# New City (China) Development Limited
# 新城市(中國)建設有限公司

Stock Code: 456

Interim Report 2008

# CONTENTS

## INTERIM RESULTS

The Board of Directors (the"Board") of New City (China) Development Limited (the "Company") is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the"Group") for the six months ended 30 June 2008 together with the comparative figures for the corresponding period in 2007 as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended 30 June 2008*

| | Notes | **2008 HK$'000 (Unaudited)** | 2007 HK$'000 (Unaudited) |
|---|---|---|---|
| **TURNOVER** | 3 | — | 2,074,010 |
| **COST OF SALES** | | — | (1,787,569) |
| **GROSS PROFIT** | | — | 286,441 |
| Other revenue | 4 | **16,066** | 299,817 |
| Administrative expenses | | **(14,582)** | (86,167) |
| **PROFIT FROM OPERATIONS** | 4 | **1,484** | 500,091 |
| Finance costs | 5 | **(35,684)** | (8,623) |
| **(LOSS)/PROFIT BEFORE TAXATION** | | **(34,200)** | 491,468 |
| Taxation | 6 | — | (166,331) |
| **(LOSS)/PROFIT FOR THE PERIOD** | | **(34,200)** | 325,137 |
| **ATTRIBUTABLE TO:** | | | |
| Equity holders of the Company | | **(34,200)** | 325,137 |
| Minority interests | | — | — |
| | | **(34,200)** | 325,137 |
| **DIVIDENDS** | | — | 94,600 |
| **(LOSS)/EARNINGS PER SHARE (HK CENTS)** | | | |
| Basic | 7 | **(12.58)** | 84.83 |
| Diluted | 7 | **(4.09)** | 66.52 |

## CONDENSED CONSOLIDATED BALANCE SHEET

*As at 30 June 2008*

| | Notes | 30.6.2008 HK$'000 (Unaudited) | 31.12.2007 HK$'000 (Audited) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 8 | **2,291** | 2,634 |
| | | **2,291** | 2,634 |
| **CURRENT ASSETS** | | | |
| Property for sale-completed property | | **777,777** | 729,167 |
| Accounts receivable | | **75,079** | 70,387 |
| Prepayments, deposits and other receivables | 9 | **5,321** | 19,453 |
| Bank balances and cash | | **22,093** | 42,739 |
| | | **880,270** | 861,746 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 10 | **138,398** | 103,818 |
| Accruals and other payables | | **173,428** | 138,728 |
| Obligations under finance leases | | **73** | 73 |
| Bank borrowings | 11 | **99,992** | 93,750 |
| Other borrowings | | **59,873** | 71,000 |
| Taxes payable | 6 | **196,979** | 92,692 |
| Convertible bonds | 13 | **69,263** | — |
| Provisions | 12 | **17,205** | 16,129 |
| | | **755,211** | 516,190 |
| **NET CURRENT ASSETS** | | **125,059** | 345,556 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **127,350** | 348,190 |

| | Notes | 30.6.2008 HK$'000 (Unaudited) | 31.12.2007 HK$'000 (Audited) |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Trade payables | 10 | — | 33,415 |
| Obligations under finance leases | | **201** | 237 |
| Other borrowing | | **110,000** | 110,000 |
| Taxes payable | 6 | — | 93,545 |
| Convertible bonds | 13 | — | 69,263 |
| Preferred share dividend payable | | **94,600** | 94,600 |
| | | **204,801** | 401,060 |
| **NET LIABILITIES** | | **(77,451)** | (52,870) |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 14 | **272** | 272 |
| Reserves | 15 | **(77,723)** | (53,142) |
| **DEFICIENCY OF SHAREHOLDERS' FUNDS** | | **(77,451)** | (52,870) |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 June 2008*

| | Share capital HK$'000 | Share premium HK$'000 | Contributed surplus HK$'000 | Convertible bond equity reserve HK$'000 | Translation reserve HK$'000 | Preferred share dividend HK$'000 | (Accumulated losses)/ Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2008 | 272 | 20,773 | 4,755 | — | 12,696 | — | (91,366) | (52,870) |
| Exchange differences arising on translation of foreign operations | — | — | — | — | 9,619 | — | — | 9,619 |
| Loss for the period | — | — | — | — | — | — | (34,200) | (34,200) |
| At 30 June 2008 | 272 | 20,773 | 4,755 | — | 22,315 | — | (125,566) | (77,451) |
| At 1 January 2007 | 272 | 20,773 | 4,755 | 226 | 7,758 | — | (228,486) | (194,702) |
| Equity reserve of convertible bond was transferred to liabilities as the convertible bond was extended | — | — | — | (226) | — | — | — | (226) |
| Preferred share dividend declared | — | — | — | — | — | (94,600) | — | (94,600) |
| Profit for the period | — | — | — | — | — | — | 325,137 | 325,137 |
| At 30 June 2007 | 272 | 20,773 | 4,755 | — | 7,758 | (94,600) | 96,651 | 35,609 |

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

*For the six months ended 30 June 2008*

| | 2008<br>HK$'000<br>(Unaudited) | 2007<br>HK$'000<br>(Unaudited) |
|---|---|---|
| **NET CASH GENERATED FROM OPERATING ACTIVITIES** | **13,419** | 490,740 |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(9)** | (450,601) |
| **NET CASH USED IN FINANCING ACTIVITIES** | **(14,608)** | (66,279) |
| **DECREASE IN CASH AND CASH EQUIVALENTS** | **(1,198)** | (26,140) |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD** | **42,739** | 64,084 |
| Effect of foreign exchange rate changes, net | **(19,448)** | — |
| **CASH AND CASH EQUIVALENTS AT THE END OF PERIOD** | **22,093** | 37,944 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | |
| Bank balances and cash | **22,093** | 37,944 |

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2008*

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a. Basis of preparation

The condensed consolidated financial statements of New City (China) Development Limited (the "Company") and its subsidiaries (collectively known as the "Group") have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and with 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").

### b. Principal accounting policies

The condensed consolidated financial statements have been prepared under the historical cost convention except for certain financial assets which are stated at fair values. The accounting policies and basis of preparation adopted for the preparation of the interim financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31 December 2007.

In preparing the financial statements, the directors have considered the future liquidity of the Group in view of its net liabilities position as at 30 June 2008. The Group incurred loss for the six months ended 30 June 2008, and as at that date, it had consolidated net liabilities of HK$77,451,000. It may cast a doubt on the Group's ability to continue as a going concern. Nevertheless, the directors are of the opinion that the Group will be able to finance its future working capital and financial requirements given that:

(i) the Group has been actively discussing with prospective financial supporters to obtain new working capital;

(ii) the Group has been actively negotiating with a party in relation to a possible property development project located in Beijing to maximise the returns to shareholders; and

(iii) based on a cash flow forecast prepared by the Group's management for the eighteen months ending 31 December 2009, the Group will be able to generate adequate cash flows from its operation.

Accordingly, the directors are of the opinion that it is appropriate to prepare the financial statements for the six months ended 30 June 2008 on a going concern. Should the Group be unable to continue or operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets as current assets. The effects of these adjustments has not been reflected in the financial statements.

Up to the date of issue of the interim financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ending 31 December 2008 and which have not been adopted in the interim financial statements.

Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

| | | **Effective for accounting periods beginning on or after** |
|---|---|---|
| HK(IFRIC)-Int 13 | Customer Loyalty Programmes | 1 July 2008 |
| HK(IFRIC)-Int 16 | Hedges of a Net Investment in a Foreign Operation | 1 October 2008 |
| HK(IFRIC)-Int 15 | Agreements for the Construction of Real Estates | 1 January 2009 |
| HKAS 1 (Revised) | Presentation of Financial Statements | 1 January 2009 |
| HKAS 23 (Revised) | Borrowing Cost | 1 January 2009 |
| Hong Kong Financial Reporting Standard ("HKFRS") 1 & HKAS 27 (Amended) | Cost of an Investment in a Subsidiary, Jointly-controlled Entity & Associate | 1 January 2009 |
| HKAS 32 & HKAS 1 (Amended) | Puttable Financial Instruments & Obligations Arising on Liquidation | 1 January 2009 |
| HKFRS 2 (Amended) | Share-based Payments: Vesting Conditions and Cancellations | 1 January 2009 |
| HKFRS 8 | Operating Segments | 1 January 2009 |
| HKAS 27 (Revised) | Consolidated & Separate Financial Statements | 1 July 2009 |
| HKFRS 3 (Revised) | Business Combinations | 1 July 2009 |

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that while the adoption of them may result in new amended disclosures, it is unlikely to have a significant impact on the Group's result of operations and financial position.

### c. Revenue recognition

Revenue comprises the fair values of the consideration received or receivable for the sales of properties in the ordinary course of the Group's activities, revenue is shown net of discount. Revenue is recognised as follows:

(i) Revenue from sales of properties is recognised when the significant risks and rewards of properties have been transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers and collectibility of related receivables is reasonably assured. Deposits and installments received on properties sold prior to the date of revenue recognition are included in the condensed consolidated balance sheet as advanced proceeds received from customers under current liabilities.

(ii) Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

### d. Provisions and contingencies

Provisions are recognised for liabilities of uncertain timing or amount when the Company has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

## 2. SEGMENT INFORMATION

Segment information is required by HKAS 14 "Segment Reporting" to be presented by way of two segment formats: (i) on a primary segment reporting basis, which the Group has determined to be by business segment; and (ii) on a secondary segment reporting basis, which the Group has determined to be by geographical segment.

