

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of New City (Beijing) Development Limited (the "Company"), together with its subsidiary companies, (the "Group"), I am pleased to present the Group's 2002 Annual Report to shareholders.

REVIEW OF OPERATIONS

In order to locate an influential and financially sound investor in our development project of China Securities Building situated at Lot B6, Finance Street, Xi Cheng District, Beijing, the Group has started negotiations with a potential investor since early last year. However, the negotiations has been extended several times and since it is the intention of the Group to assimilate suggestions put forward by the potential investor, the construction work in this development project has proceed in accordance with a new plan. As a result, the Group faced a lot of pressure from various sources.

The prospect of the Group depends very much on whether the major deal in disposing 49% interest in Tong Sun Limited could be crystallized as planned. If this is not crystallized as expected, the consequences will be severely unfavorable to the Group. The outbreak of "SARS" earlier has also affected the pre-sale of China Securities Building to a certain extent.

In terms of financial management, large sums of money had been loaned out during the construction phase and as a result, the Group experienced working capital problems. In terms of business relationship, no emphasis was placed in maintaining good communication and understanding with business partners. Some litigations were brought up against the Group as a result. This damaged the image of the Group and again working capital of the Company was further weakened.

In respect of the reversion of the "Very Substantial Acquisition and Connected Transaction" in connection with Fountainwood Limited as referred to in the circular dated 31 December 2001 issued by the Company, it is considered to be a loss to the Group.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2002, the Group's borrowings amounted to HK\$337,597,000 (2001: HK\$443,224,000), that are interest-bearing, of which HK\$337,496,000 (2001: HK\$200,311,000) are repayable within one year. HK\$101,000 (2001: HK\$242,913,000) are repayable within two years. The Group continued in high gearing position. The gearing ratio (total debts/total assets of the Group) was at 1.20 at 31 December 2002. (2001: 1.00)

CHAIRMAN'S STATEMENT

CONTINGENT LIABILITIES

During the year, 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 for the frozen of 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 Company considered that the claim from the purchaser will be overruled and no provision for the loss in the financial statements is necessary.

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 costs 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 to either freeze its bank deposits or to attach its assets for an amount up to RMB50 million. The Group is currently at the final stage of finalizing the terms of the settlement and rescheduling of the outstanding amounts payable to the creditor. The directors are confident that the Group will eventually, not liable to pay the aforesaid interest penalty of approximately RMB68 million. Accordingly, the aforesaid sum has not been provided in the financial statements.

PROSPECTS

The new management had been re-organised since the end of last year. More professionals were recruited to hold posts in the Group. The management attitude has been changed in being more practical, more reliance on professional opinion and allowing more ideas for consideration when solving business problems. Despite the working environment is difficult, the new management is confident that satisfactory results could be achieved if the following objectives are met:

1. To conclude the major deal of disposing 49% in Tong Sun Limited
2. To obtain settlement and support from major creditors
3. To focus in pre-sale activities of the property under development and to obtain satisfactory results
4. To launch cost reduction plans and to identify new revenue sources
5. To co-operate with foreign, PRC and local governing bodies such that support could be obtained

CHAIRMAN'S STATEMENT

The new management had placed efforts in getting support from creditors which would reduce the losses arising from litigations. Furthermore, efforts will be placed in concluding the major deal as mentioned above. If this deal is concluded, the cash flow problem will be very much relieved and the potential new investor could also help in producing better business results.

With the support of our bankers, creditors and the potential new investor, the Board is confident that the Group could surpass the present financial crisis, achieve better results with improvement in both operating results and strengthening its financial position.

APPRECIATION

On behalf of the Board, I would like to thank all our shareholders and business partners for their strong support to the Group. I would also like to express sincere appreciation to the management and staff of their contribution to the Group over the past year and for their continuous dedication and commitment in the future.

Han Junran

Chairman

Hong Kong, 20 May 2003