CASH EQUIVALENTS, END OF YEAR/PERIOD					
Bank balances and cash	196,306	1,879	69,181	50,590	77,018

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

The principal activity of the Company is investment holding and those of its subsidiaries are the property development and investment in the People’s Republic of China (“PRC”).

Particulars of the subsidiaries as at 30 June 2004 are as follows:

Name	Legal form	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
				Directly	Indirectly	
Beijing New Rank Real Estate Development Co., Limited (“BJNR”)	Sino-foreign equity joint venture	PRC	US\$9,200,000 Registered	—	99%	Property development and investment
Beijing Zhong Zheng Real Estate Development Co., Limited (“BJCSB”)	Sino-foreign co-operative joint venture	PRC	US\$25,000,000 Registered	—	51% (see note 41(c))	Property development
NR (BVI) Holdings Limited	Limited liability company	British Virgin Islands	US\$47,001 Ordinary	100%	—	Investment holding
New Rank (BVI 1) Limited	Limited liability company	British Virgin Islands	US\$11,000 Ordinary	—	100%	Investment holding
New Rank (BVI 2) Limited	Limited liability company	British Virgin Islands	US\$36,000 Ordinary	—	100%	Investment holding
New Rank International Limited	Limited liability company	Hong Kong	HK\$2 Ordinary HK\$5,000,000 Non-voting deferred (note 2)	—	100%	Investment holding
New Rank Services Limited	Limited liability company	Hong Kong	HK\$2 Ordinary	—	100%	General management
Polywell Finance Corporation	Limited liability company	British Virgin Islands	US\$1 Ordinary	100%	—	Inactive
Precise Assets Limited	Limited liability company	British Virgin Islands	US\$1 Ordinary	—	100%	Inactive
Sherford Company Limited	Limited liability company	Cayman Islands	US\$3 Ordinary	—	100%	Investment holding

APPENDIX I**ACCOUNTANTS' REPORT ON THE GROUP**

1. GENERAL *(continued)*

Name	Legal form	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
				Directly	Indirectly	
Team Success Management Limited	Limited liability company	British Virgin Islands	US\$1 Ordinary	—	100%	Investment holding
Tong Sun Limited (Note 1)	Limited liability company	Western Samoa	US\$49 Class A ordinary US\$51 Class B ordinary	—	51%	Investment holding
Treasure Star Investments Limited	Limited liability company	Hong Kong	HK\$2 Ordinary	—	100%	General management
Very Best Investments Limited	Limited liability company	British Virgin Islands	US\$1 Ordinary	—	100%	Inactive

Notes:

- 1) During the year ended 31 December 2003, the Group disposed of 49% interest in Tong Sun Limited (see note 18).
- 2) The non-voting deferred shares, which are not held by the Group, carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the company or to participate in any distribution on winding up.
- 3) Other than the two PRC subsidiaries, whose place of operations are in the PRC, the place of other subsidiaries are basically in Hong Kong.

2. BASIS OF PRESENTATION

In preparing the Underlying Financial Statements, the directors have given careful consideration to the future liquidity of the Group in the light of its deficiency of shareholders' funds of approximately HK\$299.8 million as at 30 June 2004.

The Group is dependent upon the continued support of its bankers and creditors. As explained in note 25, the Group has defaulted in respect of the repayment of certain bank loans totalling approximately HK\$92 million and such amounts have become repayable on demand. Also, certain creditors of the Group have taken legal action to recover overdue balances which amounted to approximately HK\$137 million. Certain of these bankers and creditors have applied to the court in Beijing to freeze certain land and buildings and investment properties of the Group.

2. BASIS OF PRESENTATION *(continued)*

The Group's principal project is the development of a site in Beijing, the PRC, on which an office complex will be developed and which is included in the balance sheet at 30 June 2004 as property under development for sale of HK\$824,715,000.

During the year ended 31 December 2003, the shareholders of the Company approved the disposal of 49% interest in a then wholly-owned subsidiary, Tong Sun Limited which holds indirectly the above property under development. The sale transaction includes, among other things, the subscription for 49 new shares at US\$49, granting an interest free loan to Tong Sun Limited by the purchaser and granting an interest bearing loan of HK\$45 million from the holding company of the purchaser. In connection with the above disposal, the subsidiary in the PRC (the "PRC Subsidiary") holding the property under development also entered into a master standstill agreement with its creditors in respect of, among other things, the settlement of the disputes between the PRC Subsidiary and its creditors and other parties, withholding of legal action against the PRC Subsidiary by its creditor, the provision of further finance by a bank of the Group for the completion of the property under development and the arrangement for ultimate repayment of loans and amounts due from the PRC Subsidiary to its creditors. The construction work recommenced in October 2003 after the adoption of a new development plan.

In December 2003, the Group entered into a conditional agreement with China Network Communications Group Corporation ("CNC"), an independent third party, in relation to certain financial and construction arrangements for the property under development. Pursuant to the agreement, the Group has agreed, subject to satisfaction of certain conditions precedent, to dispose to CNC the property under development upon completion for an aggregate consideration of approximately HK\$1,875.8 million. The consideration will be settled by a cash consideration of approximately HK\$1,455 million payable in eight separate instalments in 2004 and 2005 and properties at an agreed value of approximately HK\$420.8 million. The instalments are to be used to solely finance the development of the property. The conditions precedent to the completion of the sale include, among other things, the passing of the examinations of the completed property by relevant government authorities and the satisfaction of certain quality standards as required by CNC. The directors consider that the instalment payments to be received by the Group will be sufficient to enable the Group to complete the project and to satisfy the conditions precedent to the sale.

Against this background, the Group is negotiating with its bankers for the rescheduling or extension of the existing loan facilities which are currently in default and plans also to seek to initiate negotiations with creditors for the restructuring of amounts due to them. On the basis that the disposal of the property under development will be successfully completed and that the completion of the project will as described above be self-financing out of the instalment payments, and provided that the negotiations with the bankers and creditors can be satisfactorily concluded, the directors consider that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the Underlying Financial Statements have been prepared on a going concern basis.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information set out in this report has been prepared under the historical cost convention as modified for the revaluation of certain properties.

The Financial Information have been prepared in accordance with the accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to each balance sheet date.

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

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Revenue recognition

Revenue is recognised on the following bases:

(i) Sales of properties

Revenue and income arising from sale of completed properties held for sale is recognised upon completion of sale when title passes to the purchaser.

Revenue arising from pre-sale of completed properties under development is based on percentage of completion method. Income arising from the pre-sale of properties under development is recognised when legally binding unconditional sales contracts are signed, provided that the construction work has progressed to a stage where the ultimate realisation of profit can be reasonably determined and on the basis that the total estimated profit is apportioned over the entire period of construction to reflect the progress of the development. On this basis, profit recognised on the properties pre-sold during the accounting year is calculated by reference to the proportion of construction costs incurred up to the end of the period to the estimated total construction costs to completion, limited to the amount of sales deposits received with due allowances for contingencies. Receivables for sales transactions financed by the Group are recorded as instalment contract receivables.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)***Revenue recognition** *(continued)**(ii) Rental income*

Rental income under operating leases is recognised on a straight-line basis over the term of the respective leases.

(iii) Interest income

Interest income from deposits placed with banks and other financial institutions is recognised on the accrual basis by reference to the principal outstanding and at the interest rate applicable.

Interest income on other loans is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

(iv) Investment income

Income from investments is recognised when the Group's rights to receive payment have been established.

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less depreciation and accumulated impairment loss.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation. Any revaluation increase arising on revaluation of land and buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is charged to the income statement to the extent that it exceeds the balance, if any, on the property revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment over their estimated useful lives after taking into consideration a residual value of up to 10%, using the straight line method, at the following rates per annum:

Land and buildings	2.5%
Furniture, fixtures and equipment	20% to 33.3%
Motor vehicles	20%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm’s length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Property under development

Property under development for sale is included in current assets at the lower of cost or net realisable value.

Cost of property under development comprises land costs, fees for land use rights and development costs including interest charges and other costs directly attributable to such properties. Net realisable value is based on estimated selling prices in the ordinary course of business as determined by management with reference to prevailing market conditions, less further costs expected to be incurred to completion and direct selling expenses.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)***Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the impairment loss is treated as a revaluation decrease under that accounting standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years/period. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that accounting standard.

Assets held under finance leases

Assets held under finance leases are capitalised at their fair value on the date of acquisition. The principal portion of the corresponding commitments is shown as obligations of the Group. Finance costs, which represent the difference between the total commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant leases or contracts so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Operating leases

Rentals receivable and payable under operating leases are credited and charged to the income statement on a straight line basis over the lease terms.

Borrowing costs

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

All other borrowing costs are charged to income statement in the year/period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)***Foreign currencies**

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of overseas subsidiaries are translated at the rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rate for the year/period. All exchange differences arising on consolidation are dealt with in reserves.

Taxation

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

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years/periods and it further excludes items that are never taxable or deductible.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Staff retirement benefits

Cost of staff retirement benefits are charged to the income statement and property under development in the relevant periods in which they are incurred.

4. TURNOVER

Turnover represents the aggregate of sales of properties, net of applicable business tax and rental income.

	Year ended			Six months ended	
	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of properties	33,392	—	—	—	—
Rental income	3,835	2,658	2,609	872	1,966
	<u>37,227</u>	<u>2,658</u>	<u>2,609</u>	<u>872</u>	<u>1,966</u>

Business tax

The Group is subject to business tax at 5% on its turnover and other revenue.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into two operating divisions — property development and property investment. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

Year ended 31 December 2001

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue	<u>33,392</u>	<u>3,835</u>	<u>37,227</u>
Results			
Segment results	<u>(19,072)</u>	<u>261</u>	(18,811)
Other operating income			47
Unallocated corporate expenses			<u>(39,967)</u>
Loss from operations			(58,731)
Finance costs			<u>(16,433)</u>
Loss before taxation			(75,164)
Taxation			<u>—</u>
Loss after taxation			<u>(75,164)</u>

At 31 December 2001

ASSETS			
Segment assets	<u>666,971</u>	<u>264,565</u>	931,536
Unallocated corporate assets			<u>315,220</u>
Consolidated total assets			<u>1,246,756</u>
LIABILITIES			
Segment liabilities	<u>483,204</u>	<u>143,448</u>	626,652
Unallocated corporate liabilities			<u>704,318</u>
Consolidated total liabilities			<u>1,330,970</u>
OTHER INFORMATION			
Capital additions	289	4,780	
Depreciation	<u>167</u>	<u>—</u>	

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Year ended 31 December 2002

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue	<u>—</u>	<u>2,658</u>	<u>2,658</u>
Results			
Segment results	<u>(22,680)</u>	<u>(57,511)</u>	(80,191)
Other operating income			1,247
Allowance for loan receivable			(5,000)
Unallocated corporate expenses			<u>(26,657)</u>
Loss from operations			(110,601)
Finance costs			<u>(26,739)</u>
Loss before taxation			(137,340)
Taxation credit			<u>34,283</u>
Loss after taxation			<u>(103,057)</u>

At 31 December 2002

ASSETS			
Segment assets	<u>736,264</u>	<u>157,867</u>	894,131
Unallocated corporate assets			<u>163,681</u>
Consolidated total assets			<u>1,057,812</u>
LIABILITIES			
Segment liabilities	<u>655,604</u>	<u>98,716</u>	754,320
Unallocated corporate liabilities			<u>522,380</u>
Consolidated total liabilities			<u>1,276,700</u>
OTHER INFORMATION			
Capital additions	114	—	
Depreciation	185	—	
Allowance for accounts receivable	4,190	—	
Deficit arising from revaluation of investment properties	<u>—</u>	<u>55,745</u>	

APPENDIX I**ACCOUNTANTS' REPORT ON THE GROUP**

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)***Year ended 31 December 2003**

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue	<u>—</u>	<u>2,609</u>	<u>2,609</u>
Results			
Segment results	<u>(3,598)</u>	<u>(12,081)</u>	(15,679)
Other operating income			1,608
Unallocated corporate expenses			<u>(23,838)</u>
Loss from operations			(37,909)
Finance costs			<u>(27,241)</u>
Loss before taxation			(65,150)
Taxation charge			<u>(407)</u>
Loss after taxation			<u>(65,557)</u>

At 31 December 2003

ASSETS			
Segment assets	<u>769,660</u>	<u>161,633</u>	931,293
Unallocated corporate assets			<u>213,578</u>
Consolidated total assets			<u>1,144,871</u>
LIABILITIES			
Segment liabilities	<u>468,608</u>	<u>154,775</u>	623,383
Unallocated corporate liabilities			<u>803,333</u>
Consolidated total liabilities			<u>1,426,716</u>
OTHER INFORMATION			
Capital additions	94	—	
Depreciation	<u>168</u>	<u>—</u>	

APPENDIX I**ACCOUNTANTS' REPORT ON THE GROUP****5. BUSINESS AND GEOGRAPHICAL SEGMENTS** *(continued)***Six months ended 30 June 2003**

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue	<u>—</u>	<u>872</u>	<u>872</u>
Results			
Segment results	<u>(21,975)</u>	<u>(10,571)</u>	<u>(32,546)</u>
Other operating income			31
Unallocated corporate expenses			<u>(17)</u>
Loss from operations			(32,532)
Finance costs			<u>(11,545)</u>
Loss before taxation			(44,077)
Taxation charge			<u>—</u>
Loss after taxation			<u>(44,077)</u>

At 30 June 2003

ASSETS			
Segment assets	<u>787,081</u>	<u>160,264</u>	947,345
Unallocated corporate assets			<u>142,781</u>
Consolidated total assets			<u>1,090,126</u>
LIABILITIES			
Segment liabilities	<u>421,208</u>	<u>148,774</u>	569,982
Unallocated corporate liabilities			<u>782,607</u>
Consolidated total liabilities			<u>1,352,589</u>
OTHER INFORMATION			
Capital additions	65	—	
Depreciation	<u>158</u>	<u>—</u>	

APPENDIX I**ACCOUNTANTS' REPORT ON THE GROUP****5. BUSINESS AND GEOGRAPHICAL SEGMENTS** *(continued)***Six months ended 30 June 2004**

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue	<u>—</u>	<u>1,966</u>	<u>1,966</u>
Results			
Segment results	<u>—</u>	<u>(5,025)</u>	<u>(5,025)</u>
Other operating income			14
Unallocated corporate expenses			<u>(9,476)</u>
Loss from operations			(14,487)
Finance costs			<u>(4,929)</u>
Loss before taxation			(19,416)
Taxation charge			<u>1,084</u>
Loss after taxation			<u>(18,332)</u>

At 30 June 2004

ASSETS			
Segment assets	<u>981,040</u>	<u>161,761</u>	1,142,801
Unallocated corporate assets			<u>98,235</u>
Consolidated total assets			<u>1,241,036</u>
LIABILITIES			
Segment liabilities	<u>382,168</u>	<u>156,677</u>	538,845
Unallocated corporate liabilities			<u>1,002,005</u>
Consolidated total liabilities			<u>1,540,850</u>
OTHER INFORMATION			
Capital additions	1,778	—	
Depreciation	<u>1,243</u>	<u>—</u>	

No geographical segment information of the Group is shown as the operating business of the Group is solely carried out in Beijing, the PRC and the Group's assets are substantially located in the PRC.

6. OTHER OPERATING INCOME

	Year ended			Six months ended	
	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income	47	1,247	62	55	14
Other income	—	1,324	1,546	92	33
	47	2,571	1,608	147	47

7. LOSS ON OTHER INVESTMENT WRITTEN OFF

In 2001, the directors resolved to terminate the sale and purchase agreement entered into in October 2000 for an acquisition of 17.6% in Beijing Huaxia Information Technology Limited due to the fact that the latter company did not comply with the terms under the agreement. The Group claimed for the repayment of the total deposit of RMB3,200,000 paid. The directors considered that it was appropriate to write off the amount of HK\$1,774,000 which remained unsettled as at 31 December 2001.

