

The directors have pleasure in presenting their annual report and financial statements for the year ended 30th June 2006.

### **Group activities**

The principal activity of the Company is investment holding. The principal activities of the principal subsidiaries, associated companies and jointly controlled entities are shown in note 44 to the financial statements.

### **Financial statements**

The results of the Group for the year ended 30th June 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 99 to 168.

### **Dividends**

The directors have resolved to recommend a final dividend of HK\$0.04 per share (2005: HK\$0.03 per share) for the year ended 30th June 2006 to shareholders whose names appear on the register of members of the Company on 21st November 2006. The proposed final dividend will be paid on or about 22nd December 2006 subject to approval at the forthcoming annual general meeting of the Company.

### **Share capital**

Details of the movements in share capital during the year are set out in note 29 to the financial statements.

### **Reserves**

Details of the movements in reserves are set out in note 30 to the financial statements.

### **Purchase, sale or redemption of listed securities**

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

### **Property, plant and equipment**

Details of the movements in property, plant and equipment are set out in note 15 to the financial statements.

### **Donations**

Donation made by the Group during the year amounted to HK\$274,000 (2005:HK\$3,479,000).

## Directors

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

Dr. Cheng Kar-shun, Henry  
Mr. Doo Wai-hoi, William  
Mr. Cheng Kar-shing, Peter  
Mr. Leung Chi-kin, Stewart  
Mr. Chow Kwai-cheung  
Mr. Chow Yu-chun, Alexander  
Mr. Fong Shing-kwong, Michael  
Ms. Ngan Man-ying, Lynda (appointed on 17th January 2006)  
Mr. Fu Sze-shing  
Mr. Cheng Wai-chee, Christopher\*  
Mr. Tien Pei-chun, James\*  
Mr. Lee Luen-wai, John\*

\* Independent non-executive directors

In accordance with Article 116 of the Company's Articles of Association, Messrs. Cheng Kar-shing, Peter, Fong Shing-kwong, Michael and Cheng Wai-chee, Christopher will retire by rotation at the forthcoming annual general meeting, and being eligible, will offer themselves for re-election. The remaining current directors continue in office.

No director has a service contract which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

## Pre-emptive rights

No pre-emptive rights exist in the Cayman Islands in respect of the Company's share capital.

## Directors' interest in contracts

Save for contracts amongst group companies, no other contracts of significance in relation to the Company's business to which the Company, its subsidiaries, its holding company or fellow subsidiaries is a party, and in which any director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## Connected transactions

The Group has entered into the following connected transactions during the year and up to the date of this report:

### A. Construction services

On 30th May 2005, a master service agreement was entered into between the Company and New World Development Company Limited ("NWD"), the Company's ultimate holding company, under which the Company agreed to engage the group of NWD to provide construction, engineering and project management services for the property development projects undertaken by the Group in the People's Republic of China ("PRC"), on non-exclusive basis and subject to tender procedures for selection of contractors, for a term of three years ending 30th June 2008.

Pursuant to the master service agreement, the fees payable to the NWD Group for provision of the aforesaid construction services will be determined by reference to the PRC government-prescribed price, failing which, the PRC government-guided prices, failing which, the market price and thereafter will be determined by the relevant parties based on reasonable costs plus reasonable profit margin. Details of the agreement were set out in the announcement of the Company dated 30th May 2005 and in a circular dated 10th June 2005.

The total amount paid to the NWD Group under the master service agreement for the construction, engineering and project management services was HK\$77,454,000 (2005: HK\$177,226,000), HK\$75,194,000 (2005: HK\$119,584,000) and HK\$21,298,000 (2005: Nil), respectively for the year ended 30th June 2006.

**B. Tenancy agreements***(1) Office tenancy agreements*

On 30th June 2005, a tenancy agreement was entered into between New World Tower Company Limited (“NWT”), a wholly-owned subsidiary of NWD, as landlord, and the Company, as tenant, for the lease of office premises located at 9/F, New World Tower 1, 18 Queen’s Road Central, Hong Kong with gross floor area of 9,375 sq. ft. for a term of two years commencing from 1st July 2005 to 30th June 2007 at a monthly rental of HK\$253,125 together with monthly management fees and air-conditioning charges of HK\$32,813. The total amount paid under the tenancy agreement was HK\$3,432,000 for the year ended 30th June 2006 (2005: Nil).

On the same day, another tenancy agreement was entered into between NWT, as landlord, and the Company, as tenant, for the lease of a portion of 33/F, New World Tower 1, 18 Queen’s Road Central, Hong Kong with gross floor area of 1,296 sq. ft. for a term of two years commencing from 1st July 2005 to 30th June 2007 at a monthly rental of HK\$34,992 together with monthly management fees and air-conditioning charges of HK\$4,536. The total amount paid under the tenancy agreement was HK\$474,000 for the year ended 30th June 2006 (2005: Nil). Details of the two tenancy agreements were set out in the announcement of the Company dated 30th June 2005.

*(2) Shenyang tenancy agreements*

(a) On 15th August 1995, a tenancy agreement (“1995 Shenyang Tenancy Agreement”) was entered into between Shenyang New World Hotel Co., Ltd. (“Shenyang Hotel”), as landlord, and Shenyang New World Department Store Ltd. (“Shenyang Department Store”), as tenant, for lease of the shopping arcade on the first and second floors of the annex building of New World Hotel, Shenyang located at 2 Nanjingnan Street, Heping District, Shenyang, Liaoning Province, the PRC, with an area of 8,320 sq. m. for ten years. Shenyang Hotel was a 70% owned jointly controlled entity of the Group at the date of the 1995 Shenyang Tenancy Agreement which subsequently became a wholly-owned subsidiary of the Group since the Group acquired an additional 30% interest in Shenyang Hotel on 30th May 2003. Shenyang Department Store is an indirect wholly-owned subsidiary of NWD.

The annual rental is the higher of (i) RMB8,000,000, RMB9,000,000 and RMB10,000,000 for the years ended 14th August 1996, 14th August 1997 and 14th August 1998 respectively, increasing at a rate of 6% per annum in each of the seven years ending 14th August 2005; and (ii) 4% of the gross sales revenue earned by Shenyang Department Store, after value-added tax, for each of the three years ended 14th August 1998; and 5% of the gross sales revenue for each of seven years ending 14th August 2005. The rental received in aggregate under the 1995 Shenyang Tenancy Agreement was HK\$13,382,000 for the year ended 30th June 2006 (2005: HK\$13,320,000).

(b) On 8th November 2000, a tenancy agreement (“2000 Shenyang Tenancy Agreement”) was entered into between Shenyang Hotel, as landlord, and Shenyang Department Store, as tenant, for lease of the shopping arcade on the third floor of the annex building of New World Hotel, Shenyang with an area of 690 sq. m. for five years commencing from 1st December 2000 to 30th November 2005.

The annual rental was RMB987,000 for the first year ended 30th November 2001, increasing at a rate of 6% per annum in each of the four years ending 30th November 2005 with rent-free period from 1st December 2000 to 31st January 2001. The rental received in aggregate under the 2000 Shenyang Tenancy Agreement was HK\$1,315,000 for the year ended 30th June 2006 (2005: HK\$1,138,000).

**Connected transactions** *(continued)*

**B. Tenancy agreements** *(continued)*

(2) *Shenyang tenancy agreements (continued)*

(c) On 17th May 2006, a tenancy agreement ("2006 Shenyang Tenancy Agreement") was entered into between Shenyang Trendy Property Company Limited ("Shenyang Trendy"), an indirect wholly-owned subsidiary of the Company, as landlord, and Shenyang Department Store, as tenant, for the lease of a portion of the first to fourth floors of New World Hotel, Shenyang with an area of 13,976 sq. m. for an initial term of three years commencing from 1st May 2006 and is renewable for successive terms of three years upon its expiry. Details of the 2006 Shenyang Tenancy Agreement were set out in the announcement of the Company dated 17th May 2006.

