

The directors have pleasure in presenting their annual report and statement of accounts for the year ended 30th June 2002.

Group activities

The principal activity of the Company is investment holding. The principal activities of the principal subsidiaries, associated companies, jointly controlled entities and other joint ventures are shown in note 36 to the accounts on pages 121 to 130.

Accounts

The results of the Group for the year ended 30th June 2002 and the state of affairs of the Company and the Group at that date are set out in the accounts on pages 80 to 130.

Dividends

The directors have resolved to recommend a final dividend of 2 HK cents per share (2001: Nil) for the year ended 30th June 2002 to shareholders whose names appear on the register of members of the Company on 26th November 2002. The proposed final dividend will be paid on or about 20th December 2002 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 27 to the accounts.

Reserves

Details of the movements in reserves are set out in note 28 to the accounts.

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.

Fixed assets

Details of the movements in fixed assets are set out in note 13 to the accounts.

Donation

Donation made by the Group during the year amounted to HK\$15,000 (2001: HK\$109,000).

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. Chan Kam-ling
Mr. Chow Kwai-cheung
Mr. Chow Yu-chun, Alexander
Mr. Chan Wing-tak, Douglas
Mr. So Ngok
Mr. Cheng Wai-chee, Christopher*
Mr. Tien Pei-chun, James*
Dr. Lo Hong-sui*
Mr. Fu Sze-shing

* Independent non-executive directors

Messrs. Doo Wai-hoi, William, Leung Chi-kin, Stewart, Chow Yu-chun, Alexander and Fu Sze-shing retire in accordance with Article 116 of the Company's Articles of Association and, being eligible, offer themselves for re-election. All 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

- (1) New World Finance Company Limited and Sexon Enterprises Limited, fellow subsidiaries, had advanced HK\$2,886,037,000 (2001: HK\$2,741,175,000) in aggregate to the Group as at 30th June 2002. These loans are unsecured and carry interest ranging from three months HIBOR to 0.5% over LIBOR per annum and are repayable from February 2003 to December 2006. The interest charged by the fellow subsidiaries to the Group for the year ended 30th June 2002 in respect of these loans amounted to HK\$74,077,000 (2001: HK\$106,407,000).
- (2) The Company had paid New World Tower Company Limited, a fellow subsidiary, HK\$4,546,000 (2001: HK\$4,685,000) in rental for office premises occupied by the Group.

Connected transactions (continued)

- (3) Hip Hing Construction (China) Company Limited, a fellow subsidiary, had been appointed by Dalian New World Plaza International Co., Ltd. ("DNWP"), Beijing Lingal Real Estates Development Co., Ltd., Shenzhen Topping Real Estate Development Co., Ltd. and New World (Shenyang) Property Development Limited, all being subsidiaries of the Group, as main contractor for the construction of the property projects (the "Properties") undertaken by these subsidiaries. The aggregate accumulated contract fee paid at 30th June 2002 and included as part of the development costs of the Properties was HK\$572,555,000 (2001: HK\$259,494,000) of which HK\$313,061,000 (2001: HK\$115,650,000) was paid during the year.
- (4) Tridant Engineering Company Limited and Young's Engineering Company Limited, fellow subsidiaries, had been appointed by DNWP as main contractor of electrical and air-conditioning engineering work for the property project undertaken by DNWP. The accumulated fee paid at 30th June 2002 and included as part of the development cost of the property project was HK\$47,757,000 (2001: Nil) which was paid during the year.
- (5) Polytown Projects Limited, a fellow subsidiary, had been appointed by DNWP to provide project management services for construction of the property undertaken by DNWP. The accumulated project management fee in respect of its services rendered at 30th June 2002 and included as part of the development costs of the said property project was HK\$9,805,000 (2001: HK\$9,805,000). No amount was paid by DNWP for the year ended 30th June 2002 (2001: Nil).
- (6) 上海裕隆實業公司(「上海裕隆」), a substantial shareholder of Shanghai Heyu Properties Co., Ltd. ("SHPCL"), a 64% owned subsidiary, undertook to provide land development services to SHPCL pursuant to an agreement dated 9th December 1992. The aggregate service fees paid to 上海裕隆 at 30th June 2002 and included as part of the development costs of the related property developed by SHPCL were HK\$24,381,000 (2001: HK\$24,381,000). No amount was paid by SHPCL for the year ended 30th June 2002 (2001: Nil).
- (7) In July 1999, a deed of tax indemnity was entered into between New World Development Company Limited ("NWD") and the Group whereby NWD undertakes to indemnify the Group in respect of, inter alia, certain PRC income tax ("IT") and land appreciation tax ("LAT") payable in consequence of the disposal of certain properties held by the Group as at 31st March 1999 and in respect of which the aggregate amount of LAT and IT is estimated at approximately HK\$7,059 million (2001: HK\$7,783 million). The tax indemnity is also given in respect of LAT and IT payable in consequence of the disposal of any low-cost community housing in the event the relevant company in the Group is unable to pay such taxes. During the year, no such tax indemnity was effected (2001: Nil).
- (8) On 27th July 2001, the Company executed a corporate guarantee in respect of the full obligation and liabilities of a HK\$455,000,000 Standby Letter of Credit Facility ("L/C Facility") extended by a bank for a period of 49 months to New World Development (China) Limited ("NWDC"), a wholly owned subsidiary. The L/C Facility was granted to support a 48-month credit facility of RMB500,000,000 extended by a bank in PRC to Nanjing Huawei Real Estate Development Company Limited ("NHRED"), a 92% owned subsidiary of NWDC. NWDC had also provided a completion and funding guarantee to procure the construction and completion of the property project undertaken by NHRED. The provision of the aforesaid guarantees by the Company and NWDC constituted connected transactions for the Company pursuant to rule 14.25(2)(a) of the Listing Rules.
- (9) On 3rd September 2001, Shanghai Ramada Plaza Ltd. ("SRP") was granted a bridging loan by a bank for principal amounts of US\$10,000,000 and RMB50,000,000 ("Bridging Loan") for a term of five years. The Bridging Loan was part of a loan facility of US\$10,000,000 and RMB300,000,000 ("Loan Facility") which was subsequently granted to SRP by two banks on 25th July 2002 for a term of five years to finance the development cost of its property project and as general working capital. Upon each of the granting of the Bridging Loan and the Loan Facility, the Company provided guarantee in respect of the full obligation and liabilities of SRP under the Bridging Loan and the Loan Facility as well as the completion of Shanghai Ramada Plaza and undertook that the funding agreement relating to the completion of its construction would be fulfilled.