8. LOSS FROM OPERATIONS

	Year ended			Six months ended	
	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss from operations has been arrived at after charging:					
Auditors' remuneration	1,000	1,126	823	550	1,019
Depreciation of property, plant and equipment					
Owned assets	2,561	3,128	2,372	1,203	1,220
Leased assets	136	136	137	68	128
Exchange loss	10	22	153	1,802	—
Loss on disposal of property, plant and equipment	4,015	1,480	—	—	1,123
Operating lease rental of premises	4,255	2,777	1,908	1,127	781
Management fee paid	—	—	3,310	—	1,800
Staff costs including directors' emoluments (<i>note 10 below</i>)	16,269	12,175	11,395	6,160	2,730
Retirement benefit scheme contributions, including those included in directors' emoluments (<i>note 10 below</i>)	982	154	167	50	37
	17,251	12,329	11,562	6,210	2,767
and after crediting:					
Net rental income less negligible outgoings	<u>3,835</u>	<u>2,658</u>	<u>2,609</u>	<u>872</u>	<u>1,966</u>

In addition, during the year ended 31 December 2003, the loss on disposal of the 49% interest in a subsidiary as described in note 18 amounted to HK\$382.

APPENDIX I

ACCOUNTANTS' REPORT ON THE GROUP

9. FINANCE COSTS

	Year ended			Six months ended	
	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on:					
— Bank loans and overdrafts					
wholly repayable within					
five years	17,301	27,800	23,961	13,477	13,663
— Other loans wholly repayable					
within five years	—	—	1,405	44	1,338
— Late delivery of properties	5,267	—	—	—	—
— Payable overdue	—	—	4,243	—	—
— Finance leases	32	29	34	13	61
Total borrowing costs	22,600	27,829	29,643	13,534	15,062
Less: Amounts capitalised	(6,167)	(1,090)	(2,402)	(1,989)	(10,133)
	<u>16,433</u>	<u>26,739</u>	<u>27,241</u>	<u>11,545</u>	<u>4,929</u>

Borrowing cost capitalized during the year ended 31 December 2001, 2002 and 2003, six months ended 30 June 2003 and 2004 are calculated by application of a capitalisation rate of 6.7%, 6.5%, 6.5%, 6.5% and 6.0% respectively to expenditure on qualifying assets.

10. DIRECTORS' EMOLUMENTS

	Year ended			Six months ended	
	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Directors' fees					
Executive	—	—	—	—	—
Non-executive	217	26	—	—	—
Independent Non-executive	120	188	216	120	120
	<u>337</u>	<u>214</u>	<u>216</u>	<u>120</u>	<u>120</u>
Other emoluments (Executive Directors)					
Salaries and other benefits	6,775	5,393	2,962	1,200	1,290
Retirement benefits scheme contributions	21	13	10	6	6
	<u>6,796</u>	<u>5,406</u>	<u>2,972</u>	<u>1,206</u>	<u>1,296</u>
Total emoluments	<u>7,133</u>	<u>5,620</u>	<u>3,188</u>	<u>1,326</u>	<u>1,416</u>

10. DIRECTORS' EMOLUMENTS *(continued)*

Emoluments of Directors were within the following bands:

	Year ended			Six months ended	
	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
	<i>No. of</i>	<i>No. of</i>	<i>No. of</i>	<i>No. of</i>	<i>No. of</i>
	<i>Directors</i>	<i>Directors</i>	<i>Directors</i>	<i>Directors</i>	<i>Directors</i>
Nil to HK\$1,000,000	4	7	4	5	5
HK\$1,000,001 to HK\$1,500,000	1	1	—	—	—
HK\$1,500,001 to HK\$2,000,000	1	—	—	—	—
HK\$2,000,001 to HK\$2,500,000	—	—	1	—	—
HK\$2,500,001 to HK\$3,000,000	—	1	—	—	—
HK\$3,000,001 to HK\$3,500,000	1	—	—	—	—
	<u>7</u>	<u>9</u>	<u>5</u>	<u>5</u>	<u>5</u>

No director waived any emoluments during the Relevant Period.

Note: During the Relevant Period, the directors' salaries and other benefits included the operating lease rentals amounting to HK\$818,000, HK\$711,000, HK\$Nil, HK\$Nil and HK\$Nil for the year ended 31 December 2001, 2002 and 2003, six months ended 30 June 2003 and 2004 respectively in respect of rented premises provided to directors. The amounts were also included in the respective minimum lease payments paid in respect of rented premises under note 8 above.

11. EMPLOYEES' EMOLUMENTS

During the Relevant Period, the five highest paid individuals of the Group includes four, four, two, two and two directors of the Company for the year ended 31 December 2001, 2002 and 2003, six months ended 30 June 2003 and 2004 respectively. Their emoluments are set out in note 10 above. The emoluments of the remaining one employee for the year ended 31 December 2001 and 2002, three employees for the year ended 31 December 2003 and for the six months ended 30 June 2003 and 2004 were as follows:

	Year ended			Six months ended	
	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other benefits	3,930	600	1,445	2,535	438
Retirement benefit scheme contributions	10	12	24	16	18
	<u>3,940</u>	<u>612</u>	<u>1,469</u>	<u>2,551</u>	<u>456</u>

11. EMPLOYEES' EMOLUMENTS *(continued)*

Their emoluments were within the following bands:

	Year ended			Six months ended	
	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
	<i>No. of</i>	<i>No. of</i>	<i>No. of</i>	<i>No. of</i>	<i>No. of</i>
	<i>employees</i>	<i>employees</i>	<i>employees</i>	<i>employees</i>	<i>employees</i>
Nil to HK\$1,000,000	—	1	3	3	3
HK\$3,500,001 to HK\$4,000,000	1	—	—	—	—
	<u>1</u>	<u>1</u>	<u>3</u>	<u>3</u>	<u>3</u>

12. TAXATION

	Year ended			Six months ended	
	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Income tax charge	—	—	—	—	—
Land appreciation tax charge	—	—	—	—	(925)
	—	—	—	—	(925)
Deferred tax credit (charge)	—	34,283	(407)	—	2,009
	<u>—</u>	<u>34,283</u>	<u>(407)</u>	<u>—</u>	<u>1,084</u>

Income tax

The group companies operating in Hong Kong are subject to profits tax at the rate of 16% for the years ended 31 December 2001 and 2002, and 17.5% for the year ended 31 December 2003 and six months ended 30 June 2003 and 2004 on the estimated assessable profit arising in or derived from Hong Kong. No provision for Hong Kong Profits Tax has been made as the Group has no assessable income for Hong Kong Profits Tax during the Relevant Period.

The group companies operating in the PRC are subject to enterprise income tax at a rate of 33% during the Relevant Period. No provision for PRC enterprise income tax has been made as the Group has no assessable income for PRC tax during the Relevant Period.

Land appreciation tax

Land appreciation tax is levied at progressive rates ranging from 30% to 60% on the balance of the proceeds received on transfer of real properties after deducting certain items including consideration paid for acquisition of land use rights, land development costs incurred, construction costs and taxes paid in relation to the transfer of real properties.

Details of deferred taxation are set out in note 34.

APPENDIX I

ACCOUNTANTS' REPORT ON THE GROUP

12. TAXATION (continued)

The charge for the year is reconciled to loss per the consolidated income statement as follows:

	Year ended						Six months ended			
	31.12.2001		31.12.2002		31.12.2003		30.6.2003		30.6.2004	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Loss before taxation	(75,164)		(137,340)		(65,150)		(44,077)		(19,416)	
Tax at the PRC income										
tax rate of 33%	(24,804)	(33.0)	(45,322)	(33.0)	(21,500)	(33.0)	(14,545)	(33.0)	(6,407)	(33.0)
Tax effect of expenses not deductible for tax purpose	3,989	5.3	1,765	1.3	—	—	—	—	—	—
Tax effect of tax losses not recognised	16,899	22.5	20,927	15.2	18,978	29.1	12,605	29.0	3,842	19.8
Utilisation of tax loss previously not recognised	(363)	(0.5)	—	—	—	—	—	—	—	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	4,721	6.3	(11,141)	(8.1)	2,946	4.5	1,940	4.0	1,495	7.7
Others	(442)	(0.6)	(512)	(0.4)	(17)	—	—	—	(14)	(0.1)
Tax effect and effective tax rate for the year/period	—	—	(34,283)	(25.0)	407	0.6	—	—	(1,084)	(5.6)

13. LOSS PER SHARE

The calculation of the basic loss per share is based on the following data:

	Year ended			Six months ended	
	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss for the year/period	74,589	102,826	65,494	44,077	18,355
Number of shares					
Number of shares for the purposes of basic earnings per share	265,017,000	271,758,000	271,758,000	271,758,000	271,758,000

No diluted loss per share for the Relevant Period has been presented as the exercise of the Company’s outstanding options would result in decrease in loss per share.

14. INVESTMENT PROPERTIES

	THE GROUP <i>HK\$'000</i>
At 1 January 2001	262,986
Additions	4,780
Transfer to completed properties for sale	(43,597)
Revaluation increase	<u>36,393</u>
At 31 December 2001	260,562
Transfer from land and buildings	10,977
Revaluation decrease	<u>(114,687)</u>
At 31 December 2002 and 30 June 2003	156,852
Revaluation increase	<u>662</u>
At 31 December 2003 and 30 June 2004	<u><u>157,514</u></u>

Investment properties were revalued at their open market value at 31 December 2001 by Messrs. Vigers Hong Kong Limited, an independent valuer, and at 31 December 2002 and 2003 and 30 June 2004 by Messrs. RHL Appraisal Limited, an independent valuer. The directors are of the opinion that the valuation of the investment properties as at 30 June 2003 was not materially different from the valuation as at 31 December 2002.

The treatment of the revaluation surplus (deficit) of the investment properties are as follows:

	THE GROUP				
	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revaluation increase					
(decrease) dealt within:					
— Investment property					
revaluation reserve and					
minority interests	36,393	(58,942)	—	—	—
— Income statement	<u>—</u>	<u>(55,745)</u>	<u>662</u>	<u>—</u>	<u>—</u>
Surplus (deficit) arising from					
revaluation of investment					
properties	<u><u>36,393</u></u>	<u><u>(114,687)</u></u>	<u><u>662</u></u>	<u><u>—</u></u>	<u><u>—</u></u>

The investment properties are located in Beijing, the PRC and held under medium term lease.

HK\$55,626,000, HK\$41,583,000, HK\$27,325,000, HK\$39,753,000 and HK\$47,099,000 of the Group's investment properties are rented out under operating leases as at 31 December 2001, 2002 and 2003, 30 June 2003 and 2004 respectively.

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP				
COST OR VALUATION				
At 1 January 2001	68,014	4,896	5,016	77,926
Additions	—	203	210	413
Disposals	(5,947)	—	(188)	(6,135)
Surplus on revaluation	43,371	—	—	43,371
At 31 December 2001	105,438	5,099	5,038	115,575
Comprising:				
At cost	—	5,099	5,038	10,137
At valuation	105,438	—	—	105,438
	105,438	5,099	5,038	115,575
DEPRECIATION				
At 1 January 2001	—	1,620	4,139	5,759
Provided for the year	1,675	804	218	2,697
Eliminated on disposals	(146)	—	(143)	(289)
Eliminated on revaluation	(1,529)	—	—	(1,529)
At 31 December 2001	—	2,424	4,214	6,638
NET BOOK VALUES				
At 31 December 2001	105,438	2,675	824	108,937

15. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP				
COST OR VALUATION				
At 1 January 2002	105,438	5,099	5,038	115,575
Additions	—	681	—	681
Disposals	—	(2,603)	—	(2,603)
Transfer to investment properties	(11,116)	—	—	(11,116)
Deficit on revaluation	(12,147)	—	—	(12,147)
At 31 December 2002	82,175	3,177	5,038	90,390
Comprising:				
At cost	—	3,177	5,038	8,215
At valuation	82,175	—	—	82,175
	82,175	3,177	5,038	90,390
DEPRECIATION				
At 1 January 2002	—	2,424	4,214	6,638
Provided for the year	2,635	400	229	3,264
Eliminated on disposals	—	(611)	—	(611)
Eliminated on transfer to investment properties	(139)	—	—	(139)
Eliminated on revaluation	(2,496)	—	—	(2,496)
At 31 December 2002	—	2,213	4,443	6,656
NET BOOK VALUES				
At 31 December 2002	82,175	964	595	83,734

15. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP				
COST OR VALUATION				
At 1 January 2003	82,175	3,177	5,038	90,390
Currency realignment	18	2	2	22
Additions	—	124	—	124
Disposals	—	(61)	—	(61)
Revaluation increase	4,218	—	—	4,218
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2003	86,411	3,242	5,040	94,693
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Comprising:				
At cost	—	3,242	5,040	8,282
At valuation	86,411	—	—	86,411
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	86,411	3,242	5,040	94,693
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
DEPRECIATION				
At 1 January 2003	—	2,213	4,443	6,656
Currency realignment	—	1	1	2
Provided for the year	2,054	256	199	2,509
Eliminated on disposals	—	(45)	—	(45)
Eliminated on revaluation	(2,054)	—	—	(2,054)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2003	—	2,425	4,643	7,068
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
NET BOOK VALUES				
At 31 December 2003	<u>86,411</u>	<u>817</u>	<u>397</u>	<u>87,625</u>

15. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP				
COST OR VALUATION				
At 1 January 2003	82,175	3,177	5,038	90,390
Currency realignment	19	2	2	23
Additions	—	65	—	65
Disposals	—	(61)	—	(61)
Revaluation increase	—	—	—	—
	<u>82,194</u>	<u>3,183</u>	<u>5,040</u>	<u>90,417</u>
At 31 June 2003	82,194	3,183	5,040	90,417
Comprising:				
At cost	—	3,183	5,040	8,223
At valuation	82,194	—	—	82,194
	<u>82,194</u>	<u>3,183</u>	<u>5,040</u>	<u>90,417</u>
DEPRECIATION				
At 1 January 2003	—	2,213	4,443	6,656
Currency realignment	2	1	1	4
Provided for the year	1,027	132	112	1,271
Eliminated on disposals	—	(45)	—	(45)
Eliminated on revaluation	—	—	—	—
	<u>1,029</u>	<u>2,301</u>	<u>4,556</u>	<u>7,886</u>
At 30 June 2003	1,029	2,301	4,556	7,886
NET BOOK VALUES				
At 30 June 2003	<u>81,165</u>	<u>882</u>	<u>484</u>	<u>82,531</u>

15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Land and buildings <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP				
COST OR VALUATION				
At 1 January 2004	86,411	3,242	5,040	94,693
Additions	—	983	1,587	2,570
Disposals	(5,421)	(40)	—	(5,461)
At 30 June 2004	80,990	4,185	6,627	91,802
Comprising:				
At cost	—	4,185	6,627	10,812
At valuation	80,990	—	—	80,990
	80,990	4,185	6,627	91,802
DEPRECIATION				
At 1 January 2004	—	2,425	4,643	7,068
Provided for the period	1,080	121	147	1,348
Eliminated on disposals	(68)	(16)	—	(84)
Eliminated on revaluation	(1,012)	—	—	(1,012)
At 30 June 2004	—	2,530	4,790	7,320
NET BOOK VALUES				
At 30 June 2004	80,990	1,655	1,837	84,482

The land and buildings are located in Beijing, the PRC and held under medium term lease.

