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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker, or other licensed securities dealer, bank manager, solicitors, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in New City (China) Development Limited (the “**Company**”), you should at once hand this circular and accompanying form of proxy to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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**NEW CITY (CHINA) DEVELOPMENT LIMITED**

**新城市（中國）建設有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 0456)

**CONNECTED TRANSACTION:  
NOVATION OF THE CONVERTIBLE BONDS  
AND  
PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL**

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A letter from the independent committee (the “**Independent Board Committee**”) of the board of directors of the Company is set out on page 14 of this circular. A letter from Ample Capital Limited, the independent financial adviser, containing its advice to the Independent Board Committee and the independent shareholders of the Company is set out on pages 15 to 28 of this circular.

A notice convening an extraordinary general meeting (the “**EGM**”) of the Company to be held at Plaza IV, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Monday, 11 May 2009 at 3:00 p.m. is set out on pages 43 to 45 of this circular. A form of proxy for the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrars of the Company in Hong Kong, Union Registrars Limited at Rooms 1901-02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong as soon as possible and in any event no later than 48 hours before the time appointed for the holding of the EGM. Completion and return of the enclosed form of proxy will not preclude you from attending and voting in person at such meeting or any adjournment meeting should you so wish.

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:*

“Agreements”	together the Deed of Novation, the New Loan Agreement and the New Subscription Agreement
“associate”	has the meaning ascribed to this term under the Listing Rules
“Board”	the board of Directors
“Company”	New City (China) Development Limited, a company incorporated in the Cayman Islands with limited liability and whose issued Shares are listed on the Stock Exchange
“Completion”	completion of the Agreements
“Convertible Bonds”	the convertible bonds with aggregate principal amounts of HK\$56,458,150 held by Crown Champion, details of which has been disclosed in the circular of the Company dated 29 February 2008
“Conversion Shares”	the Shares to be allotted and issued upon conversion of the New Convertible Bond
“Crown Champion”	Crown Champion Investments Limited, a company incorporated in British Virgin Islands and holder of the Convertible Bonds
“Deed of Novation”	the deed of novation dated 18 March 2009 and entered into among the Company, Mr. Han and Crown Champion in relation to the novation of the debts under the Loan Documents from the Company to Mr. Han
“Directors”	the directors, including independent non-executive directors, of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve the Agreement, the New Loan Agreement, the New Subscription Agreement, the Deed of Novation and the transactions contemplated thereunder

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## DEFINITIONS

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“Group”	the Company and its subsidiaries
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee comprising all the independent non-executive Directors, established to advise the Independent Shareholders as to the fairness and reasonableness of the Transaction
“Independent Financial Adviser” or “Ample Capital Limited”	Ample Capital Limited, a licensed corporation under the SFO to conduct types 4, 6 and 9 regulated activities (advising on securities, advising on corporate finance and asset management), being the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“Independent Shareholders”	Shareholders other than Mr. Han and his associates
“Independent Third Party”	a party which is independent of and not connected with the Company, any director, chief executive, substantial shareholder or management shareholder of the Company or any of its subsidiaries or an associate of any of them
“Latest Practicable Date”	9 April 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Loan Documents”	the Convertible Bonds together with the share mortgages of shares of NR (BVI) and New Rank in favour of the Crown Champion as securities thereunder, details of which has been disclosed in the circular of the Company dated 29 February 2008 in relation to the issue of the Convertible Bonds
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Han” or “the Subscriber”	Mr. Han Junran, the chairman and an executive Director of the Company
“New Convertible Bond”	the new convertible bond to be issued to the Subscriber by the Company in the principal amount of HK\$56,458,150 plus all interest incurred under the New Loan Agreement

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## DEFINITIONS

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“New Loan Agreement”	the loan agreement dated 18 March 2009 and entered into between Mr. Han and the Company
“New Subscription Agreement”	the subscription agreement dated 18 March 2009 and entered into between Mr. Han and the Company in relation to the subscription of the New Convertible Bond
“PRC”	People’s Republic of China
“Restructured Group”	the Group after completion of the Transaction
“SFO”	the Securities and Futures Ordinance (Cap. 571, the Laws of Hong Kong)
“Shareholder(s)”	shareholders of the Company
“Share(s)”	ordinary share(s) of HK\$0.001 each in the share capital of the Company
“Share Mortgages”	the share mortgages of shares of NR (BVI) and New Rank in favour of the Crown Champion
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Transaction”	the transaction contemplated under the New Loan Agreement, the New Subscription Agreement and the Deed of Novation including but not limited to the novation of the debt under the Convertible Bonds and the subscription for the New Convertible Bond
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent

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## LETTER FROM THE BOARD

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# NEW CITY (CHINA) DEVELOPMENT LIMITED 新城市(中國)建設有限公司

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 0456)

*Executive Directors:*

Mr. Han Hunran (*Chairman*)

Mr. Fu Yiu Kwong

*Non-executive Director:*

Mr. Luo Min

*Independent non-executive Directors:*

Mr. Chan Yiu Tung, Anthony

Mr. Wong Shing Kay, Oliver

Mr. Zheng Qing

*Registered office:*

Scotia Centre, 4th Floor

P.O. Box 2804, George Town

Grand Cayman, Cayman Islands

*Principal place of business in*

*Hong Kong*

Units 2804-06, 28/F, Cosco Tower

Grand Millennium Plaza

183 Queen's Road Central

Hong Kong

9 April 2009

*To the Shareholders*

Dear Sir or Madam,

### **CONNECTED TRANSACTION: NOVATION OF THE CONVERTIBLE BONDS AND PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL**

#### **INTRODUCTION**

Reference is made to the announcements of the Company dated 15 June 2007, 29 June 2007 and 11 December 2007 and the circulars of the Company dated 20 April 2007 and 29 February 2008 in relation to the issue of the Convertible Bonds to Crown Champion.

Reference is also made to the announcement of the Company dated 20 March 2009 in relation to the entering into of the New Loan Agreement, the New Subscription Agreement and the Deed of Novation by the Company.

The entering into of the Agreements constitutes a connected transaction on the part of the Company under Chapters 14 and 14A of the Listing Rules.

The purpose of this circular is to provide you with further details regarding the Agreements in accordance with the Listing Rules.

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## LETTER FROM THE BOARD

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### THE AGREEMENTS

The Company entered into the Agreements with Crown Champion and Mr. Han in relation to the novation of the obligations under the Convertible Bonds from the Company to Mr. Han.

Pursuant to the Agreements, the parties agreed that the total outstanding principal amount of the debt together with all interest thereon owing by the Company to Crown Champion under the Loan Documents shall be novated to the intent that the Company will be fully released and discharged from all liabilities and obligations, past or future, under the Loan Documents, and the Convertible Bonds and any security created by and under the Share Mortgages be cancelled and released and Mr. Han will undertake to repay the debt to Crown Champion in accordance with the terms and conditions therein.

Since Mr. Han is the chairman and an executive Director of the Company, Mr. Han is a connected person to the Company and the Transaction constitutes a connected transaction on the part of the Company.

Given that the Convertible Bonds have become due on 28 February 2009, with the fact that the Company does not have sufficient cash at this moment for repayment of the indebtedness under the Convertible Bonds, it is necessary for the Company to novate the Convertible Bonds and accordingly the Company with Mr. Han and Crown Champion entered into the Agreements with the view to novate the liabilities under the Convertible Bonds.

Details of the Agreements comprising the Deed of Novation, the New Loan Agreement and the New Subscription Agreement are set out below.

### THE DEED OF NOVATION

Date: 18 March 2009

Parties: The Company  
Crown Champion  
Mr. Han

Pursuant to the Deed of Novation, Crown Champion will irrevocably and unconditionally release and discharge the Company and NR (BVI) from all claims, demands, liabilities and obligations whatsoever in respect of or arising out of the Loan Documents and the Convertible Bonds and accept the assumption of the obligation by Mr. Han to repay the Debt.

The Deed of Novation is conditional upon the passing by the Independent Shareholders at an extraordinary general meeting of a resolution approving the Agreements and the transactions contemplated thereunder, including but not limited to the issue of the New Convertible Bond to Mr. Han and the primary purpose of the Deed of Novation is that Mr. Han shall assume all the obligations and liabilities of the Company under the Loan Documents owed to Crown Champion.

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## LETTER FROM THE BOARD

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### THE NEW LOAN AGREEMENT

Date: 18 March 2009

Parties: The Company  
Mr. Han

Pursuant to the New Loan Agreement, the Company is deemed to have drawn down a debt amounting to HK\$56,458,150, being the principal loan amount owed by the Company to Crown Champion plus all interest accrued upto the date of execution of the Deed of Novation between the Company, Crown Champion and Mr. Han in respect of the loan owed by the Company to Crown Champion at the date of execution of the Deed of Novation.

As security under the New Loan Agreement, the Company shall execute (i) a share mortgage in respect of a first fixed legal charge of 47,001 shares held and owned by the Company in NR (BVI) Holdings Limited (a company incorporated under the laws of the British Virgin Islands, and a wholly and beneficially owned subsidiary of the Company) (“**NR (BVI)**”) representing 100 per cent (100%) of the issued share capital of NR (BVI) in favour of Mr. Han; and (ii) procure execution of a share mortgage in respect of a first fixed legal charge of 36,000 shares held and owned by NR (BVI) in New Rank (BVI 2) Limited (a company incorporated under the laws of the British Virgin Islands with limited liability, and a wholly and beneficially owned subsidiary of the Company) (“**New Rank**”) representing 100 per cent (100%) of the issued share capital of New Rank owned by NR (BVI) in favour of Mr. Han.

Interest shall be payable by the Company on the outstanding principal amount of the loan under the New Loan Agreement at the rate per annum equal to the prime lending rate from time to time quoted by The Hongkong and Shanghai Banking Corporation Limited for Hong Kong dollar deposits.

On completion of the New Subscription Agreement, the principal amount of the loan under the New Loan Agreement together with interest accrued thereon shall be applied towards the subscription of the New Convertible Bond and shall be treated as having been paid by the Company to Mr. Han under the New Loan Agreement and the Company shall be released and discharged from repayment of the loan under the New Loan Agreement but be subject to the repayment terms of the New Convertible Bond.

In the event that the conditions precedent for the issuance of the New Convertible Bond provided in the New Subscription Agreement shall not be fulfilled by 30 June 2009 (or such later date as Mr. Han and the Company may agree), the loan under the New Loan Agreement together with interest thereon shall be repayable in full by the Company on Mr. Han’s demand in writing.

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## LETTER FROM THE BOARD

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The New Loan Agreement is conditional upon the passing by the Independent Shareholders at the EGM of a resolution approving the Agreements and the transactions contemplated thereunder, including but not limited to the issue of the New Convertible Bond to Mr. Han and the primary purpose of the New Loan Agreement is that in the event that the New Convertible Bond cannot be issued in pursuance with the terms of the New Subscription Agreement, the Company will still be obliged to repay the loan to be owed to Mr. Han as a result of the novation.

### THE NEW SUBSCRIPTION AGREEMENT

Date: 18 March 2009

Parties: The Company  
The Subscriber

Pursuant to the New Subscription Agreement, the Subscriber shall subscribe for and the Company shall issue the New Convertible Bond in respect of the loan under the New Loan Agreement subject to and upon the terms and conditions of the New Subscription Agreement.

Completion of the New Subscription Agreement is conditional upon, among others:—

- (a) the passing by the Independent Shareholders at an extraordinary general meeting of resolution(s) approving:—
  - (i) the increase in the authorized share capital of the Company such that the Company shall have sufficient authorized but unissued share capital to perform its obligations under the New Convertible Bond and the Conversion Shares;
  - (ii) the issue of the New Convertible Bond and the allotment and issue of the Conversion Shares upon the exercise of the conversion rights attaching thereto;
  - (iii) the issue of the certificate of the New Convertible Bond upon the terms and subject to the conditions contained therein; and
  - (iv) all transactions as may be contemplated under the New Subscription Agreement.
- (b) the Listing Committee of the Stock Exchange having granted the approval for the listing of and permission to deal in the Conversion Shares to be issued upon conversion of each of the New Convertible Bond;

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## LETTER FROM THE BOARD

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- (c) the passing by the Independent Shareholders of the Company at an extraordinary general meeting of a resolution approving the entering into of the New Subscription Agreement by the Company and the issue of the New Convertible Bond as connected transactions;
- (d) the Stock Exchange not cancelling the listing status of the Company; and
- (e) the representations, warranties and undertakings contained in the New Subscription Agreement remaining true and accurate and not misleading at completion of the New Subscription Agreement and at all times between the date of the New Subscription Agreement and the date of the completion of the New Subscription Agreement.

The purpose of the New Subscription Agreement is to issue the New Convertible Bond to Mr. Han.

- Principal amount: HK\$56,458,150, being the principal loan amount owed by the Company to Crown Champion, together with all interest accrued under the New Loan Agreement which will be issued by the Company at its full face value. The principal amount of the New Convertible Bond was agreed after arm's length negotiations between Mr. Han and the Company.
- Interest rate: The New Convertible Bond shall carry interest at the rate per annum equal to the prime lending rate from time to time quoted by The Hongkong and Shanghai Banking Corporation Limited for Hong Kong dollars deposits.
- Maturity date: Unless previously redeemed, repurchased and cancelled or converted, any outstanding New Convertible Bond shall be redeemed on the date falling on the third anniversary of the date of issue of the New Convertible Bond.
- Ranking: The Conversion Shares to be issued upon conversion of the New Convertible Bond will rank pari passu in all respect with all other existing issued Shares as at the date of conversion of the New Convertible Bond.
- Early redemption: The New Convertible Bond or any part thereof shall not be early redeemed unless mutual agreed in writing between the Company and the holder of the New Convertible Bond.

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## LETTER FROM THE BOARD

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**Conversion:** Provided that any conversion of the New Convertible Bond does not trigger off a mandatory offer under rule 26.1 of the Takeovers Code on the part of the Subscriber, the Subscriber will have the right to convert the whole or part of the principal amount of the New Convertible Bond into Conversion Shares at any time and from time to time, from the date of issue of the New Convertible Bond up to and including their maturity date in amounts of not less than a whole multiple of HK\$300,000 on each conversion.

The restriction regarding the conversion under the New Convertible Bond remains valid throughout the terms of the New Convertible Bond.

**Conversion price:** The conversion price is initially HK\$0.03 per Conversion Share, subject to adjustment for normal adjustment events as set out below. The initial conversion price represents:

- (a) a discount of approximately 88.68% to the closing price of HK\$0.265 per Share as quoted on the Stock Exchange on 29 December 2003, being the last trading day of the Shares immediately before the pro-longed suspension; and
- (b) a discount of approximately 88.68% to the closing price of HK\$0.265 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including 29 December 2003, being the last trading day of the Shares immediately before the date of the Agreement.

**Adjustment to the conversion price:** The conversion price is subject to adjustment based on the prescribed formulas as set out in the instrument forming the New Convertible Bond for the happening of usual adjustment events.

Every adjustment to the conversion price shall be certified (at the option of the Company) either by the auditors of the Company for the time being or by an approved merchant bank.

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## LETTER FROM THE BOARD

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An “approved merchant bank” means a merchant bank of repute holding banking license in Hong Kong selected by the Company for the purpose of providing a specific opinion or calculation or determination for adjustment under the New Convertible Bond.

**Voting:** The Subscriber will not be entitled to attend or vote at any general meeting of the Company by reason only of it being the holder of the New Convertible Bond.

**Transfer:** With the prior written consent of the Company, the New Convertible Bond may be transferable provided always that no transfer or assignment of the New Convertible Bond shall be made to any connected person of the Company.

### CHANGES IN SHAREHOLDING STRUCTURE OF THE COMPANY

The changes in the shareholding structure of the Company as a result of the allotment and issue of the Conversion Shares to the extent that the conversion of the New Convertible Bond will not trigger off a mandatory offer under rule 26.1 of the Takeovers Code on the part of the Subscriber are as follows:

Shareholders	Issued share capital as at the date of this circular		Immediately after conversion of the New Convertible Bond to the extent that the conversion of the New Convertible Bond will not trigger off a mandatory offer under rule 26.1 of the Takeovers Code	
	No. of Shares	Approximate Percentage	No. of Shares	Approximate Percentage
New Rank Groups Limited (Note 1)	54,351,600	20.00%	54,351,600	14.76%
Mr. Han (Note 2)	13,587,900	5.00%	110,118,200	29.90%
Other public Shareholders	203,818,500	75.00%	203,818,500	55.34%
Total	<u>271,758,000</u>	<u>100.00%</u>	<u>368,288,300</u>	<u>100.00%</u>

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## LETTER FROM THE BOARD

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*Notes:*

- (1) New Rank Groups Limited is a wholly-owned subsidiary of Silver World Limited which is, in turn, wholly-owned by Royal Bank Trustee. 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 Leung Kwo, provided that such individuals are not residents of Canada for tax purposes nor residents of the PRC. The holding company is wholly-owned by another discretionary trust called Hold Trust. 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.
- (2) Mr. Han is an executive director and Chairman of the Company.

### **APPLICATION FOR LISTING**

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

### **FUND RAISING DURING THE PAST TWELVE MONTHS**

The Company has not conducted any equity fund raising activities in the past twelve months immediately preceding the date of this circular.

### **REASONS FOR THE NOVATION AND THE USE OF PROCEEDS**

The Group is principally engaged in property development in the PRC.