SRP is owned as to 95% by Ramada Property Ltd. ("RPL") which in turn is indirectly owned as to 60% by the Company, 20% by Stanley Enterprises Limited ("Stanley") and 20% by independent third parties. The other shareholders of RPL have agreed to indemnify the Company in respect of its liability under the guarantees in proportion to their shareholding in RPL and pay to the Company a guarantee fee of 0.25% per annum on the amount of the banking facilities being utilised by SRP.

By virtue of the fact that Stanley is a substantial shareholder of certain subsidiaries of the Group, the provision of the guarantees by the Company in respect of the Bridging Loan and the Loan Facility and the payment of guarantee fee by Stanley constituted connected transactions for the Company and announcements relating to the provision of the guarantees were published on 4th September 2001 and 26th July 2002.

- (10) On 28th November 2001, Shenzhen Topping Real Estate Development Co., Ltd. ("STRED"), a 90% owned subsidiary, entered into a loan agreement with a bank whereby the bank agreed to grant to STRED a loan facility of RMB250,000,000 for a term of 2 years to finance a property development project and as general working capital.

The Company had provided a corporate guarantee in respect of the full repayment of the principal and interest payable under the facility. The provision of the aforesaid guarantee constituted a connected transaction for the Company pursuant to rule 14.25(2)(a) of the Listing Rules.

- (11) On 27th December 2001, NWDC and NW China Homeowner Development Limited ("NWCHD"), both are subsidiaries of the Group, entered into agreements with Solar Leader Limited ("Solar Leader"), a fellow subsidiary, pursuant to which NWDC and NWCHD agreed to sell and assign and Solar Leader agreed to purchase the entire issued share capital of each of Business Talent Limited ("Business Talent"), Mariss Investments Limited ("Mariss Investments") and Million Shine Property Limited ("Million Shine"), being 1 ordinary share of US\$1 each respectively (collectively, the "Sale Shares"), together with shareholder's loans of each of Business Talent, Mariss Investments and Million Shine owing to NWDC and/or NWCHD amounting to HK\$50,723,680, HK\$137,280,457 and HK\$230,465,990 respectively (collectively, the "Shareholder's Loans"). The consideration for the Sale Shares and the Shareholder's Loans, which was paid by Solar Leader to NWDC and NWCHD in cash, was HK\$155,569,231 in respect of Business Talent, HK\$136,123,077 in respect of Mariss Investments and HK\$109,384,615 in respect of Million Shine.

The agreements relating to the disposal of Business Talent, Mariss Investments and Million Shine ("Disposal") were made pursuant to a buy-back undertaking, which was given by NWD to the Company in the spin-off agreement relating to the separate listing of the Company, in respect of those properties of which the Group was unable to obtain land use right certificates or other similar or analogous certificates conferring rights to use certain properties in the PRC which included Beijing Boxing Plaza, