

REPORT OF THE AUDITORS

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**Deloitte
Touche
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TO THE MEMBERS OF NEW CITY (BEIJING) DEVELOPMENT LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements 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 solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REPORT OF THE AUDITORS

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.

However, the evidence available to us was limited. 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.

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.

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FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made to the financial statements which describe the liquidity position of the Group. The Group is dependent upon the continued support of its bankers and creditors. As explained to the financial statements, the Group has defaulted in respect of the repayment of certain bank loans totaling 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.

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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 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 statement 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.

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DISCLAIMER OF OPINION

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 statements give a true and fair view of the state of the affairs of the Company and the Group as at 30 June 2004 and of the loss and cash flow of the Group for the period then ended and on to whether 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

28 August 2004