

AUDITORS' REPORT

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**Deloitte
Touche
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TO THE MEMBERS OF NEW CITY (BEIJING) DEVELOPMENT LIMITED (FORMERLY KNOWN AS NEW RANK CITY DEVELOPMENT LIMITED)

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 22 to 67 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement.

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BASIS OF OPINION *(continued)*

However, the evidence available to us was limited. Included in prepayments and other receivables as at 31 December 2002 is an interest bearing loan to a third party of approximately HK\$37 million in respect of which an allowance of HK\$5 million has been made during the year. We were unable to obtain sufficient financial information relating to the financial position of this third party so as to assess the appropriateness of this allowance.

Any adjustments found to be necessary would affect the net liabilities of the Group as at 31 December 2002 and the loss of the Group for the year then ended.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements which explains the steps being taken by the Group to finance the completion of the Group's principal project, the development of a site in Beijing, the People's Republic of China, including the conditional disposal of the Group's 49% interest in Tong Sun Limited (the group company which indirectly holds the development project) to an independent third party. The conditions to which the disposal is subject are described in note 19 to the financial statements.

However, the Group is dependent upon the continued support of its bankers and creditors. As explained in note 26 to the financial statements, 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. The remaining bank borrowings of approximately HK\$246 million are due for repayment between August 2003 and December 2004. Moreover, certain creditors of the Group have taken legal action to recover overdue balances amounting to approximately HK\$509 million. Certain of these bankers and creditors have applied to the court in Beijing to freeze certain land and buildings, investment properties and a portion of property under development for sale and bank balances of the Group.

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FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS *(continued)*

Against this background, the Group is negotiating with its bankers for the rescheduling or extension of existing loan facilities and for the granting of new facilities to partly finance the completion of the development project as explained above. The Group is also negotiating with certain of its creditors for the rescheduling of repayments. Provided that the negotiations with the banks and creditors can be successfully concluded and provided that the disposal of the 49% interest in Tong Sun Limited can be successfully completed, the directors consider that the Group will be able to finance the completion of the development project and to meet in full its financial obligations as they fall due for the foreseeable future. The financial statements have been prepared on a going concern basis, the validity of which depends upon sufficient future funding being available. The financial statements do not include any adjustments that may result from the failure of the Group to obtain such funding. We consider that appropriate disclosures have been made. However, in view of the extent of the uncertainty relating to the future funding of the Group, we disclaim our opinion in respect of the fundamental uncertainty relating to the going concern basis.

DISCLAIMER OF OPINION

Because of the significance of the possible effect of the limitation in evidence available to us and because of the fundamental uncertainty relating to the going concern basis, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of the affairs of the Company and the Group as at 31 December 2002 and of the loss and cash flows of the Group for the year then ended. In all other respects, in our opinion, the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitation on our work relating to the prepayments and other receivables, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 20 May 2003