The Group did not have turnover for the six months ended 30 June 2008, and the Group's end-customer is in the PRC. Accordingly, no segment analysis by business and geographical segments is provided for the six months ended 30 June 2008.

## 3. TURNOVER

Turnover represents the total sales proceed of properties received and receivable from customer.

An analysis of turnover is as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | *HK$'000* |
| Turnover: | | |
| Sales of properties | **—** | 2,074,010 |

## 4. PROFIT FROM OPERATIONS

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | *HK$'000* |
| Profit from operations has been arrived at after charging: | | |
| Depreciation of property, plant and equipment | **455** | 286 |
| Costs of properties sold | **—** | 1,787,569 |
| Bad debts written off | **—** | 8,834 |
| Provision for doubtful debt | **—** | 67,005 |
| and after crediting: | | |
| Interest income | **200** | — |
| Exchange gain | **15,850** | — |
| Other income | **16** | — |
| Gain on disposal of property, plant and equipment | **—** | 90 |
| Gain on revaluation of investment properties | **—** | 299,727 |

## 5. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | *HK$'000* |
| Interest on: | | |
| Guarantee fee for the Beijing Tai Yang Hong arbitration | **12,088** | — |
| Bank loans and overdrafts wholly repayable within five years | **7,498** | 5,734 |
| Other loans wholly repayable within five years | **13,535** | 5,273 |
| Convertible bond | **2,553** | 240 |
| Finance leases | **10** | 5 |
| Arrangement fee of convertible bond | **—** | 3,105 |
| Total borrowing costs | **35,684** | 14,357 |
| Less: Amounts included in cost of properties sold | **—** | (5,734) |
| | **35,684** | 8,623 |

## 6. TAXATION

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | *HK$'000* |
| Income tax expenses | | |
| Hong Kong profits tax | **—** | — |
| PRC enterprise income tax | **—** | 62,630 |
| PRC business tax | **—** | 103,701 |
| | **—** | 166,331 |

Taxation in balance sheet represents:

| | **30.6.2008** | 31.12.2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| — PRC enterprise income tax | **35,417** | 33,204 |
| Less: Payment in previous year | **(7)** | (7) |
| — PRC business tax | **115,223** | 108,022 |
| Less: Payment in previous year | **(39,883)** | (35,828) |
| — PRC land appreciation tax | **85,603** | 80,253 |
| — PRC salary tax | **626** | 593 |
| | **196,979** | 186,237 |
| Taxation to be paid within 1 year classified as current liabilities | | |
| — PRC enterprise income tax | **35,410** | 33,197 |
| — PRC business tax | **75,340** | 43,179 |
| — PRC land appreciation tax | **85,603** | 15,723 |
| — PRC salary tax | **626** | 593 |
| | **196,979** | 92,692 |
| Taxation to be paid after 1 year classified as non-current liabilities | **—** | 93,545 |

The Company's subsidiaries operating in Hong Kong are subject to profits tax at the rate of 16.5% for the six months ended 30 June 2008 (six months ended 30 June 2007: 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 2008 and 2007. In addition, PRC Enterprise Income Tax has been uniform across both foreign and domestic enterprises. The enterprise tax rate applicable is changed from 33% to 25% with effect from 1 January 2008.

The Group had no significant unprovided deferred taxation for the period.

## 7. (LOSS)/EARNINGS PER SHARE

The calculation of the basic loss per share for the six months ended 30 June 2008 is based on the net loss after deducting preferred share dividend attributable to equity shareholders of the Company of HK$34,200,000 (six months ended 30 June 2007: profit HK$230,537,000) and the weighted average number of 271,758,000 ordinary shares in issue during the six months ended 30 June 2008 (six months ended 30 June 2007: 271,758,000 ordinary shares).

The calculation of the diluted loss per share for the six months ended 30 June 2008 is based on the net loss before bond interest (net of tax) and after deducting preferred share dividend attributable to equity shareholders of the Company of HK$31,647,000 (six months ended 30 June 2007: profit HK$230,777,000) and the weighted average number of 773,663,558 ordinary shares (six months ended 30 June 2007: 346,934,634 ordinary shares) after considering the effects of converting all convertible bonds to ordinary shares upon maturity.

