

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements of the Company and the Group for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of the subsidiaries are set out in note 1 to the financial statements.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed at an extraordinary general meeting held on 14 June 2002, the name of the Company was changed from New Rank City Development Limited to New City (Beijing) Development Limited (新城市(北京)建設有限公司). The Company obtained the Certificate of Incorporation on Change of Name from the Registry of Companies in the Cayman Islands on 19 June 2002 and obtained the Certificate of Registration of Change of Name of Oversea Company from the Registrar of Companies in Hong Kong on 22 July 2002.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2002 are set out in the consolidated income statement on page 22.

The Directors do not recommend the payment of any interim or final dividend for the year ended 31 December 2002.

RESERVES

Movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements.

DIRECTORS' REPORT

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution represent the share premium, contributed surplus and retained profits. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Articles of Association and provided that immediately following the distribution of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

Reserves of the Company which were available for distribution to shareholders at 31 December 2002 were nil.

INVESTMENT PROPERTIES

Movements during the year in investment properties of the Group are set out in note 15 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Movements during the year in the property, plant and equipment of the Group are set out in note 16 to the financial statements.

SUBSEQUENT EVENT

Details of the subsequent event are set out in note 42 to the financial statements.

RETIREMENT AND PENSION PLAN

The group companies operating in the People's Republic of China (the "PRC") have participated 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% of 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 year ended 31 December 2002 amounted to approximately HK\$67,000.

DIRECTORS' REPORT

RETIREMENT AND PENSION PLAN *(continued)*

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 Hong Kong 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 scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme.

The retirement benefits 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 scheme. During the year, the Group made retirement benefits scheme contributions arising from the MPF Scheme amounting to HK\$87,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2002, turnover attributable to the Group's largest customer accounted for approximately 29% of the Group's consolidated turnover and aggregate turnover attributable to the five largest customers of the Group accounted for approximately 64% of the Group's consolidated turnover.

For the year ended 31 December 2002, purchases attributable to the Group's largest supplier accounted for approximately 62% of the Group's total purchases and aggregate purchases attributable to the five largest suppliers of the Group accounted for approximately 79% of the Group's total purchases.

To the knowledge of the Directors, none of the Directors, or their respective associates, or shareholders owning more than 5% of the Company's issued share capital had any beneficial interests in any of the five largest customers or suppliers.

DIRECTORS' REPORT

DIRECTORS

The Directors of the Company during the year and up to date of this report were:

Executive Directors

Mr. Han Junran (<i>Chairman</i>)	(appointed as Chairman on 16 December 2002)
Mr. Leung Kwo (<i>Former Chairman</i>)	(resigned on 16 December 2002)
Mr. Tam Biu Sing, Joseph	(appointed on 16 December 2002)
Mr. Fu Yiu Kwong	(appointed on 13 March 2003)
Mr. Albert Lo	(resigned on 6 November 2002)
Mr. Lu Gong	(resigned on 8 February 2002)

Non-executive Director

Mr. Long Tao	(resigned on 18 March 2002)
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Independent Non-executive Directors

Mr. Chan Yiu Tung, Anthony	(appointed on 1 August 2002)
Mr. Wong Shing Kay, Oliver	(appointed on 14 March 2003)
Mr. Lam Tak Shing	(resigned on 16 December 2002)
Mr. Ip Chun Chung, Robert	(resigned on 11 March 2002)

In accordance with the provisions of the Company's Articles of Association, Messrs. Tam Biu Sing, Joseph, Fu Yiu Kwong, Chan Yiu Tung, Anthony and Wong Shing Kay, Oliver shall retire from office and, being eligible, offer themselves for re-election.

DIRECTORS' REPORT

DIRECTORS' SERVICE CONTRACTS

Each of Messrs. Han Junran and Fu Yiu Kwong, the Executive Directors 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 is the period to his retirement by rotation in accordance with the Company's Articles of Association.