The yearly rental, exclusive of any rate, management fee and maintenance charge, is the higher of (i) RMB18,000,000 for the year ending 30th April 2007, increasing at a rate of 3% per annum in the following years; and (ii) 5% of the gross sales revenue earned by Shenyang Department Store in the premises. Total amount received under the 2006 Shenyang Tenancy Agreement for the year ended 30th June 2006 was HK\$2,885,000 (2005: Nil).

(3) *Tianjin tenancy agreement*

On 15th March 2004, a tenancy agreement ("Tianjin Tenancy Agreement") was entered into between New World Anderson (Tianjin) Development Co. Ltd. ("New World Anderson"), an indirect wholly-owned subsidiary of the Company, as landlord, and Tianjin Trendy New World Plaza Co., Ltd. ("Tianjin Trendy"), an indirect wholly-owned subsidiary of NWD, as tenant, for lease of the first to fourth floors of Tianjin New World Shopping Centre located in Nankai District, Tianjin, the PRC with an area of 31,800 sq. m. for twenty years from 15th March 2004 to 14th March 2024.

The annual rental is the higher of (i) RMB26,375,000 per year from the first year to the tenth year; RMB27,090,000 per year from the eleventh year to the thirteenth year; RMB28,100,000 per year from the fourteenth year to the seventeenth year; RMB30,300,000 per year from the eighteenth year to the twentieth year; and (ii) 5% of the sale revenue of Tianjin Trendy, together with an annual management fee of RMB3,968,700. The rental and management fee received in aggregate amounted to HK\$29,177,000 for the year ended 30th June 2006 (2005: HK\$28,668,000).

(4) *Dalian tenancy agreement*

On 13th December 2003, Dalian New World Plaza International Co., Ltd. ("Dalian Plaza"), a 88% owned subsidiary of the Group, as landlord, entered into a tenancy agreement with Dalian New World Department Store Ltd. ("Dalian Department Store"), an indirect wholly-owned subsidiary of NWD, as tenant, for lease of the first to fifth floors and a portion of the sixth to seventh floors as well as the basement one of Dalian New World Plaza located in Tianjin Street, Zhongshan District, Dalian, the PRC, with an area of 26,845 sq. m. for twenty years commencing from 18th October 2002 to 17th October 2022.

The monthly rental is the higher of (i) RMB30 per sq. m. with effect from 1st January 2004, with an addition of 3% of the gross sales revenue ("GSR") earned by Dalian Department Store with effect from 1st January 2007; and (ii) 5% of the GSR, with rent-free period from 18th October 2002 to 31st December 2003.

On 26th November 2004, a supplemental agreement was entered into between Dalian Plaza and Dalian Department Store whereby both parties agreed to terminate the lease on the seventh floor of Dalian New World Plaza totaling 312 sq. m. and Dalian Department Store shall lease an additional area of 5,501.33 sq. m. on the sixth floor of Dalian New World Plaza. The rental payable in respect of the new leased area is the higher of either (i) basic rental which is RMB20 per sq. m. with effect from 15th March 2005, with an addition of 3% of the GSR arising from the operation of Dalian Department Store in the new leased area with effect from 1st January 2007; or (ii) 5% of the GSR, with rent-free period up to 14th March 2005. Details of the Dalian tenancy agreement and the supplemental agreement (collectively, the "Dalian Tenancy Agreement") were published in the Company's announcements dated 13th December 2003 and 26th November 2004.

The rental received in aggregate under the Dalian Tenancy Agreement was HK\$9,903,000 for the year ended 30th June 2006 (2005: HK\$9,287,000).

### C. Corporate guarantees

- (1) On 25th July 2002, Shanghai Ramada Plaza Ltd. ("Shanghai Ramada"), then 57% owned subsidiary, was granted a loan facility of US\$10,000,000 and RMB300,000,000 by two banks for a term of 5 years to finance the construction of its property project and as general working capital. Upon granting of the loan facility, the Company provided guarantee in respect of the full obligation and liabilities of Shanghai Ramada under the loan facility as well as the completion of Shanghai Ramada Plaza and undertook that the funding requirement relating to the completion of its construction would be fulfilled. The aforesaid loan facility was extended for further three years up to 30th June 2010.

On 24th June 2003, Shanghai Ramada, then 61.75% owned subsidiary, obtained another loan facility of RMB100,000,000 from a bank for a term of 5 years to finance the construction cost of its property project. The obligation and liabilities of Shanghai Ramada under the aforesaid loan facility are also guaranteed by the Company.

On 15th December 2004, Shanghai Ramada, then 64.88% owned subsidiary, obtained a multi-currency loan facility up to an aggregate principal amount of HK\$80,000,000 for a term up to 31st July 2007 which will be utilised by Shanghai Ramada to re-finance an existing bank loan facility of HK\$10,000,000 and RMB74,000,000 obtained by Shanghai Mayfair Hotel Co., Ltd. which merged with Shanghai Ramada in June 2004.

At the date of this report, Shanghai Ramada is directly or indirectly owned as to 99.81% by Ramada Property Ltd. ("Ramada Property") which in turn is a 75% owned subsidiary of the Company. The other shareholders of Ramada Property had agreed to indemnify the Company in respect of its liability under the guarantees and pay to the Company a guarantee fee of 0.25% per annum on the amount of the loan facilities being utilised by Shanghai Ramada in proportion to their shareholdings in Ramada Property.

Stanley Enterprises Limited ("Stanley"), having 20% interest in Ramada Property, is a connected person of the Company by virtue of its being a substantial shareholder of certain subsidiaries of the Group, and is wholly-owned by a director of the Company, Mr. Doo Wai-hoi, William since 3rd December 2002. The provision of the guarantees by the Company in respect of the loan facilities and payment of the guarantee fee by Stanley constituted connected transactions of the Company and relevant details were published in the Company's announcements dated 25th July 2002, 3rd December 2002, 24th June 2003 and 15th December 2004.

- (2) Fortune Leader Overseas Chinese (Daiyawan) Real Estate Development Co., Ltd. ("Fortune Leader Real Estate") was granted a 4-year banking facility with principal amount of up to HK\$30,000,000 on 6th September 2002 and additional facility of HK\$40,000,000 on 17th July 2003 to finance the development cost of its property projects.

On 16th December 2005, Fortune Leader Real Estate was further granted a 4-year loan facility with principal amount of up to HK\$25,000,000 (the "HK\$25,000,000 Facility") to finance its working capital requirement.

At the date of this report, Fortune Leader Real Estate is 80% owned by Dragon Fortune Limited ("Dragon Fortune") and 20% owned by a wholly-owned subsidiary of the Company. Dragon Fortune is owned by the Company, Potassium Corp. ("Potassium"), Sun City Holdings Limited ("Sun City"), a 30.625% owned associated company, and independent third parties as to 42.54%, 7.09%, 20.33% and 30.04%, respectively. Effectively, the Group owns Dragon Fortune as to 48.77%.

The obligation and liabilities of Fortune Leader Real Estate under the banking facilities were guaranteed by the Company, Mr. Cheng Kar-shing, Peter, a director of the Company ("Personal Guarantor"), and certain independent shareholders of Dragon Fortune in the proportion of 39.20%, 30.64% and 30.16% respectively on several basis, which is determined with reference to their respective shareholding in Dragon Fortune and a shared portion of the guarantee amount not being provided by the minority shareholders of Dragon Fortune.

Potassium is wholly-owned by the Personal Guarantor. Sun City is a 30.625% owned associated company of the Company and is also a connected person of the Company by virtue of the deemed interest of the Personal Guarantor in more than one-third of its issued share capital. Accordingly, the provision of the guarantees by the Company in respect of the banking facilities to Fortune Leader Real Estate constituted connected transactions of the Company. Details of the guarantee being provided by the Company in respect of the HK\$25,000,000 Facility were published in the Company's announcement dated 16th December 2005.

**Connected transactions** *(continued)***C. Corporate guarantees** *(continued)*

- (3) On 8th January 2003, Fortune Leader Overseas Chinese (Daiyawan) Investment Co., Ltd. ("Fortune Leader Investment") was granted a 4-year banking facility with principal amount of up to HK\$50,000,000 to finance the development of its property projects. Fortune Leader Investment was 80% owned by Dragon Fortune. The obligations and liabilities of Fortune Leader Investment under the facility were guaranteed by the Company, the Personal Guarantor and certain independent shareholders of Dragon Fortune in the proportion of 39.84%, 29.5% and 30.66% respectively on several basis.

On 16th December 2005, Fortune Leader Investment was further granted a 4-year loan facility with principal amount of up to HK\$5,000,000 ("HK\$5,000,000 Facility") to finance its working capital requirement. The obligation and liabilities of Fortune Leader Investment under the HK\$5,000,000 Facility were guaranteed by the Company, the Personal Guarantor and certain independent shareholders of Dragon Fortune in the proportion of 39.20%, 30.64% and 30.16% respectively on several basis, which is determined with reference to their respective shareholding in Dragon Fortune and a shared portion of the guarantee amount not being provided by the minority shareholders of Dragon Fortune.

By reason stated in paragraph C(2) above, the provision of the guarantees by the Company in respect of the banking facilities to Fortune Leader Investment constituted connected transactions of the Company. Details of the guarantee being provided by the Company in respect of the HK\$5,000,000 Facility were published in the Company's announcement dated 16th December 2005.

- (4) On 27th November 2003, Guangzhou Xin Yi Development Limited ("Xin Yi") was granted a 3-year term loan facility of up to RMB200,000,000 by a bank to finance its property development projects in which 90.5% of the loan facility was guaranteed by the Company. Xin Yi is indirectly owned by the Company and Chow Tai Fook Enterprises Limited ("CTF") as to 90.5% and 9.5% respectively.

Since CTF and its subsidiaries have interests in more than one-third in the issued share capital of NWD, CTF is deemed to be a connected person of the Company. Accordingly, the provision of the aforesaid guarantee by the Company constituted a connected transaction of the Company.

**D. Property agency agreement**

On 2nd June 2004, Beijing Lingal Real Estates Development Co., Ltd. ("Beijing Lingal"), an indirect wholly-owned subsidiary of the Company, entered into an agreement ("Property Agency Agreement") with Kiu Lok Property Services (China) Limited ("Kiu Lok"), an indirect wholly-owned subsidiary of NWS Holdings Limited which is a subsidiary of NWD, for the provision of property agency services by Kiu Lok to Beijing Lingal in connection with the promotion, sale and leasing of properties located in Chateau Regalia Beijing for three years commencing from 2nd June 2004 to 1st June 2007 and will continue for successive terms of one year until terminated by either party by not less than three months' notice. Details of the Property Agency Agreement were set out in the Company's announcements dated 2nd June 2004 and 11th August 2006.

The agency fee payable to Kiu Lok is calculated at: (a) for the provision of property agency services in connection with the sale of properties at Chateau Regalia Beijing: 2% of the actual selling price of each unit sold; (b) for the provision of property agency services in connection with the leasing of properties at Chateau Regalia Beijing: (i) 8.3333% of the total net rental receivable of each unit leased, subject to the maximum of one month's average net monthly rental ("ANMR"); or (ii) 50% of the ANMR, if the tenant is introduced by sub-agents and commission payable to the sub-agents is not less than 50% of the ANMR; or (iii) the difference between the ANMR and the commission payable to sub-agents, if the tenant is introduced by sub-agents and the commission payable to the sub-agents is less than 50% of the ANMR and (c) in connection with renewal of lease of properties at Chateau Regalia Beijing: 2.5% of the total net rental receivable during the extended term of tenancy, subject to the maximum of 30% of the ANMR receivable by Beijing Lingal in respect of the relevant premises. The fees paid to Kiu Lok under the Property Agency Agreement was HK\$1,981,000 for the year ended 30th June 2006 (2005: HK\$5,437,000).

**E. Provision of shareholder's loan and capital**

On 29th July 2005, New World Development (China) Limited ("NWDC"), a wholly-owned subsidiary, entered into a loan agreement with Shanghai Juyi Real Estate Development Co., Ltd. ("Juyi") under which a shareholder's loan in the principal amount of US\$10,000,000 will be provided by NWDC, the sole legal owner, to Juyi for a term of five years, subject to renewal, at an interest rate of 1.35% above the London Inter-bank Offered Rate per annum. Pursuant to a participation agreement dated 28th June 1995 and a supplemental agreement dated 14th March 2003, Stanley has a beneficial interest of 30% in Juyi and the loan amount under the loan agreement will be provided as to US\$7,000,000 by NWDC and US\$3,000,000 by Stanley in proportion to their respective beneficial interest in Juyi.

On 12th June 2006, NWDC entered into a capital contribution agreement with Stanley in respect of the increase in registered capital of Juyi from RMB350,000,000 to RMB765,000,000, whereby NWDC and Stanley agreed to make the capital contribution to Juyi in proportion to their respective beneficial interest in Juyi. Accordingly, Stanley agreed to contribute through payment to NWDC, RMB124,500,000, being 30% of the increased amount of the registered capital of Juyi, upon demand and at the instructions of NWDC from time to time.

The amount of loan and capital raised by Juyi under the aforesaid loan agreement and capital contribution agreement will be utilized to finance the development of Shanghai Hong Kong New World Garden located in Luwan District, Shanghai, the PRC.

By virtue of the interest of Stanley in Juyi and the fact that Stanley is a connected person of the Company by reason stated in paragraph C(1) above, the provision of the shareholder's loan and capital to Juyi constituted connected transactions of the Company. Details of the loan agreement and capital contribution agreement were set out in the announcements of the Company dated 29th July 2005 and 12th June 2006, respectively.

**F. Acquisition of interests**

(1) On 12th September 2005, NWDC entered into an agreement with Shun Hing China Investment Limited ("Shun Hing") whereby NWDC agreed to acquire and Shun Hing agreed to sell 100 shares, representing 10% interest, in the issued share capital of Ramada Property, together with the shareholder's loan in the sum of US\$9,719,074.15 and HK\$16,680,368.89 due and owing by Ramada Property to Shun Hing for a total consideration of US\$12,095,269.62 and HK\$17,014,050.74. After completion of the transaction on 13th September 2005, Ramada Property became a 75% owned subsidiary of the Group.

Ramada Property is an investment holding company having 99.81% interests in Shanghai Ramada, which holds the entire interest in Shanghai Ramada Plaza, a composite building comprising hotel, apartments, shopping arcade and carparks.

Shun Hing is a connected person of the Company by virtue of its interest in Ramada Property. Ramada Property is also 20% owned by a company wholly-owned by Mr. Doo Wai-hoi, William, a connected person of the Company. The acquisition therefore constituted a connected transaction of the Company. Relevant details relating to the acquisition was published in the announcement of the Company dated 12th September 2005.

(2) On 23rd December 2005, Fu Hong Investments Limited ("Fu Hong"), an indirect wholly-owned subsidiary of the Company, entered into an agreement with Stand Way Estate Limited ("Stand Way") relating to the acquisition of 50% equity interest in Guangzhou Ronghe Real Estate Co., Ltd. ("Guangzhou Ronghe") by Fu Hong from Stand Way for a consideration of RMB100,000,000, which is payable by instalments in accordance with the terms and conditions set out in the agreement. Upon completion of the registration procedures to effect the transfer, Guangzhou Ronghe will be owned as to 50%, 45% and 5% by Fu Hong, Stand Way and Guangzhou Sheng-xian Investments Co., Ltd. ("Guangzhou Sheng-xian"), respectively.

The principal asset of Guangzhou Ronghe is the holding of development rights in respect of a piece of land located at Lot Chen Jia Lin, Xindun and Nanan Cun, Xintang Town, Zengcheng, Guangdong Province, the PRC with a site area of 268,474.83 sq. m..

Stand Way is beneficially owned by Mr. Fu Sze-yin, a brother of Mr. Fu Sze-shing who is a non-executive director of the Company. Guangzhou Sheng-xian is beneficially owned as to 50% by Mr. Fu Sze-yin and 50% by Mr. Fu Sze-shing. By virtue of the interest of Mr. Fu Sze-yin in Stand Way, the agreement constituted a connected transaction of the Company, details of which were set out in the announcement of the Company dated 23rd December 2005.

