

# Report of the Directors and Financial Statements



The Directors submit their report together with the audited accounts of the Group for the year ended 30 June 2002.

### **Principal activities and geographical analysis of operations**

The principal activity of the Company is investment holding.

The principal activities of its subsidiaries are the investment in, and the development, operation and management of terminals in seaports and riverports and related business.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the accounts.

### **Results and appropriations**

The results of the Group for the year ended 30 June 2002 and the state of affairs of the Company and the Group at 30 June 2002 are set out in the accounts on pages 49 to 51.

A dividend in respect of the Company's 4% cumulative convertible redeemable preference shares for the year has been incorporated in the accounts.

The Directors had declared an interim dividend of HK2 cents (2001: Nil) per ordinary share, totalling HK\$41,199,360 (2001: Nil) which was paid on 30 April 2002.

The Directors do not recommend the payment of a final dividend to the ordinary shareholders of the Company for the year.

### **Five-year financial summary**

A summary of the results and of the assets and liabilities of the Group for the last five financial periods is set out on page 98 to 100.

### **Fixed assets**

Details of movements in the fixed assets of the Group during the year are set out in note 12 to the accounts.

### **Subsidiaries**

Particulars of the Company's principal subsidiaries are set out in note 13 to the accounts.

### **Associated companies and jointly controlled entities**

Particulars of the Group's investments in its principal associated companies and jointly controlled entities are set out in notes 14 and 15 to the accounts respectively.

### **Share capital**

Details of movements in the share capital of the Company during the year are set out in note 22 to the accounts.

### **Pre-emptive rights**

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## Report of the Directors

### Purchase, sale or redemption of the Company's listed securities

The Company has not redeemed any of its shares during the year. Neither the Company, nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year.

### Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 23 to the accounts.

### Distributable reserves

At 30 June 2002, the Company's reserves available for distribution amounted to HK\$329,151,000. In addition, the Company's share premium account, in the amount of HK\$4,770,803,000, may be distributed in the form of fully paid bonus shares.

### Management contracts

No contracts 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

	2002	2001
Percentage of turnover attributable to the Group's largest customer	13%	10%
Percentage of turnover attributable to the Group's five largest customers	38%	33%
Percentage of purchases attributable to the Group's largest supplier	18%	8%
Percentage of purchases attributable to the Group's five largest suppliers	41%	24%

As far as the Directors are aware, none of the Directors of the Company or any of their associates or any shareholders (which to the best knowledge of the Directors own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers as disclosed above.

### Directors

The Directors of the Company during the year and up to the date of this report are:

#### Executive Directors:

Dr. Cheng Kar-Shun, Henry  
Mr. Chan Wing-Tak, Douglas  
Mr. Doo Wai-Hoi, William  
Mr. Lo Lin-Shing, Simon  
Mr. So Ngok  
Mr. Cheung Chin-Cheung, Tommy  
Mr. Bruce Carroll Allen (resigned on 20 August 2002)

#### Non-Executive Directors:

Mr. To Hin-Tsun, Gerald (resigned as Independent Non-Executive Director and appointed as Non-Executive Director on 13 August 2002)  
Mr. Peter Francis Amour (reclassified from Independent Non-Executive Director to Non-Executive Director on 15 October 2002)  
Mr. Tse Po-Shing, Andy (resigned as Executive Director and appointed as Independent Non-Executive Director on 20 August 2002 and then reclassified from Independent Non-Executive Director to Non-Executive Director on 15 October 2002)

#### Independent Non-Executive Directors:

Mr. Dominic Lai (appointed on 13 August 2002)  
Mr. Kwong Che-Keung, Gordon (appointed on 15 October 2002)

In accordance with clauses 86(2) and 87(1) of the Company's Bye-laws, Mr. Lo Lin-Shing, Simon, Mr. So Ngok, Mr. Peter Francis Amour, Mr. Dominic Lai and Mr. Kwong Che-Keung, Gordon will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

### Directors' service contracts

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

### Directors' interests in contracts

Save as disclosed in note 26 to the accounts, no contracts of significance in relation to the Group's business to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## Report of the Directors

### Directors' interests in securities

As at 30 June 2002, the interests of the Directors in the share capital of the Company or share capital of any of its associated corporations within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance were as follows:

	Number of shares held and nature of interests	
	Personal	Family
Pacific Ports Company Limited (ordinary shares of HK\$0.10 each) Mr. Bruce Carroll Allen	–	180,000
New World Development Company Limited (ordinary shares of HK\$1.00 each) Mr. Cheung Chin-Cheung, Tommy Mr. Tse Po-Shing, Andy	42,674 10,000	– –
New World Infrastructure Limited (ordinary shares of HK\$1.00 each) Dr. Cheng Kar-Shun, Henry Mr. Chan Wing-Tak, Douglas Mr. Cheung Chin-Cheung, Tommy Mr. Tse Po-Shing, Andy	– 700,000 100,000 100,000	1,000,000 – – –
New World China Land Limited (ordinary shares of HK\$0.10 each) Mr. Doo Wai-Hoi, William	700,000	–

Save as disclosed above, as at 30 June 2002, none of the Directors, chief executive or any of their associates had any beneficial or non-beneficial interest in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

### Directors' rights to acquire shares or debentures

- (A) Details of the share options granted to the Directors under the share option schemes of the Company were disclosed in the section headed "Share Option Schemes" below.
- (B) Under the share option scheme adopted by NWI, the Company's intermediate holding company, on 3 October 1997, options may be granted to Directors and employees of NWI or its subsidiaries to subscribe for shares in NWI. The following Directors of the Company have personal interests in share options to subscribe for shares in NWI which had been granted to them as follows:

Name of director	Date of grant	Number of share options outstanding at 30 June 2002 with exercise price per share of	
		HK\$10.20 Note 1	HK\$12.00 Note 2
Dr. Cheng Kar-Shun, Henry	2 December 1998	600,000	2,400,000
Mr. Chan Wing-Tak, Douglas	26 November 1998	320,000	1,280,000
Mr. Doo Wai-Hoi, William	16 December 1998	200,000	800,000
Mr. So Ngok	26 November 1998	200,000	800,000
Mr. Cheung Chin-Cheung, Tommy	12 December 1998	78,800	315,200

Notes:

- (1) Exercisable from 1 July 1999 to 1 June 2004.
- (2) Divided into 3 tranches exercisable from 1 July 2000, 1 July 2001 and 1 July 2002 respectively to 1 June 2004.
- (3) The cash consideration paid by each Director for each grant of the share options is HK\$10.

No share option of NWI was exercised by the above Directors during the year.

## Report of the Directors

### Directors' rights to acquire shares or debentures (continued)

- (C) Under the share option scheme of NWCL, a fellow subsidiary of the Company, the following Directors of the Company, who are also Directors of NWCL, have personal interests in options to subscribe for shares in NWCL which had been granted to them as follows:

Name of director	Date of grant	Exercisable period Note 1	Number of share options outstanding with exercise price per share of HK\$1.955		
			Balance at 1 July 2001	Exercised during the year	Balance at 30 June 2002
Dr. Cheng Kar-Shun, Henry	7 February 2001	8 March 2001 to 7 March 2006	5,000,000	–	5,000,000
Mr. Chan Wing-Tak, Douglas	12 February 2001	13 March 2001 to 12 March 2006	500,000	–	500,000
Mr. Doo Wai-Hoi, William	8 February 2001	9 March 2001 to 8 March 2006	3,500,000	700,000 Note 2	2,800,000
Mr. So Ngok	9 February 2001	10 March 2001 to 9 March 2006	500,000	–	500,000

Notes:

- (1) The share options are exercisable during a period of five years commencing from the expiry of one month after the dates of grant when the offers of the share options were accepted, provided that the maximum number of share options that can be exercised during a year is 20% of the total number of the share options granted together with any unexercised share options carried forward from the previous year(s).
- (2) Mr. Doo Wai-Hoi, William exercised his options for 700,000 ordinary shares of NWCL on 27 July 2001.
- (3) The cash consideration paid by each Director for each grant of the share options is HK\$10.

Save as disclosed above, at no time during the year was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors or chief executive of the Company or their respective spouses or children under 18 years of age or their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### Share Option Schemes

For the purposes of rewarding Directors and full-time employees of the Group for past service or performance, providing incentive and motivation for improvement of performance, attracting and retaining right calibre with the necessary experience to work for the Group and to foster a sense of corporate identity, the Company had adopted a total of three share option schemes, details of which are listed as follows:

(A) 1997 Share Option Scheme

On 11 April 1997, a share option scheme was adopted by the Company (the "1997 Share Option Scheme") under which the Directors may, at their discretion and during the period of three years commencing from 11 April 1997, grant options to Executive Directors or full-time employees of the Company or its subsidiaries to subscribe for ordinary shares in the Company (the "Shares"). No eligible person shall be granted an option or options for such number of Shares which in aggregate would exceed 25% of the total number of Shares in issue for which share options may be granted under the 1997 Share Option Scheme.

The offer of a grant of share options may be accepted within 21 days from the date of the offer while no consideration is required to be paid by the grantee upon acceptance of the offer. The vesting and exercisable period of the share options are determined by the Directors but the exercisable period shall not be more than ten years from the date of grant. The exercise price is determined by the Directors which shall be equal to the higher of the nominal value of the Shares or a price not less than 80% of the average of the closing prices per Share as stated in the daily quotations sheets issued by the Hong Kong Stock Exchange on the five trading days immediately preceding the date of grant.

The 1997 Share Option Scheme was expired on 11 April 2000, no further share options can be granted under it. However, share options granted under the 1997 Share Option Scheme are still exercisable. A summary of the share options granted to the Directors and employees of the Company under such scheme is listed as follows:

- (i) As at 30 June 2002, the following Directors of the Company have personal interests in options to subscribe for Shares granted under the 1997 Share Option Scheme as follows:

Name of director	Date of grant	Number of	Number of	Exercisable	Exercise
		share options	share options		
		outstanding at	outstanding at	period	price
		1 July	30 June	Note	per share
		2001	2002		HK\$
Mr. Chan Wing-Tak, Douglas	11 May 1999	10,000,000	10,000,000	(1)	0.693
Mr. Lo Lin-Shing, Simon	11 May 1999	6,000,000	6,000,000	(1)	0.693
Mr. Cheung Chin-Cheung, Tommy	11 May 1999	3,000,000	3,000,000	(1)	0.693
Mr. Tse Po-Shing, Andy	11 May 1999	2,000,000	2,000,000	(1)	0.693
Mr Bruce Carroll Allen Note 3	16 February 2000	2,000,000	2,000,000	(2)	0.693



**Share Option Schemes** (continued)

Notes:

- (1) Divided into 4 tranches exercisable from 5 November 1999, 5 May 2001, 5 May 2002 and 5 May 2003 respectively to 4 November 2004, both dates inclusive.
  - (2) Divided into 4 tranches exercisable from 16 August 2000, 16 February 2002, 16 February 2003 and 16 February 2004 respectively to 15 August 2005, both dates inclusive.
  - (3) Mr. Bruce Carroll Allen resigned as Director of the Company with effect from 20 August 2002 and he was ceased to be an eligible person for the share options upon his resignation pursuant to the terms of the 1997 Share Option Scheme. His interest in the 2,000,000 share options of the Company lapsed on 20 August 2002.
  - (4) No share option of the Company was exercised by the Directors during the year.
- (ii) As at 30 June 2002, the Company had granted share options under the 1997 Share Option Scheme to employees of the Group as follows:

Date of grant	Number of share options outstanding at 1 July 2001	Number of share options lapsed during the year	Number of share options outstanding at 30 June 2002	Exercisable period Note	Exercise price per share HK\$
28 August 1998	4,500,000	4,500,000	–	(1)	0.7808
11 May 1999	1,000,000	–	1,000,000	(2)	0.693

Notes:

- (1) Divided into 2 tranches exercisable from 1 November 1998 and 1 November 1999 respectively to 28 February 2002, both dates inclusive. Since no share option had ever been exercised during the prescribed exercisable period, the share options lapsed with effect from 1 March 2002.
- (2) Divided into 5 tranches exercisable from 5 November 1999, 5 May 2001, 5 May 2002, 5 May 2003, 5 May 2004 respectively to 4 November 2004, both dates inclusive.
- (3) No share option of the Company was exercised by the employees during the year.

### Share Option Schemes (continued)

(B) 1999 Share Option Scheme

On 21 June 1999, the Company approved another share option scheme (the "1999 Share Option Scheme") under which the Directors may, at their discretion and during the period of three years commencing from 21 June 1999, grant options to any Director or full-time employee of the Company or its subsidiaries to subscribe for the Shares. No eligible person shall be granted an option or options for such number of Shares which in aggregate would exceed 25% of the total number of Shares in issue for which share options may be granted under the 1999 Share Option Scheme and the 1997 Share Option Scheme.

The offer of a grant of share options may be accepted within 21 days from the date of the offer while no consideration is required to be paid by the grantee upon acceptance of the offer. The vesting and exercisable periods of the share options are determined by the Directors but the exercisable period shall not be more than ten years from the date of grant. The exercise price is determined by the Directors which shall be equal to the higher of the nominal value of the Shares or a price not less than 80% of the average of the closing prices per Share as stated in the daily quotations sheets issued by the Hong Kong Stock Exchange on the five trading days immediately preceding the date of grant.

The 1999 Share Option Scheme was expired on 21 June 2002 and no share option had ever been granted under such scheme.

(C) 2001 Share Option Scheme

Subsequent to the amendment of Chapter 17 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules") in 2001, a new share option scheme was adopted by the Company on 6 December 2001 (the "2001 Share Option Scheme") which will be valid and effective for a period of ten years from the date of adoption. The Directors of the Company may, at their discretion, grant options to any Director (including Executive Directors and Independent Non-Executive Directors) or employee of the Company or a subsidiary (the "Eligible Participant") to subscribe for the Shares. Unless approved by shareholders of the Company, the total number of Shares issued and to be issued upon exercise of the share options granted to each Eligible Participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the ordinary share capital of the Company in issue.

The offer of a grant of share options may be accepted within 14 days from the date of the offer together with the payment of nominal consideration of HK\$10 in total by the grantee. The vesting and exercisable periods of the share options are determined by the Directors but the exercisable period shall not be more than ten years from the date of grant. The exercise price is determined by the Directors which must be at least the higher of the closing price of the Shares as stated in the Hong Kong Stock Exchange's daily quotations sheet on the date of grant or the average closing prices of the Shares as stated in the Hong Kong Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.

The total number of Shares which may be issued upon exercise of all share options to be granted under the 2001 Share Option Scheme and any other share option schemes must not in aggregate exceed 10% of the ordinary share capital of the Company in issue as at the date of approval of the 2001 Share Option Scheme. No share option had been granted under such scheme since its adoption.

As at the date of this report, a total of 22,000,000 share options were outstanding and all of which were granted under the 1997 Share Option Scheme. The total number of Shares available for issue under the 2001 Share Option Scheme is 183,996,800 which represents approximately 8.93% of the issued ordinary share capital of the Company as at the date of this report.