## 8. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

| | **Furniture, fixtures and equipment** HK$'000 | **Motor vehicles** HK$'000 | **Total** HK$'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2008 | 3,103 | 6,812 | 9,915 |
| Additions | 10 | — | 10 |
| Exchange adjustments | 106 | 196 | 302 |
| At 30 June 2008 | 3,219 | 7,008 | 10,227 |
| **Aggregate depreciation** | | | |
| At 1 January 2008 | 1,863 | 5,418 | 7,281 |
| Charge for the year | 223 | 232 | 455 |
| Exchange adjustments | 76 | 124 | 200 |
| At 30 June 2008 | 2,162 | 5,774 | 7,936 |
| **Net book value** | | | |
| At 30 June 2008 | 1,057 | 1,234 | 2,291 |
| At 31 December 2007 | 1,240 | 1,394 | 2,634 |

## 9. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 30.6.2008<br>HK$'000 | 31.12.2007<br>*HK$'000* |
|---|---|---|
| Temporary advances | **12** | 11 |
| Prepaid expenses and deposits | **5,309** | 3,692 |
| Amount due from a bond holder for unpaid convertible bond | **—** | 15,750 |
| | **5,321** | 19,453 |

The amount due is unsecured, non-interest bearing and has no fixed terms of repayment.

## 10. TRADE PAYABLES

The aged analysis of trade payables as at 30 June 2008 is as follows:

| | 30.6.2008<br>HK$'000 | 31.12.2007<br>*HK$'000* |
|---|---|---|
| Within 3 months | **112,438** | 103,818 |
| 4 - 6 months | **—** | — |
| 7 - 9 months | **—** | — |
| 10 - 12 months | **25,960** | — |
| Over 1 year | **—** | 33,415 |
| | **138,398** | 137,233 |

## 11. BANK BORROWINGS

The secured bank borrowings as at 30 June 2008 is as following:

| | **30.6.2008** **HK$'000** | 31.12.2007 HK$'000 |
|---|---|---|
| Within 1 year | **99,992** | 93,750 |
| Over 1 year | **—** | — |
| | **99,992** | 93,750 |

The bank borrowings are denominated in Renminbi and is bound by an agreement signed among the Company, China Construction Bank and China Network Communication Group Corporation ("CNC"). It was agreed that the total amount is repayable in two portions:

(i) RMB30,000,000 become repayable after the receipt of the eighth installment payment from CNC under the completion of transfer of legal title of China Securities Plaza;

(ii) The repayment of the remaining RMB60,000,000 will be negotiated after completion of exchange of properties between the Company and CNC.

Report on Finalization of the project cost of China Securities Plaza done by appointed professional have expected to be completed in September 2009 and this will affect the timing of (i) transfer of property's legal title and (ii) repayment of the eighth installment payment from CNC. Coupled with the reason stated above, bank borrowings are not repayable on demand and be classified as current liabilities as the management estimated that the loan will be settled in the coming year. In accordance with the opinion issued by the 北京市京元律師事務所 (the"Beijing Law Firm"), the Company currently does not have any risk of litigation from China Construction Bank regarding the loan for the reason that the Company's rights are protected by the agreements signed between the Company and China Construction Bank.

## 12. PROVISIONS

The amount represents the provision for the claim from 北京太陽紅投資諮詢有限公司 ("Beijing Tai Yang Hong") an independent third party. On 19 January 2006, the Beijing Arbitration Committee made an arbitration award in favor of Beijing Tai Yang Hong that the agreement dated 6 June 2003 for the purchase of the entire 12th Floor of the China Securities Plaza entered into between Beijing Tai Yang Hong and Beijing Zhong Zheng Real Estate Development Company Limited ("Beijing Zhong Zheng") be cancelled and that the sum of approximately RMB14,000,000 being refund of the purchase price paid and RMB800,000 being damages be paid by Beijing Zhong Zheng to Beijing Tai Yang Hong. The management has considered that the amount provided in the financial statements is sufficient.

To the knowledge of the directors of the Company, the ultimate outcome of the litigations is not yet determinable and the management is handling the legal action with the intention to defend the case vigorously.

## 13. CONVERTIBLE BONDS

The convertible bonds recognised in the balance sheet are calculated as follows:

| | **30.6.2008 HK$'000** | 31.12.2007 HK$'000 |
|---|---|---|
| Carrying amount at the beginning of the period | **69,263** | 11,977 |
| Interest expenses | — | 2,968 |
| Interest paid | — | (3,079) |
| Transfer from equity component | — | 226 |
| Convertible bonds issue | — | 62,390 |
| Transfer to the loan | — | (5,219) |
| Liability component at the end of the period | **69,263** | 69,263 |

All of the convertible bonds can be convertible into the Company's ordinary shares, at a conversion price of HK$0.138 per share and bearing interest rate from the range of the prime lending rate from time to time quoted by The Hongkong and Shanghai Banking Corporation Limited for Hong Kong dollar deposits (the "Prime Rate") to the Prime Rate plus 4% per annum from time to time, which will be payable on the maturity date, i.e. 28 February 2009.