The Group's land and buildings were revalued at their open market value at 31 December 2001 by Messrs. Vigers Hong Kong Limited, an independent value at a total value of HK\$105,438,000; and at 31 December 2002 and 2003 and 30 June 2004 by Messrs. RHL Appraisal Limited, an independent valuer, at a total value of HK\$82,175,000, HK\$86,411,000 and HK\$80,990,000 respectively. The directors resolved to adopt the valuation during the Relevant Period. The directors are of the opinion that the valuation of the Group's land and buildings as at 30 June 2003 was not materially different from the valuation as at 31 December 2003.

As at 31 December 2001, 2002 and 2003, 30 June 2003 and 2004, the net book value of property, plant and equipment included an amount of HK\$398,000, HK\$262,000, HK\$125,000, HK\$193,000 and HK\$1,584,000 respectively in respect of assets held under finance leases.

Had the land and buildings not been revalued, they would have been included in the consolidated balance sheet at historical cost less accumulated depreciation at HK\$42,072,000, HK\$35,043,000, HK\$33,068,000, HK\$34,095,000 and HK\$29,890,000 as at 31 December 2001, 2002 and 2003, 30 June 2003 and 2004 respectively.

16. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY				
	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted shares, at cost	306,695	306,695	306,695	306,695	306,695
Impairment losses recognised	(53,000)	(283,000)	(283,000)	(283,000)	(283,000)
	<u>253,695</u>	<u>23,695</u>	<u>23,695</u>	<u>23,695</u>	<u>23,695</u>

Details of the subsidiaries are set out in note 1.

The investment costs in certain subsidiaries have been impaired as these subsidiaries were loss-making.

17. RESTRICTED CASH

THE GROUP

As at 31 December 2001, 2002 and 2003, 30 June 2003 and 2004, pursuant to the terms of certain guarantee agreements, cash of approximately HK\$518,000, HK\$521,000, HK\$118,000, HK\$487,000 and HK\$161,000 respectively were designated as guarantee against mortgage facilities provided by the bank to the buyers of the Group's properties. Accordingly, the use of the cash balances is restricted.

18. PROPERTY UNDER DEVELOPMENT FOR SALE

	THE GROUP				
	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At cost	<u>623,088</u>	<u>710,307</u>	<u>744,400</u>	<u>718,113</u>	<u>824,715</u>

The property under development for sale represents a property development project in Beijing, the PRC.

18. PROPERTY UNDER DEVELOPMENT FOR SALE (continued)

During the year ended 31 December 2003, the shareholders of the Company approved the disposal of 49% interest in a then wholly-owned subsidiary, Tong Sun Limited which holds indirectly the above property under development. The sale transaction includes, among other things, the subscription for 49 new shares at US\$49, granting an interest free loan to Tong Sun Limited by the purchaser and granting an interest bearing loan of HK\$45 million from the holding company of the purchaser to the Company. Details of the transaction has been disclosed in the circular to the shareholders on 3 June 2003. In connection with the above disposal, the PRC Subsidiary holding the property under development also entered into a master standstill agreement with its creditors in respect of, among other things, the settlement of the disputes between the PRC Subsidiary and its creditors and other parties, withholding of legal action against the PRC Subsidiary by its creditor, the provision of further finance by a bank of the Group for the completion of the property under development and the arrangement for ultimate repayment of loans and monies due from the PRC Subsidiary to its creditors. The construction work was recommenced in October 2003 after the adoption of a new development plan.

In December 2003, the Group entered into an agreement with CNC in relation to certain financial and construction arrangements for the property under development. Pursuant to the agreement, the Group has agreed, subject to satisfaction of certain conditions precedent, to dispose the property under development upon completion and its ancillary facilities, together with the relevant land use rights for an aggregate consideration of approximately HK\$1,875.8 million to CNC. The completion of the proposed disposal is subject to the signing of a formal "sales and purchase agreement for commercial houses" and satisfaction of certain conditions precedent, among other things, including the passing of the examinations stipulated by the relevant government authorities and the satisfaction of certain quality standards as required by CNC. The proposed consideration will be settled by a cash consideration of approximately HK\$1,455 million payable in eight different instalments in 2004 and 2005 and properties at an agreed value of approximately HK\$420.8 million. During the six months ended 30 June 2004, cash consideration of HK\$233.6 million has been received and included in the advances from customers.

19. PREPAYMENTS AND OTHER RECEIVABLES

	THE GROUP				
	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest bearing loan less allowance of HK\$5,000,000 (note)	—	37,623	—	37,623	—
Interest free loan (note)	—	—	37,623	—	37,623
Amount due from Guozheng Economics Development Company Limited ("Guozheng") (see note 41(c))	—	3,954	4,695	3,958	—
Deposit with an investment company in the PRC	6,256	—	—	—	—
Temporary advances	934	7,968	7,034	7,034	17,314
Prepaid expenses, deposits and others	6,940	4,552	7,687	5,802	13,403
	<u>14,130</u>	<u>54,097</u>	<u>57,039</u>	<u>54,417</u>	<u>68,340</u>

19. PREPAYMENTS AND OTHER RECEIVABLES (continued)

Note: The above interest bearing loan represented the loan to a borrower in 2002 carrying interest at a short term loan interest rate as announced by the People’s Bank of China from time to time and due for repayment on 30 June 2003. However, interest income amounting to approximately HK\$962,000 was not recognised in 2002. Moreover, the directors recognised an allowance of HK\$5,000,000 for this loan as at 31 December 2002. During the year ended 31 December 2003, the Group entered into a triparty agreement with the borrower and another enterprise in the PRC. Under the agreement, the interest bearing loan of HK\$37,623,000 receivable was assigned to the PRC enterprise and the loan becomes non-interest bearing.

20. AMOUNT DUE FROM A FORMER DIRECTOR

	THE GROUP					THE COMPANY				
	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2003	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mr. Leung Kwo	—	986	3,761	2,148	3,709	—	986	2,460	986	2,460

21. AMOUNTS DUE FROM FORMER RELATED COMPANIES

	THE GROUP				
Name of company	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Beijing Profit Mark Property Management Company Limited (“PMP”)					
Interest bearing loan	—	7,665	6,426	6,322	6,523
Less: Amount due to PMP (non-interest bearing)	—	(703)	—	—	—
	—	6,962	6,426	6,322	6,523
北京世源光華房地產開發有限公司					
Beijing Shiyuan Guanghai Real Estate Development Limited (“Beijing Shiyuan”)					
	—	47	47	47	47
	—	7,009	6,473	6,369	6,570

PMP provides building management services to the Group. The interest bearing loan and the amount due to PMP are unsecured and with no fixed term of repayment.

The amount due from Beijing Shiyuan is unsecured and non-interest bearing with no fixed term of repayment.

The above companies were controlled by former directors of the Company.

22. ACCOUNTS RECEIVABLE

The terms of payment in respect of the Group's sales of properties are in accordance with the terms of respective sales contracts.

The aged analysis of accounts receivable as at the balance sheet date is as follows:

	THE GROUP				
	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 3 months	105	—	233	—	—
4 — 6 months	—	—	—	92	—
7 — 9 months	4,080	—	—	—	—
10 — 12 months	13,537	—	—	—	—
Over 1 year	21,607	18,993	18,527	18,527	18,527
	<u>39,329</u>	<u>18,993</u>	<u>18,760</u>	<u>18,619</u>	<u>18,527</u>

The directors reviewed the accounts receivable and considered that the recoverability of certain accounts receivable was remote. Accordingly, an allowance of HK\$4,190,000 was made in 2002.

23. RESTRICTED BANK BALANCES**THE GROUP**

As at 31 December 2002, the bank balances were frozen by the court in the PRC following the legal action taken by a creditor.

During the year ended 31 December 2003, the litigation in relation to the frozen bank balances was settled. The bank balances were released.

24. ACCOUNTS PAYABLE

The aged analysis of accounts payable as at the balance sheet date is as follows:

	THE GROUP				
	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 3 months	—	20,464	9,534	—	38,919
4 — 6 months	106	8,562	—	4,677	11,998
7 — 9 months	9,995	2,827	—	20,464	—
10 — 12 months	—	10,586	5,189	8,562	—
Over 1 year	161,574	158,680	192,891	172,093	170,337
	<u>171,675</u>	<u>201,119</u>	<u>207,614</u>	<u>205,796</u>	<u>221,254</u>

During the year ended 31 December 2002 and 2003, six months ended 30 June 2003 and 2004, certain creditors have taken legal action to recover the amounts due by the Group and certain properties of the Group are frozen by the court in the PRC following their actions.

25. BANK BORROWINGS

	THE GROUP				
	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans	443,224	337,597	371,995	337,814	371,995
Secured	394,715	245,961	280,374	246,193	280,374
Unsecured	48,509	91,636	91,621	91,621	91,621
	443,224	337,597	371,995	337,814	371,995
The maturity of the above loans is as follows:					
On demand or within one year	200,311	337,496	91,621	337,814	91,621
More than one year, but not exceeding two years	242,762	101	280,374	—	280,374
More than two years, but not exceeding five years	151	—	—	—	—
	443,224	337,597	371,995	337,814	371,995
Less: Amounts due within one year shown under current liabilities	(200,311)	(337,496)	(91,621)	(337,814)	(91,621)
Amounts due after one year	242,913	101	280,374	—	280,374

Note: The repayment term of certain bank loans amounting to HK\$64,034,000, HK\$91,535,000, HK\$91,621,000, HK\$91,621,000 and HK\$91,621,000 have matured before 31 December 2001, 2002, and 2003, 30 June 2003 and 2004 respectively. Certain banks have taken legal actions to recover the matured loans granted. Certain properties of the Group were frozen by the court in the PRC following their actions. As described in note 2, the directors are of the opinion that the Group can obtain the support from the bankers to renew those loans for a further period of time.

26. AMOUNTS DUE TO FORMER RELATED COMPANIES

Amounts due to former related parties as at the balance sheet date are as follows:

	THE GROUP				
	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Beijing Tian Sha Building					
Decoration Engineering Co., Ltd.	179	179	179	179	179
PMP	2,772	—	—	—	—
	<u>2,951</u>	<u>179</u>	<u>179</u>	<u>179</u>	<u>179</u>

The above amounts are unsecured and non-interest bearing with no fixed terms of repayment. The above companies are controlled by former directors of the Company.

27. LAND DEVELOPMENT COST PAYABLE

	THE GROUP				
	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts repayable within					
one year	<u>263,679</u>	<u>277,107</u>	<u>204,140</u>	<u>204,140</u>	<u>138,720</u>

The land development cost payable of approximately HK\$228,811,000 as at 31 December 2001 and 2002, HK\$204,140,000 as at 31 December 2003, HK\$204,140,000 as at 30 June 2003and HK\$138,720,000 as at 30 June 2004 was jointly guaranteed by a joint venture partner of a subsidiary and BJNR.

APPENDIX I

ACCOUNTANTS’ REPORT ON THE GROUP

28. OBLIGATIONS UNDER FINANCE LEASES

	Minimum Lease payments					Present value of minimum lease payments				
	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP										
Amounts payable under finance leases										
Within one year	131	131	131	131	101	100	100	100	100	95
In the second to fifth year inclusive	350	263	120	193	1,124	292	200	92	158	1,119
	481	394	251	324	1,225	392	300	192	258	1,214
Less: Future finance charges	(89)	(94)	(59)	(66)	(11)	—	—	—	—	—
	392	300	192	258	1,214	392	300	192	258	1,214
Less: Amounts due within one year shown under current liabilities						(100)	(100)	(100)	(100)	(95)
Amounts due after one year						292	200	92	158	1,119

29. OTHER BORROWINGS

	THE GROUP					THE COMPANY				
	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest free (Note b)	—	—	142,000	95,000	152,280	—	—	—	—	—
Interest bearing (Note c)	—	—	45,000	45,000	45,000	—	—	45,000	45,000	45,000
	—	—	187,000	140,000	197,280	—	—	45,000	45,000	45,000

29. OTHER BORROWINGS *(continued)**Notes:*

- (a) The above loans represent the loans to the Group pursuant to the sale agreement of Tong Sun Limited (Note 18) and are secured on the shares in the Company held by a director and a former director (Note 41(a)). The repayment of the loans is in priority to the preferred dividend payment by Tong Sun Limited to the Group.
- (b) The loan is interest free and for a term of 2 years from June 2003 repayable on maturity and will be applied exclusively to finance the working capital requirement of the property under development for sale. As at 30 June 2004, the Group is negotiating for renewing the loan. The directors are of the opinion that the Group can obtain support from the lender to renew the loan which will not be repaid in the following year.
- (c) The loan is for a term of 2 years from June 2003 and bears interest at the rate of 6% per annum and is repayable in one lump sum upon maturity and will be applied to finance the general working capital and settlement of accounts payable of the Group. As at 30 June 2004, the Group is negotiating for renewing the loan. The directors are of the opinion that the Group can obtain support from the lender to renew the loan which will not be repaid in the following year.

30. LONG-TERM PAYABLE**THE GROUP**

In October 1999, the joint venture partners of BJCSB entered into an agreement, pursuant to which Guozheng gave up all its interest in BJCSB in exchange for a fixed return as defined in the agreement. After completion of the transaction, BJCSB became a wholly-owned subsidiary of Tong Sun Limited. Accordingly, capital investment of HK\$46,642,000 made by Guozheng was reclassified as a long-term payable as at 31 December 2001, 2002 and 2003 and 30 June 2003. During the six months ended 30 June 2004, the amount was fully repaid to Guozheng.

31. SHARE CAPITAL

	No. of shares	HK\$'000
Shares of HK\$0.001 each		
Authorised:		
Balance as at 1 January 2001, 31 December 2001, 2002 and 2003, 30 June 2003 and 2004	<u>500,000,000</u>	<u>500</u>
Issued and fully paid:		
Balance as at 1 January 2001	252,300,000	252
Exercise of share options	11,958,000	12
Issue of new shares by way of placement on 13 March 2001	<u>7,500,000</u>	<u>8</u>
Balance as at 31 December 2001, 2002 and 2003, 30 June 2003 and 2004	<u>271,758,000</u>	<u>272</u>

32. SHARE OPTIONS

The Company had a share option scheme which was adopted pursuant to a resolution passed on 25 January 2000 for the primary purpose of providing incentives to executive directors and eligible employees ("2000 share option scheme"). Under the 2000 share option scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the 2000 share option scheme and other share option schemes of the Company is not permitted to exceed 10% of the issued shares of the Company from time to time excluding any shares of the Company allotted and issued pursuant to the share option scheme, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in aggregate is not permitted to exceed 25% of the shares of the Company in issue and issuable.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per option. Options granted may be exercised at any time during a period notified by the board of directors and, unless otherwise resolved by the board of directors at the time of grant, such period of time should not be less than three years and not more than ten years from the date of grant of the option. The exercise price is determined by the directors and will be the higher of the 80% of the average closing prices of the shares for the five business days immediately preceding the date of grant and the nominal value of the Company's shares.

Pursuant to a shareholders' resolution passed on 14 June 2002, the 2000 share option scheme was terminated.

A new share option scheme (the "New Share Option Scheme") was approved and adopted on 14 June 2002. The New Share Option Scheme is valid and effective for a period of 10 years after the date of adoption. Outstanding options granted pursuant to the 2000 share option scheme shall continue to be subject to the provisions of the 2000 share option scheme and the adoption of the New Share Option Scheme will not in any event affect the terms of the grant of such outstanding options.