## Report of the Directors

### Substantial shareholders' interest in securities

As at 30 June 2002, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name	Note	Number of ordinary shares held	Number of 4% cumulative convertible preference shares held
Chow Tai Fook Enterprises Limited	(1)	1,544,976,000	3,193,654,306
NWD		1,544,976,000	3,193,654,306
Sea Walker Limited ("SWL")	(2)	1,544,976,000	3,193,654,306
Mombasa Limited	(3)	1,544,976,000	3,193,654,306
NWI	(4)	1,544,976,000	3,193,654,306
Lotsgain Limited	(5)	1,544,976,000	3,193,654,306
Seashore Development Limited	(6)	1,544,976,000	3,193,654,306

Notes:

- (1) Chow Tak Fook Enterprises Limited 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 deemed to be interested by NWD.
- (2) SWL is a wholly owned subsidiary of NWD and its interests in the Company is deemed to be held by NWD.
- (3) Mombasa Limited is a wholly owned subsidiary of SWL and its interests in the Company is deemed to be held by SWL.
- (4) NWI is a subsidiary of Mombasa Limited and its interests in the Company is deemed to be held by Mombasa Limited.
- (5) Lotsgain Limited is a wholly owned subsidiary of NWI and its interests in the Company is deemed to be held by NWI.
- (6) Seashore Development Limited is a wholly owned subsidiary of Lotsgain Limited and its interests in the Company is deemed to be held by Lotsgain Limited.

Save as disclosed above, there is no other interest recorded in the register that is required to be kept under Section 16(1) of the SDI Ordinance as at 30 June 2002.

## Connected transactions

The Company has entered into the following connected transactions during the current year:

- (1) Prior to the acquisition of certain port and port-related investments (the "Assets") from NWI (the "Acquisition"), NWD and/or NWI had assumed certain contingent liabilities to third parties with respect to the Assets (the "Obligations"). Pursuant to the sale and purchase agreement entered into between the Company and NWI for the Acquisition, the Company agreed to counter-indemnify NWD and/or NWI in the event that they were required to make any payments under the Obligations.
- (2) Suzhou Huisu International Container Freight Wharfs Co., Ltd. ("Huisu") was originally 45% owned by Suzhou Tonggang Group Company ("Tonggang"), 40% owned by New World (Suzhou) Port Investments Limited ("NW (Suzhou)") and 15% owned by Wealth & Health Limited ("Wealth & Health"), both NW (Suzhou) and Wealth & Health are indirect wholly owned subsidiaries of the Company. On 8 February 2001, an agreement was entered into between Grand Linkage Limited ("Grand Linkage"), an indirect wholly owned subsidiary of the Company, and Tonggang pursuant to which Grand Linkage would acquire 20% interest in Huisu from Tonggang at a consideration of RMB5,246,622 (approximately HK\$4,903,385) based on an unaudited net asset value of Huisu as at 30 June 2000.

Upon submission of the relevant documents to the government authorities of the PRC for processing, they required that the consideration be reduced by RMB311,509 (approximately HK\$291,130) according to the net asset value of Huisu as at 28 February 2001. A supplemental agreement was signed on 18 September 2001 between Grand Linkage and Tonggang to confirm that the adjusted consideration for this transaction was RMB4,935,113 (approximately HK\$4,612,255). The transaction was approved by the relevant PRC authorities, thereafter the Company's equity interest in Huisu was increased to 75%.

- (3) On 19 April 2001, a shareholders' agreement was entered into between Front Drive Limited ("Front Drive"), a wholly owned subsidiary of the Company, Kingsfund Limited ("Kingsfund") which is an indirect wholly owned subsidiary of CSX World Terminals, LLC. ("CSX"), a substantial shareholder of CSXWT Terminal 8 Limited which is in turn a jointly controlled entity of the Company, and ATL Logistics Centre Hong Kong Limited ("ATL") which is an associated company of CSX and a jointly controlled entity of the Company for the purpose of setting up a company incorporated in Hong Kong known as ATL Logistics Centre Yantian Limited ("ATLY") to invest in the business of Yantian District, the PRC. The shareholding structure of ATLY is Front Drive as to 18.17%, Kingsfund as to 31.83% and ATL as to 50% respectively.