Save as disclosed, there are no service contracts, which are not determinable by the Company within one year without payment of compensation (other than statutory compensation), of any director proposed for re-election at the forthcoming annual general meeting.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2002, the interests of the Directors and their associates in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Hong Kong Securities (Disclosure of Interest) Ordinance ("SDI Ordinance") (which has been superseded and replaced by section 352 of the Securities and Futures Ordinance ("SFO") with effect from 1 April 2003) were as follows:

Name of director	Number of shares held Personal Interest
Mr. Han Junran, director	8,000,000

Other than as disclosed above and certain nominee shares in subsidiaries held by the Directors in trust for the Group, none of the Directors, nor their associates had any beneficial interests in the share capital of the Company or any of its associated corporations (within the meaning of the SDI Ordinance (which has been superseded and replaced by such definition under the SFO with effect from 1 April 2003)) which is required to be recorded in the Register of Directors' Interests pursuant to Section 29 of the SDI Ordinance (which has been superseded and replaced by section 352 of the SFO with effect from 1 April 2003) or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Details of personal interests of the Directors in the share options to subscribe for shares in the Company are disclosed under "Share Option Scheme" below.

DIRECTORS' REPORT

SHARE OPTION SCHEME

Pursuant to a shareholders' resolution passed on 14 June 2002, the share option scheme of the Company ("2000 share option scheme"), which was approved by its shareholders on 25 January 2000 enabling the directors to grant options to eligible employees, including directors of the Company and/or its subsidiaries to subscribe for shares in the Company 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.

The New Share Option Scheme was adopted for the purpose of encouraging the full-time employees and Directors (including non-executive Directors and independent non-executive Directors), part time employees 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 to allow them to enjoy the results of the Company attained through their efforts 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 of 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 (the "Listing Rules")) 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.

DIRECTORS' REPORT

SHARE OPTION SCHEME *(continued)*

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.

The following table discloses movements in the Company's share options during the year:

	Option type	Outstanding at the beginning of the year	Lapsed during of the year	Outstanding at the end of the year
Directors				
Mr. Leung Kwo, director <i>(resigned on 16 December 2002)</i>	2000	1,450,000	—	1,450,000
Mr. Han Junran, director	2001B	5,000,000	—	5,000,000
		<u>6,450,000</u>	<u>—</u>	<u>6,450,000</u>
Employees				
	2001A	2,792,000	(2,792,000)	—
	2001C	1,000,000	—	1,000,000
Total		<u>3,792,000</u>	<u>—</u>	<u>1,000,000</u>
Total all categories		<u>10,242,000</u>	<u>(2,792,000)</u>	<u>7,450,000</u>

The total number of securities available for issue under the New Share Option Scheme is 27,175,800 shares, representing 10% of the issued share capital of the Company as at the date of this report.

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ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option scheme for the Participants as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor the chief executive, nor any of their spouse or children under the age of 18, had any rights to subscribe for the securities of the Company, or exercised any such rights.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

1. During the year, the Group acquired a 49% interest in a company from Mr. Leung Kwo, the former chairman of the Company by issuance of a convertible note at a consideration of HK\$68 million. Details of the transaction has been disclosed in a circular dated 31 December 2001. On 20 December 2002, the Company announced that as the relevant approval from the government authorities have not been obtained within the time stipulated in the relevant agreement, the Group reversed the acquisition on 17 December 2002 by transferring to Mr. Leung Kwo the acquired interest. The amount charged to Mr. Leung Kwo on reversion is HK\$2,460,000 representing the aggregate expenses incurred by the Group for the acquisition. The convertible note issued to Mr. Leung Kwo was cancelled.
2. During the year ended 31 December 2001, the Group executed a guarantee in favour of a bank in support of its banking facilities granted to a property management company to the extent of RMB 10 million. The property management company is 60% owned by Mr. Albert Lo, the former director of the Company and 40% owned by an independent third party. The banking facilities granted to the property management company was utilized to fund the replacement of elevators and maintenance of the Group's completed property in Beijing. The guarantee was called upon by the bank on 4 June 2002 and the Group has satisfied the guarantee to the extent of RMB 10 million. Consequently, the Group entered into an unsecured loan agreement with the property management company for RMB 10 million with interest at short term loan interest rate as announced by the People's Bank of China from time to time.