32. SHARE OPTIONS *(continued)*

The New Share Option Scheme was adopted for the purpose of attracting, retaining and motivating any full-time employees and directors (including non-executive directors and independent non-executive directors) of the Group, part time employees working with weekly working hours of 10 hours and above of the Group and the Group's advisors, consultants, provider of goods and/or services and other person who has contributed to the Group or their trustee (the "Participants") to perform their best in achieving the goals of the Group and at the same time allow them to enjoy the results of the Company attained through their effect and contributions. Under the New Share Option Scheme, the board of directors of the Company may grant options to the Participants to subscribe for shares in the Company.

Subject to the terms of the New Share Option Scheme, the total number of shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme and any other schemes should not in aggregate exceed 10% of the total number of shares in issue as at the date of approval of the New Share Option Scheme unless approval from the Company's shareholders is obtained to renew such limit. Notwithstanding the above, the maximum number of shares in respect of which options may be granted under the New Share Option Scheme together with any options outstanding and yet to be exercised under the New Share Option Scheme and any other share option schemes of the Company must not exceed 30% (or such higher percentage as may be allowed under the Rules Governing the Listing of Securities on the Stock Exchange) of the total number of shares in issue from time to time. The number of shares in respect of which options may be granted to each Participant in aggregate in any 12-month period shall not exceed 1% of the total number of shares in issue, any further grant to that particular Participant shall be subject to approval of shareholders of the Company in general meeting with such participant and his or her associates abstaining from voting.

Options granted pursuant to the New Share Option Scheme must be accepted within 28 days of the date of option offered, upon payment of HK\$1 by way of consideration. Options may be exercised at any time from the date of acceptance of the share option to such date as determined by the board of directors but in any event not exceeding 10 years. The exercise price per share will be determined by the board of directors of the Company, but in any event shall not be less than the highest of (i) the average closing price of the shares as quoted in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the option offered, (ii) the closing price of the shares as quoted in the Stock Exchange's daily quotations sheet on the date of the option offered and, (iii) the nominal value of the shares.

32. SHARE OPTIONS *(continued)*

No options have been granted under the New Share Option Scheme since its adoption.

At 31 December 2001, 2002 and 2003, 30 June 2003 and 2004, the number of shares in respect of which options had been granted and remaining outstanding under the 2000 share option scheme was 10,242,000, 7,450,000, 6,000,000, 7,450,000 and Nil respectively, representing 3.8%, 2.7%, 2.2%, 2.7% and 0% of the shares of the Company in issue at the respective dates.

The following table discloses details of the Company's share options held by employees (including directors) and movements in such holdings during the Relevant Period:

Year ended 31 December 2001

Option type	Outstanding at 1 January 2001	Granted during the year	Exercised during the year	Outstanding at 31 December 2001
2000	3,950,000	—	(2,500,000)	1,450,000
2001A	—	12,250,000	(9,458,000)	2,792,000
2001B	—	5,000,000	—	5,000,000
2001C	—	1,000,000	—	1,000,000
	<u>3,950,000</u>	<u>18,250,000</u>	<u>(11,958,000)</u>	<u>10,242,000</u>

Year ended 31 December 2002

Option type	Outstanding at 1 January 2002	Lapsed during the year	Outstanding at 31 December 2002
2000	1,450,000	—	1,450,000
2001A	2,792,000	(2,792,000)	—
2001B	5,000,000	—	5,000,000
2001C	<u>1,000,000</u>	<u>—</u>	<u>1,000,000</u>
	<u>10,242,000</u>	<u>(2,792,000)</u>	<u>7,450,000</u>

32. SHARE OPTIONS (continued)

Year ended 31 December 2003

Option type	Outstanding at 1 January 2003	Lapsed during the year	Outstanding at 31 December 2003
2000	1,450,000	(1,450,000)	—
2001B	5,000,000	—	5,000,000
2001C	1,000,000	—	1,000,000
	<u>7,450,000</u>	<u>(1,450,000)</u>	<u>6,000,000</u>

Six months ended 30 June 2003

Option type	Outstanding at 1 January 2003	Lapsed during the year	Outstanding at 30 June 2003
2000	1,450,000	—	1,450,000
2001B	5,000,000	—	5,000,000
2001C	1,000,000	—	1,000,000
Total	<u>7,450,000</u>	<u>—</u>	<u>7,450,000</u>

Six months ended 30 June 2004

Option type	Outstanding at 1 January 2004	Lapsed during the period	Outstanding at 30 June 2004
2001B	5,000,000	(5,000,000)	—
2001C	1,000,000	(1,000,000)	—
	<u>6,000,000</u>	<u>(6,000,000)</u>	<u>—</u>

Details of the share options held by the directors and chief executive officer included in the above table are as follows:

Year ended 31 December 2001 and 2002 and 30 June 2003

Option type	Outstanding at 1 January 2001	Granted during the year	Exercised during the year	Outstanding at 31 December 2001 and 2002 and 30 June 2003
2000	3,950,000	—	(2,500,000)	1,450,000
2001A	—	6,250,000	(6,250,000)	—
2001B	—	5,000,000	—	5,000,000
Total	<u>3,950,000</u>	<u>11,250,000</u>	<u>(8,750,000)</u>	<u>6,450,000</u>

There was no movement in the share options during the year ended 31 December 2002.

32. SHARE OPTIONS (continued)

Year ended 31 December 2003

Option type	Outstanding at 1 January 2003	Lapsed during the year	Outstanding at 31 December 2003
2000	1,450,000	(1,450,000)	—
2001B	<u>5,000,000</u>	<u>—</u>	<u>5,000,000</u>
Total	<u>6,450,000</u>	<u>(1,450,000)</u>	<u>5,000,000</u>

Six months ended 30 June 2004

Option type	Outstanding at 1 January 2004	Lapsed during the period	Outstanding at 30 June 2004
2001B	<u>5,000,000</u>	<u>(5,000,000)</u>	<u>—</u>

Details of specific categories of options are as follows:

	Date of grant	Exercise period	Closing price immediately before the dates of grant	Exercise price
2000	27 July 2000	27 July 2000 to 26 July 2003	1.33	1.04
2001A	13 February 2001	13 February 2001 to 12 February 2004	0.78	0.64
2001B	15 February 2001	15 February 2001 to 14 February 2004	1.11	0.69
2001C	21 February 2001	21 February 2001 to 20 February 2004	1.2	0.96

Notes:

- (1) No charge was recognised in the income statement in respect of the value of options granted.
- (2) The market price of the shares issued on exercise of share options during the year ended 31 December 2001 amounted to HK\$9,194,000.

APPENDIX I

ACCOUNTANTS' REPORT ON THE GROUP

33. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Property revaluation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE GROUP							
At 1 January 2001	2,390	4,755	13,888	7,722	1,664	(104,900)	(74,481)
Net loss for the year	—	—	—	—	—	(74,589)	(74,589)
Premium on placing of shares	9,743	—	—	—	—	—	9,743
Premium on issue of shares on exercise of share options	8,640	—	—	—	—	—	8,640
Realised on disposals of land and buildings	—	—	(1,812)	—	—	1,812	—
Realised on disposals of investment properties	—	—	—	2,006	—	—	2,006
Net surplus on revaluation	—	—	44,451	36,029	—	—	80,480
Deferred tax liability arising on revaluation of properties	—	—	(14,071)	(23,391)	—	—	(37,462)
At 31 December 2001	20,773	4,755	42,456	22,366	1,664	(177,677)	(85,663)
Deferred tax liability arising on reclassification	—	—	2,205	(4,109)	—	—	(1,904)
Net deficit on revaluation of properties	—	—	(9,554)	(58,093)	—	—	(67,647)
Deferred tax liability arising on revaluation of properties	—	—	3,153	35,727	—	—	38,880
Net loss for the year	—	—	—	—	—	(102,826)	(102,826)
Reclassification	—	—	(6,681)	6,681	—	—	—
At 31 December 2002	20,773	4,755	31,579	2,572	1,664	(280,503)	(219,160)
Exchange difference on translation of overseas operations	—	—	—	—	147	—	147
Net surplus on revaluation of properties	—	—	6,209	—	—	—	6,209
Deferred tax liability arising on revaluation of properties	—	—	(3,819)	—	—	—	(3,819)
Net loss for the year	—	—	—	—	—	(65,494)	(65,494)
At 31 December 2003	20,773	4,755	33,969	2,572	1,811	(345,997)	(282,117)
Net surplus on revaluation of properties	—	—	1,002	—	—	—	1,002
Deferred tax liability arising on revaluation of properties	—	—	(616)	—	—	—	(616)
Net loss for the period	—	—	—	—	—	(18,355)	(18,355)
Realised on disposals of land and buildings	—	—	(1,249)	—	—	1,249	—
At 30 June 2004	<u>20,773</u>	<u>4,755</u>	<u>33,106</u>	<u>2,572</u>	<u>1,811</u>	<u>(363,103)</u>	<u>(300,086)</u>

APPENDIX I

ACCOUNTANTS' REPORT ON THE GROUP

33. RESERVES (continued)

	Share premium HK\$'000	Contributed surplus HK\$'000	Property revaluation reserve HK\$'000	Investment Property revaluation reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2003	20,773	4,755	31,579	2,572	1,664	(280,503)	(219,160)
Net loss for the period	—	—	—	—	—	(44,077)	(44,077)
Exchange difference on the translation of overseas operation	—	—	—	—	502	—	502
At 30 June 2003	<u>20,773</u>	<u>4,755</u>	<u>31,579</u>	<u>2,572</u>	<u>2,166</u>	<u>(324,580)</u>	<u>(262,735)</u>

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY				
At 1 January 2001	2,390	306,450	(79,710)	229,130
Loss for the year	—	—	(7,346)	(7,346)
Premium on placing of shares	9,743	—	—	9,743
Premium on issue of shares on exercise of share options	8,640	—	—	8,640
At 31 December 2001	20,773	306,450	(87,056)	240,167
Loss for the year	—	—	(242,359)	(242,359)
At 31 December 2002	20,773	306,450	(329,415)	(2,192)
Loss for the year	—	—	(49,655)	(49,655)
At 31 December 2003	20,773	306,450	(379,070)	(51,847)
Loss for the period	—	—	(24,564)	(24,564)
At 30 June 2004	20,773	306,450	(403,634)	(76,411)
At 1 January 2003	20,773	306,450	(329,415)	(2,192)
Loss for the period	—	—	(48,792)	(48,792)
At 30 June 2003	20,773	306,450	(378,207)	(50,984)

The contributed surplus of the Company represents the difference between the underlying net tangible assets of the subsidiaries acquired by the Company and the nominal value of the share capital issued by the Company at the time of the corporate reorganisation prior to the listing of the Company's shares in 2000.

The contribution surplus of the Group represents the difference between the nominal value of shares of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition at the time of the corporate reorganisation.

34. DEFERRED TAXATION

The following are the major deferred tax liability and recognised movements thereon during the Relevant Period:

THE GROUP

	Revaluation of properties HK\$'000
At 1 January 2001	45,586
Charge to equity for the year	37,462
At 31 December 2001	83,048
Credit to income for the year	(34,283)
Credit to equity for the year	(36,976)
At 31 December 2002 and 30 June 2003	11,789
Charge to income for the year	407
Charge to equity for the year	3,819
At 31 December 2003	16,015
Charge to income for the period	(2,009)
Charge to equity for the period	616
At 30 June 2004	14,622

At 31 December 2001, 2002 and 2003, 30 June 2003 and 2004, the Group has unused tax losses of HK\$70,923,000, HK\$114,450,000, HK\$178,761,000, HK\$114,450,000 and HK\$183,164,000 respectively available for offset against future profits. No deferred tax assets have been recognised in respect of the amounts due to unpredictability of future profit streams.

At 31 December 2001, 2002 and 2003, 30 June 2003 and 2004, the Company did not have any unused tax losses and deductible temporary differences.

35. CONTINGENT LIABILITIES

- (a) During the year ended 31 December 2001, the Group had provided guarantees for mortgage facilities provided by a bank to the buyers of properties developed by the Group. In addition, bank balances of approximately HK\$518,000 as at 31 December 2001 were restricted as guarantee for these mortgages (see note 17 above). As at 31 December 2001, the outstanding amount of the above mentioned mortgage facilities for which the Group had provided guarantees amounted to approximately HK\$8,509,000.
- (b) In October 2002, one of the creditors of the Group filed a notice of arbitration against the PRC subsidiary holding the property for development for sale for a total amount of approximately RMB290 million, which relates to certain land development cost for the property of approximately RMB222 million and interest penalty of approximately RMB68 million. A court order against the PRC subsidiary was issued on 22 October 2002 either to freeze its bank deposits or to attach its assets for an amount up to RMB50 million. The Group was then at the final stage of finalizing the terms of the settlement and rescheduling of the outstanding amounts payable to the creditor, which terms would form part of the master standstill agreement as mentioned under note 18 above. The directors were confident that the creditor would sign the agreement. Under the agreement, the Group is not liable to pay the aforesaid interest penalty of approximately RMB68 million. Accordingly, the aforesaid sum was not provided in 2002.

During the year ended 31 December 2003, the Group entered into the master standstill agreement with its creditor and bankers under which the aforesaid interest penalty was waived. The waiver is subject to the condition that the Group is able to repay the land development cost in accordance with agreed repayment schedule. Should the Group be unable to comply with repayment schedule, the interest penalty will be become payable. The directors consider that the Group has sufficient funds to comply with the repayment and accordingly no provision for the penalty is necessary.

- (c) During the year ended 31 December 2002, a purchaser of an unit of the Group's property under development for sale in the PRC took legal action to cancel the sale and purchase agreement of the aforesaid unit and to claim the refund of the deposits of RMB30 million paid together with interest and applied to freeze the bank balances or equivalent assets of the Group to the extent of RMB30 million. On 8 January 2003, the PRC court ordered that the Group is liable to refund the deposits together with interest to the purchaser. On 31 March 2003, the Group appealed to the court to object the decision based on the fact that the evidence provided by the purchaser are not valid. The directors of the Group, based on the opinion of the independent legal advisers, considered that the claim from the purchaser will be overruled and no provision for the loss is necessary.
- (d) During the year ended 31 December 2003, a purchaser of an unit of the Group's property under development for sale in the PRC took legal action to cancel the sale and purchase agreement of the aforesaid unit and to claim the refund of the deposits of approximately RMB15 million paid together with interest. The directors of the Group, based on the opinion of the legal advisers, considered that the claim made by the purchaser is not valid and are of the opinion that the claim will not cause any material loss to the Group. No provision for the loss is necessary.

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(1) DISPOSAL OF A SUBSIDIARY

	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amount due to immediate holding company	—	(39,823)	—	—	—
Net liabilities disposed of	—	(39,823)	—	—	—
Assignment of intercompany accounts	—	39,363	—	—	—
Waiver of intercompany accounts	—	460	—	—	—
Results on disposal of a subsidiary	—	—	—	—	—
Total consideration	—	—	—	—	—
Satisfied by:					
Cash consideration	—	—	—	—	—
Net cash inflow on disposal					
Cash consideration	—	—	—	—	—

The subsidiary disposed of during the year ended 31 December 2002 did not contribute to the Group’s turnover and incurred a loss HK\$5,457,000 attributable to the Group.

(2) MAJOR NON-CASH TRANSACTION

During the six months ended 30 June 2004, the Group entered into finance lease arrangements in respect of motor vehicles with a total capital value at the inception of the leases contracts of HK\$1,777,000.

37. LEASE COMMITMENTS

The Group as lessee

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

	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	4,245	1,973	2,264	1,973	944
In the second to fifth year inclusive	2,750	1,590	—	636	538
	<u>6,995</u>	<u>3,563</u>	<u>2,264</u>	<u>2,609</u>	<u>1,482</u>

Operating lease payments represent rentals payable by the Group for certain of office properties. Leases are negotiated for an average term of two years during the year ended 31 December 2001 and 2002, one year during the year ended 31 December 2003, one and a half years during the six months ended 30 June 2003 and two years during the six months ended 30 June 2004.

At 31 December 2001, 2002 and 2003, 30 June 2003 and 2004, the Company had no commitments under non-cancellable leases.

The Group as lessor

Property rental income earned during the year ended 31 December 2001, 2002 and 2003, six months ended 30 June 2003 and 2004 was HK\$3,835,000, HK\$2,658,000, HK\$2,609,000, HK\$872,000 and HK\$1,767,000 respectively. The investments properties are expected to generate rental yields of 1.5%, 1.7%, 1.7%, 1.1% and 2.2% during the two years ended 31 December 2001, 2002 and 2003, six months ended 30 June 2003 and 2004 respectively on an ongoing basis. Most of the properties leased have no contracted commitments.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	782	1,043	609	1,868	1,163
In the second to fifth year inclusive	476	199	—	—	724
	<u>1,258</u>	<u>1,242</u>	<u>609</u>	<u>1,868</u>	<u>1,887</u>

38. CAPITAL AND CONSTRUCTION COMMITMENTS

	THE GROUP				
	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At the balance sheet date, the Group had the following capital and construction commitments:					
Capital expenditure in relation to the property, plant and equipment contracted but not provided for	2,390	2,390	—	—	—
Expenditure in relation to the property under development contracted but not provided for	45,043	20,059	49,025	16,274	27,923
Expenditure in relation to the property under development authorised but not contracted for	560,220	567,079	654,890	576,347	703,738
	<u>607,653</u>	<u>589,528</u>	<u>703,915</u>	<u>592,621</u>	<u>731,661</u>

At the balance sheet date, the Company did not have any capital commitments.

39. RETIREMENT AND PENSION PLANS

The group companies operating in the PRC participate in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. All PRC employees are entitled to an annual pension equal to a fixed portion of their ending basic salaries at their retirement dates. These group companies are required to make specific contributions to the retirement schemes at a rate of 19% for the years ended 31 December 2001 and 2002 and 20% for the year ended 31 December 2003, six months ended 30 June 2003 and 2004 of the basic salary of its PRC employees and have no further obligation for post-retirement benefits beyond the annual contributions made. Pursuant to these arrangements, the retirement plan contributions paid for the years ended 31 December 2001, 2002 and 2003 and six months ended 30 June 2004 amounted to approximately HK\$827,000, HK\$67,000, HK\$74,000, HK\$37,000 and HK\$36,000 respectively.

The Group has joined a Mandatory Provident Fund Scheme ("MPF Scheme") for all its non-PRC employees in 2000. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. The only obligation of the Group with respect of the MPF Scheme is to make the required contributions under the MPF Scheme. The retirement benefit scheme contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the MPF Scheme. During the years ended 31 December 2001, 2002 and 2003 and six months ended 30 June 2003 and 2004, the Group made retirement benefit scheme contributions arising from the MPF Scheme amounting to HK\$155,000, HK\$87,000, HK\$93,000, HK\$50,000 and HK\$37,000 respectively.

40. PLEDGE OF ASSETS

At 31 December 2001, 2002 and 2003 and 30 June 2004, the Group had pledged its properties under development with an aggregate net book value of approximately HK\$623,088,000, HK\$710,307,000, HK\$744,400,000 and HK\$824,715,000 respectively to secure bank loans granted and amounts payable in respect of respective land development cost totalling approximately HK\$658,394,000, HK\$523,068,000, HK\$522,718,000, HK\$522,718,000 and HK\$419,094,000 respectively. Certain investment properties and land and buildings have been frozen by the court in the PRC following the legal action taken by creditors of the Group.

41. RELATED PARTY TRANSACTIONS

- (a) 13,587,900 and 54,351,600 shares in the Company held directly or indirectly by a director and a former director respectively have been charged to secure loans granted to the Group. No commission or charges have been paid to the director and the former director in respect of the charges.
- (b) The Group had the following significant transactions with related parties conducted on terms arrived at by reference to market prices during the year:

	THE GROUP				
	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Estate management service fee to a company controlled by a former director	—	305	194	97	70
Rental income from a company controlled by a former director	325	325	325	163	163

- (c) In October 1999, the joint venture partners of BJCSB entered into an agreement, pursuant to which Guozheng will give up all its interest in BJCSB in exchange for a fixed return as defined in the agreement. After completion of the transaction, BJCSB became a wholly-owned subsidiary of Tong Sun Limited. Accordingly, the amount due to Guaozheng of HK\$2,442,000 as at 31 December 2001 was included in accounts payable, the amount due from Guozheng of HK\$3,954,000 and HK\$4,695,000 as at 31 December 2002 and 2003 respectively was included in prepayments and other receivable and the previous capital investment of HK\$46,642,000 made by Guozheng was classified as a long-term payable at 31 December 2001, 2002 and 2003 and 30 June 2003. During the six months ended 30 June 2004, all the amounts receivable from and payable to Guozheng were fully settled.

Guozheng has jointly guaranteed the land development cost payable by and bank loans to the Group totalling approximately HK\$228,811,000 and RMB100,000,000 as at 31 December 2001 and 2002, and HK\$204,140,000 and RMB100,000,000 as at 30 June 2003 and 31 December 2003.

- (d) During the year ended 31 December 2002, the Group entered into an unsecured loan agreement with PMP which provides building management services to the Group to the extent of RMB10,000,000 with interest at a short term loan interest rate as announced by People’s Bank of China from time to time. The loan agreement entered into was a consequence of the Group’s satisfaction of a guarantee executed in 2001 in favour of a banker for its banking facilities granted to PMP to the extent of RMB10 million. Interest income recognised during the year ended 31 December 2002 amounted to HK\$297,000.
- (e) During the Relevant Period, the Group maintained accounts with certain former directors and companies controlled by them. Details of their balances as at 31 December 2001, 2002 and 2003, 30 June 2003 and 2004 are set out in notes 20, 21 and 26 above.
- (f) During the year ended 31 December 2002, the Group acquired a 49% interest in a company from a former director, Mr. Leung Kwo. Details of transaction has been disclosed in the circular dated 31 December 2001 to the shareholders of the Company. The transaction was reversed due to the failure of the Company to obtain approval from the relevant department in the PRC.

42. FINANCIAL INFORMATION OF NEW RANK (BVI 1) LIMITED AND ITS SUBSIDIARIES

On 11 June 2004, the Group entered into a sale and purchase agreement to dispose of its entire interest in New Rank (BVI 1) Limited and its subsidiaries ("New Rank BVI 1") which carried on the business of property investment. The sale consideration consists of HK\$1 in cash and assumption of a debt in the principal amount of approximately HK\$37,000,000 outstanding as at 11 June 2004 and as to completion of this disposal. The completion of the disposal is subject to the approval of the shareholders of the Company and as at the date of this report, the disposal of New Rank BVI 1 has not been completed.

The results of New Rank BVI 1 during the Relevant Period are as follows:

	Year ended			Six months ended	
	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	37,227	2,658	3,713	1,411	2,563
Cost of sales	(49,509)	—	—	—	—
Gross (loss) profit	(12,282)	2,658	3,713	1,411	2,563
Other operating income	45	1,302	1,534	68	33
Selling expenses	(1,068)	—	—	—	—
(Deficit) surplus arising from revaluation of investment properties	—	(55,745)	662	—	—
General and administrative expenses	(10,323)	(17,982)	(16,667)	(4,999)	(7,132)
Allowance for accounts receivable	—	(4,190)	—	—	—
Loss from operations	(23,628)	(73,957)	(10,758)	(3,520)	(4,536)
Finance costs	(16,433)	(6,886)	(12,143)	(3,113)	(3,532)
Loss before taxation	(40,061)	(80,843)	(22,901)	(6,633)	(8,068)
Taxation	—	34,283	(407)	—	1,084
Loss after taxation	(40,061)	(46,560)	(23,308)	(6,633)	(6,984)
Minority interests	575	231	63	—	(23)
Net loss for the year/period	<u>(39,486)</u>	<u>(46,329)</u>	<u>(23,245)</u>	<u>(6,633)</u>	<u>(7,007)</u>

42. FINANCIAL INFORMATION OF NEW RANK (BVI 1) LIMITED AND ITS SUBSIDIARIES
(continued)

During the year ended 31 December 2001, 2002 and 2003 and six months ended 30 June 2003 and 2004, New Rank BVI 1 generated HK\$51,039,000, HK\$30,757,000, HK\$11,952,000 and HK\$2,917,000 and paid HK\$688,000 respectively in respect of the Group’s operating activities, paid HK\$2,870,000, HK\$521,000, HK\$387,000, and generated HK\$6,000 and paid HK\$4,294,000 respectively in respect of the Group’s investing activities, and paid HK\$44,528,000, HK\$34,056,000, HK\$12,165,000, HK\$3,027,000 and HK\$3,714,000 respectively in respect of the Group’s financing activities.

The carrying amounts of assets and liabilities of New Rank BVI 1 at the balance sheet date are as follows:

	31.12.2001	31.12.2002	31.12.2003	30.6.2003	30.6.2004
	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Total assets	765,689	638,937	640,536	633,928	507,357
Total liabilities	(789,304)	(740,477)	(762,918)	(741,733)	(636,360)
Minority interests	(1,177)	—	—	—	—
	<u>(24,792)</u>	<u>(101,540)</u>	<u>(122,382)</u>	<u>(107,805)</u>	<u>(129,003)</u>

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by any companies in the Group in respect of any period subsequent to 30 June 2004.

Yours faithfully

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

1. GEARING RATIO

As if the transaction is completed, based on proforma balance sheet as at 30 June 2004, total assets of the Group amounted to approximately HK\$978,000,000 whereas total debts amounted to approximately HK\$478,000,000. The gearing ratio (total debts/total assets) is approximately 49%.

2. WORKING CAPITAL

The Group is currently engaged in the development of the Plaza. Assuming that the disposal of the Plaza will be successfully completed and assuming that the project will be self-financing out of the instalment payments under the Zhong Zheng Agreement, and provided that the support from the bankers and creditors are obtained, the directors consider that the Group will be able to meet in full its financial obligations.

3. INDEBTEDNESS AND CONTINGENT LIABILITIES

At the close of business on 30 June 2004, being the latest practicable date for the purpose of preparing the indebtedness statement of the Group, the Group had bank balances and cash of approximately HK\$77 million and obligations under hire purchase contracts of approximately HK\$1.2 million and outstanding unsecured, interest bearing bank borrowings of approximately RMB398 million (equivalent to HK\$372 million) of which approximately RMB98 million (equivalent to HK\$92 million) had matured before June 2004. China Construction Bank and Bank of China have taken legal actions to recover the mature loans granted. 26/F and 27/F of the Property were ceased by the PRC court following such actions. The remaining secured, interest bearing bank borrowing, which amounting to approximately RMB300 million (equivalent to approximately HK\$280 million), secured on the Group's properties under development, the Plaza, which was repayable more than one year, but not exceeding two years.

Other borrowings of approximately HK\$197 million as at 30 June 2004, of which approximately HK\$152 million was interest free and secured on the shares in the Company held by a director and a former director and for a term of 2 years from June 2003 repayable on maturity. Other unsecured loans of approximately HK\$45 million was interest bearing at 6% per annum and for a term of 2 years from June 2003.

In addition, a purchaser, Shanghai Fudan Guanghua Information Technology Co Ltd (上海复旦光華信息科技股份有限公司) of an unit of the Plaza in the PRC took legal action in 2003 to terminate the sale and purchase agreement in June 2002 in relation to the aforesaid unit and to claim the refund of the deposits of approximately RMB15 million together with interest. Based on the opinion issued by the PRC legal advisers, Zhong Xin Law Firm (眾鑫律師事務所), the claim made by the purchaser is not valid since the evidence provided by the purchaser is not valid and are of the opinion that the claim will not cause any material loss to the Group.

In October 2002, one of the creditors, Beijing Finance Street Holding Company Limited of the Group filed a notice of arbitration against the PRC subsidiary holding the Plaza for a total amount of approximately RMB290 million (equivalent to approximately HK\$271 million), which relates to certain land development cost for the property of approximately RMB222 million (equivalent to approximately HK\$207 million) and with an interest penalty of approximately RMB68 million (equivalent to approximately HK\$63 million). A court order against the PRC subsidiary, Zhong Zheng, was issued on 22 October 2002 either to freeze its bank deposits or to attach its assets for an amount up to RMB50 million (equivalent to approximately HK\$47 million). The Group was then at the final stage of finalizing the terms of the settlement and rescheduling of the outstanding amounts payable to the creditor, which terms would form part of the master standstill agreement.

The Group entered into the master standstill agreement with its creditor and bankers under which the aforesaid interest penalty was waived. The waiver is subject to the condition that the Group is able to repay the land development cost in accordance with agreed repayment schedule. Should the Group be unable to comply with repayment schedule, the interest penalty will become payable. Since the master standstill agreement was prepared under the sole purpose of ensuring the completion of the Plaza. The directors consider that the Group has sufficient funds to comply with the repayment and accordingly no provision for the penalty is necessary.

Furthermore, a purchaser, Beijing Guofu Investment Management Company Limited, of an unit of the Property, in the PRC took legal action to cancel the sale and purchase agreement of the aforesaid unit and to claim the refund of the deposits of RMB30 million (equivalent to approximately HK\$28 million) paid together with interest and applied to freeze the bank balances or equivalent assets of the Group to the extent of RMB30 million (equivalent to approximately HK\$28 million). On 8 January 2003, the PRC court ordered that the Group is liable to refund the deposits together with interest to the purchaser. On 31 March 2003, the Group appealed to the court to object the decision based on the fact that the evidence provided by the purchaser are not valid. Accordingly, the directors of the Group considered that the claim from the purchaser will be overruled.

Save as aforesaid, at the close of business on 30 June 2004, the Group did not have any outstanding liabilities or mortgages, charges, debentures or other loan capital, bank overdrafts, loans or other similar indebtedness, hire purchase or other finance lease or hire purchase commitments, liabilities under acceptance, acceptance credits, guarantees or other material contingent liabilities.

The Directors are not aware of any material change in the Group's indebtedness prospects and contingent liabilities since 30 June 2004.

4. MATERIAL ADVERSE CHANGES

Save as the financial impact of the Disposal and the Zhong Zheng Agreement disclosed in letter from the board in this circular, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 30 June 2004, the date to which the latest published audited accounts of the Group as at 30 June 2004 were made up.

1. PRO FORMA FINANCIAL INFORMATION ON THE GROUP AFTER COMPLETION

The information set out below is for illustrative purposes only and does not form part of the accountants' report prepared by the reporting accountants of the Group, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, as set out in appendix I.

New Rank BVI 1 will be disposed after Completion. Details of which are set out in section headed "Letter from the Board" in this circular. The Group will be accounted for under acquisition accounting in its first set of financial statements prepared immediately after Completion.

To provide additional financial information, the pro forma financial information of the Group for the year ended 31 December 2003 and the six months ended 30 June 2004 have been prepared based on the historical financial information of the Group for the year ended 31 December 2003 and the six months ended 30 June 2004, which have been extracted from the accountants' reports as set out in appendix I to this circular, after taking into account of the pro forma adjustments as described in the notes thereto for illustrative purposes to demonstrate the effect of the Disposal as if the Disposal had taken place on 31 December 2003 and 30 June 2004.

The pro forma financial information of the Group presented below do not purport to present what the financial information would actually have been if the Disposal had taken place on 31 December 2003 and 30 June 2004 or to project the financial information for any future period and are included for illustrative purposes only.

The pro forma financial information should be read in conjunction with the historical financial information of the Group, the financial information of New Rank (BVI 1) and its Subsidiaries and other information included elsewhere in this circular.

The proforma financial information is solely for illustrative purposes to demonstrate the effect of the Disposal as if the Disposal had taken place on 31 December 2003 and 30 June 2004 and because of its nature, it may not give a true picture of the financial position of the Group after the Disposal.

APPENDIX III

PRO FORMA FINANCIAL INFORMATION ON THE GROUP AFTER COMPLETION

1. PRO FORMA FINANCIAL INFORMATION ON THE GROUP AFTER COMPLETION (continued)

(a) The pro forma financial information on the Group for the year ended 31 December 2003 is as follows:

(i) Pro forma consolidated income statement for the year ended 31 December 2003 as if the transaction has been completed on 31 December 2003

	Audited consolidated income statement of the Group	Disposal-consolidated income statement of New Rank BVI 1	Adjustments	Notes	Pro forma unaudited consolidated income statement of the Group after Completion
	HK\$'000	HK\$'000	HK\$'000		HK\$'000
Turnover	2,609	(3,713)	3,713	(1), (2)	2,609
Other operating income	1,608	(1,534)	166,473	(2), (3)	166,547
Surplus arising from revaluation of investment properties	662	(662)	662	(2)	662
General and administrative expenses	(42,788)	16,667	(16,667)	(1), (2)	(42,788)
(Loss) profit from operations	(37,909)	10,758	154,181		127,030
Finance costs	(27,241)	12,143	(12,143)	(2)	(27,241)
(Loss) profit before taxation	(65,150)	22,901	142,038		99,789
Taxation	(407)	407	(407)	(2)	(407)
(Loss) profit after taxation	(65,557)	23,308	141,631		99,382
Minority Interests	63	(63)	63	(2)	63
(Loss) profit for the year	(65,494)	23,245	141,694		99,445

Remarks:

Audited consolidated income statement of the Group and disposal-consolidated income statement of New Rank BVI 1 are extracted from the accountants' report as set out in appendix I to the Circular.

APPENDIX III

PRO FORMA FINANCIAL INFORMATION ON THE GROUP AFTER COMPLETION

1. PRO FORMA FINANCIAL INFORMATION ON THE GROUP AFTER COMPLETION

(continued)

- (ii) Pro forma consolidated balance sheet as at 31 December 2003 as if the transaction has been completed on 31 December 2003

	Audited consolidated balance sheet of the Group HK\$'000	Disposal- consolidated balance sheet of New Rank BVI 1 HK\$'000	Adjustments HK\$'000	Notes	Pro forma unaudited consolidated balance sheet of the Group after Completion HK\$'000
NON-CURRENT ASSETS					
Investment properties	157,514	(157,514)	—		—
Property, plant and equipment	87,625	(87,088)	—		537
Restricted cash	118	(118)	—		—
	<u>245,257</u>	<u>(244,720)</u>	<u>—</u>		<u>537</u>
CURRENT ASSETS					
Properties under development for sale	744,400	—	—		744,400
Prepayment and other receivables	57,039	(376,056)	377,053	(1)	58,036
Amount due from a former director	3,761	—	—		3,761
Amounts due from former related companies	6,473	(406)	—		6,067
Accounts receivable	18,760	(18,760)	—		—
Bank balances and cash	69,181	(594)	—		68,587
	<u>899,614</u>	<u>(395,816)</u>	<u>377,053</u>		<u>880,851</u>
CURRENT LIABILITIES					
Taxes payable	165,311	(165,311)	—		—
Accruals and other payables	159,986	(413,014)	338,986	(1), (4)	85,958
Advances from customers	67,642	(12,656)	—		54,986
Accounts payable	207,614	(63,930)	—		143,684
Bank borrowings	91,621	(91,621)	—		—
Amount due to former related companies	179	(179)	—		—
Land development cost payable	204,140	—	—		204,140
Current portion of obligations under finance leases	100	(100)	—		—
	<u>896,593</u>	<u>(746,811)</u>	<u>338,986</u>		<u>488,768</u>
NET CURRENT ASSETS	<u>3,021</u>	<u>350,995</u>	<u>38,067</u>		<u>392,083</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>248,278</u>	<u>106,275</u>	<u>38,067</u>		<u>392,620</u>
MINORITY INTERESTS	—	—	—		—
NON-CURRENT LIABILITIES					
Long-term payable	46,642	—	—		46,642
Bank borrowings	280,374	—	—		280,374
Other borrowings	187,000	—	—		187,000
Obligations under finance leases	92	(92)	—		—
Deferred taxation	16,015	(16,015)	—		—
	<u>530,123</u>	<u>(16,107)</u>	<u>—</u>		<u>514,016</u>
	<u>(281,845)</u>	<u>122,382</u>	<u>38,067</u>		<u>(121,396)</u>
CAPITAL AND RESERVES					
Share capital	272	(86)	86	(1)	272
Reserves	(282,117)	122,468	37,981	(1), (4)	(121,668)
	<u>(281,845)</u>	<u>122,382</u>	<u>38,067</u>		<u>(121,396)</u>

Remarks:

Audited consolidated balance sheet of the Group and disposal-consolidated balance sheet of New Rank BVI 1 are extracted from the accountants' report as set out in appendix I to the Circular.

APPENDIX III

PRO FORMA FINANCIAL INFORMATION ON THE GROUP AFTER COMPLETION

1. PRO FORMA FINANCIAL INFORMATION ON THE GROUP AFTER COMPLETION

(continued)

- (iii) Pro forma consolidated cash flow statement for the year ended 31 December 2003 as if the transaction has been completed on 31 December 2003

	Audited consolidated cash flow statement of the Group HK\$'000	Disposal- consolidated cash flow statement of New Rank BVI 1 HK\$'000	Adjustments HK\$'000	Notes	Pro forma unaudited consolidated cash flow statement of the Group after Completion HK\$'000
OPERATING ACTIVITIES					
(Loss) profit before taxation	(65,150)	22,901	141,694	(2)	99,445
Adjustments for:					
Gain on disposal of subsidiaries	—	—	(164,939)	(3)	(164,939)
Share of loss of New Rank BVI 1	—	—	23,245	(2)	23,245
Surplus arising from revaluation of investment properties	(662)	662	—		—
Depreciation of property, plant and equipment	2,509	(2,335)	—		174
Interest income	(62)	11	—		(51)
Interest expenses	27,241	(12,143)	—		15,098
Operating cash flows before movements in working capital	(36,124)	9,096	—		(27,028)
Increase in property under development for sale	(31,691)	—	—		(31,691)
Increase in prepayments and other receivables	(2,942)	(25,617)	17,604	(5)	(10,955)
Increase in amount due from a former director	(2,775)	—	—		(2,775)
Decrease in amounts due from former related companies	536	359	—		895
Decrease in accounts receivable	233	(233)	—		—
Decrease in restricted bank balance	23,434	—	—		23,434
Decrease in taxes payable	(4,631)	1,392	—		(3,239)
Increase (decrease) in accounts payable	6,495	(6,589)	—		(94)
Increase in advance from customers	16,589	(688)	—		15,901
Decrease in accruals and other payable	(20,986)	10,324	(17,794)	(5)	(28,456)
Decrease in land development cost payable	(72,967)	—	—		(72,967)
Exchange rate adjustment	127	4	190	(5)	321
NET CASH USED IN OPERATING ACTIVITIES	(124,702)	(11,952)	—		(136,654)
INVESTING ACTIVITIES					
Interest received	62	(11)	—		51
Purchase of property, plant and equipment	(124)	30	—		(94)
Proceeds from disposal of property, plant and equipment	16	(3)	—		13
Decrease of restricted cash	403	(403)	—		—
NET CASH FROM (USED IN) INVESTING ACTIVITIES	357	(387)	—		(30)

APPENDIX III

PRO FORMA FINANCIAL INFORMATION ON THE GROUP AFTER COMPLETION

1. PRO FORMA FINANCIAL INFORMATION ON THE GROUP AFTER COMPLETION

(continued)

- (iii) Pro forma consolidated cash flow statement for the year ended 31 December 2003 as if the transaction has been completed on 31 December 2003 (continued)

	Audited consolidated cash flow statement of the Group HK\$'000	Disposal- consolidated cash flow statement of New Rank BVI 1 HK\$'000	Adjustments HK\$'000	Notes	Pro forma unaudited consolidated cash flow statement of the Group after Completion HK\$'000
FINANCING ACTIVITIES					
Interest paid	(29,643)	12,143	—		(17,500)
Drawdown of others borrowings	187,000	—	—		187,000
Drawdown of bank loan	34,398	—	—		34,398
Repayment of bank loans	—	(86)	—		(86)
Repayment of obligations under finance leases	(108)	108	—		—
NET CASH FROM FINANCING ACTIVITIES	191,647	12,165	—		203,812
INCREASE IN CASH AND CASH EQUIVALENTS	67,302	(174)	—		67,128
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,879	(420)	—		1,459
CASH AND CASH EQUIVALENTS, END OF YEAR					
Bank balances and cash	69,181	(594)	—		68,587

Notes:

The adjustments of the pro forma information on the Group after the Disposal for the year ended 31 December 2003 include:—

- (1) the elimination of the transactions between the subsidiaries of New Rank BVI 1 and the Group;
- (2) share of results for the year ended 31 December 2003 of New Rank BVI 1; and
- (3) the gain on the Disposal of approximately HK\$164,939,000; and
- (4) the net amount of the Debts of approximately HK\$38,000,000 to be waived on 31 December 2003 upon the Disposal in accordance with the Agreement; and
- (5) reclassification of accounts.

Remarks:

Audited consolidated cash flow statement of the Group and disposal-consolidated cash flow statement of New Rank BVI 1 are extracted from the accountants' report as set out in appendix I to the Circular.

APPENDIX III**PRO FORMA FINANCIAL INFORMATION
ON THE GROUP AFTER COMPLETION****1. PRO FORMA FINANCIAL INFORMATION ON THE GROUP AFTER COMPLETION***(continued)*

(b) The pro forma financial information on the Group for the six months ended 30 June 2004 is as follows:

(i) Pro forma consolidated income statement for the six months ended 30 June 2004 as if the transaction has been completed on 30 June 2004

	Audited consolidated income statement of the Group HK\$'000	Disposal- consolidated income statement of New Rank BVI 1 HK\$'000	Adjustments HK\$'000	Notes	Pro forma unaudited consolidated income statement of the Group after Completion HK\$'000
Turnover	1,966	(2,563)	2,563	(1), (2)	1,966
Other operating income	47	(33)	170,996	(2), (3)	171,010
General and administrative expenses	(16,500)	7,132	(6,535)	(1), (2)	(15,903)
(Loss) profit from operations	(14,487)	4,536	167,024		157,073
Finance costs	(4,929)	3,532	(3,532)	(2)	(4,929)
(Loss) profit before taxation	(19,416)	8,068	163,492		152,144
Taxation	1,084	(1,084)	1,084	(2)	1,084
(Loss) profit after taxation	(18,332)	6,984	164,576		153,228
Minority interests	(23)	23	(23)	(2)	(23)
(Loss) profit for the period	<u>(18,355)</u>	<u>7,007</u>	<u>164,553</u>		<u>153,205</u>

Remarks:

Audited consolidated income statement of the Group and disposal-consolidated income statement of New Rank BVI 1 are extracted from the accountants' report as set out in appendix I to the Circular.

APPENDIX III

PRO FORMA FINANCIAL INFORMATION ON THE GROUP AFTER COMPLETION

1. PRO FORMA FINANCIAL INFORMATION ON THE GROUP AFTER COMPLETION

(continued)

- (ii) Pro forma consolidated balance sheet as at 30 June 2004 as if the transaction has been completed on 30 June 2004

	Audited consolidated balance sheet of the Group HK\$'000	Disposal- consolidated balance sheet of New Rank BVI 1 HK\$'000	Adjustments HK\$'000	Notes	Pro forma unaudited consolidated balance sheet of the Group after Completion HK\$'000
NON-CURRENT ASSETS					
Investment properties	157,514	(157,514)	—		—
Property, plant and equipment	84,482	(81,478)	—		3,004
Restricted cash	161	(161)	—		—
	<u>242,157</u>	<u>(239,153)</u>	<u>—</u>		<u>3,004</u>
CURRENT ASSETS					
Property under development for sales	824,715	—	597	(1)	825,312
Prepayments and other receivables	68,340	(248,622)	243,982	(1)	63,700
Amount due from a former director	3,709	—	—		3,709
Amount due from former related companies	6,570	(569)	—		6,001
Accounts receivable	18,527	(18,527)	—		—
Bank balances and cash	77,018	(486)	—		76,532
	<u>998,879</u>	<u>(268,204)</u>	<u>244,579</u>		<u>975,254</u>
CURRENT LIABILITIES					
Taxes payable	166,852	(166,302)	—		550
Accruals and other payables	180,567	(298,351)	206,512	(1), (4)	88,728
Advance from customers	248,167	(1,866)	—		246,301
Accounts payable	221,254	(63,419)	—		157,835
Bank borrowings	91,621	(91,621)	—		—
Amount due to former related companies	179	(179)	—		—
Land development cost payable	138,720	—	—		138,720
Current portion of obligations under finance leases	95	—	—		95
	<u>1,047,455</u>	<u>(621,738)</u>	<u>206,512</u>		<u>632,229</u>
NET CURRENT (LIABILITIES) ASSETS	<u>(48,576)</u>	<u>353,534</u>	<u>38,067</u>		<u>343,025</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>193,581</u>	<u>114,381</u>	<u>38,067</u>		<u>346,029</u>
MINORITY INTEREST	<u>—</u>	<u>—</u>	<u>—</u>		<u>—</u>
NON-CURRENT LIABILITIES					
Bank borrowings	280,374	—	—		280,374
Other borrowings	197,280	—	—		197,280
Obligations under finance leases	1,119	—	—		1,119
Deferred taxation	14,622	(14,622)	—		—
	<u>493,395</u>	<u>(14,622)</u>	<u>—</u>		<u>478,773</u>
	<u>(299,814)</u>	<u>129,003</u>	<u>38,067</u>		<u>(132,744)</u>
CAPITAL AND RESERVES					
Share capital	272	(86)	86	(1)	272
Reserves	(300,086)	129,089	37,981	(1), (4)	(133,016)
	<u>(299,814)</u>	<u>129,003</u>	<u>38,067</u>		<u>(132,744)</u>

Remarks:

Audited consolidated balance sheet of the Group and disposal-consolidated balance sheet of New Rank BVI 1 are extracted from the accountants' report as set out in appendix I to the Circular.

APPENDIX III

PRO FORMA FINANCIAL INFORMATION ON THE GROUP AFTER COMPLETION

1. PRO FORMA FINANCIAL INFORMATION ON THE GROUP AFTER COMPLETION

(continued)

(iii) Pro forma consolidated cash flow statement for the six months ended 30 June 2004 as if the transaction has been completed on 30 June 2004

	Audited consolidated cash flow statement of the Group HK\$'000	Disposal- consolidated cash flow statement of New Rank BVI 1 HK\$'000	Adjustments HK\$'000	Notes	Pro forma unaudited consolidated cash flow statement of the Group after Completion HK\$'000
OPERATING ACTIVITIES					
(Loss) Profit before taxation	(19,416)	8,068	164,553	(2)	153,205
Adjustments for:					—
Gain on disposal of subsidiaries	—	—	(170,963)	(3)	(170,963)
Share of loss of New Rank BVI 1	—	—	7,007	(2)	7,007
Rental charges between former subsidiaries	—	—	(597)	(1)	(597)
Depreciation of property, plant and equipment	1,348	(1,185)	—		163
Loss on disposal of property	1,123	(1,101)	—		22
Interest income	(14)	1	—		(13)
Interest expenses	4,929	(3,533)	—		1,396
Operating cash flows before movements in working capital	(12,030)	2,250	—		(9,780)
Increase in property under development for sale	(70,215)	—	(597)	(1)&(5)	(70,812)
Increase in prepayments and other receivables	(11,301)	(127,388)	133,036	(5)	(5,653)
Decrease in amount due from a former director	52	—	—		52
Increase (decrease) in amounts due from former related companies	(97)	162	—		65
Decrease in accounts receivable	233	(233)	—		0
Decrease in taxes payable	616	(66)	—		550
Increase in accruals and other payables	20,581	114,662	(132,439)	(5)	2,804
Increase in advances from customers	180,525	10,790	—		191,315
Increase in accounts payable	13,640	511	—		14,151
Decrease in land development cost payable	(65,420)	—	—		(65,420)
Decrease in long term payable	(46,642)	—	—		(46,642)
NET CASH FROM OPERATING ACTIVITIES	9,942	688	—		10,630
INVESTING ACTIVITIES					
Interest received	14	(1)	—		13
Purchase of property, plant and equipment	(793)	—	—		(793)
Proceeds from disposal of property, plant and equipment	4,254	(4,252)	—		2
Increase of restricted cash	(43)	43	—		—
Fixed assets transfer from former subsidiaries	—	(84)	—		(84)
NET CASH USED IN INVESTING ACTIVITIES	3,432	(4,294)	—		(862)
FINANCING ACTIVITIES					
Interest paid	(15,062)	3,522	—		(11,540)
Drawdown of bank loans	10,280	—	—		10,280
Repayment of obligations under finance leases	(755)	192	—		(563)
NET CASH FROM FINANCING ACTIVITIES	(5,537)	3,714	—		(1,823)

APPENDIX III

PRO FORMA FINANCIAL INFORMATION

ON THE GROUP AFTER COMPLETION

1.

PRO FORMA FINANCIAL INFORMATION ON THE GROUP AFTER COMPLETION

(continued)

(iii)

Pro forma consolidated cash flow statement for the six months ended 30 June 2004 as if the transaction has been completed on 30 June 2004

(continued)

	Audited consolidated cash flow statement of the Group HK\$'000	Disposal-consolidated cash flow statement of New Rank BVI 1 HK\$'000	Adjustments HK\$'000	Notes	Pro forma unaudited consolidated cash flow statement of the Group after Completion HK\$'000
INCREASE IN CASH AND CASH EQUIVALENTS	7,837	108	—		7,945
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	69,181	(594)	—		68,587
CASH AND CASH EQUIVALENTS, END OF PERIOD					
Bank balances and cash	77,018	(486)	—		76,532

Notes:

The adjustments of the pro forma financial information on the Group after the Disposal for the six months ended 30 June 2004 include:—

- (1)

the elimination of the transactions between the subsidiaries of New Rank BVI 1 and the Group;
- (2)

share of results for the six months ended 30 June 2004 of New Rank BVI 1; and
- (3)

the gain on the Disposal of approximately HK\$170,963,000; and
- (4)

the net amount of the Debt of approximately HK\$37,000,000 to be waived on 30 June 2004 upon the Disposal in accordance with the Agreement; and
- (5)

reclassification of accounts.

Remarks:

Audited consolidated cash flow statement of the Group and disposal-consolidated cash flow statement of New Rank BVI 1 and its subsidiaries are extracted from the accountants’ report as set out in appendix I to the Circular.

2. STATEMENT OF PRO FORMA ADJUSTED UNAUDITED CONSOLIDATED NET TANGIBLE LIABILITIES OF THE GROUP

The following is a statement of the pro forma adjusted consolidated net tangible liabilities of the Group immediately upon the Completion. It is based on the audited consolidated net liabilities of the Group as at 31 December 2003 and 30 June 2004, adjusted to reflect the effect of the Disposal and certain adjustments as if the transaction has been completed on 31 December 2003 and 30 June 2004.

						Pro forma adjusted unaudited consolidated net tangible liabilities	Audited consolidated net tangible liabilities value per share immediately prior to the Completion	Pro forma unaudited consolidated net tangible liabilities value per share immediately following the Completion
	Audited consolidated net liabilities of the Group (note 2) HK\$'000	Gain on the Disposal (note 1) HK\$'000	Inter- company rental charges (note 1) HK\$'000	Realisation of exchange reserve HK\$'000	Realisation of investment properties revaluation reserve HK\$'000	Pro forma adjusted unaudited consolidated net tangible liabilities of the Group upon the Completion HK\$'000	Audited consolidated net tangible liabilities value per share immediately prior to the Completion HK\$'000	Pro forma unaudited consolidated net tangible liabilities value per share immediately following the Completion HK\$'000
As at 31 December 2003	<u>(281,845)</u>	<u>164,939</u>	<u>—</u>	<u>(1,919)</u>	<u>(2,572)</u>	<u>(121,397)</u>	<u>(1.04)</u>	<u>(0.45)</u>
As at 30 June 2004	<u>(299,814)</u>	<u>170,963</u>	<u>597</u>	<u>(1,919)</u>	<u>(2,572)</u>	<u>(132,745)</u>	<u>(1.10)</u>	<u>(0.49)</u>

Notes:

- (1) The adjustment for elimination of the transaction between the subsidiaries of New Rank BVI 1 and the Group.
- (2) Audited consolidated net liabilities of the Group is extracted from the accountants' report as set out in appendix I to the Circular.

APPENDIX IV COMFORT LETTER ON PRO FORMA FINANCIAL INFORMATION

The following is the text of a letter, prepared for the purpose of inclusion in this circular by , and received from, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the auditors of and reporting accountants to the Company.

Deloitte.
德勤

德勤 • 關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

28 August 2004

The Board of Directors
New City (Beijing) Development Limited
Room 3301, 33rd Floor
Far East Finance Centre
16 Harcourt Road
Hong Kong

We report on the pro forma financial information of New City (Beijing) Development Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) after the proposed disposal of the entire interest in New Rank (BVI 1) Limited and its subsidiaries (the “Disposal”) set out on page 76 to 85 of Appendix III (the “Pro Forma Financial Information”) to the circular dated 28 August 2004, which has been prepared by the Group solely for illustrative purposes to demonstrate the effect of the Disposal as if the Disposal had taken place on 31 December 2003 and 30 June 2004 respectively.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the pro forma financial information in accordance with Paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

It is our responsibility to form an opinion as required by the Listing Rules on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

APPENDIX IV COMFORT LETTER ON PRO FORMA FINANCIAL INFORMATION

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustment and discussing the Pro Forma Financial Information with the directors of the Company.

Our work does not constitute an audit or a review made in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, and accordingly, we do not express any such assurance on the Pro Forma Financial Information.

The Pro Forma Financial Information has been prepared for illustrative purposes only and, because of its nature, it may not be indicative of the result of the Group for the year ended 31 December 2003 and six months ended 30 June 2004 or for any future period nor the financial position of the Group as at 31 December 2003 and 30 June 2004 or at any future date.

Opinion

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Company; and
- (c) the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to Paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The following is the text of a letter and valuation certificate prepared for the purpose of incorporation in this circular by, and received from RHL Appraisal Ltd, a qualified and independent property valuer.



Member of RHL International Property Consultant
永利行國際物業顧問集團成員

RHL Appraisal Ltd.
永利行評值顧問有限公司

Surveyors, Valuers, Land & Property Consultants
Room 1010, Star House, Tsimshatsui
Kowloon, Hong Kong

The Directors

New City (Beijing) Development Limited

Room 3301, 33rd Floor
Far East Finance Centre
16 Harcourt Road
Hong Kong

28 August 2004

Dear Sirs,

THE UNSOLD PORTION OF INVESTMENT PLAZA
AT
XICHENG DISTRICT
BEIJING
THE PEOPLE’S REPUBLIC OF CHINA

INSTRUCTIONS

In accordance with the instructions from **New City (Beijing) Development Limited** (referred to as the “Company”) to value the captioned property interest (referred to as the “Property”), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing the capital value of the Property as at 30 June 2004 (referred to as the “date of valuation”).

This letter which forms parts of our valuation report explains the basis and methodology of valuation, summarizing the legal opinion prepared by the legal advisor of the Company, clarifying assumption and limiting conditions of this valuation.

BASIS OF VALUATION

The valuation for the Property is our opinion of the open market value which we would define as intended to mean “the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of valuation assuming:

- (i) a willing seller;
- (ii) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;
- (iii) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (iv) that no account is taken of any additional bid by a purchaser with a special interest; and
- (v) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

VALUATION METHODOLOGY

The Property is valued by the comparison method where comparison based on prices realised or market prices of comparable properties is made. Comparable properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values.

For those portions of the Property which are subject to existing tenancies, we adopt the “Investment Method” on the basis of capitalization of the net incomes for the respective unexpired terms of the tenancies with due allowance for the present value of their reversionary interests. The direct comparison method is also adopted in estimating the reversionary interest.

ASSUMPTIONS

Our valuation has been made on the assumption that the owner sells the Property on the open market in its existing state without the benefit of any deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to increase the value of the Property.

Other assumptions made in the valuation, if any, have been stated out in the relevant section of this letter and footnotes of the valuation certificate attached herewith.

TITLESHIP INVESTIGATION

We have been provided with copies of legal documents regarding the Property under valuation. However, due to the current registration system of the PRC, no title search have been made by us for investigating the legal title or any liabilities attached to the Property.

In the course of valuation, we have relied upon the legal opinions as stated in the property title report dated 25th June 2004 given by Horizon Law Firm (referred to as the “PRC Lawyer”) in relation to the legal title to and the nature of the land interests in the Property. Summary of the title report is set out in the footnotes in the valuation certificate.

All legal documents disclosed in this report, if any, are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the Property set out in this report.

LIMITING CONDITIONS

We have relied to a considerable extent on the information provided by the Company and have accepted advice given to us by the Company on matters such as development scheme, planning approval, statutory notices, easements, tenure, occupancy, construction costs, rent, site and floor areas and in the identification of the Property as stated in this report. All dimensions, measurements and areas stated in this report are approximates. We have no reason to doubt the truth and accuracy of the information as provided to us by the Company. We have relied on your confirmation that no material facts have been omitted from the information so supplied.

We have inspected the Property but no structural survey has been made. We are therefore, unable to report that the Property is free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

The market value estimate contained within this report specifically excludes the impact of structural damage or environmental contamination resulting from earthquakes or other causes. It is recommended that the reader of this report consult a qualified structural engineer and / or environmental auditor for the evaluation of possible structural / environmental defects, the existence of which could have a material impact on market value.

No soil analysis or geological studies were ordered or made in conjunction with this report, nor were any water, oil, gas, or other subsurface minerals use rights or conditions investigated.

Substances such as asbestos, urea-formaldehyde foam insulation, other chemicals, toxic wastes, or other potentially hazardous materials could, if present, adversely affect the value of the property. Unless otherwise stated in this report, its existence on the property was not considered by the appraiser in the development of the conclusion of value. The stated value estimate is predicated on the assumption that there is no material on or in the property that would cause such a loss in value. No responsibility

is assumed for any such conditions, and the client has been advised that the appraiser is not qualified to detect such substances, quantify the impact on values, or develop the remedial cost.

No allowance has been made in our valuation for any charges, mortgages, land premium or amounts owing on the Property nor for any expenses or taxation which may be incurred in effecting a sale. It is assumed that the Property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

REMARKS

In preparing this valuation report, we have conducted in accordance with the Hong Kong Guidance Notes on the Valuation of Property Asset (2nd Edition) published by the Hong Kong Institute of Surveyors and complied with all the requirements contained in the Listing Rule and the Practice Notes 12 issued by the Stock Exchange of Hong Kong Limited.

For currency conversion purpose, an exchange rate of US\$1 to RMB8.3 is adopted for this valuation.

OPINION OF VALUE

We are of the opinion that the open market value of the Property as at 30th June, 2004 in existing state and free from all encumbrances is in the sum of **RMB255,200,000.- (RENMINBI YUAN TWO HUNDRED FIFTY FIVE MILLION AND TWO HUNDRED THOUSAND ONLY)** of which value attributable to the Company is **RMB252,648,000.- (RENMINBI YUAN TWO HUNDRED FIFTY TWO MILLION SIX HUNDRED AND FORTY EIGHT THOUSAND ONLY).**

The valuation certificate is enclosed herewith.

Yours faithfully,
For and on behalf of
RHL Appraisal Ltd.

Tse Wai Leung
BSc MRICS MHKIS RPS(GP)
Director

Sandra Lau
MHKIS AAPI RPS (GP)
Director

Both Tse Wai Leung, who is an associate member of the Royal Institution of Chartered Surveyors, an associate member of the Hong Kong Institute of Surveyor, a Registered Professional Surveyor in General Practice and a qualified real estate appraiser in the PRC and Sandra Lau, who is an associate member of the Hong Kong Institute of Surveyors, an Associate of the Australian Property Institute, a Registered Professional Surveyor in General Practice, have over eight years' experience in valuation of properties in Hong Kong, in Macau and in the PRC.

Encl.

VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2004
Portion of Basement Level 1 to 4, the eastern portion of Level 4, Unit A0505, A0507, A0508, A0701, A0702, A0703, A2102, B0501 to B0508, B0702, B0703, B0801, B0802, B0804, B0806, B2107, the whole of Level 24 to 27 of Investment Plaza No. 27 Finance Street (Jin Rong Street) Xicheng District Beijing the PRC	Investment Plaza is a commercial development consists of two 23-storey office towers surmounting a common 4-level commercial podium and four basement levels. It was completed in about 2000. The Property comprises various office / commercial units within the two office towers, the commercial podium and basement level 1 and all the 212 bays of carparking spaces in the basement level 1 to 4 of the subject development. The total gross floor area of the office / commercial units of the Property is 10,551.57 square metres and the total floor area of the carparking spaces is 10,360.27 square metres. As specified in the Land Use Right Grant Contract, the term of the land use rights of the Property is lasted for a term of 50 years from the issue date of the Land Use Right Certificate of the Property.	Unit A0505, A0508, B0501 to B0508, B0702, B0801, Levels 25 to 27 and the south-eastern portion of Basement Level 2 of the Property having a total gross floor area of approximately 3,805.71square metres are subject to seven tenancy agreements at a total monthly rent of approximately RMB309,291. (see note 4 for details) The remaining portion of the property is either vacant or owner-occupied.	RMB255,200,000. (99% interest attributable to the Company: RMB252,648,000.-)

- Notes:
- (1)

As specified in a Land Use Right Grant Contract entered into between the Building and Land Administration Bureau of Beijing (the Grantor) and Beijing New Rank Real Estate Development Co., Ltd. (the Grantee) on 20th July 1994, the land use rights in the subject land were granted by the Grantor to the Grantee for a term of 50 years from the issue date of the Land Use Right Certificate of the Property. As confirmed by the Company, the subject development was developed by the Grantee and the Property constitutes the unsold portion of the development retained by the Grantee.
- (2)

As advised by the Company, the Property is partially pledged to secure loans from various banks.
- (3)

Opinion of the PRC Lawyer is summarized as follows:
- 3.1

With reference to such documents as Business Licence, Constitution of Incorporation of Beijing New Rank Real Estate Development Co., Ltd (Beijing New Rank), Project Proposal Approvals of Investment Plaza from the Government, Land Use Right Certificate (ref no. 市西中外國用(94)字第00083號), Construction Project Planning Permit (ref nos. (94)市規建字2289號, (96)規建字2189號and (97)規建字1469號), Beijing Commodity Property Oversea Sale and Pre-sale Permit (ref no. 京房市外証字第058號), Construction Work Examination Records and Construction Work Completion Certificate (工程質量竣工核定書), it can be verified that Beijing New Rank is the developer of the subject development and is eligible to apply for a master title certificate for the whole development upon project completion in order to certify its legal title to the development. Any change in the developer's property holding in the development due to sales or transfers of units within the development would be reflected in the master title certificate from time to time.
- 3.2

Despite the completion of the subject development, no master title certificate has been applied for by the developer. However, the developer's legal title to the Property cannot be denied simply because of the absence of the master title certificate. Common reasons for not having the master title certificate include unsettled land premium, dispute on mortgage collateral, unsettled construction costs, dispute on property sales or any other disputes on indebtedness.
- 3.3

As per the confirmation of Beijing New Rank and the title search conducted by the PRC Lawyer for the Property at the Land Resource Bureau and Building Administration Bureau of Beijing, the Property has not yet been transferred to any third party and is still belonging to Beijing New Rank.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group.

The directors of the Company collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquires that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. INTEREST OF DIRECTORS

Save as disclosed below, as at the Latest Practicable Date, none of the directors or chief executives (if any) of the Company had, or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO including interests and short positions which they were taken or deemed to have under such provisions of the SFO or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

Name of director	Interest in the Company or its associated corporation	Capacity	Long / Short position	Percentage of the issued share capital of the Company	Number of issued ordinary shares held
Mr. Han Junran	the Company	Beneficial owner (Note 1)	Short position	5%	13,587,900

Note:

- (1) Pursuant to a share charge entered into between New Rank Groups Limited (“NRG”), a wholly-owned subsidiary of Silver World Limited which is, in turn, wholly-owned by Royal Bank of Canada Trust Company (Cayman) Limited (“Royal Bank Trustee”), and Mr. Han Junran as chargors and Starry Joy Properties Investment Ltd. (“Starry Joy”), a wholly owned subsidiary of Continental Mariner Investment Company Limited (“CMIC”), as chargee dated 23 June 2003, among other things, Mr. Han Junran charged his interest in 5% of the issued share capital of the Company, representing 13,587,900 shares of the Company, in favour of Starry Joy.

As at the Latest Practicable Date, none of the directors of the Company or the experts named at paragraph 5 below in this circular had any direct or indirect interests in any assets which have since 31 December 2003 (being the date to which the latest published audited consolidated accounts of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the directors of the Company was materially interested in any contract or arrangement entered into by any member of the Group, which was subsisting and was significant in relation to the business of the Group.

3. INTEREST OF SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at the Latest Practicable Date, so far as is known to any director or chief executive (if any) of the Company, no person (not being a director or chief executive (if any) of the Company nor any member of the Group), has an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provision of the SFO) or who is directly or indirectly interested in 10 per cent. or more of the normal of the nominal value of any class of shares carrying rights to vote in all circumstances at general meetings of any member of the Group.

Name of shareholder	Interest in which member of the Group	Capacity in holding interest	Long/short position	Number and class of securities/ amount of interest held	Approximate shareholding in the same class of securities/ equity interest
CMIC	the Company	Person having a security interest in shares and interest of controlled corporation (Note 1)	Long position	67,939,500 ordinary shares	25%
NRG	the Company	Beneficiary owner (Notes 1)	Short position	54,351,600 ordinary shares	20%
Silver World Limited	the Company	Interest of controlled corporation (Notes 1 and 2)	Short position	54,351,600 ordinary shares	20%
Royal Bank Trustee	the Company	Interest of controlled corporation (Notes 1 and 2)	Short position	54,351,600 ordinary shares	20%
Wei Ping	the Company	Beneficial owner	Long position	47,032,000 ordinary shares	17.31%

Name of shareholder	Interest in which member of the Group	Capacity in holding interest	Long/short position	Number and class of securities/ amount of interest held	Approximate shareholding in the same class of securities/ equity interest
Lu Shu Guang	the Company	Beneficial owner in shares (Notes 1 and 3)	Long position	13,587,900 ordinary shares	5%
Guozheng Economic Development Company Limited (“Guozheng”) (Note 4)	Zhong Zheng	Beneficial owner	Long position	34% of equity interest	34%
Starry Joy	Tong Sun Limited (“Tong Sun”)	Beneficial owner	Long position	49 Class A ordinary shares	49%

Notes:

- 1
- Pursuant to a share charge entered into between NRG and Mr. Han Junran as chargors and Starry Joy, a wholly-owned subsidiary of CMIC, as chargee dated 23 June 2003, NRG and Mr. Han Junran charged their respective interests in 20% and 5% of the issued share capital of the Company, representing 54,351,600 shares and 13,587,900 shares of the Company respectively, in favour of Starry Joy. By virtue of its shareholding in Starry Joy, CMIC is deemed to be interested in 67,939,500 shares of the Company under the SFO.
- 2
- NRG is a wholly-owned subsidiary of Silver World Limited which is, in turn, wholly-owned by Royal Bank Trustee.
- 3
- Ms. Lu Shu Guang is the spouse of Mr. Han Junran, a Director and Chairman of the Company. Ms. Lu Shu Guang is deemed to be interested in the 13,587,900 shares of the Company held by Mr. Han Junran under the SFO.
- 4
- Zhong Zheng was established on 5 June 1995. Its existing joint venture partners are Tong Sun, a subsidiary of the Company, Guozheng and Beijing Finance Street Construction & Development Co. Ltd. (“Finance Street Development”) and its capital contributions are as to 66% by Tong Sun and 34% by Guozheng. Pursuant to an agreement entered into between Finance Street Development, Guozheng and Tong Sun on 9 October 1999, Tong Sun became entitled to 100% of the economic benefit of Zhong Zheng and Guozheng becomes entitled to a fixed distribution by way of the ownership right of an office space in the Plaza, the property being developed by Zhong Zheng, of gross floor area of 7,000 square metres upon the completion of construction of the Plaza.

4. SERVICE CONTRACTS

Each of Mr. Han Junran and Mr. Fu Yiu Kwong, has entered into a service agreement with the Company for a period of three years and two years commencing on 16 December 2002 and 13 March 2003 respectively and continuing thereafter on a yearly basis until terminated by either party giving to the other not less than six months’ notice.

The term of office of each of the independent non-executive directors of the Company is the period to his retirement by rotation in accordance with the Company’s articles of association.

Save as disclosed above, none of the directors of the Company has any existing or proposed service contracts with any member of the Group excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

5. EXPERTS’ DISCLOSURE OF INTERESTS AND CONSENTS

- (a) The following are the qualifications of the experts who have given opinion or advice contained in this circular:

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountant
RHL Appraisal Limited	Chartered Surveyors
Horizon Law Firm	PRC lawyer

- (b) As at the Latest Practicable Date, neither Deloitte Touche Tohmatsu nor RHL Appraisal Limited nor Horizon Law Firm had any direct or indirect shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group.
- (c) Each of Deloitte Touche Tohmatsu, Horizon Law Firm and RHL Appraisal Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter and reference to its name in the form and context in which it appears.
- (d) The letters given by Deloitte Touche Tohmatsu, Horizon Law Firm and RHL Appraisal Limited are given as of the date of this circular for incorporation herein.

6. PROCEDURES TO DEMAND A POLL

Pursuant to Article 66 of the Articles of Association of the Company, at any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of such meeting; or
- (b) by at least three members present in person or in the case a member being a corporation by its duly authorized representative or by proxy for the time being entitled to vote at meeting; or
- (c) by a member or members present in person or in the case of a member being a corporation by its duly authorized representative or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or
- (d) by a member or members present in person or in the case of a member being a corporation by its duly authorized representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

7. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the date of this circular and are or may be material:

- (a) Subscription Agreement dated 12 August 2002 between Tong Sun, New Rank (BVI 2) Limited (“New Rank (BVI 2)”), Starry Joy and CMIC in relation to the disposal of 49% interest in Tong Sun. Under the Subscription Agreement, New Rank (BVI 2) agreed to subscribe for 50 shares at US\$50 and Starry Joy agreed to subscribe for 49 shares at HK\$160,000,000 of the issued share capital of Tong Sun. At completion of the Subscription Agreement, Starry Joy should pay to New Rank (BVI 2) a procurement fee amounting to HK\$50,000,000.

- (b) Supplemental Agreement dated 8 May 2003 between Tong Sun, New Rank (BVI 2), Starry Joy and CMIC supplementing and amending certain terms of the Subscription Agreement referred to in (a) above. Under the Supplemental Agreement, Starry Joy agreed to subscribe for the 49 shares at US\$49 and advanced an interest free shareholders loan of an aggregate sum of HK\$165,000,000 to Tong Sun to finance exclusively the working capital of the development of the Plaza in accordance with a payment schedule. CMIC also agreed to grant an interest bearing loan of HK\$45,000,000 to the Company for a term of two years at an interest rate of 6% per annum payable at maturity for the general working capital of New Rank (BVI 2) and the Group.
- (c) Master Standstill Agreement dated 12 June 2003 between Zhong Zheng, China Construction Bank and Beijing Finance Street Holding Company Limited in relation to the rescheduling of debts of Zhong Zheng and provision of further finance to Zhong Zheng pursuant to the terms contemplated thereunder;
- (d) Charge of Shares in and Assignment of Shareholder Loan owing by Tong Sun dated 23 June 2003 between New Rank (BVI 2) as Chargor and Assignor in favour of Starry Joy as Chargee and Assignee, which provides a security to Starry Joy in respect of the due performance of New Rank (BVI 2) under the Subscription Agreement and Supplemental Agreement referred to (a) and (b) above;
- (e) Charge of Shares in the Company dated 23 June 2003 between New Rank Group Limited as First Chargor and Mr. Han Junran as Second Chargor to charge their respective interests in 20% and 5% of the issued share capital of the Company in favour of Starry Joy as Chargee, which provides an additional security to Starry Joy for the due performance of New Rank (BVI 2) under the Subscription Agreement and Supplemental Agreement referred to (a) and (b) above;
- (f) Deed of Taxation Indemnity dated 23 June 2003 between New Rank (BVI 2) as Chargor and Assignor in favour of Starry Joy as Chargee and Assignee which New Rank (BVI 2) will indemnify Starry Joy against any loss or liability suffered from any claim for taxation;
- (g) Loan Facility Letter dated 23 June 2003 between the Company and Starry Joy pursuant to which Starry Joy has made a loan of HK\$45 million to the Company for a term of two years at an interest rate of 6% per annum payable at maturity;

- (h) the Zhong Zheng Agreement, pursuant to which China Network Communications Group Corporation agreed to advance to Zhong Zheng an amount of approximately RMB1,506.85 million (equivalent to approximately HK\$1,408.27 million) in cash in eight payment instalments according to eight different completion stages of the construction of the Plaza and also agreed to transfer its interest in CNC Building to Zhong Zheng in consideration of Zhong Zheng agreeing to enter into a formal agreement to transfer the Plaza to China Network Communications Group Corporation; and
- (i) the Agreement, pursuant to which the Vendor, a direct wholly-owned subsidiary of the Company, agreed to sell to the Purchaser the Sale Shares representing the entire issued share capital of New Rank BVI 1 at a purchase price of HK\$1 in cash and in consideration of the Purchaser assuming the Debt. The Debt is in the principal amount of approximately HK\$37,000,000 outstanding as at the date of the Agreement and as at completion of the Disposal.

8. LITIGATION

No member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group as at the Latest Practicable Date.

9. GENERAL

- (a) The qualified accountant of the Company is Ms. Yeung Woon Shuen Becky, who is a Fellow Member of The Association of Chartered Certified Accountants and an Associate Member of Hong Kong Society of Accountants.
- (b) The secretary of the Company is Mr. Seto Man Fai, who is a member of the American Institute of Certified Public Accountants in U.S.A., Certified Public Accountants in the State of Illinois, U.S.A. and Hong Kong, Fellow Member of The Association of Chartered Certified Accountants and an Associate Member of Hong Kong Society of Accountants.
- (c) The share registrar and transfer office of the Company in Hong Kong is Standard Registrars Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company at Room 3301, 33/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong during normal business hours up to and including the date of the EGM:—

- (a) the memorandum and articles of association of the Company;
- (b) the Agreement;
- (c) the annual reports of the Company for the two years ended 31 December 2002 and 31 December 2003 respectively;
- (d) the accountants' report on the Group prepared by Deloitte Touche Tohmatsu as set out in Appendix I to this circular;
- (e) the pro forma financial information on the Group after Completion prepared by the Group as set out in Appendix III to this circular;
- (f) the comfort letter on pro forma financial information dated 28 August 2004 prepared by Deloitte Touche Tohmatsu as set out in Appendix IV to this circular;
- (g) the property valuation report and valuation certificate dated 28 August 2004 prepared by RHL Appraisal Limited as set out in Appendix V to this circular;
- (h) the written consents from Deloitte Touche Tohmatsu, Horizon Law Firm and RHL Appraisal Limited referred to in paragraph 5 of this appendix;
- (i) the material contracts as referred to in paragraph 8 above;
- (j) the service agreements entered into between each of Mr. Han Junran, and Mr. Fu Yiu Kwong and the Company respectively;
- (k) statement of adjustments to the audited consolidated financial statements of the group for the year ended 31 December 2001; and
- (l) PRC legal opinion.

NOTICE OF EGM

NEW CITY (BEIJING) DEVELOPMENT LIMITED **新城市（北京）建設有限公司**

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0456)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of New City (Beijing) Development Limited (the “Company”) will be held at Room 3301, 33/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong on 14 September 2004 at 3:00 p.m. for the purpose of considering and, if thought fit, passing the following resolution, with or without modification, as an ordinary resolution of the Company:

“THAT

- (a) the sale and purchase agreement dated 11 June 2004 (the “Agreement”) between NR (BVI) Holdings Limited (“NR”) and Sinoway Properties Limited (“Sinoway”), a copy of which has been produced to the meeting marked “A” and signed by the chairman of the meeting by way of identification, pursuant to which NR has agreed to sell and Sinoway has agreed to purchase 11,000 shares of US\$1 each in New Rank (BVI 1) Limited (“New Rank”), which constitute the entire issued share capital of New Rank, at a consideration of HK\$1 in cash and the assumption of debt of approximately HK\$37,000,000 by Sinoway subject to the terms and conditions therein, and the transactions contemplated under the Agreement be and are hereby approved and any one director of the Company be and is hereby authorized to make such changes or amendments to the Agreement and to execute the Agreement and any other documents in relation thereto as such director in his absolute discretion deems fit; and
- (b) the directors of the Company be and are hereby authorized to implement and take all steps and do any and all acts and things as may be necessary or desirable to give effect to and/or complete the transactions contemplated under the Agreement.”

By Order of the Board
New City (Beijing) Development Limited
Seto Man Fai
Company Secretary

Hong Kong, 28 August 2004

As at the date of this notice, the Company has (i) three executive directors, namely Mr. Han Junran (Chairman), Mr. Fu Yiu Kwong and Mr. Tam Biu Sing, Joseph; (ii) two independent non-executive directors, namely Mr. Chan Yiu Tung, Anthony and Mr. Wong Shing Kay, Oliver.

NOTICE OF EGM

Notes:

- (1) Any member entitled to attend and vote at the EGM of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the EGM. A proxy need not be a member. A proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.
- (2) Where there are joint holders of any share any one of such joint holder may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding. Several executors or administrators of a deceased member in whose name any share stands shall be deemed joint holders thereof.
- (3) A form of proxy for use at the EGM is enclosed herewith.
- (4) The form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power of attorney must be lodged at the Company's Hong Kong branch share registrar, Standard Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the EGM or adjourned meeting (as the case may be) and in default the form of proxy shall not be treated as valid. Completion and return of the form of proxy shall not preclude members from attending and voting in person at the EGM or at any adjourned meeting (as the case may be) should they so wish.