

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)

2004 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

	30.6.2004 <i>HK\$'000</i> (Audited)	30.6.2003 <i>HK\$'000</i> (Unaudited)	Change
INTERIM RESULTS			
Turnover	1,966	872	125%
Total operating expenses	(21,429)	(45,096)	(52%)
Net loss for the period	(18,355)	(44,077)	(58%)
Loss per share (<i>HK cent</i>)	(6.75)	(16.22)	(58%)

The Board of Directors (the "Board") of New City (Beijing) Development Limited (the "Company") is pleased to announce that the audited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2004 together with the comparative figures for the corresponding period in 2003 were as follows:

CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2004	2003
	<i>Notes</i>	<i>HK\$'000</i> (Audited)	<i>HK\$'000</i> (Unaudited)
TURNOVER	3	1,966	872
OTHER OPERATING INCOME	5	47	147
GENERAL AND ADMINISTRATIVE EXPENSES		(16,500)	(33,551)
LOSS FROM OPERATIONS		(14,487)	(32,532)
FINANCE COSTS	6	(4,929)	(11,545)
LOSS BEFORE TAXATION		(19,416)	(44,077)
TAXATION	8	1,084	—
LOSS AFTER TAXATION		(18,332)	(44,077)
MINORITY INTERESTS		(23)	—
NET LOSS FOR THE PERIOD		(18,355)	(44,077)
DIVIDENDS	9	—	—
LOSS PER SHARE (<i>HK cent</i>)			
Basic	10	(6.75)	(16.22)

Remarks: Audited consolidated income statement for the six months ended 30 June 2004 was extracted from the audited financial statements of the Company for the six months ended 30 June 2004 dated 28 August 2004.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2004

1. BASIS OF PRESENTATION

The consolidated financial statements for the six months ended 30 June 2004 have been extracted from the audited financial statements of the Company for the six months ended 30 June 2004 dated 28 August 2004. The consolidated financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

2. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention as modified for revaluation of certain properties.

The accounting policies and basis of preparation adopted for the preparation of the interim financial report are consistent with those adopted by the Group in its annual financial statements for the year ended 31 December 2003.

3. TURNOVER

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

	Six months ended 30 June 2004 HK\$'000	Six months ended 30 June 2003 HK\$'000
Sales of properties	—	—
Rental income	<u>1,966</u>	<u>872</u>
	<u><u>1,966</u></u>	<u><u>872</u></u>

Business tax

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

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organized 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.

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>	(5,025)
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 credit			<u>1,084</u>
Loss after taxation			<u>(18,332)</u>

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>	(32,546)
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>

No geographical segment information of the Group is shown as the operating business of the Group is solely carried out in Beijing, The People's Republic of China (the "PRC").

5. OTHER OPERATING INCOME

	Six months ended 30 June 2004 HK\$'000	Six months ended 30 June 2003 HK\$'000
Interest income	14	55
Other income	33	92
	<u>47</u>	<u>147</u>

6. FINANCE COSTS

	Six months ended 30 June 2004 HK\$'000	Six months ended 30 June 2003 HK\$'000
Interest on:		
— Bank loans and overdrafts wholly repayable within five years	13,663	13,477
— Other loans wholly repayable within five years	1,338	44
— Finance leases	61	13
	<u>15,062</u>	<u>13,534</u>
Total borrowing costs	15,062	13,534
Less: Amounts capitalised	<u>(10,133)</u>	<u>(1,989)</u>
	<u>4,929</u>	<u>11,545</u>

Borrowing cost capitalized during the six months ended 30 June 2004 are calculated by application of a capitalization rate of 6.0% (six months ended 30 June 2003: 6.5%) to expenditure on qualifying assets.

7. DEPRECIATION

During the period, depreciation of HK\$1,348,000 (six months ended 30 June 2003: HK\$1,271,000) was charged in respect of the Group's property, plant and equipment.

8. TAXATION

	Six months ended 30 June 2004 <i>HK\$'000</i>	Six months ended 30 June 2003 <i>HK\$'000</i>
Income tax charge	—	—
Land appreciation tax charge	<u>(925)</u>	<u>—</u>
	(925)	—
Deferred tax credit	<u>2,009</u>	<u>—</u>
	<u><u>1,084</u></u>	<u><u>—</u></u>

Income tax

The group companies operating in Hong Kong are subject to profits tax at the rate of 17.5% for the six months ended 30 June 2004 (six months ended 30 June 2003: 17.5%) 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 for the six months ended 30 June 2004 and 2003.

The group companies operating in the PRC are subject to enterprise income tax at a rate of 33% (six months ended 30 June 2003: 33%) during the period. No provision for PRC enterprise income tax has been made as the Group has no assessable income for PRC tax for the six months ended 30 June 2004 and 2003.

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.

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

	Six months ended 30 June 2004		Six months ended 30 June 2003	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Loss before taxation	<u>(19,416)</u>		<u>(44,077)</u>	
Tax at the PRC income tax rate of 33%	(6,407)	(33.0)	(14,545)	(33.0)
Tax effect of tax losses not recognized	3,842	19.8	12,605	28.6
Effect of different tax rates of subsidiaries operating in other jurisdictions	1,495	7.7	1,940	4.4
Others	<u>(14)</u>	<u>(0.1)</u>	<u>—</u>	<u>—</u>
Tax effect and effective tax rate for the period	<u><u>(1,084)</u></u>	<u><u>(5.6)</u></u>	<u><u>—</u></u>	<u><u>—</u></u>

9. DIVIDENDS

The directors do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2004 (six months ended 30 June 2003: HK\$nil).