According to the terms of the aforesaid shareholders' agreement, shareholders' loans will be called by ATLY on a pro-rata basis when required. As at the date of this report, shareholders' loans for ATLY in the total amount of HK\$2,008,184.74 had been advanced by Front Drive.

- (4) On 12 June 2001, Seaview Gold Limited, a wholly owned subsidiary of the Company, entered into a tenancy agreement with New World Tower Company Limited ("NWT") to renew the lease of the Company's office premises at 21/F, New World Tower 2, 18 Queen's Road Central, Hong Kong for a period of three years commencing from 19 June 2001 to 18 June 2004 at a monthly rental of HK\$147,600 (exclusive of rates, management fees and air conditioning charges). NWT is a wholly owned subsidiary of NWD, the Company's ultimate holding company.
- (5) On 30 August 2001, Nanjing Huining Wharfs Co., Ltd. ("Huining"), a then 55% indirect owned subsidiary of the Company, entered into an operating and management agreement with Nanjing Port Authority ("NPA", a 45% owner of Huining) whereby NPA agreed to act as the new operator of Huining for its unexpired tenure up to 2 June 2019 at a consideration of RMB18,000,000 (approximately HK\$16,830,000) to be paid to New World (Nanjing) Port Investments Limited ("NW (Nanjing)"), an indirect wholly owned subsidiary of the Company and a then 55% owner of Huining, from Huining within 7 days from the date of approval ("Date of Approval") obtained from the relevant PRC government authority.

**Connected transactions** (continued)

On the same date, NW (Nanjing) entered into an agreement with Huining pursuant to which NW (Nanjing) consented that NPA had the sole operation and management right of Huining.

Pursuant to a share pledge agreement entered into between NW (Nanjing) and NPA on the same date, NW (Nanjing) had pledged its entire 55% equity interest in Huining in favour of NPA as assurance for NW (Nanjing)'s fulfilment of its obligation under the aforesaid agreements and as an undertaking to maintain its equity interest in Huining until the expiry of the tenure of Huining up to 2 June 2019.

With effect from the Date of Approval, i.e. 24 December 2001, NPA was responsible for the daily operation and management of Huining.

- (6) On 11 October 2001, a share subscription agreement (the "Subscription Agreement") was entered into between the Company, Noble Park Investments Limited ("NP"), Sunmall Limited ("Sunmall"), Pacific Owner Limited ("POL", together with NP and Sunmall, all of them are wholly owned subsidiaries of the Company), Pacific Container Ltd. and CSX World Terminals Hong Kong Limited ("CSXWTHK"), under which POL (which holds approximately 19.5% attributable interest in Asia Container Terminals Limited) agreed to issue to CSXWTHK three redeemable convertible shares of US\$1.00 each in the share capital of POL (the "Subscription Shares") at HK\$242,336,001 in cash. Such amount of consideration was received by the Company on the completion date, i.e. 16 November 2001. Upon the conversion of the Subscription Shares, CSXWTHK will obtain the title for 100% interest in POL.

The Subscription Agreement was approved by the shareholders at the special general meeting of the Company held on 16 November 2001 in accordance with the requirements on connected transactions pursuant to Chapter 14 of the Listing Rules.

- (7) Xiamen Xiang Yu Quay Co., Ltd. ("Xiangyu") is 8% owned by Xiamen Xiangyu Group Corporation ("Xiangyu Group") and 92% owned by New World (Xiamen) Port Investments Trade Limited ("NW (Xiamen)", an indirect wholly owned subsidiary of the Company) while Xiamen Xiangyu Free Trade Zone Huijian Quay Co., Ltd. ("Huijian") is 40% owned by Xiangyu Group and 60% owned by NW (Xiamen). Xiangyu and Huijian own berth no. 12 and berths no. 13 and 14 in the East Channel Port Zone of Xiamen in the PRC respectively.