**Connected transactions** *(continued)***F. Acquisition of interests** *(continued)*

- (3) On 8th May 2006, New World China Land Investments Company Limited ("NWCI"), a wholly-owned subsidiary, entered into an equity transfer agreement with Hainan Zhonghong Investments Company Limited ("Hainan Zhonghong"), Hunan Success Development Investment Company Limited ("Hunan Development"), Mr. Lan Guangming ("Mr. Lan") and Mr. Yan Chao ("Mr. Yan") relating to the acquisition of 90% and 10% equity interest in Hunan Success New Century Investment Company Limited ("Hunan Success") by NWCI and Hainan Zhonghong, respectively, from Hunan Development, Mr. Lan and Mr. Yan for a consideration of RMB652,212,000 and RMB72,468,000, respectively, which is payable by instalments in accordance with the terms and conditions set out in the equity transfer agreement.

The principal asset of Hunan Success is the ownership of the land use rights in respect of a piece of land located to the north of Laodong East Road, to the west of Huoxing Main Road, to the east of Dong Er Huan Road, and to the south of Guiyou Road, Changsha City, Hunan Province, the PRC, with a total area of approximately 671 mu (equivalent to approximately 447,333 sq. m.) with permitted area of development of approximately 1,070,000 sq. m..

Hainan Zhonghong is a connected person of the Company by virtue of its holding of 20% equity interest in a subsidiary of the Company. Accordingly, the equity transfer agreement constituted a connected transaction of the Company, details of which were set out in the announcement of the Company dated 10th May 2006 and in a circular dated 30th May 2006.

**G. Cooperation agreement in respect of land development**

On 8th May 2006, NWDC and Huamei Wealth (Beijing) Technology Co., Ltd. ("Huamei Technology"), both wholly-owned subsidiaries, entered into a cooperation agreement with Huamei Wealth (Beijing) International Property Investment Co., Ltd. ("Huamei International"), Mr. Zhang Changqing and Beijing Dongfang Huamei Real Estate Development Co., Ltd. ("Beijing Huamei"). Beijing Huamei is owned as to 75% and 25% by Huamei Technology and Huamei International, respectively.

Pursuant to the agreement, Beijing Huamei engaged Huamei International to conduct the exploration of development rights in respect of the property situated in Yuzhuang Village, Gaoliying Town, Shunyi District, Beijing, the PRC, which is approximately 1,590 mu (approximately 1,059,999 sq.m.) in size, for an aggregate consideration of RMB899,960,000. The consideration is determined by reference to the budgeted cost to undertake the development rights in respect of the aforesaid property such as the rights to organize the acquisition, compensation for and settlement of inhabitants, demolition of existing structures, levelling and construction of basic infrastructure. In addition, Huamei International will also be responsible to negotiate with the PRC authorities and endeavour, together with Huamei Technology, to obtain the land use rights in respect of the property for Beijing Huamei to invest, develop and construct on the aforesaid property for sale and/or leasing.

Huamei International is a connected person of the Company by virtue of its interest in Beijing Huamei. Accordingly, the cooperation agreement constituted a connected transaction for the Company, details of which were set out in the announcement of the Company dated 8th May 2006 and in a circular dated 29th May 2006.

**H. Participation Agreement**

On 11th September 2006, the Company entered into a participation agreement with Solar Leader Limited ("Solar Leader"), a wholly-owned subsidiary of NWD, and NWD pursuant to which the Company agreed to grant Solar Leader a participating interest, which is 50% of the total interest of the Group, in the property projects undertaken by the subsidiaries of the Group, namely (i) Guiyang New World Real Estate Co., Ltd.; (ii) Beijing Huamei; (iii) Chengdu Xinyi Real Estate Development Co., Ltd.; and (iv) Hunan Success, of which the Group owned 100%, 75%, 60% and 90% interests, respectively, in consideration for Solar Leader agreeing to share 50% of the costs payable by the Group in connection with the property projects undertaken by the aforesaid project companies in the PRC.

The participation agreement is conditional upon the approval being granted by the independent shareholders of the Company at the extraordinary general meeting convened to be held on 16th October 2006. Details of the agreement was set out in the announcement of the Company dated 11th September 2006 and in a circular dated 29th September 2006.



**I. Other connected transaction**

In July 1999, a deed of tax indemnity was entered into between NWD and the Group whereby NWD undertakes to indemnify the Group in respect of, inter alia, certain PRC income tax and land appreciation tax payable in consequence of the disposal of certain properties held by the Group as at 31st March 1999. During the year, tax indemnity amounting to HK\$34,773,000 (2005: Nil) was effected.

**J. Annual review of the continuing connected transactions**

The independent non-executive directors of the Company had reviewed the continuing connected transactions in respect of (i) the construction services (paragraph A above); (ii) the office tenancy agreements; the 2006 Shenyang Tenancy Agreement; and the Dalian Tenancy Agreement (paragraphs B(1), B(2)(c) and B(4) above); and (iii) the Property Agency Agreement (paragraph D above) for the financial year ended 30th June 2006 and confirmed that the transactions were:

- (a) entered into in the ordinary and usual course of business of the Group;
- (b) conducted on normal commercial terms; and
- (c) entered into in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company had received a letter from the auditors in respect of the transactions mentioned above confirming that the transactions:

- (a) had received the approval of the board of directors of the Company;
- (b) were entered into in accordance with the relevant agreements; and
- (c) had not exceeded the caps disclosed in the previous announcements relating to the aforesaid transactions.

**K. Conditional waivers**

As stated in the Company's announcements dated 10th June 2003 and 15th March 2004, the Company was granted conditional waivers by the Stock Exchange from strict compliance with the disclosure requirement of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in respect of the connected transactions arising from (i) the 1995 Shenyang Tenancy Agreement and the 2000 Shenyang Tenancy Agreement (paragraphs B(2)(a) and B(2)(b) above) for a period up to 30th November 2005; and (ii) the Tianjin Tenancy Agreement (paragraph B(3) above) for a period up to 30th June 2006.

The independent non-executive directors of the Company had reviewed the transactions arising from the abovementioned tenancy agreements for the year ended 30th June 2006 and confirmed that the transactions were:

- (a) entered into by the Group in the ordinary and usual course of business;
- (b) conducted on normal commercial terms or (where there is no available comparison) on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
- (c) entered into in accordance with the terms of the relevant tenancy agreements; and
- (d) within the annual amounts receivable pursuant to each of the relevant tenancy agreements and did not exceed 3% of the book value of the consolidated net tangible assets of the Group for the year ended 30th June 2006.

### Connected transactions (continued)

#### K. Conditional waivers (continued)

The Company had received a letter from the auditors in respect of the transactions mentioned above confirming that the transactions:

- (a) had received the approval of the board of directors of the Company;
- (b) were entered into in accordance with the terms of the relevant tenancy agreements; and
- (c) the aggregate values of the transactions were within the annual amounts receivable pursuant to each of the relevant tenancy agreements and did not exceed 3% of the book value of the consolidated net tangible assets of the Group for the year ended 30th June 2006.

Save as disclosed above, a summary of significant related party transactions that do not constitute connected transactions made during the year was disclosed in note 42 to the financial statements.