In addition, the Group also had transactions with companies in which the directors of the Company have interests. Details of the transactions are disclosed in note 41 to the financial statements. Save as disclosed above, no contracts of significance to which the Company, or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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COMPETITION WITH THE GROUP'S BUSINESS

The former Chairman of the Company, Mr. Leung Kwo, was involved in the Group's acquisition of 49% interest in a piece of land for development in Beijing, PRC during the year 2001. The transaction was considered by the Stock Exchange to be in breach of non-competition undertaking given by Mr. Leung Kwo and New Rank Groups Limited in favour of the Company in May 2000 in respect of certain aspects of the Group's business. The acquisition of 49% interests in the land was satisfied by the issuance of a convertible note of HK\$ 68,000,000 by the Company. Details of the transaction had been disclosed in the circular dated 31 December 2001. As announced by the Company on 20 December 2002, the Group had reversed the acquisition on 17 December 2002.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2002, the shareholders having an interest of 10% or more in the share capital of the Company as registered in the register required to be kept under Section 16(1) of the SDI Ordinance (which has been superseded and replaced by section 336 of the SFO with effect from 1 April 2003) are as follows :—

Name	Number of shares	Approximate percentage of holding
New Rank Groups Limited ("NRG")	104,254,297	38.36%
Silver World Limited	104,254,297	38.36%
Royal Bank of Canada Trust Company (Cayman) Limited	104,254,297	38.36%

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS *(continued)*

Notes:

- (1) NRG is 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").
- (2) Royal Bank Trustee is the trustee of a discretionary trust called New Rank Trust. The beneficiaries of the New Rank Trust include a holding company and its wholly-owned subsidiary and certain relatives of Mr. Leung Kwo and Ms. Lau Shun (formerly known as Lau Suen), wife of Mr. Leung Kwo, provided that such individuals are not residents of Canada for tax purpose nor residents of the PRC. The holding company is wholly-owned by another discretionary trust called Hold Trust.
- (3) The beneficiaries under the Hold Trust include the lineal descendants (together with their spouses) of every degree of consanguinity of the paternal grandfather and maternal grandfather of each of Mr. Leung Kwo and Ms. Lau Shun provided that they are not residents of Canada for tax purposes nor residents of the PRC.

So far as is known to any Director of the Company, the only company (other than members of the Group) directly or indirectly interested in 10% or more of the voting power at general meetings of the subsidiaries of the Company is set out below:

Name of owner	Name of subsidiary	Percentage of Interest
Guozheng Economic Development Company Limited ("Guozheng") (Note)	Beijing Zhong Zheng Real Estate Development Co., Ltd. ("Beijing Zhong Zheng")	34%

Note: Beijing Zhong Zheng was established on 5 June 1995. Its existing joint venture partners are Tong Sun Limited ("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 Beijing Zhong Zheng and Guozheng became entitled to a fixed distribution by way of the ownership right of an office space in the China Securities Plaza, the property being developed by Beijing Zhong Zheng, of gross floor area of 7,000 square metres upon the completion of construction of the China Securities Plaza.

Save as disclosed above, the Company has not been notified of any other interest as at 31 December 2002 representing 10% or more of the issued share capital of the Company or any of its subsidiaries.

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PURCHASE, SALE AND REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the year ended 31 December 2002. Neither the Company nor any of its subsidiaries has purchased or sold any of the shares of the Company during the year ended 31 December 2002.

COMPLIANCE WITH CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31 December 2002 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint, Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

HAN JUNRAN

CHAIRMAN

Hong Kong, 20 May 2003