On 28 June 2002, a merger agreement (the "Merger Agreement") was entered into between Xiangyu, Huijian and Xiamen Xiangyu Free Port Developing Co., Ltd. ("Xiangyu Free Port"), a wholly owned subsidiary of Xiangyu Group which owns berths no. 15 and 16 in the East Channel Port Zone of Xiamen in the PRC, pursuant to which Xiangyu will be merged with Huijian and Xiangyu Free Port by way of absorption (i.e. the assets and liabilities of Huijian and Xiangyu Free Port will be absorbed by Xiangyu, and thereafter Huijian and Xiangyu Free Port will cease to exist) (the "Merger"). In addition, Xiangyu will be converted from a Sino-foreign CJV into a Sino-foreign EJV when the Merger is completed in accordance with the Merger Agreement, after which a new joint venture company (the "New JV"), the new identity of Xiangyu, will be formally established as a result of such conversion.

The New JV will be owned as to 50% by Xiangyu Group and 50% by NW (Xiamen). The total investment and the registered capital of the New JV will be RMB1,150,000,000 (approximately HK\$1,084,905,660) and RMB384,040,000 (approximately HK\$362,301,886) respectively. The difference between the total investment and the registered capital of the New JV will be made up of shareholders' loans and/or bank loans and internal funding.

Hong Kong Stock Exchange had granted a waiver to the Company for the requirement to obtain shareholders' approval at a special general meeting for the transactions on the basis that NWI, as the holder of more than 50% of the ordinary issued share capital of the Company and was not interested in the transactions, had confirmed in writing that it approved the transactions and that the Company (jointly with NWI) would issue a circular to the shareholders of the Company for their information.

### Connected transactions (continued)

As at the date of this report, the conditions for the completion of the Merger as set out in the Merger Agreement were not yet fulfilled.

- (8) In respect of the Company's reimbursement of the payroll of certain employees of NWI who are responsible for the administration of the port projects acquired from NWI on cost basis starting retrospectively from 15 March 2000, the Company had been granted a waiver by the Hong Kong Stock Exchange from the strict compliance of the requirements of Chapter 14 of the Listing Rules in respect of the aforesaid transaction which constituted a connected transaction under the Listing Rules. The transaction has been reviewed by Mr. Dominic Lai and Mr. Kwong Che-Keung, Gordon, Independent Non-Executive Directors of the Company, who have confirmed that the transaction was:
- (a) carried out in accordance with the terms of the agreement relating to the reimbursement arrangement;
  - (b) on normal commercial terms and fair and reasonable so far as the ordinary shareholders of the Company are concerned; and
  - (c) within the amount as agreed with the Hong Kong Stock Exchange.

Save as disclosed above, a summary of related party transactions during the year was disclosed in note 26 to the accounts.

### Compliance with the Code of Best Practice

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules (the "Code of Best Practice") during the year, except that the Non-Executive Directors and the Independent Non-Executive Directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with Clause 87 of the Company's Bye-laws.

### Audit Committee

The Company has established an audit committee in accordance with paragraph 14 of the Code of Best Practice which currently comprises Mr. To Hin-Tsun, Gerald and Mr. Peter Francis Amour, both are Non-Executive Directors of the Company, and Mr. Dominic Lai, Independent Non-Executive Director of the Company. The principal duties of the audit committee include the review and supervision of the Company's financial reporting process and internal control.

### Post balance sheet events

Details of the post balance sheet events are set out in note 30 to the accounts.

### Auditors

The accounts for the period from 1 January 1999 to 30 June 2000 were audited by Ernst & Young. The accounts for the years ended 30 June 2001 and 2002 have been audited by PricewaterhouseCoopers.

PricewaterhouseCoopers retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment.

On behalf of the Board

**Dr. Cheng Kar-Shun, Henry**  
*Chairman*

Hong Kong, 18 October 2002