### Directors' rights to acquire shares or debentures

Save as disclosed under the section headed "Directors' interests in securities" below, at no time during the year was the Company, its subsidiaries, its fellow subsidiaries or its holding company, a party to any arrangement to enable the directors of the Company or chief executives or any of their spouse or children under the age of 18 to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

### Directors' interests in securities

As at 30th June 2006, the interests of the directors and their associates in shares, registered capital and underlying shares of the Company and its associated corporations as recorded in the register required to be kept under section 352 of the Securities and Futures Ordinance ("SFO") were as follows:

#### (A) Long position in shares

	Number of shares/ amount of registered capital			Total	Percentage to the relevant issued/ registered capital as at 30th June 2006
	Personal interests	Family interests	Corporate interests		
<b>New World China Land Limited</b>					
(Ordinary shares of HK\$0.10 each)					
Dr. Cheng Kar-shun, Henry	12,500,000	–	52,271,200 (note 1)	<b>64,771,200</b>	1.69
Mr. Doo Wai-hoi, William	8,750,000	–	59,050,000 (note 2)	<b>67,800,000</b>	1.77
Mr. Leung Chi-kin, Stewart	500,000	–	–	<b>500,000</b>	0.01
Mr. Chow Yu-chun, Alexander	6,250,000	–	–	<b>6,250,000</b>	0.16
Mr. Chow Kwai-cheung	650,126	–	–	<b>650,126</b>	0.02
Mr. Fong Shing-kwong, Michael	1,600,000	–	–	<b>1,600,000</b>	0.04
<b>New World Development Company Limited</b>					
(Ordinary shares of HK\$1.00 each)					
Dr. Cheng Kar-shun, Henry	–	300,000	–	<b>300,000</b>	0.01
Mr. Leung Chi-kin, Stewart	32,553	–	–	<b>32,553</b>	0.001
Mr. Chow Kwai-cheung	44,527	–	–	<b>44,527</b>	0.001

	Number of shares/ amount of registered capital			Total	Percentage to the relevant issued/ registered capital as at 30th June 2006
	Personal interests	Family interests	Corporate interests		
<b>NWS Holdings Limited</b>					
(Ordinary shares of HK\$1.00 each)					
Dr. Cheng Kar-shun, Henry	3,179,199	587,000	8,000,000 (note 1)	<b>11,766,199</b>	0.61
Mr. Doo Wai-hoi, William	2,006,566	–	3,130,000 (note 2)	<b>5,136,566</b>	0.26
Mr. Cheng Kar-shing, Peter	180,308	–	2,659,700 (note 3)	<b>2,840,008</b>	0.15
Mr. Leung Chi-kin, Stewart	3,526,630	–	–	<b>3,526,630</b>	0.18
Mr. Chow Kwai-cheung	507,000	–	–	<b>507,000</b>	0.03
Mr. Chow Yu-chun, Alexander	2,450,701	–	–	<b>2,450,701</b>	0.13
Mr. Fong Shing-kwong, Michael	2,356,051	–	–	<b>2,356,051</b>	0.12
Mr. Cheng Wai-chee, Christopher	703,288	–	–	<b>703,288</b>	0.04
<b>Dragon Fortune Limited</b>					
(Ordinary shares of US\$1.00 each)					
Mr. Cheng Kar-shing, Peter	–	–	15,869 (note 4)	<b>15,869</b>	27.41
<b>Faith Yard Property Limited</b>					
(Ordinary shares of US\$1.00 each)					
Mr. Doo Wai-hoi, William	–	–	1 (note 2)	<b>1</b>	50.00
<b>Fortune Star Worldwide Limited</b>					
(Ordinary shares of US\$1.00 each)					
Mr. Doo Wai-hoi, William	–	–	60 (note 2)	<b>60</b>	60.00
<b>Fung Seng Estate Development (Shanghai) Co., Ltd.</b>					
(Registered capital in US\$)					
Mr. Doo Wai-hoi, William	–	–	3,000,000 (note 5)	<b>3,000,000</b>	30.00
<b>Grand Make International Limited</b>					
(Ordinary shares of US\$1.00 each)					
Mr. Doo Wai-hoi, William	–	–	10 (note 2)	<b>10</b>	10.00
<b>Guangzhou Ronghe Real Estate Co., Ltd.</b>					
(Registered capital in RMB)					
Mr. Fu Sze-shing	–	–	4,666,500 (note 6)	<b>4,666,500</b>	5.00

## Report of the Directors

## Directors' interests in securities (continued)

## (A) Long position in shares (continued)

	Number of shares/ amount of registered capital			Total	Percentage to the relevant issued/ registered capital as at 30th June 2006
	Personal interests	Family interests	Corporate interests		
<b>Master Services Limited</b>					
(Ordinary shares of US\$0.01 each)					
Mr. Leung Chi-kin, Stewart	16,335	–	–	<b>16,335</b>	1.63
Mr. Chow Kwai-cheung	16,335	–	–	<b>16,335</b>	1.63
Mr. Chow Yu-chun, Alexander	16,335	–	–	<b>16,335</b>	1.63
<b>Ramada Property Ltd.</b>					
(Ordinary shares of US\$1.00 each)					
Mr. Doo Wai-hoi, William	–	–	200 (note 2)	<b>200</b>	20.00
<b>Shanghai Juyi Real Estate Development Co., Ltd.</b>					
(Registered capital in RMB)					
Mr. Doo Wai-hoi, William	–	–	229,500,000 (note 5)	<b>229,500,000</b>	30.00
<b>Shanghai Trio Property Development Co. Ltd.</b>					
(Registered capital in US\$)					
Mr. Doo Wai-hoi, William	–	–	28,350,000 (note 7)	<b>28,350,000</b>	52.50
<b>Sun City Holdings Limited</b>					
(Ordinary shares of HK\$1.00 each)					
Mr. Cheng Kar-shing, Peter	–	80,000	3,570,000 (note 8)	<b>3,650,000</b>	45.63
<b>Sun Legend Investments Limited</b>					
(Ordinary shares of HK\$1.00 each)					
Mr. Cheng Kar-shing, Peter	–	–	500 (note 9)	<b>500</b>	50.00
<b>YE Holdings Corporation</b>					
(Ordinary shares of HK\$1.00 each)					
Mr. Leung Chi-kin, Stewart	37,500	–	–	<b>37,500</b>	1.50
<b>Zhaoqing New World Property Development Limited</b>					
(Registered capital in US\$)					
Mr. Doo Wai-hoi, William	–	–	8,250,000 (note 10)	<b>8,250,000</b>	60.00
<b>Zhaoqing New World Property Management Limited</b>					
(Registered capital in HK\$)					
Mr. Doo Wai-hoi, William	–	–	300,000 (note 10)	<b>300,000</b>	60.00

## Notes:

1. These shares are beneficially owned by a company wholly-owned by Dr. Cheng Kar-shun, Henry.
2. These shares are beneficially owned by companies wholly-owned by Mr. Doo Wai-hoi, William.
3. These shares are beneficially owned by a company wholly-owned by Mr. Cheng Kar-shing, Peter.
4. 4,102 shares are held by a company wholly-owned by Mr. Cheng Kar-shing, Peter and 11,767 shares are held by Sun City Holdings Limited ("Sun City"), of which Mr. Cheng is deemed to be interested in 45.63% of its issued share capital.
5. These represent the participating interests held by a company wholly-owned by Mr. Doo Wai-hoi, William.
6. The interest is beneficially owned by a company of which Mr. Fu Sze-shing has 50% interest.
7. These include 50% direct interest and 2.5% participating interest in the registered capital of Shanghai Trio Property Development Co. Ltd. being held by companies wholly-owned by Mr. Doo Wai-hoi, William.
8. These shares are held by a company of which Mr. Cheng Kar-shing, Peter owns an indirect interest of 48.18%.
9. Mr. Cheng Kar-shing, Peter is deemed to be interested in the shares of Sun Legend Investments Limited by virtue of his interests in Sun City.
10. Mr. Doo Wai-hoi, William is deemed to be interested in the registered capitals of these companies by virtue of his interest in Fortune Star Worldwide Limited, of which Mr. Doo Wai-hoi, William owns an indirect interest of 60%.

**(B) Long position in underlying shares – share options***(1) The Company**(a) Under the 2000 share option scheme*

Under the share option scheme of the Company adopted on 18th December 2000, share options were granted to the undermentioned directors of the Company which entitled them to subscribe for shares of the Company and accordingly they are regarded as interested in the underlying shares of the Company. Details of the share options granted to them are as follows:

Name of director	Date of grant	Exercisable period (note 1)	Number of share options			
			Balance as at 1st July 2005	Exercised during the year	Balance as at 30th June 2006	Exercise price per share HK\$
Dr. Cheng Kar-shun, Henry	7th February 2001	8th March 2001 to 7th March 2006	12,500,000	(12,500,000) (note 2)	–	1.782
Mr. Doo Wai-hoi, William	8th February 2001	9th March 2002 to 8th March 2006	7,000,000	(7,000,000) (note 3)	–	1.782
Mr. Cheng Kar-shing, Peter	9th February 2001	10th March 2003 to 9th March 2006	3,550,000	(3,550,000) (note 4)	–	1.782
Mr. Chow Yu-chun, Alexander	8th February 2001	9th March 2001 to 8th March 2006	6,250,000	(6,250,000) (note 5)	–	1.782
Mr. Chow Kwai-cheung	9th February 2001	10th March 2005 to 9th March 2006	250,000	(250,000) (note 6)	–	1.782
Mr. Fong Shing-kwong, Michael	17th February 2001	18th March 2004 to 17th March 2006	1,000,000	(1,000,000) (note 7)	–	1.782
Total			30,550,000	(30,550,000)	–	

**Directors' interests in securities** (continued)

**(B) Long position in underlying shares – share options** (continued)

(1) The Company (continued)

(b) Under the 2002 share option scheme

Under the share option scheme of the Company adopted on 26th November 2002, the undermentioned director was interested in the share options which entitled her to subscribe for the shares of the Company, details as follows:

Name of director	Date of grant	Exercisable period	Number of share options		Exercise price per share HK\$
			Balance on date of appointment	Balance as at 30th June 2006	
Ms. Ngan Man-ying, Lynda (appointed on 17th January 2006)	14th July 2005	15th August 2006 to 14th August 2007	100,000	100,000	2,300

Notes:

- The share options were exercisable within five years commencing from one month after the dates of grant, provided that the maximum number of share options that can be exercised during each anniversary year is 20% of the total number of share options granted together with any unexercised share options carried forward from the previous anniversary years.
- The exercise date was 17th February 2006. On the trading date immediately before the exercise date, the closing price per share was HK\$3.375.
- The exercise dates were 13th December 2005, 20th December 2005, 24th January 2006, 3rd February 2006 and 16th February 2006 for options representing 1,000,000 shares, 1,000,000 shares, 2,000,000 shares, 1,000,000 shares and 2,000,000 shares, respectively. The weighted average closing price of the shares immediately before the dates on which share options were exercised was HK\$3.493.
- The exercise dates were 15th July 2005, 29th July 2005, 11th August 2005 and 23rd November 2005 for options representing 350,000 shares, 350,000 shares, 500,000 shares and 2,350,000 shares, respectively. The weighted average closing price of the shares immediately before the dates on which share options were exercised was HK\$2.841.
- The exercise dates were 10th October 2005 and 20th January 2006 for options representing 3,250,000 shares and 3,000,000 shares, respectively. The weighted average closing price of the shares immediately before the dates on which share options were exercised was HK\$3.159.
- The exercise date was 20th February 2006. On the trading date immediately before the aforesaid exercise date, the closing price per share was HK\$3.375.
- The exercise date was 24th February 2006. On the trading date immediately before the aforesaid exercise date, the closing price per share was HK\$3.575.
- The cash consideration paid by each director for each grant of the share options is HK\$10.

(2) *New World Mobile Holdings Limited*

Under the share option scheme of a fellow subsidiary, New World Mobile Holdings Limited ("NWMH"), the following directors have personal interests in share options to subscribe for shares in NWMH and are accordingly regarded as interested in the underlying shares of NWMH. Details of the share options of NWMH granted to them are as follows:

Name of director	Date of grant	Exercisable period	Number of share options as at 30th June 2006	Exercise price per share HK\$
Dr. Cheng Kar-shun, Henry	28th January 2005	(note)	<b>780,000</b>	1.26
Mr. Doo Wai-hoi, William	28th January 2005	(note)	<b>300,000</b>	1.26
Mr. Chow Yu-chun, Alexander	28th January 2005	(note)	<b>482,000</b>	1.26

Note: Exercisable from 28th January 2005 to 31st December 2010.

During the year, no share options were exercised by the above directors under the share option scheme of NWMH. The cash consideration paid by the director for grant of the share options is HK\$1.00.

(3) *NWS Holdings Limited*

Under the share option scheme of a fellow subsidiary, NWS Holdings Limited ("NWS"), the following directors of the Company have personal interests in share options to subscribe for shares in NWS and are accordingly regarded as interested in the underlying shares of NWS. Details of the share options of NWS granted to them are as follows:

Name of director	Date of grant	Exercisable period	Number of share options			Balance as at 30th June 2006	Exercise price per share HK\$
			Balance as at 1st July 2005	Exercised during the year	Adjusted during the year (note 1)		
Dr. Cheng Kar-shun, Henry	21st July 2003	(note 2)	1,009,849	(1,009,849)	-	-	3.719
Mr. Doo Wai-hoi, William	21st July 2003	(note 2)	673,233	(673,233)	-	-	3.719
Mr. Cheng Kar-shing, Peter	21st July 2003	(note 2)	168,308	(168,308)	-	-	3.719
Mr. Leung Chi-kin, Stewart	21st July 2003	(note 3)	68,669	-	(68,669)	-	3.719
			-	-	68,820	<b>68,820</b>	3.711
Mr. Chow Yu-chun, Alexander	21st July 2003	(note 3)	134,647	-	(134,647)	-	3.719
			-	-	134,944	<b>134,944</b>	3.711
Mr. Fong Shing-kwong, Michael	21st July 2003	(note 2)	168,308	-	(168,308)	-	3.719
			-	(168,678)	168,678	-	3.711
Mr. Cheng Wai-chee, Christopher	21st July 2003	(note 2)	201,969	(201,969)	-	-	3.719

Notes:

- (1) The number of share options and exercise price were adjusted by NWS on 6th January 2006 and 13th June 2006 as a result of the issue of shares by NWS to its shareholders who have elected to receive shares in lieu of cash for their entitlement of dividends as declared and paid by NWS during the year.
- (2) Exercisable from 21st July 2005 to 20th July 2008.
- (3) Divided into 2 tranches exercisable from 21st July 2004 and 21st July 2005 to 20th July 2008, respectively.
- (4) The cash consideration paid by the director for each grant of the share options is HK\$10.

Save as disclosed above, as at 30th June 2006, none of the directors, chief executive or any of their associates had or deemed to have any interest or short positions in the shares, registered capital, underlying shares and debentures of the Company or any of its associated corporations as defined in the SFO that were required to be entered into the register kept by the Company pursuant to section 352 of the SFO or were required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

### Directors' interests in competing business

During the year, the following directors are considered to have interests in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules as set out below:

Name of director	Name of entity with competing business	Business activity of the entity	Nature of interest of director in the entity
Dr. Cheng Kar-shun, Henry	Hong Kong Jing-guang Development Limited	Hotel operation in Beijing	Director
	Huizhou New World Enterprises Development Co., Ltd.	Property development in Huizhou	Director
	Qingyuan New World Housing Development Ltd.	Property development in Qingyuan	Director
	Tianjin Tianzheng Property & Merchants Co., Ltd.	Land improvement in Tianjin	Director
	Wuhan New Eagle Development Co., Ltd.	Property investment in Wuhan	Director
	Wuxi Ramada Hotel Company Limited	Hotel operation in Wuxi	Director
Mr. Doo Wai-hoi, William	New Bei Fang Hotel Ltd.	Property investment	Director
	Tianjin Tianzheng Property & Merchants Co., Ltd.	Land improvement in Tianjin	Director
Mr. Cheng Kar-shing, Peter	Qingyuan New World Housing Development Ltd.	Property development in Qingyuan	Director
	Wuhan New Eagle Development Co., Ltd.	Property investment in Wuhan	Director
Mr. Chow Kwai-cheung	北京市天竺花園別墅發展有限公司	Property development in Beijing	Director
	Tianjin Tianzheng Property & Merchants Co., Ltd.	Land improvement in Tianjin	Director
	廣州金湖住宅發展有限公司	Property development in Guangzhou	Director
	廣州紅丰房地產有限公司	Property development in Guangzhou	Director
	增城永裕房地產有限公司	Property development in Guangzhou	Director



<b>Name of director</b>	<b>Name of entity with competing business</b>	<b>Business activity of the entity</b>	<b>Nature of interest of director in the entity</b>
Mr. Chow Yu-chun, Alexander	Beijing Fu Wah Real Estates Development Co., Ltd.	Property development in Beijing	Director
	Beijing Niceline Real Estates Development Co., Ltd.	Property development in Beijing	Director
	Grand New World Hotel Company Limited	Hotel operation in Xian	Director
	Guangzhou Metropolitan Properties Co., Ltd.	Property development in Guangzhou	Director
	Guangzhou New World Properties Development Co., Ltd.	Property development in Guangzhou	Director
	Huizhou New World Enterprises Development Co., Ltd.	Property development in Huizhou	Director
	New Bei Fang Hotel Ltd.	Property investment	Director
	Qingyuan New World Housing Development Ltd.	Property development in Qingyuan	Director
	Wuhan New Eagle Development Co., Ltd.	Property investment in Wuhan	Director
Mr. Fong Shing-kwong, Michael	Beijing Jing Guang Centre Co. Ltd.	Hotel operation in Beijing	Director
	Beijing Fu Wah Real Estates Development Co., Ltd.	Property development in Beijing	Director
	Beijing Niceline Real Estates Development Co., Ltd.	Property development in Beijing	Director
	Grand New World Hotel Company Limited	Hotel operation in Xian	Director
	Wuxi New City Development Co. Ltd.	Hotel operation in Wuxi	Director
Ms. Ngan Man-ying, Lynda	Beijing Fu Wah Real Estates Development Co., Ltd.	Property development in Beijing	Director
	Beijing Niceline Real Estates Development Co., Ltd.	Property development in Beijing	Director

As the board of directors of the Company is independent from the boards of the aforesaid companies and none of the directors can control the board of the Company, the Group is capable of carrying its businesses independently of, and at arm's length from the businesses of such companies.

# Report of the Directors

## Substantial shareholders' interests in shares

As at 30th June 2006, the register of substantial shareholders maintained under Section 336 of the SFO shows that the following parties had interests in 5% or more of the issued share capital of the Company:

Name	Number of shares		Number of shares comprised in derivatives (note 4)		Total	Percentage to the issued share capital as at 30th June 2006
	Beneficial interests	Corporate Interests	Beneficial interests	Corporate Interests		
Cheng Yu Tung Family (Holdings) Limited ("CYTF") (note 1)	-	2,714,858,780	-	262,000,000	<b>2,976,858,780</b>	77.82
Centennial Success Limited ("CSL") (note 1)	-	2,714,858,780	-	262,000,000	<b>2,976,858,780</b>	77.82
Chow Tai Fook Enterprises Limited ("CTF") (note 2)	-	2,714,858,780	-	262,000,000	<b>2,976,858,780</b>	77.82
New World Development Company Limited ("NWD") (note 3)	2,537,632,731	177,226,049	-	262,000,000	<b>2,976,858,780</b>	77.82
Easywin Enterprises Corporation Limited ("Easywin")	113,351,879	-	262,000,000	-	<b>375,351,879</b>	9.81

Notes:

1. CYTF holds 51% interest in CSL which in turn holds the entire interests in CTF. Therefore, CYTF and CSL are deemed to have interests in the shares in which CTF is deemed to be interested by virtue of its interests in NWD as mentioned in note 2 below.
2. CTF and its subsidiaries have interests in more than one-third of the issued shares of NWD and is accordingly deemed to have an interest in the shares in which NWD is interested or deemed to be interested.
3. The number of shares held under the corporate interests of NWD includes 22,508,064 shares held by Great Worth Holdings Limited, its 59% owned subsidiary, and 41,366,106 shares held by High Earnings Holdings Limited, its 54% owned subsidiary. As NWD holds 100% interest in Easywin, it is also deemed to have an interest in the shares held by Easywin in the Company.
4. Pursuant to certain option agreements all dated 30th May 2005, Easywin granted put options in respect of 262,000,000 shares of the Company to independent third parties which are exercisable at an initial exercise price of HK\$2.90 per share (subject to adjustment) on 25th May 2007 (subject to certain accelerating events as provided therein).

All the interests stated above represent long position. Save as disclosed above, there is no other interest recorded in the register that is required to be kept under Section 336 of the SFO as at 30th June 2006.

### Share option schemes

On 18th December 2000, the Company adopted a share option scheme ("2000 Share Option Scheme") pursuant to which employees, including executive directors of the Group, were given opportunity to obtain equity holdings in the Company. The 2000 Share Option Scheme was subsequently terminated at the annual general meeting of the Company held on 26th November 2002 whereby a new share option scheme ("2002 Share Option Scheme") was adopted in compliance with the new requirements of the Listing Rules. Any share options which were granted under the 2000 Share Option Scheme prior to such termination shall continue to be valid and exercisable in accordance with the terms of the 2000 Share Option Scheme.

A summary of the 2000 Share Option Scheme and the 2002 Share Option Scheme was set out as follows:

	<b>2000 Share Option Scheme</b>	<b>2002 Share Option Scheme</b>
Purpose of the schemes	As incentive to employees, including executive directors, of the Company or its subsidiaries	To provide an opportunity for the full-time or part-time employees, including directors, of the Group to participate in the equity of the Company as well as to motivate them to optimize their performance
Participants of the schemes	Full-time employees, including any directors, of the Company or its subsidiaries	Full-time or part-time employees, including directors, of the Company or its subsidiaries
Total number of shares available for issue under the schemes and percentage of issued share capital as at the date of this annual report	The Company had granted share options representing the rights to subscribe for 65,745,200 shares of the Company under the 2000 Share Option Scheme, together with share options representing 38,158,200 shares by way of adjustment on the number of share options as a result of the Company's issue of rights shares becoming unconditional on 8th April 2005. No further options will be granted under the 2000 Share Option Scheme	The Company had granted share options representing the rights to subscribe for 13,873,200 shares under the 2002 Share Option Scheme up to the date of this report, together with share options representing 6,465,900 shares by way of adjustment on the number of share options as a result of the Company's issue of rights shares becoming unconditional on 8th April 2005. The Company may further grant share options to subscribe for 91,850,329 shares of the Company, representing approximately 2.40% of the total issued share capital of the Company as at the date of this report
Maximum entitlement of each participant under the schemes	25% of the aggregate number of shares for the time being issued and issuable under the scheme	The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the shares in issue unless the same is approved by shareholders in general meeting

## Share option schemes (continued)

	<b>2000 Share Option Scheme</b>	<b>2002 Share Option Scheme</b>
The period within which the shares must be taken up under an option	At any time during a period to be notified by the Directors, which period not to exceed 5 years commencing on the expiry of 1 month after the date on which the option is accepted and expiring on the last day of the 5-year period	At any time during a period to be notified by the Directors, which period not to exceed 5 years commencing on the expiry of 1 month after the date on which the option is accepted and expiring on a date not later than the last day of the 5-year period
The minimum period for which an option must be held before it can be exercised	1 month	1 month
The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be paid	HK\$10 is to be paid as consideration for the grant of option within 28 days from the date of offer	HK\$10 is to be paid as consideration for the grant of option within 28 days from the date of offer
The basis of determining the exercise price	<p>The exercise price shall be determined by the Directors, being the higher of:</p> <p>(a) not less than 80% of the average closing price of shares on the Hong Kong Stock Exchange as stated in the Hong Kong Stock Exchange's daily quotations sheets for the 5 trading days immediately preceding the date of offer; or</p> <p>(b) nominal value of a share</p>	<p>The exercise price shall be determined by the Directors, being at least the higher of:</p> <p>(a) the closing price of shares as stated in the Hong Kong Stock Exchange's daily quotations sheet on the date of offer, which must be a business day; and</p> <p>(b) the average closing price of shares as stated in the Hong Kong Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of offer</p>
The remaining life of the schemes	The 2000 Share Option Scheme shall be valid and effective for a period of 10 years commencing on the adoption date i.e. 18th December 2000	The 2002 Share Option Scheme shall be valid and effective for a period of 10 years commencing on the adoption date i.e. 26th November 2002