As the loan under the Loan Documents has been due on 28 February 2009, it is necessary for the Company to negotiate for settlement of the Loan Documents as Crown Champion will demand payment under the Loan Documents should the Company have not entered into the Agreement.

Pursuant to the Agreement, the parties agreed that subject to fulfillment of certain conditions as provided for in the Agreement, the total outstanding principal amount of the debt together with all interest thereon owing by the Company to Crown Champion pursuant to the Loan Documents shall be novated to the intent that the Company will be fully released and discharged from all liabilities and obligations, past or future, under the Loan Documents, and the Convertible Bonds and any security created by and under the Share Mortgages be cancelled and released and Mr. Han will undertake to repay the Debt to Crown Champion in accordance with the terms and conditions therein.

In this regard, the Directors consider that the terms of the Agreement, the New Loan Agreement, the New Subscription Agreement and the Deed of Novation are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### **PROPOSED INCREASE IN AUTHORIZED SHARE CAPITAL**

The Board also proposes to seek the approval by way of ordinary resolution at the EGM by Shareholders of an increase in its authorized share capital from HK\$2,000,000 divided into 2,000,000,000 Shares of HK\$0.001 each to HK\$10,000,000 divided into 10,000,000,000 Shares of HK\$0.001 each by creating an additional 8,000,000,000 unissued Shares.

The increase in authorized share capital of the Company is conditional upon the passing of an ordinary resolution approving the same by the Shareholders at the EGM.

The increase in authorized share capital will allow the Company to have sufficient authorised share capital upon the conversion of the New Convertible Bonds and also allow flexibility as to the future fund raising exercise of the Company.

### **LISTING RULES IMPLICATION**

The Transaction constitutes a connected transaction on the part of the Company under the Listing Rules and is subject to the approval of the Independent Shareholders at the EGM. Pursuant to Chapter 14A of the Listing Rules, Mr. Han and his associates are required to abstain from voting for the resolution approving the Agreements and the transactions contemplated thereunder at the EGM.

As at the date of this circular, Mr. Han is interested in 13,587,900 Shares, representing approximately 5% of the issued share capital of the Company. Mr. Han and his associates will abstain from voting on the resolution to approve the Agreements at the EGM. The Shares held by Mr. Han has been charged to Starry Joy Properties Investment Limited as announced in the announcement of the Company dated 15 May 2003.

To the best of the Directors' information, knowledge and belief, having made all reasonable enquiries, no Shareholders have material interests in the proposed increase in the authorized share capital and are required to abstain from voting for the resolution approving the proposed increase in the authorized share capital of the Company at the EGM.

### **EGM**

A notice convening the EGM to be held at Plaza IV, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Monday, 11 May 2009 at 3:00 p.m. is set out on pages 43 to 45 of this circular.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you intend to attend and vote at such meeting, you are requested to complete and return the enclosed form of proxy to the Company's branch share registrars in Hong Kong, Union Registrars Limited at Rooms 1901-02, Fook

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## LETTER FROM THE BOARD

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Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

### RECOMMENDATION

The Board considers that the terms of the Agreements are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolution approving the Agreements and the transactions contemplated thereunder as set out in the notice of EGM.

The Board also considers that the proposed increase in the authorized share capital of the Company is fair and reasonable and in the interests of the Company and the Shareholders as a whole and accordingly, the Board also recommends the Shareholders to vote in favour of the ordinary resolution approving the proposed increase in the authorized share capital as set out in the notice of EGM.

Your attention is also drawn to (i) the letter from the Independent Board Committee set out on page 14 of this circular which contains its views in relation to the Transaction; and (ii) the letter from the Independent Financial Adviser, which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Transaction and the principal factors and reasons considered by it in arriving at its opinions. The text of the letter from Independent Financial Adviser is set out on pages 15 to 28 of this circular.

The Independent Board Committee, having taken into account the advice of Independent Financial Adviser, considers that the Transaction was entered into on normal commercial terms and that the terms of the Transaction are fair and reasonable and in the interests of the Group so far as the Independent Shareholders are concerned.

### ADDITIONAL INFORMATION

Your attention is also drawn to the additional information as set out in the appendices to this circular.

Yours faithfully  
For and on behalf of the Board  
**New City (China) Development Limited**  
**Han Junran**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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### NEW CITY (CHINA) DEVELOPMENT LIMITED 新城市(中國)建設有限公司

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 0456)

9 April 2009

*To the Independent Shareholders*

Dear Sir or Madam,

#### **CONNECTED TRANSACTION: NOVATION OF THE CONVERTIBLE BONDS**

We refer to the circular of the Company dated 9 April 2009 (the “**Circular**”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members to form the Independent Board Committee and to advise you the terms of the Transaction whether such terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole and how to vote on the resolution regarding the Transaction.

Ample Capital Limited has been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Transaction are fair and reasonable so far as the Independent Shareholders are concerned, whether such terms are in the interests of the Company and the Shareholders as a whole. Details of its advice, together with the principal factors taken into consideration in arriving at such advice, is set out on pages 15 to 28 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 4 to 13 of the Circular and the additional information set out in the appendices of the Circular.

Having considered the terms of the Transaction and the advice of Ample Capital Limited, we are of the opinion that the Transaction was on normal commercial terms and the terms of the Transaction are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Transaction.

Yours faithfully,

Independent Board Committee of  
**New City (China) Development Limited**

**Chan Yiu Tung, Anthony**  
*Independent non-executive  
Director*

**Wong Shing Kay, Oliver**  
*Independent non-executive  
Director*

**Zheng Qing**  
*Independent non-executive  
Director*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the text of a letter of advice from Ample Capital Limited to the Independent Board Committee and the Independent Shareholders in respect of the Transaction prepared for incorporation in this circular.*

# AmCap

*Ample Capital Limited*

豐盛融資有限公司

Unit A, 14th Floor  
Two Chinachem Plaza  
135 Des Voeux Road Central  
Hong Kong

9 April 2009

*To the Independent Board Committee and the Shareholders  
of New City (China) Development Limited*

Dear Sirs,

### NOVATION OF THE CONVERTIBLE BONDS CONNECTED TRANSACTION

#### INTRODUCTION

We refer to our engagement by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Transaction, the particulars of which have been set out in a circular to the Shareholders dated 9 April 2009 (the “**Circular**”) and in which this letter is reproduced. Unless the context requires otherwise, terms used in this letter shall have the same meanings as given to them in the Circular.

Ample Capital Limited has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders to give our recommendations as to (i) whether the terms of the New Loan Agreement, the New Subscription Agreement and the Deed of Novation are fair and reasonable, (ii) whether the Transaction is in the interest of the Company and the Shareholders as a whole, and (iii) how to vote at the EGM. Details of the reasons for the proposed Agreements are set out in the section headed “Letter from the Board” in the Circular (the “**Board Letter**”).

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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On 18 March 2009, the Company entered into (i) the Deed of Novation; (ii) the New Loan Agreement; and (iii) the New Subscription Agreement with Crown Champion and Mr. Han in relation to (i) the novation of the obligations under the Convertible Bonds from the Company to Mr. Han; (ii) the Company's deemed draw down of a debt amounting to HK\$56,458,150 being the principal loan amount owed by the Company to Crown Champion plus all interest accrued up to the date of executed of the Deed of Novation, from Mr. Han; and (iii) the subscription of the New Convertible Bond by the Subscriber (i.e. Mr. Han).

Since Mr. Han is the chairman and an executive Director of the Company, Mr. Han is a connected person to the Company within the meaning of the Listing Rules. The Transaction constitutes a connected transaction on the part of the Company under the Listing Rules which requires the approval of the Independent Shareholders pursuant to Rule 14A.48 of the Listing Rules.

As at the Latest Practicable Date, Mr. Han is interested in 13,587,900 Shares, representing approximately 5% of the issued share capital of the Company. Mr. Han and his associates will abstain from voting on the resolution to approve the Agreements at the EGM. The Shares held by Mr. Han has been charged to Starry Joy Properties Investments Limited as announced in the announcement of the Company dated 15 May 2003.

The Independent Board Committee comprising three independent non-executive Directors, namely Chan Yiu Tung, Anthony, Wong Shing Kay, Oliver and Zheng Qing, has been established to advise the Shareholders in respect of the Agreements.

### **BASIS OF ADVICE**

In formulating our opinions and recommendations, we have relied on the information supplied to us by the Company and the opinions expressed by, and the representations of, the Directors and the management of the Company, including those set out in the Circular. We have assumed that all the information and representations so supplied by the Directors and/or the management of the Company and all information, opinions and representations referred to or contained in the Circular, for which the Directors and the Company are solely and wholly responsible, were true, accurate, complete and not misleading at the time they were supplied, expressed or made, and remained so up to the date of the Circular. No representation or warranty, expressed or implied, is made by us on the accuracy, truth or completeness of such information, opinions and/or representations. We have no reason to doubt the truth, accuracy and completeness of the information and presentation provided to us by the Directors.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. The Directors have confirmed that, to the best of their knowledge, they believe that no material fact or information has been omitted from the information supplied and that the representations made or opinions expressed have been arrived at after due and careful consideration and there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading.

While we have taken reasonable steps to satisfy the requirements under the Listing Rules, we have not carried out any independent verification of the information, opinions or representations given or made by or on behalf of the Company, nor have we conducted an independent investigation into the business affairs or assets and liabilities of the Group or any of the other parties involved in the Agreements.

In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion regarding the terms of the Agreements, we have taken into consideration the following principal factors and reasons:

#### **1. Background information on the Group**

The Group is principally engaged in property development in the PRC. The table below summarises the financial information as extracted from the Group's interim report for the six months ended 30 June 2008 (the "**Interim Report**") and the annual report for the year ended 31 December 2007 (the "**Annual Report**").

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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	<b>Six months ended</b>		<b>Year ended</b>	
	<b>30 June</b>		<b>31 December</b>	
	<b>2007</b>	<b>2008</b>	<b>2006</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
Turnover	2,074,010	—	—	2,160,427
Net profit/(loss)	325,137	(34,200)	(32,909)	231,720
Bank balances and cash (at period end)	42,739	22,093	64,084	42,739
Total assets (at period end)	864,380	882,561	1,971,762	864,380
Total liabilities (at period end)	917,250	960,012	2,166,464	917,250
Net assets/(liabilities) (at period end)	(52,870)	(77,451)	(194,702)	(52,870)

Source: <http://www.hkexnews.hk/>

From the above table, the Group recorded an unaudited net loss of HK\$34,200,000 for the six months ended 30 June 2008, compared with a net profit of HK\$325,137,000 for the six months ended 30 June 2007. We also notice that for the six months ended 30 June 2008, the Group had generated zero income. The Interim Report does not appear to provide an explicit reason for the zero turnover during the six months ended 30 June 2008 but it mentioned that the Group has made efforts to secure new short term financing for freeing the pledge of China Securities Plaza.

The Group had unaudited bank balances and cash of HK\$22,093,000 as at 30 June 2008, an amount which is less than the HK\$56,458,150 owed by the Company to Crown Champion. As at 30 June 2008, the Group had unaudited net liabilities of HK\$77,451,000, which was up from HK\$52,870,000 as at 30 June 2007.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 2. Reasons for the Agreements

As explained in the Board Letter, given that the Convertible Bonds have become due on 28 February 2009, it is necessary for the Company to negotiate for settlement of the Loan Documents as Crown Champion will demand payment under the Loan Documents should the Company have not entered into the Agreements. The Board Letter also mentions that the Company does not have sufficient cash at this moment for repayment of the indebtedness under the Convertible Bonds.

### 3. Other fund raising alternatives

Based on the Group's financial condition as discussed in section 1 of this letter, it would appear that the Group's current financial position, in particular (i) nil turnover for the six months ended 30 June 2008; (ii) net loss of HK\$34,200,000 for the six months ended 30 June 2008; and (iii) net liabilities of HK\$77,451,000 as at 30 June 2008, is not attractive to any borrower and/or investor, and hence it may be difficult for the Group to raise funds by other means at an attractive rate in order to repay the indebtedness under the Convertible Bonds to Crown Champion. Following discussions with the Group's management, we have learnt that the Group has also considered the following fund raising alternatives apart from the proposed issue of the New Convertible Bond.

#### 3.1 *Bank financing*

Given with the Group's unfavourable financial position and past operating results, the Directors believe that it may be difficult for the Group to secure bank loan at favourable terms. In addition, bank loans are often of a short term nature and may not fully satisfy the Group's requirements for longer term financing. Having reviewed the Group's financial position as at 30 June 2008 and considered the prevailing economic climate, we concur with the Directors' view.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 3.2 *Equity financing*

As for equity financing by way of private placement of new Shares or open offer/rights issue, the Directors are of the view that it may be difficult to (i) gather sufficient interest to subscribed for the new Shares and (ii) secure underwriting arrangement at terms favourable to the Company as a result of the previously discussed factors. In any event, it is noted from the Interim Report that trading in the Shares has been suspended on 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 Listing Rules. The Interim Report carries on to state that the Company has been actively preparing further information for submission to the Stock Exchange in order to substantiate that it meets the requirement under Rule 13.24 of the Listing Rules. Trading in the Shares will remain suspended pending fulfilment of any conditions which may be imposed on the Company by the Stock Exchange. Having considered the factors discussed above, we concur with the Directors' view that it may be difficult for the Company to conduct any equity fund raising activity.

## 4. **Principal terms of the Agreements**

### 4.1 *The Deed of Novation*

Pursuant to the Deed of Novation, Crown Champion will irrevocably and unconditionally release and discharge the Company and NR (BVI) from all claims, demands, liabilities and obligations whatsoever in respect of or arising out of the Loan Documents and the Convertible Bonds and accept the assumption of the obligation by Mr. Han to repay the Debt.

In view that there is no particular terms on the Deed of Novation and that it forms part of the Transaction contemplated under the Agreements, we consider that the Deed of Novation is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 4.2 *The New Loan Agreement*

Pursuant to the New Loan Agreement, the Company is deemed to have drawn down a debt amounting to HK\$56,458,150, being the principal loan amount owed by the Company to Crown Champion plus all interest accrued upto the date of execution of the Deed of Novation between the Company, Crown Champion and Mr. Han in respect of the loan owed by the Company to Crown Champion at the date of execution of the Deed of Novation.

Interest shall be payable by the Company on the outstanding principal amount of the loan under the New Loan Agreement at the rate per annum equal to the prime lending rate (the “**Prime Lending Rate**”) from time to time quoted by The Hongkong and Shanghai Banking Corporation Limited for Hong Kong dollar deposits.

On completion of the New Subscription Agreement, the principal amount of the loan under the New Loan Agreement together with interest accrued thereon shall be applied towards the subscription of the New Convertible Bond and shall be treated as having been paid by the Company to Mr. Han under the New Loan Agreement and the Company shall be released and discharged from repayment of the loan under the New Loan Agreement but be subject to the repayment terms of the New Convertible Bond.

In the event that the conditions precedent for the issuance of the New Convertible Bond provided in the New Subscription Agreement shall not be fulfilled by 30 June 2009 (or such later date as Mr. Han and the Company may agree), the loan under the New Loan Agreement together with interest thereon shall be repayable in full by the Company on Mr. Han’s demand in writing.

Having considered that the loan under the New Loan Agreement bears interest at the rate per annum equal to the Prime Lending Rate, we consider that the terms of the New Loan Agreement is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 4.3 *The New Subscription Agreement*

#### 4.3.1 Principal terms of the New Convertible Bond

Principal amount: HK\$56,458,150, being the principal loan amount owed by the Company to Crown Champion plus all interest accrued upto the date of execution of the Deed of Novation.

Interest rate: The New Convertible Bond shall carry interest at the rate per annum equal to the Prime Lending Rate.

Maturity date: Unless previously redeemed, repurchased and cancelled or converted, any outstanding New Convertible Bond shall be redeemed on the date falling on the third anniversary of the date of issue of the New Convertible Bond.

Conversion price: The conversion price is initially HK\$0.03 per Conversion Share (the “**Initial Conversion Price**”), subject to adjustment for normal adjustment events as set out below. The Initial Conversion Price represents:

- (a) a discount of approximately 88.68% to the closing price of HK\$0.265 per Share as quoted on the Stock Exchange on 29 December 2003, being the last trading day of the Shares immediately before the pro-longed suspension; and
- (b) a discount of approximately 88.68% to the closing price of HK\$0.265 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including 29 December 2003, being the last trading day of the Shares immediately before the date of the Agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 4.3.2 Comparison with other transactions involving the issue of the convertible notes and/or convertible bonds

To evaluate the fairness and reasonableness of the terms of the New Convertible Bonds, we have identified transactions that involved the issue of convertible notes and/or convertible bonds by companies listed in Hong Kong during the three months ended 18 March 2009, i.e. the date of the Agreements (the “**Comparable Issues**”). We have chosen a three month period for the purpose of identifying the Comparable Issues because it is a relatively short period of time which better reflects the situation in the recent past which is more relevant with the recent volatility in the Hong Kong markets. To our best knowledge, we have identified the 18 Comparable Issues which include all of the relevant transactions identified by us in our research. The details of the Comparable Issues are summarised below:

Company	Stock code	Date of announcement	Conversion price per shares HK\$	Interest rate %	Maturity Year(s)	Premium/ (discount) of conversion price to the closing price as at the last trading day %
China Fortune Group Limited	00290	16 March 2009	0.160	0	3	(36.00)
China Trends Holdings Limited	08171	16 March 2009	0.125	0	3	0.00
Pearl Oriental Innovation Limited	00632	5 March 2009	0.300	Prime Lending Rate	2	15.38
SEEC Media Group Limited	00205	4 March 2009	0.422	3	3.41	101.00
Sino Gas Group Limited	00260	3 March 2009	0.200	2	2	80.18
Palmpay China (Holdings) Limited	08047	2 March 2009	0.130	1	3	4.00
Smart Rich Energy Finance (Holdings) Limited	01051	27 February 2009	0.034	0	3	(19.05)
National Investments Fund Limited	01227	26 February 2009	0.050	2	3	(2.00)
PME Group Limited	00379	24 February 2009	0.100	0	3	(67.21)
Golden Resources Development International Limited	00677	18 February 2009	0.260	2	5	4.42
Bright International Group Limited	01163	13 February 2009	0.250	0	2	(7.41)
Long Success International (Holdings) Limited	08017	12 February 2009	0.150	0	2	158.62
Sino Union Petroleum & Chemical International Limited	00346	11 February 2009	1.250	Prime Lending Rate	1	76.10
China Energy Development Holdings Limited	00228	4 February 2009	0.168	0	30	0.00
Asia Resources Holdings Limited	00899	2 February 2009	0.300	0	1.25	(21.10)
Cosmopolitan International Holdings Limited	00120	23 January 2009	0.300	0	2	(16.67)
China Fortune Holdings Limited	00110	7 January 2009	0.700	0	2	337.50
Cash Financial Services Group Limited	00510	19 December 2008	1.150	2	3	30.70
Maximum				3	30	158.62
Minimum				0	1	(67.21)
Average				0.75	4.15	35.47
<b>The Company</b>	<b>00456</b>	<b>20 March 2009</b>	<b>0.03</b>	<b>Prime Lending Rate</b>	<b>3</b>	<b>(88.68)</b>

Source: <http://www.hkexnews.hk/>

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 4.3.3 Interest rate

From the table above, we note that the 16 out of 18 Comparable Issues had interest rates between 0% and 3% with an average of approximately 0.75%, and the remaining 2 Comparable Issues had the Prime Lending Rate as the interest rate. Having taken into account that the interest rate of the New Convertible Bond is the Prime Lending Rate, we are of the view that the interest rate of the New Convertible Bond is fair and reasonable so far as the Company and the Independent Shareholders are concerned as (i) the Prime Lending Rate generally represents the market benchmark interest rate at which the Company would have been charged had it obtained a bank loan from the relevant bank, an Independent Third Party, under the best case scenario and (ii) the Prime Lending Rate can be used as a reasonable indication of the cost of capital to the Subscriber.

### 4.3.4 Term to maturity

The maturity of the Comparable Issues ranged from 1 year to 30 years with an average of approximately 4.15 years, whereas the New Convertible Bond has a maturity of 3 years. We believe that the term to maturity of a convertible debt instrument is simply a commercial term subject to negotiations between the relevant parties, the length of which does not signify any particular advantage or disadvantage to the lender or the borrower. Accordingly, we are of the view that the term to maturity of the New Convertible Bond is in line with normal market practice as shown in the above analysis of the Comparable Issues.

### 4.3.5 Initial Conversion Price

We note that the deviation of the conversion price from the respective closing price of the shares as at the last trading day prior to the release of the relevant announcements of the Comparable Issues ranged from a discount of approximately 67.21% to a premium of approximately 158.62% with an average premium of approximately 35.47%. The discount of the Initial Conversion Price of HK\$0.03 per Conversion Share to the closing price of HK\$0.265 per Share on 29 December 2003 of approximately 88.68% is therefore below the range of the Comparable Issues.

As mentioned in section 3.2 of this letter, trading in the Shares on the Stock Exchange has been suspended on 30 December 2003 at the request of the Company pending the release of an announcement. Due to the prolonged suspension in the trading of the Shares, the Shares have no liquidity. Unless trading in the Shares is resumed on the Stock Exchange, the Subscriber will not be able to realize his Conversion Shares in the open market if he elects to convert all or part of the New Convertible Bond into Conversion Shares.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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From our analyses as stated above, and in particular: (i) for the six months ended 30 June 2008, the Group generated nil turnover; (ii) the Group registered an unaudited net loss of HK\$34,200,000 for the six months ended 30 June 2008; (iii) as at 30 June 2008, the Group had unaudited net liabilities of HK\$77,451,000; (iv) trading in the Shares on the Stock Exchange has been suspended since 30 December 2003 with no liquidity of the Shares; and (v) the Group does not have enough cash to repay the indebtedness under the Convertible Bonds to Crown Champion as the Group had unaudited bank balances and cash of HK\$22,093,000 as at 30 June 2008, an amount which is less than the HK\$56,458,150 owed by the Company to Crown Champion, we are of the view that it is justifiable for the Initial Conversion Price to be set at a deep discount to the historical closing prices of the Shares.

### 4.3.6 Conclusion regarding the New Convertible Bond

Since the interest rate and the term to maturity of the New Convertible Bond are in line with the Comparable Issues and the discount of the Initial Conversion Price to the closing price of the Shares on the last trading day is justifiable as explained in section 4.3.5 of this letter, we consider that the terms of the New Convertible Bond is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

## 5. Potential dilution to the shareholdings of the Independent Shareholders

Set out below is the table for the shareholding in the company before and after full conversion of the New Convertible Bond.

Shareholders	Issued share capital as at the date of this Circular		Immediately after conversion of the New Convertible Bond to the extent that the conversion of the New Convertible Bond will not trigger off a mandatory offer under rule 26.1 of the Takeovers Code	
	<i>No. of Shares</i>	<i>Approximate Percentage</i>	<i>No. of Shares</i>	<i>Approximate Percentage</i>
New Rank Groups Limited ( <i>Note 1</i> )	54,351,600	20.00%	54,351,600	14.76%
Mr. Han ( <i>Note 2</i> )	13,587,900	5.00%	110,118,200	29.90%
Other public Shareholders	203,818,500	75.00%	203,818,500	55.34%
Total	<u>271,758,000</u>	<u>100.00%</u>	<u>368,288,300</u>	<u>100.00%</u>

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Notes:*

- (1) *New Rank Groups Limited is a wholly-owned subsidiary of Silver World Limited which is, in turn, wholly-owned by Royal Bank Trustee. 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 Leung Kwo, provided that such individuals are not residents of Canada for tax purposes nor residents of the PRC. The holding company is wholly-owned by another discretionary trust called Hold Trust. The beneficiaries under the Hold Trust include the lineal descendents (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.*
- (2) *Mr. Han is an executive director and Chairman of the Company.*

As at the Latest Practicable Date, the Company has an issued share capital of 271,758,000 Shares. Upon the full conversion of the New Convertible Bond, a total of 1,881,938,333 Conversion Shares would be issued, representing approximately (i) 692.50% of the Company's existing share capital; and (ii) approximately 87.38% of the Company's share capital as enlarged by the full conversion of the New Convertible Bond. As stated in the Board Letter, conversion of the Convertible Bond is subject to the condition that any such conversion shall not trigger a mandatory offer under rule 26.1 of the Takeovers Code on the part of the Subscriber. Based on the Company's existing shareholding structure as at the Latest Practicable Date, it is estimated a maximum of 96,530,300 Conversion Shares could be issued, representing (i) approximately 35.52% of the existing issued share capital of the Company; and (ii) approximately 26.21% of the share capital of the Company as enlarged by the conversion of the New Convertible Bond subject to the aforementioned condition. The shareholding of other public Shareholders would dilute from approximately 75.00% to 55.34% after the issue of the 96,530,300 Conversion Shares.

Although the shareholding interests of the other public Shareholders are subject to dilution of certain extent as a result of the possible conversion of the New Convertible Bond, having considered the factors previously discussed in this letter, we consider that it is fair and reasonable to infer that the potential dilution effect is acceptable to the Shareholders.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 6. Financial impacts of the Transaction

#### 6.1 *Net asset value*

According to the Interim Report, the unaudited consolidated net liabilities of the Group was approximately HK\$77,451,000 as at 30 June 2008. It is expected that there should not be any material effect on the consolidated net asset value of the Group arising out of the completion of the Agreements as the values of the Convertible Bonds and the New Convertible Bond are expected to be more or less the same. Furthermore, it is expected that the Company will not be involved in any immediate actual monetary exchange as a result of the Agreements.