## 14. SHARE CAPITAL

| | 30.6.2008<br>HK$'000 | 31.12.2007<br>HK$'000 |
|---|---|---|
| Authorised:<br>2,000,000,000 ordinary shares<br>(2007: 500,000,000 ordinary shares)<br>of HK$0.001 each (2007: HK$0.001) | **2,000** | 500 |
| Issued and fully paid:<br>271,758,000 ordinary shares<br>(2007: 271,758,000 ordinary shares)<br>of HK$0.001 each (2007: HK$0.001) | **272** | 272 |

## 15. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements. Nature and purpose of the share premium, contributed surplus, convertible bond equity reserve and translation reserve are explained in notes (a) to (d) below.

### a. Share premium

Share premium is the excess of the proceeds received over the nominal value of the shares of the Company issued at a premium, less the amount of expenses incurred in connection with the issue of the shares.

### b. Contributed surplus

Contributed surplus represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares pursuant to the reorganisation.

### c. Convertible bond equity reserve

With effect from 1 January 2005 and in accordance with HKAS 32, convertible bonds issued are required to split into their respective liability and equity components at initial recognition by recognising the liability component at its fair value and attributing to the equity component, which is arisen from the difference between the proceeds from convertible bonds at its issue date and the fair value of the liability component. The liability component is subsequently carried at amortised cost using the effective interest method. The equity component will remain in equity until conversion or redemption of the bond. When the bond is converted, the convertible bond equity reserve and the carrying value of the liability component at the time of conversion are transferred to the share capital account and the share premium account as consideration for the shares issued. If the bond is redeemed, the convertible bond equity reserve is released directly to the accumulated losses account.

d. **Translation reserve**

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Hong Kong dollars using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and recognised in the Group's foreign currency translation reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

## 16. OPERATING LEASE COMMITMENTS

As at 30 June 2008, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

| | **30.6.2008 HK$'000** | 31.12.2007 HK$'000 |
|---|---|---|
| Within one year | **1,482** | 1,482 |
| In second to fifth years, inclusive | **1,605** | 2,346 |
| | **3,087** | 3,828 |

## 17. CONTINGENT LIABILITIES

(a) The Group has given guarantees to banks in respect of the loans of the amounts US$2,500,000 and RMB14,000,000 granted to Beijing New Rank Real Estate Development Company Limited, a former subsidiary of the Group.

(b) On 23 December 2003, the Group had entered into an agreement with CNC for the construction of China Securities Plaza. Pursuant to the agreement, the construction should be completed on 30 June 2005 and its ownership should be delivered to CNC before 30 December 2005. Relevant penalties will be required upon the late delivery of ownership as 0.03% interest per day based on money received by the Group upon the late delivery within 12 months from the day of risk and reward of property which have been transferred on 25 December 2006.

(c) On 19 January 2006, the Beijing Arbitration Committee made an arbitration award in favor of Beijing Tai Yang Hong that the agreement dated 6 June 2003 for the purchase of the entire 12th Floor of China Securities Plaza entered into between Beijing Tai Yang Hong and Beijing Zhong Zheng, the 51% indirect owned subsidiary of the Group be cancelled and that the sum of approximately RMB14,000,000 being refund of the purchase price paid and RMB800,000 being damages be paid by Beijing Zhong Zheng to Beijing Tai Yang Hong. Beijing Zhong Zheng has applied to the People's Court in Beijing for stay of enforcement of such award.

(d) On 15 May 2008, Starry Joy Properties Investment Limited ("Starry Joy") initiated a legal proceedings (the "Action") against the Company to claim for a loan and interest thereon amounting to HK$57,940,000. To the best of directors' knowledge, information and belief having made all reasonable enquiries, the Company has made substantive repayments for the said loan and the Directors therefore consider that the alleged outstanding amount claimed by Starry Joy under the Action would have no material impact on the Company. There is no further provision necessary to be provided and the Directors are negotiating with Starry Joy and are confident that an amicable settlement arrangement in relation to the Action could be reached.

## 18. POST BALANCE SHEET EVENT

Pursuant to an acquisition agreement dated 15 August 2007 entered into with Qin Huang Dao City Ocean Realty Company Limited (the "Vendor"), the Company undertook to acquire the 51% equity interest in Qin Huang Dao Ocean West Hill Real Property Development Company Limited (the "Project Company") by total consideration of RMB10,924,000 (equivalent to approximately HK$11,379,000) which in sum of cash consideration amounted to HK$1,000,000 and a tenancy agreement by which Beijing Zhong Zheng shall let and China Yin Di City Investment Company Limited, a subsidiary of the Vendor, shall rent the property and there will be arrangements for setting off all the outstanding amount of the remaining consideration other than the cash consideration under the tenancy agreement.