10. LOSS PER SHARE

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

	Six months ended 30 June 2004 HK\$'000	Six months ended 30 June 2003 HK\$'000
Loss for the period	<u>18,355</u>	<u>44,077</u>
Number of shares		
Number of shares for the purposes of basic earnings per share	<u>271,758,000</u>	<u>271,758,000</u>

No diluted loss per share for the six months ended 2004 and 2003 has been presented as the exercise of the Company's outstanding options would result in decrease in loss per share.

SUMMARY OF THE AUDITORS' REPORT (extracted from the audited financial statements of the Company for the six months ended 30 June 2004 dated 28 August 2004)

The auditors issued a disclaimer opinion because there is limitation of audit scope regarding recoverability of a loan receivable amounted to HK\$38 million and a fundamental uncertainty in respect of the going concern of the Group. The going concern of the Group is dependent upon the rescheduling or extension of loan facilities, completion of negotiations with creditors for restructuring of the amounts due and the successful completion of the Group's project in Beijing.

MANAGEMENT DISCUSSION AND ANALYSIS

Interim Results

During the six-month period under review, the Group's turnover and net loss for the period amounted to approximately HK\$1,966,000 and HK\$18,355,000 respectively, whereas the Group's turnover and net loss for the first half of 2003 were HK\$872,000 and HK\$44,077,000 respectively. Basic loss per share for the period was HKcents 6.75 (six months ended 30 June 2003: HKcents 16.22).

Reasons for the improved results were due to the capitalization of direct administrative and finance cost attributable to the China Securities Plaza in the cost of property under development for sale and also there has been an increase in rental income of about HK\$1,094,000.

Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2004 (six months ended 30 June 2003: nil).

Review of Operations

During the period, the Group devoted much of its effort in the full scale development of the China Securities Plaza project which is located in Finance Street, Beijing. The progress of construction work of the China Securities Plaza has been smooth.

The Board made their best endeavour to solve the past problems of the Group. On 11 June 2004, the Group entered into agreement with Sinoway Properties Limited in relation to the sale of the entire interest in New Rank (BVI 1) Limited. This transaction is subjected to the approval by shareholders and the “Very Substantial Disposal Circular” on this transaction was despatched on 28 August 2004. Upon completion of the disposal of New Rank (BVI 1) Limited, the Group will strengthen the financial position by reducing its liability.

Prospects

With the support from China Network Communications Group Corporation under the agreement as described in the Addendum of our 2003 annual report, China Securities Plaza project has been proceeded more favourably and the management expects that the superstructure could be completed by end of 2004.

With the efforts placed by the new management, the Group will have substantive improvement in solving past problems tangling the Group financially. The Board is confident that the Group will be able to achieve better performance.

Liquidity, Financial Resources and Funding Requirements

As at 30 June 2004, the Group had obligations under hire purchase contracts of approximately HK\$1.2 million (as at 31 December 2003: approximately HK\$192,000) and outstanding bank borrowings of approximately RMB398 million (equivalent to approximately HK\$372 million) (as at 31 December 2003: approximately HK\$372 million) of which unsecured, interest bearing bank borrowings approximately RMB98 million (equivalent to approximately HK\$92 million) (as at 31 December 2003: approximately HK\$92 million) had matured before June 2004. The remaining secured, interest bearing bank borrowing, which amounting to approximately RMB300 million (equivalent to approximately HK\$280 million) (as at 31 December 2003: approximately HK\$280 million), which was repayable more than one year, but not exceeding two years.

Other borrowings of approximately HK\$197 million as at 30 June 2004 (as at 31 December 2003: approximately HK\$187 million), of which approximately HK\$152 million (as at 31 December 2003: approximately HK\$142 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 (as at 31 December 2003: approximately HK\$45 million) was interest bearing at 6% per annum and for a term of 2 years from June 2003.

As at 30 June 2004, the Group's total net assets was approximately HK\$1,241 million (as at 31 December 2003: approximately HK\$1,145 million) whereas total debts amounted to approximately HK\$570 million (as at 31 December 2003: approximately HK\$559 million). The gearing ratio (total debts/total assets of the Group) was 0.46 as at 30 June 2004 (as at 31 December 2003: 0.49). As at 30 June 2004, the cash and bank balances increased to approximately HK\$77 million (as at 31 December 2003: approximately HK\$69 million) and the current ratio (current assets/current liabilities) was 0.95 (as at 31 December 2003: 1.00).

The majority of the Group's operations are located in the PRC, and the main operational currencies are Hong Kong Dollars and Renminbi, there is no significant exchange rate fluctuation during the period under review. Therefore, it is not necessary for the Group to make any foreign currency hedging arrangement to minimize the foreign exchange risk and exposure.

Pledge of assets

As at 30 June 2004, the Group had pledged its properties under development with an aggregate net book value of approximately HK\$824,715,000 (as at 31 December 2003: approximately HK\$744,400,000) to secure bank loans granted and amounts payable in respect of respective land development cost totalling approximately HK\$419,094,000 (as at 31 December 2003: approximately HK\$522,718,000). 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.

Contingent Liabilities

- (a) 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. 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.

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.

- (b) 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.
- (c) 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 in the financial statements is necessary.

Staff

As at 30 June 2004, the Group has employed about 60 employees in both PRC and Hong Kong. The Group adopts a competitive remuneration package for its employees. Remuneration packages are reviewed annually with reference to the then prevailing market employment practices and legislation.

Purchase, sale or redemption of the Company's listed securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2004.

Corporate Governance

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by this Interim Report, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

The Audit Committee has reviewed and auditors have audited the financial statements of the Company for the six months ended 30 June 2004.

Publication of interim report on the exchange's website

The interim report of the Group containing all the information required by paragraph 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the Exchange's website in due course.

By Order of the Board
Han Junran
Chairman

Hong Kong, dated 7 September 2004

As at the date of this announcement, 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.

Please also refer to the published version of this announcement in the China Daily.