#### 6.2 *Liquidity*

The Interim Report states that the Group had an unaudited current assets and unaudited current liabilities of approximately HK\$880,270,000 and HK\$755,211,000 respectively as at 30 June 2008, translating into a current ratio (current assets/current liabilities) of approximately 1.17. Based on our discussion with the Group's management, the Convertible Bonds were classified as a current liability in the Interim Report. Under the Deed of Novation, the Company would be released from its obligations under the Convertible Bonds and it is expected that the New Convertible Bond (with a 3 year term) would be categorized as a non-current liability upon its issue. Accordingly, it is expected that the Transaction would have the immediate effect of lowering the Group's current liabilities and therefore result in a positive effect on the Group's current ratio.

#### 6.3 *Gearing ratio*

According to the Interim Report, the Group had unaudited total debts of approximately HK\$339,128,000 as at 30 June 2008 (comprised of (i) bank borrowings of HK\$99,992,000, (ii) other borrowings (current portion) of HK\$59,873,000, (iii) convertible bonds of HK\$69,263,000 and (iv) other borrowing (non-current portion) of HK\$110,000,000). In addition, it had unaudited total assets of approximately HK\$882,561,000 as at 30 June 2008. Accordingly, the gearing ratio (total debts/total assets x 100%) of the Group as at 30 June 2008 was approximately 38.4%. The issue of the New Convertible Bond is not expected to have any material effect on the Group's gearing ratio as the New Convertible Bond is not expected to have any material effect on the value of the Group's total debts and total assets.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 6.4 *Earnings*

According to the Interim Report, the Convertible Bonds bear interest rate from the range of the Prime Lending Rate to the Prime Lending Rate plus 4% per annum from time to time. Since the New Convertible Bond bears interest rate at the Prime Lending Rate, the New Subscription Agreement is expected to reduce the Group's interest expenses. As such, it is expected that the New Subscription Agreement would have a positive impact on the future earnings of the Group.

It should be noted that the above-mentioned analyses are for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon the issue of the New Convertible Bond.

### CONCLUSION

Having considered the above principal factors and reasons, we are of the opinion that the terms of the Agreements are fair and reasonable so far as the Shareholders are concerned and in the interests of the Company and its Shareholders as a whole. In addition, we consider that the Transaction is on normal commercial terms and in the ordinary and usual course of business of the Group. Accordingly, we would recommend (i) the Independent Board Committee to advise the Independent Shareholders, and (2) the Independent Shareholders, to vote in favour of the ordinary resolution to approve the Agreements and the Transaction at the EGM.

Yours faithfully,  
For and on behalf of  
**Ample Capital Limited**  
**H. W. Tang**  
*President*

## 1. INDEBTEDNESS

The information in this section is updated as at the close of business on 28 February 2009 being the latest practicable date for the purpose of preparing the indebtedness statement of the Group.

At of 28 February 2009, the amount of the China Construction Bank's borrowings is approximately RMB89,990,000 (equivalent to approximately HK\$99,989,000) while, as of 31 December 2007, the amount of bank borrowings is approximately RMB90,000,000 (equivalent to approximately HK\$93,750,000).

The bank borrowings are secured on the land use right of China Securities Plaza and are interest-bearing and repayable within one year. RMB60,000,000 (equivalent to approximately HK\$66,667,000) is guaranteed by Beijing New Rank Real Estate Development Co., Limited, a former subsidiary of the Group and the remaining RMB30,000,000 (equivalent to approximately HK\$33,333,000) is un-guaranteed. Such bank borrowings have been mainly used for the development of China Securities Plaza. Bank borrowings of RMB89,990,000 (equivalent to approximately HK\$99,989,000) was due for payment on 9 October 2006.

Beijing Zhong Zheng Real Estate Development Co., Ltd ("Zhong Zheng"), the China Construction Bank and the China Network Communications Group Corporation ("CNC") have agreed under the an agreement dated 20 September 2005 that the balance of RMB30,000,000 (equivalent to approximately HK\$33,333,000) will be settled by the eighth instalment of advance payment from CNC and the remaining balance of RMB60,000,000 (equivalent to approximately HK\$66,667,000) to be repaid by Zhong Zheng will be further discussed with the China Construction Bank once the transfer of the Consideration Property from CNC is completed. The time for due payment of such remaining balance is still under negotiation between Zhong Zheng and the China Construction Bank and has still not confirmed. The Group intends to finance the repayment of such remaining balance with proceeds on disposal of the Consideration Property.

The amount of other borrowings of the Group is HK\$169,873,000 as of 28 February 2009 (while as of 31 December 2007, they are HK\$181,000,000).

The amount of HK\$168,873,000 is inclusive of a 10% per annum unsecured interest bearing loan of HK\$3,873,000 granted by Poly (Hong Kong) Investments Limited (formerly known as Continental Mariner Investment Company Limited ("Poly HK")) and/or its nominee to the Company, a 10% per annum interest bearing loan of HK\$55,000,000 granted by Starry Joy Properties Investment Limited ("Starry Joy") to Tong Sun Limited ("Tong Sun") and an interest free shareholder's loans advanced by Starry Joy to Tong Sun in the sum of HK\$110,000,000.

The 10% per annum interest bearing loan and the interest free shareholder's loan was secured on the shares in the Company held by Mr. Han Junran (Chairman and executive Director) and Mr. Leung Kwo (former Director). Such other borrowings are un-guaranteed.

The amount of HK\$1,000,000 is inclusive of a Prime lending rate from time to time quoted by The Hongkong and Shanghai Banking Corporation Limited for Hong Kong dollars deposits ("Prime Rate") plus 2% per annum is an unsecured interest bearing loan granted by Better Consultants Limited.

With reference to the circular dated 26 June 2006, it was disclosed that under the second supplemental agreement dated 25 October 2005 between Tong Sun, New Rank (BVI2) Limited, Starry Joy and Poly HK, the parties agreed that in relation to an interest free shareholder's loans advanced by Starry Joy to Tong Sun in the sum of HK\$165,000,000 in aggregate, Tong Sun shall (i) repay a sum of HK\$55,000,000 on a date to be determined by Tong Sun but in any event no later than 31 December 2005 together with interest calculated at the rate of 10% per annum on the said sum of HK\$55,000,000 for the period from 1 July 2005 up to but excluding the date of repayment of the said sum of HK\$55,000,000 (the interest rate was determined based on arms-length commercial negotiations between the parties with reference to the increasing Prime Rate and the costs of fund) and (ii) as to the balance of HK\$110,000,000, transfer to Starry Joy such portion of the Consideration Property to be agreed by the parties which has/have an aggregate appraisal value (as determined by a professional valuer, who is an independent third party, to be engaged by Tong Sun to value the Consideration Property upon completion of the transfer to Zhong Zheng from the Other Party pursuant to the Agreement and such aggregate appraisal value shall be confirmed by Starry Joy and Tong Sun) equivalent to the full amount of the said balance as soon as practicable after completion of transfer of the Consideration Property to Zhong Zheng. The 10% per annum unsecured interest bearing loan of HK\$45,000,000 was due on 31 December 2005. Tong Sun has respectively offered to Starry Joy and Poly HK to further extend the date of repayment of the said sum of HK\$55,000,000 and HK\$45,000,000 and the details of such extension are still under negotiation.

Zhong Zheng has been negotiating with several potential buyers of the Consideration property but no agreement has been reached. Based on the valuation report, the market value of the Consideration Property was RMB700 million (equivalent to approximately HK\$777.78 million). The directors are of the view that, if the Consideration Property is disposed of, the Group will have sufficient fund to repay the said other borrowings and the said remaining balance of the China Construction Bank's borrowing of RMB60,000,000 (equivalent to approximately HK\$66,667,000).

On 1 March 2005, the Company issued a convertible bond bearing interest at 3% per annum with a principal amount of HK\$12,000,000 (“2005 Convertible Bond”), which is convertible into the Company’s ordinary shares at a conversion price of HK\$0.30 per share. The convertible bond matures two years from the issue date. On 1 March 2007, such convertible bond was extended in the amount of approximately HK\$7,500,000, which is convertible into the Company’s ordinary shares at a conversion price of HK\$0.138 per share and bearing interest of the Prime Rate. The convertible bond has been matured on 31 August 2007. With reference to the circular date 29 February 2008, the Company has agreed with the subscriber of the 2005 Convertible Bond to extend the maturity date of the convertible bond to 28 February 2009. The Company is in negotiations with the subscriber to further extend the maturity date of the convertible bond.

In respect of the remaining amount of HK\$5,219,480 out of the principal of the 2005 Convertible Bond together with its accrued interest, the Company entered into a subscription agreement dated 21 August 2007 with the subscriber of 2005 Convertible Bond for issuance of a new convertible bond in the principal amount of HK\$5,304,297. The new convertible bond is convertible into the Company’s ordinary shares at a conversion price of HK\$0.138 per share and bearing interest of the Prime Rate plus 2% per annum, which the maturity date is on 28 February 2009. The Company is in negotiations with the subscriber to further extend the maturity date of the convertible bond.

As at 31 December 2006, an amount of HK\$30,000,000 was unsecured, bearing interest of the Prime Rate plus 4% per annum and represented the consideration of the convertible bond received in advance. Such balance has been transferred to convertible bond together with the arrangement fee and interest accrued on 14 June 2007 at the amount of HK\$33,403,150 (“2007 Convertible Bond”). The convertible bond is convertible into the Company’s ordinary shares at a conversion price of HK\$0.138 per share. The convertible bond matures two months from the issue date. With reference to the circular date 29 February 2008, the Company has agreed with the subscriber of the 2007 Convertible Bond to extend the maturity date of the convertible bond to 28 February 2009.

On 28 June 2007, issuance of another convertible bond at the amount of HK\$23,055,000 (“2007 Convertible Bond”) was completed. The convertible bond is convertible into the Company’s ordinary shares at a conversion price of HK\$0.138 per share. It is bearing interest of the Prime Rate plus 4% per annum. The convertible bond matures two months from the issue date. With reference to the circular date 29 February 2008, the Company has agreed with the subscriber of the 2007 Convertible Bond to extend the maturity date of the convertible bond to 28 February 2009.

Pursuant to the New City Guarantee as described in the circular of the Company dated 27 November 2006, the Company amongst other parties (namely Zhong Zheng, Mr. Han Junran and Mr. Leung Kwo) agreed to jointly and on a fully indemnified basis, inter alia, (i) procure and guarantee the fulfillment by Zhong Zheng of all its obligations under the Agreement dated 23 December 2003 entered into between Zhong Zheng and CNC relating to China Securities Plaza; (ii) indemnify China Poly Group Corporation (“Poly Corporation”) of all its liabilities under the Poly Corporation Guarantee as described in the circular of the Company dated 27 November 2006 together with all additional consequential losses; (iii) pledge (a) the Company’s 51% interest in Tong Sun by the Company, and the shareholders’ loan granted to Tong Sun by the Company (which has none), and (b) 20% and 5% of the shareholding in the Company held by Mr. Leung Kwo and Mr. Han Junran, respectively, in favour of Poly Corporation.

Pursuant to the New City Counter Indemnity and Zhong Zheng Counter Indemnity as described in the circular of the Company dated 27 November 2006, each of the Company and Zhong Zheng undertake to provide executed counter indemnities in favour of Poly Corporation to indemnify Poly Corporation of its obligations under the Poly Corporation Guarantee given in favour of CNC.

The Group has given guarantees to banks in respect of the loans of the amounts USD2,500,000 and RMB14,000,000 (equivalent to approximately HK\$15,555,000) granted to Beijing New Rank Real Estate Development Co., Limited, a former subsidiary of the Group.

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.

On 19 January 2006, the Beijing Arbitration Committee made an arbitration award in favor of 北京太陽紅投資諮詢有限公司 (the “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 Zhong Zheng, the 51% indirect owned subsidiary of the Group be cancelled and that the sum of approximately RMB14,000,000 (equivalent to approximately HK\$15,555,000) being refund of the purchase price paid and RMB800,000 (equivalent to approximately HK\$889,000) being damages be paid by Zhong Zheng to Beijing Tai Yang Hong. Zhong Zheng has applied to the People’s Court in Beijing for stay of enforcement of such award.

On 7 January 2009, bank deposit of Zhong Zheng in China Construction Bank of RMB9,090,000 was withdrawn by court order from Beijing Arbitration Committee to drawdown the provision for legal obligation to Beijing Tai Yang Hong. On 3 March 2009, Zhong Zheng has entered into a settlement agreement with Beijing Tai Yang Hong and agreed a settlement amount of approximately RMB18,741,000 (equivalent to approximately HK\$20,823,000) which should be paid as follows: (i) for the amount of approximately RMB14,118,000 (equivalent to approximately HK\$15,687,000) was paid to Beijing Tai Yang Hong on the date of the settlement agreement; (ii) before 31 October 2009, settled the balance amount of approximately RMB4,623,000 (equivalent to approximately HK\$5,136,000).

On 15 May 2008, Starry Joy initiated 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.

## **2. WORKING CAPITAL**

The Directors, after due and careful consideration, are of the opinion that, taking into consideration the financial resources available to the Group including the internally generated funds, the present bank and other facilities, the Group will have sufficient working capital for at least twelve months from the date of this circular.

## **3. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group as at 31 December 2007, the date to which the latest published audited financial statements of the Group were made up.

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular concerning the Company and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained in this circular the omission of which would make any statement herein misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Director's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:

#### Long positions

#### Ordinary shares of HK\$0.001 each of the Company

Name of Director	Number or attributable number of Shares held or short positions	Nature of interests	Approximate percentage or attributable percentage of shareholding (%)
Han Junran ("Mr. Han")	13,587,900	Beneficial owner <i>(Note i)</i>	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 Properties Investment Ltd. ("Starry Joy"), a wholly-owned subsidiary of Poly (Hong Kong) Investments Limited ("Poly HK"), as charge 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.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

**(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO**

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:—

(i) *Interests in the shares of the Company*

Name of Shareholder	Number or attributable number of Shares held or short positions (long position (L) /short position (S))	Nature of interests	Approximate percentage or attributable percentage of shareholding (%)
Poly HK	67,939,500 (L)	Person having a security interest in shares ( <i>Note 1</i> )	25%
NRG	54,351,600 (L) 54,351,600 (S)	Beneficial owner ( <i>Notes 1 and 2</i> )	20%
Silver World Limited	54,351,600 (L) 54,351,600 (S)	( <i>Note 2</i> )	20%
Royal Bank Trustee	54,351,600 (L) 54,351,600 (S)	( <i>Note 3</i> )	20%
Wei Ping	47,032,000 (L)	Beneficial owner	17.31%
Lu Shu Guang	13,587,900 (L)	( <i>Notes 1 and 4</i> )	5%

(ii) *Substantial shareholder of other members of the Group*

Name of subsidiary	Name of shareholder	Approximate percentage or attributable percentage of shareholding (%)
Tong Sun	New Rank (BVI 2) Limited ( <i>Note 5</i> )	51%
Tong Sun	Starry Joy ( <i>Note 5</i> )	49%
Zhong Zheng	Tong Sun ( <i>Note 6</i> )	66%
Zhong Zheng	Guozheng ( <i>Note 6</i> )	34%

*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. 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.
- (4) 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.
- (5) New Rank (BVI 2) Limited and Starry Joy respectively holds 51% and 49% of the equity interest in Tong Sun Limited.
- (6) 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 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 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. Tong Sun and Guozheng are the existing joint venture partners of Zhong Zheng.

As at the Latest Practicable Date, none of the Directors was a director or employee of a company which had, or was deemed to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

### 3. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or any of its subsidiaries within the two years immediately preceding the date of this circular and are or may be material:

- (a) a subscription agreement dated 23 February 2007 entered into by the Company and Crown Champion for two convertible bonds in the principal amounts of up to HK\$40,000,000 and HK\$23,055,000 respectively to be issued by the Company;
- (b) a subscription agreement dated 23 February 2007 entered into by the Company and Crown Champion for convertible bond(s) up to an aggregate principal amount of RMB24,000,000 to be issued by the Company;
- (c) a loan facility agreement dated 23 February 2007 entered into by the Company and Crown Champion;
- (d) a share mortgage dated 23 February 2007 entered into by the Company in favour of Crown Champion in respect of all the issued shares in NR (BVI) Holdings Limited;
- (e) a share mortgage dated 23 February 2007 entered into by NR (BVI) Holdings Limited in favour of Crown Champion in respect of all the issued shares in New Rank (BVI 2) Limited;
- (f) a further supplemental agreement dated 23 February 2007 supplemental to a loan agreement dated 20 December 2006 entered into by the Company and Crown Champion;
- (g) the agreement dated 15 August 2007 entered into between the Company and 秦皇島市海洋置業有限公司 (Qin Huang Dao City Ocean Realty Company Limited<sup>#</sup>) relating to the sale and purchase of the 51% of the total equity interest in the 秦皇島海洋西嶺房地產開發有限公司 (Qin Huang Dao Ocean West Hill Real Property Development Company Limited<sup>#</sup>) as supplemental by the Memorandum of Cooperation dated 12 September 2007 entered into between the Company and 秦皇島市海洋置業有限公司 (Qin Huang Dao City Ocean Realty Company Limited<sup>#</sup>);
- (h) the Subscription Agreement dated 21 August 2007 entered into between the Company and Tritime Holdings Limited for issuance of a convertible bond in the principal amount of HK\$5,304,297 to Tritime Holdings Limited;

- (i) the Termination Agreement dated 19 September 2008 entered into between the Company and 秦皇島市海洋置業有限公司 (Qin Huang Dao City Ocean Realty Company Limited<sup>#</sup>) relating to the termination of the Agreement dated 15 August 2007; and
- (j) the Agreements.

*# an unofficial English transliteration on translation for identification purposes only*

#### **4. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

#### **5. LITIGATION**

On 15 May 2008, Starry Joy Properties Investment Limited (“Starry Joy”) initiated a legal proceedings (the “Action”) against the Company to claim for an amount of HK\$57,940,624.30, being alleged balance of a loan (and interest thereon) advanced by Starry Joy to the Company. To the best of the Director’s 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. The Action, however, may affect the cash flow forecast and working capital sufficiency of the Group. The Directors are negotiating with Starry Joy and are confident that an amicable settlement arrangement in relation to the Action could be reached.

So far as the Directors are aware, save as disclosed above, no member of the Group is engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against any member of the Group as at the Latest Practicable Date.

#### **6. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors or substantial Shareholder or any of their respective associates has any interest in business which competes with or may compete with the business of the Group or has any other conflict of interests which any person has or may have with the Group.

**7. INTERESTS IN CONTRACTS AND ASSETS**

As at the Latest Practicable Date, no contract or arrangement of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Directors had a material interest, whether directly or indirectly, subsisted as at the Latest Practicable Date.

None of the Directors nor experts referred to in paragraph 8 has any direct or indirect interests in any assets which had been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, the Company or any of its subsidiaries during the period since 31 December 2007, the date to which the latest published audited financial statements of the Group were made up, up to and including the Latest Practicable Date.

**8. EXPERTS**

The following is the qualifications of the experts who have given an opinion or advice contained in this circular:

<b>Name</b>	<b>Qualification</b>
Ample Capital Limited	A licensed corporation to carry out types 4, 6 and 9 (advising on securities, advising on corporate finance and asset management) a regulated activities as set out in schedule 5 to the SFO
Parker Randall CF (H.K.) CPA Limited	Certified Public Accountants

As at the Latest Practicable Date, each of Ample Capital Limited and Parker Randall CF (H.K.) CPA Limited did not have any interests, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2007, the date to which the latest published audited consolidated financial statements of the Group were made up.

As at the Latest Practicable Date, each of Ample Capital Limited and Parker Randall CF (H.K.) CPA Limited was not interested beneficially or non-beneficially in any Shares in the Company or any of its subsidiaries or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of Ample Capital Limited and Parker Randall CF (H.K.) CPA Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its respective letter and/or report and/or reference to its name in the form and context in which it respectively appears.

**9. MISCELLANEOUS**

- (a) There is no contract or arrangement entered into by any member of the Group subsisting at the date of this circular in which any Director is materially interested and which is significant to the business of the Group.
- (b) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2007, the date to which the latest published audited consolidated financial statements of the Group were made up.
- (c) The principal share registrar and transfer office of the Company is Butterfield Fund Services (Cayman) Limited whose address is Butterfield House, 68 Fort Street, P.O. Box 705, Grand Cayman KY1-1107, Cayman Islands.
- (d) The branch share registrars and transfer office of the Company in Hong Kong is Union Registrars Limited at Rooms 1901-02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong.
- (e) The company secretary and the qualified accountant of the Company is Ms. Wong Wai Ting. She is a member of the Hong Kong Institute of Certified Public Accountants and Association of International Accountants. Ms. Wong has over 10 years of experience in management accounting.

**10. DOCUMENTS FOR INSPECTION**

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at Units 2804-06, 28/F., Cosco Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong during normal business hours on any Business Day from the date of this circular up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the written consent from the experts referred to under the paragraph headed "Experts" in this appendix;
- (c) the material contracts referred to under the paragraph "Material contracts" in this appendix;

- (d) a copy of each of the circulars issued pursuant to the requirements set out in Chapter 14 and/or Chapter 14A of the Listing Rules which have been issued by the Company since 31 December 2007 (the date to which the latest published audited consolidated financial statements of the Group were made up); and
- (e) this circular.

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## NOTICE OF EGM

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# NEW CITY (CHINA) DEVELOPMENT LIMITED 新城市(中國)建設有限公司

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 0456)

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “**Meeting**”) of New City (China) Development Limited (the “**Company**”) will be held at Plaza IV, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Monday, 11 May 2009 at 3:00 p.m. for the purpose of considering and, if thought fit, passing the following resolutions with or without amendments as ordinary resolutions:

### ORDINARY RESOLUTIONS

1. “**THAT**

- (i) the increase in the authorised share capital of the Company from HK\$2,000,000 divided into 2,000,000,000 shares (each a “**Share**”) of HK\$0.001 each to HK\$10,000,000 divided into 10,000,000,000 Shares by creating an additional 8,000,000,000 unissued Shares be and is hereby approved (the “**Proposed Increase in Authorised Share Capital**”); and
- (ii) any one or more of the directors (the “**Directors**”) of the Company be and is/are hereby authorised for and on behalf of the Company to execute all such documents, instruments and agreements and to do all such acts or things deemed by him/them to be incidental to, ancillary to or in connection with the matters contemplated in and for completion of the Proposed Increase in Authorised Share Capital.”

2. “**THAT**

- (i) the conditional deed of novation (the “**Deed of Novation**”) dated 18 March 2009 entered into among the Company, Crown Champion Investments Limited (“**Crown Champion**”) and Mr. Han Junran (“**Mr. Han**”), pursuant to which the total outstanding principal amount of the debt together with all interest thereon owing by the Company to Crown Champion under the convertible bonds (the “**Convertible Bonds**”) with aggregate principal amounts of HK\$56,458,150 held by Crown Champion together with security documents thereunder (together as the “**Loan Documents**”) shall be novated to the extent that the Company will be fully released and discharged from all liabilities and obligations, past or future,

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## NOTICE OF EGM

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under the Loan Documents and Mr. Han will undertake to repay the debt to Crown Champion in accordance with the terms and conditions therein, (a copy of which is marked “A” and produced to the Meeting and signed by the chairman of the Meeting for identification purpose) be and is hereby ratified, confirmed and approved;

- (ii) the conditional loan agreement (the “**New Loan Agreement**”) dated 18 March 2009 entered into between the Company as borrower and Mr. Han as lender in relation to the deemed advancement of a debt amounting to HK\$56,458,150 as a result of the execution of the Deed of Novation (a copy of which is marked “B” and produced to the Meeting and signed by the chairman of the Meeting for identification purpose) be and is hereby ratified, confirmed and approved;
- (iii) the conditional subscription agreement (the “**New Subscription Agreement**”, together with the Deed of Novation and the New Loan Agreement as the “**Agreements**”) dated 18 March 2009 entered into between the Company as issuer and Mr. Han as subscriber in relation to the subscription of the convertible bond (the “**New Convertible Bond**”) by Mr. Han (or his nominee) in the principal amount equivalent the principal loan amount owed by the Company to Mr. Han under the New Loan Agreement plus all interest accrued thereon (a copy of which is marked “C” and produced to the Meeting and signed by the chairman of the Meeting for identification purpose) be and is hereby ratified, confirmed and approved;
- (iv) the issue of the New Convertible Bond by the Company in accordance with the terms and conditions of the New Subscription Agreement and the transactions contemplated thereunder be and are hereby approved;
- (v) any one or more Directors be and is/are hereby authorised to take all steps necessary, desirable or expedient in his/their opinion to implement and/or give effect to the issue of the New Convertible Bond including but not limited to the allotment and issue of ordinary shares of HK\$0.001 each in the share capital of the Company of which may fall to be issued upon the exercise of the conversion rights attaching to the New Convertible Bond;

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## NOTICE OF EGM

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- (vi) any of the Directors be and are hereby authorised to do all such acts and things and execute all such documents which they consider necessary, desirable or expedient for the implementation of and giving effect to the Agreements and the transactions contemplated thereunder.”

By order of the Board  
**New City (China) Development Limited**  
**Han Junran**  
*Chairman*

Hong Kong, 9 April 2009

*Registered office:*

Scotia Centre, 4th Floor  
P.O. Box 2804, George Town  
Grand Cayman, Cayman Islands

*Principal place*

*of business in Hong Kong:*  
Units 2804-06, 28/F., Cosco Tower  
Grand Millennium Plaza  
183 Queen’s Road Central  
Hong Kong

*Notes:*

1. Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, in the event of a poll, vote in his/her stead. A proxy needs not be a member of the Company.
2. In order to be valid, the form of proxy must be duly lodged at the Company’s branch registrar in Hong Kong, Union Registrars Limited at Rooms 1901-02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong together with a power of attorney or other authority, if any, under which it is duly signed or a notarially certified copy of that power of attorney or authority, not less than 48 hours before the time for holding the meeting or any adjourned meeting.
3. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the above meeting or any adjournment thereof, should he so wish, and in such event, the form of proxy shall be deemed to be revoked.