During the year ended 30th June 2006, movement of share options granted to the directors and employees of the Group under the 2000 Share Option Scheme and the 2002 Share Option Scheme was as follows:

- (A) Movement of share options to directors was disclosed under the heading "Directors' interests in securities" above.
- (B) Movement of share options to employees was as follows:

**Under the 2000 Share Option Scheme**

Date of grant	Number of share options (note 1)				Exercise price per share HK\$
	Balance as at 1st July 2005	Exercised during the year (note 4)	Lapsed during the year	Outstanding as at 30th June 2006	
5th February 2001 to 2nd March 2001	19,492,400	(19,196,800)	(295,600)	-	1.782
2nd May 2001 to 29th May 2001	560,000	(560,000)	-	-	2.375
29th June 2001 to 26th July 2001	3,195,000	(1,918,000)	-	<b>1,277,000</b>	2.910
31st August 2001 to 27th September 2001	947,000	(906,000)	-	<b>41,000</b>	2.170
26th March 2002 to 22nd April 2002	742,000	(295,600)	(112,400)	<b>334,000</b>	2.065
Total	24,936,400	(22,876,400)	(408,000)	<b>1,652,000</b>	

**Share option schemes** (continued)

(B) Movement of share options to employees was as follows: (continued)

**Under the 2002 Share Option Scheme**

Date of grant	Number of share options (note 1)						Exercise price per Share HK\$
	Balance as at 1st July 2005	Granted during the year (note 3)	Exercised during the year (note 5)	Re-classified as director's interest	Lapsed during the year	Outstanding as at 30th June 2006	
3rd January 2003 to 30th January 2003	1,210,200	-	(480,000)	-	-	<b>730,200</b>	1.212
12th May 2003 to 6th June 2003	2,659,700	-	(557,800)	-	(105,000)	<b>1,996,900</b>	0.912
28th October 2003 to 22nd November 2003	69,000	-	-	-	-	<b>69,000</b>	1.650
18th December 2003 to 14th January 2004 (note 2)	1,625,000	-	(1,625,000)	-	-	-	1.668
25th March 2004 to 21st April 2004	1,992,200	-	(158,200)	-	(294,800)	<b>1,539,200</b>	2.252
18th June 2004 to 15th July 2004	883,000	-	(290,800)	-	(277,800)	<b>314,400</b>	1.650
4th November 2004 to 1st December 2004	707,000	-	(171,200)	-	(279,000)	<b>256,800</b>	2.484
22nd December 2004 to 18th January 2005	1,234,000	-	(436,400)	-	-	<b>797,600</b>	2.689
13th July 2005 to 9th August 2005	-	817,600	(29,600)	-	-	<b>788,000</b>	2.300
13th July 2005 to 9th August 2005	-	1,400,000 (note 2)	(350,000)	(100,000)	-	<b>950,000</b>	2.300
7th November 2005 to 2nd December 2005	-	48,800	(9,600)	-	-	<b>39,200</b>	2.620
28th March 2006 to 24th April 2006	-	3,384,000	-	-	-	<b>3,384,000</b>	3.915
<b>Total</b>	<b>10,380,100</b>	<b>5,650,400</b>	<b>(4,108,600)</b>	<b>(100,000)</b>	<b>(956,600)</b>	<b>10,865,300</b>	

## Notes:

1. The share options are exercisable within five years commencing from one month after the dates of grant, provided that the maximum number of share options that can be exercised during each anniversary year is 20% of the total number of the share options granted together with any unexercised share options carried forward from the previous anniversary years, except otherwise specified in note 2.
2. The share options are exercisable within two years commencing from one month after the dates of grant, provided that the maximum number of share options that can be exercised during each year is 50% of the total number of the share options granted together with any unexercised share options carried forward from the previous anniversary year.
3. The closing price per share immediately before 13th July 2005, 7th November 2005 and 28th March 2006, the dates of grant, was HK\$2.300, HK\$2.650 and HK\$3.95, respectively.
4. The weighted average closing price of the shares immediately before the dates on which share options were exercised under the 2000 Share Option Scheme was HK\$3.234.
5. The weighted average closing price of the shares immediately before the dates on which share options were exercised under the 2002 Share Option Scheme was HK\$3.396.

The fair values of the share options granted during the year with exercise prices per share of HK\$2.300, HK\$2.620 and HK\$3.915 are estimated at HK\$0.630, HK\$1.045 and HK\$1.546 respectively using the Binomial pricing model. Values are estimated based on the risk-free rate ranging from 3.18% to 4.5% per annum with reference to the rate prevailing on the Exchange Fund Notes, a five-year period historical volatility of ranging from 52% to 53%, assuming no dividends and an expected option life of 2 and 5 years.

The Binomial pricing model required input of subjective assumptions such as the expected stock price volatility. Change in the subjective input may materially affect the fair value estimates.

### Management contract

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

### Major customers and suppliers

During the year, less than 30% of the Group's turnover and less than 30% of the Group's purchases were attributable to the Group's five largest customers and five largest suppliers respectively.

### Continuing obligations under Chapter 13 of the Listing Rules

#### (A) Advances and guarantees to entities

In accordance with the requirements under rule 13.20 of the Listing Rules the directors of the Company reported that none of the entities of which the Group made advances and guarantees individually exceeded 8% of the Company's total asset value as at 30th June 2006.

#### (B) Financial assistance and guarantees to affiliated companies

As at 30th June 2006, the Group had made loans and advances totalling HK\$8,463,292,000 to affiliated companies, guaranteed bank loans and other borrowing facilities for the benefit of affiliated companies in the amount of HK\$1,251,354,000. These amounts in aggregate exceeded 8% of the Company's total asset value as at 30th June 2006. In accordance with the requirement under rule 13.22 of the Listing Rules, a combined balance sheet of those affiliated companies with financial assistance from the Group and the Group's attributable interest in those affiliated companies as at 30th June 2006 are presented below:

	<b>Combined balance sheet</b>	<b>Group's attributable interests</b>
	HK\$'000	HK\$'000
Non-current assets	11,473,883	6,624,075
Current assets	16,057,913	13,985,189
Current liabilities	(7,635,357)	(4,672,703)
Non-current liabilities	(4,088,166)	(2,397,052)
Shareholders' loans and advances	(8,877,118)	(8,463,292)
	6,931,155	5,076,217

#### (C) Banking facilities with covenants relating to specific performance of the controlling shareholder

In accordance with the requirements under rule 13.21 of the Listing Rules, the directors of the Company reported below details of loan facilities, which exist at any time during the year and include conditions relating to specific performance of the controlling shareholder of the Company.

On 24th March 2005, Beijing Lingal Real Estates Development Co., Ltd. ("Beijing Lingal"), a wholly-owned subsidiary, was granted a 2-year term loan facility of RMB200,000,000 to finance its property project undertaken in the PRC. On 8th June 2006, New World China Land Investments Company Limited, a wholly-owned subsidiary, was granted a 3-year term facility of RMB300,000,000 to finance the capital investment in its property projects in the PRC.

On 3rd April 2006, 12th June 2006 and 13th June 2006, the Company was granted loan facilities of up to HK\$300,000,000, HK\$800,000,000 and HK\$300,000,000, respectively for a term of 3 to 4 years, to fund the general corporate funding requirement of the Company and its subsidiaries, including refinancing the Company's existing loans.

Upon the granting of the above loan facilities, the Company undertook to the lenders that New World Development Company Limited would retain an interest of at least 51% in the issued share capital of the Company, or would maintain 51% of the voting rights attached to the issued share capital of the Company throughout the terms of the facilities. Failure to perform the undertaking will constitute an event of default. If the event of default continues and has not been waived by the lenders, the outstanding liability under the loan facilities will become immediately due and payable and the loan facilities will be terminated.



**Statement of public float sufficiency**

Based on the information publicly available to the Company and within the knowledge of the directors as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

**Auditors**

The financial statements have been audited by Messrs. PricewaterhouseCoopers, who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

**Dr. Cheng Kar-shun, Henry**

*Chairman and Managing Director*

Hong Kong, 10th October 2006