The Company had paid the cash consideration as a deposit of the acquisition on 12 September 2007 subsequent to the Memorandum of Cooperation entered into between the Company and the Vendor. On 18 March 2008, an extraordinary general meeting was held and approved the acquisition.

On 23 September 2008, the Board announced that as the local regulatory authority has requested the Company for the injection of its share in the costs of the Land (amounting to approximately RMB117,300,000) before allowing registration of changes in the shareholding structure of the Project Company, taking into account of the current working capital of the Group, the acquisition by the Company have to be ceased. The amount paid as a deposit will not be refunded and will be written off.

# REVIEW REPORT TO THE BOARD OF DIRECTORS OF NEW CITY (CHINA) DEVELOPMENT LIMITED

## Introduction

We have reviewed the condensed interim financial statements set out on pages 2 to 18, which comprise the condensed consolidated balance sheet of New City (China) Development Limited as at 30 June 2008 and the related condensed consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial statements in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

Our responsibility is to express a conclusion on this interim financial statements based on our review and our opinion solely to you, as a body, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the report.

## Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical review and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements as at 30 June 2008 is not prepared, in all material aspect, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

## Emphasis of Matter

Without qualifying our conclusion, we draw your attention to Note 1 to the interim financial statements concerning the adoption of going concern basis on which the interim financial statements have been prepared. As further explained in the notes, the interim financial statements of the Group have been prepared on a going concern basis, notwithstanding that as at 30 June 2008, the Group reported consolidated net loss and net liabilities of HK$34,200,000 and HK$77,451,000 respectively. It may cast significant doubt on the ability of the Group to continue as a going concern.

The interim financial statements have been prepared on a going concern basis, the validity of which is dependent on the prospective financial supporters to finance the Group's future working capital and financial requirements and the Group's ability to obtain possible property development project and to generate adequate cash flows from its operation in the foreseeable future. The interim financial statements do not include any adjustment that would result from a failure to obtain such financial support and working capital. We consider that adequate disclosures have been made.

**Parker Randall CF (H.K.) CPA Limited**
*Certified Public Accountants*
**Lau Po Ming, Peter**
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26 September 2008

# MANAGEMENT DISCUSSION AND ANALYSIS

## Interim Results

During the six-month period under review, the Group has no turnover and net loss for the period amounted to approximately HK$34,200,000, whereas the Group generated turnover and net profit for the first half of 2007 were approximately HK$2,074,010,000 and HK$325,137,000 respectively.

## Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

Pursuant to the supplemental subscription agreement dated 8 May 2003, Starry Joy Properties Investment Limited ("Starry Joy"), holding 49% of the equity interest of Tong Sun Limited ("Tong Sun"), is entitled to a preferred dividend from Tong Sun in the sum of up to HK$94,600,000 together with repayment in full of its loan and loan from Poly (Hong Kong) Investments Limited ("Poly HK") and interest accrued thereon in priority over the dividend payments to the Group by Tong Sun.

## Business Review

During the period of this report, efforts were made to secure new short term financing for freeing the pledge of China Securities Plaza and complete the registration process for formal conveyance to China Network Communications Group Corporation. There had been many offers and the management is choosing the best possible option for the Company with a view to minimise risk and costs.

Progress of discussion with Poly HK has been positive and the management strongly believes that the current litigation case with Poly HK would be settled within the very near future.

## Arrangements for the Resumption of Trading of Shares

Trading in the shares has been suspended on The Stock Exchange of Hong Kong Limited (the"Stock Exchange") since 30 December 2003 at the request of the Company pending release of an announcement in relation to a major transaction of the Company involving China Securities Plaza. The Company was placed into the second stage of the delisting procedures on 12 January 2005 as the Stock Exchange is concerned about whether the Company meets the sufficient assets and operations requirements under Rule 13.24 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). The Company is now actively preparing further information for submission to the Stock Exchange in order to substantiate that it meets the requirements under Rule 13.24 of the Listing Rules. Trading in the shares will remain suspended pending fulfillment of any conditions which may be imposed on the Company by the Stock Exchange and the Company will make an announcement upon resumption of trading.

## Prospect

The management has never stop looking for new projects and with the cessation of the acquisition of 51% equity interest in Qin Huang Dao Ocean West Hill Real Property Development Company Limited, the management is now considering another project for recommending to the shareholders for approval. Information will be released to the public when they are ready.

Despite of the new hurdles confronted by the Company, the management is still confident in turning the Company around with an aim to have the shares of the Company resuming in trading as soon as possible.

# FINANCIAL REVIEW

## Liquidity, Financial Resources and Funding Requirements

As at 30 June 2008, the Group had obligations under hire purchase contracts of approximately HK$274,000 (as at 31 December 2007: HK$310,000) and the bank borrowings amounted to approximately RMB90,000,000 (equivalent to approximately HK$99,992,000) (as at 31 December 2007: approximately RMB90,000,000 and equivalent to approximately HK$93,750,000), that is secured and interest-bearing.

The loan of HK$165,000,000 as at 30 June 2008 (as at 31 December 2007: HK$165,000,000) was secured on the shares in the Company held by a director and a former director was interest free before 1 July 2005 and extended the repayment date up to 31 December 2005 into two portions: (i) repayment by cash amounting to HK$55,000,000 was interest bearing at 10% per annum; (ii) the balance of which amounting to HK$110,000,000 will transfer such aggregate appraisal value of property to the borrower. Other unsecured loan of HK$3,873,000 as at 30 June 2008 (as at 31 December 2007: HK$15,000,000) was interest bearing at 10% per annum. And, the short term loan of HK$1,000,000 as at 30 June 2008 (as at 31 December 2007: HK$1,000,000) was interest bearing at the rate equal to Prime Rate plus 2%.

As at 30 June 2008, the Group's total assets was approximately HK$882,561,000 (as at 31 December 2007: approximately HK$864,380,000) whereas total debts amounted to approximately HK$269,865,000 as at 30 June 2008 (as at 31 December 2007: approximately HK$274,750,000). As at 30 June 2008, the cash and bank balances was approximately HK$22,093,000 (as at 31 December 2007: approximately HK$42,739,000) and the current ratio (current assets/current liabilities) was 1.17 as at 30 June 2008 (as at 31 December 2007: 1.67).

## Exchange Risks

The majority of the Group's operations are located in the Peoples' Republic of China ("PRC"), and the main operational currencies are Hong Kong Dollars and Renminbi. The Company is paying regular and active attention to Renminbi exchange rate fluctuation and consistently assess exchange risks.

## Pledge of Assets

As at 30 June 2008, the Group had pledged the property of China Securities Plaza, the development of project in Beijing to secure bank loans granted approximately HK$99,992,000 (as at 31 December 2007: approximately HK$93,750,000).

# OTHER INFORMATION

## Corporate Governance

During the six months ended 30 June 2008, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules during the six months ended 30 June 2008, save for the deviation from the code provisions listed below:

The chairman of the Company is also the chief executive officer of the Company, which deviates from the **Code provision A.2.1.** As the current nature of the Group's business is not complicated, the Board considers that the current structure is sufficient for monitoring and controlling the operation of the Group. The Company will review the structure from time to time and will make necessary arrangements to observe the provisions of the Listing Rules whenever necessary.

According to the Articles of Association of the Company, the non-executive directors of the Company are not appointed for specific terms and the Chairman of the Board and/or the managing director of the Company are not subject to retirement by rotation. Thus, they are deviated from **Code provision A.4.1 and Code provision A.4.2**. However, in view of the fact that non-executive directors are subject to retirement by rotation as stipulated in the Company's Articles of Association, the Company considers that there are sufficient measures in place to ensure that the corporate governance of the Company are no less exacting than the Code provisions. The Company will review its Articles of Association from time to time and will make necessary amendments to ensure observance the provisions of the Listing Rules whenever necessary.

The Company has not established the remuneration committee which deviates from the **Code provision B.1**, as the Company has an established policy for fixing remuneration packages for all directors and the senior management depending on the individuals' performance and responsibility, market trend and company performance. The Board will review from time to time the necessity to establish a remuneration committee.

## Employees

As at 30 June 2008, the Group has employed about 52 employees in both the 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.

## Directors' Interests and Short Position in Shares and Underlying Shares

As at 30 June 2008, the interests and short positions of the directors and their associates in the share capital and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:—

**Long positions**
**Ordinary shares of HK$0.001 each of the Company**

| Name of director | Capacity | Number of issued ordinary shares held | Percentage of the issued share capital of the Company |
|---|---|---|---|
| Han Junran ("Mr. Han") | Beneficial owner (Note I) | 13,587,900 | 5% |

Note:

(i) Pursuant to a share charge entered into between New Rank Groups Limited ("NRG"), 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"), and Mr. Han as chargors and Starry Joy, a wholly-owned subsidiary of Poly HK, as chargee dated 23 June 2003, among other things, Mr. Han charged his interest 5% of the issued share capital of the Company, representing 13,587,900 shares of the Company, in favour of Starry Joy.

Pursuant to the New City Guarantee, Mr. Han pledged his interest in 5% of the issued share capital of the Company, representing 13,587,900 shares of the Company, in favour of China Poly Group Corporation ("Poly Corporation").

Other than as disclosed above, none of the directors nor their associates had any interests and short positions in the share capital and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which is required to be recorded in the register to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## Substantial Shareholders' and Other Person's Interests in Shares and Underlying Shares

As at 30 June 2008, the register of substantial shareholders maintained by the Company pursuant to Section 336 of SFO shows that other than the interests disclosed above in respect of a director of the Company, the following persons had notified the Company of relevant interests and short positions in the issued share capital of the Company:—

| Name of shareholder | Capacity | Number of issued ordinary shares held (long position (L)/ short position (S)) | Percentage of the issued share capital of the Company |
|---|---|---|---|
| Poly HK | Person having a security interest in shares (Note 1) | 67,939,500 (L) | 25% |
| NRG | Beneficial owner (Notes 1 and 2) | 54,351,600 (L)<br>54,351,600 (S) | 20% |
| Silver World Limited | (Note 2) | 54,351,600 (L)<br>54,351,600 (S) | 20% |
| Royal Bank Trustee | (Note 3) | 54,351,600 (L)<br>54,351,600 (S) | 20% |
| Wei Ping | Beneficial owner | 47,032,000 (L) | 17.31% |
| Lu Shu Guang | (Notes 1 and 5) | 13,587,900 (L) | 5% |

Notes:

(1) Pursuant to a share charge entered into between NRG and Mr. Han as chargors and Starry Joy, a wholly-owned subsidiary of Poly HK, as chargee dated 23 June 2003, NRG and Mr. Han charged their respective interests 20% and 5% of the issued share capital of the Company, representing 54,351,600 and 13,587,900 shares of the Company respectively, in favour of Starry Joy. By virtue of its shareholding in Starry Joy, Poly HK is deemed to be interested in 67,939,500 shares of the Company under the SFO.

(2) NRG is a wholly-owned subsidiary of Silver World Limited which is, in turn, wholly-owned by Royal Bank Trustee.

(3) 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, wife of Mr. Leung Kwo, provided that such individuals are not residents of Canada of tax purpose nor residents of the PRC. The holding company is wholly-owned by another discretionary trust called Hold Trust.

(4) 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.

(5) Ms. Lu Shu Guang is the spouse of Mr. Han, a director and Chairman of the Company. Ms Lu is deemed interested in the 13,587,900 shares of the Company held by Mr. Han under the SFO.

So far as is known to any director of the Company, the companies (other than members of the Group) directly or indirectly interested in 5% or more of the voting power at general meetings of the subsidiaries of the Company are set out below:

| **Name of owner** | **Name of subsidiary** | **Percentage of equity interest** |
|---|---|---|
| Guozheng Economic Development Company Limited ("Guozheng") (Note 1) | Beijing Zhong Zheng Real Estate Development Company Limited ("Beijing Zhong Zheng") | 34% |
| Starry Joy (Note 2) | Tong Sun | 49% |

Notes:

(1) Beijing Zhong Zheng was established on 5 June 1995. Its existing joint venture partners are Tong Sun, a subsidiary of the Company, Guozheng and Beijing Finance Street Construction & Development Company Limited ("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 becomes entitled to a fixed distribution by way of the ownership right of an office space in the China Securities Plaza of gross floor area of 7,000 square meters upon the completion of construction of the China Securities Plaza.

(2) Starry Joy is entitled to a preferred dividend of HK$94.6 million of Tong Sun and repayment of its loan and loan from Poly HK together with interest accrued thereon are in priority over the preferred dividend payment to the Group by Tong Sun, which is up to HK$136

million. After the payment of the aforesaid preferred dividend payments and repayment of all loans from Starry Joy and Poly HK, dividend and/or distribution to be declared by Tong Sun will be in the following proportion:

The Group: 75%
Starry Joy: 25%

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions as at 30 June 2008 representing 5% or more of the issued share capital of the Company.

## Share Option Scheme

The Company adopted a share option scheme on 14 June 2002 which remains in force for a period of 10 years from the date of adoption. No option has been granted during the six months ended 30 June 2008 and all the outstanding options were lapsed.

## Purchase, Sale or Redemption of the Company's Listed Securities

The Company had not redeemed any of its shares during the six months ended 30 June 2008. Neither the Company nor its subsidiaries had purchased or sold any of the Company's shares during the six months ended 30 June 2008.

## Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules. Having made specific enquiry of the Directors, the Directors have complied with the Code throughout the six months period ended 30 June 2008.

## Audit Committee

The Audit Committee comprises three members who are independent non-executive directors namely Mr. Chan Yiu Tung, Anthony, Mr. Wong Shing Kay, Oliver and Mr. Zheng Qing. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed the internal controls and the unaudited interim financial statements for the six months ended 30 June 2008.

By Order of the Board
**Han Junran**
*Chairman*

Hong Kong, 26 September 2008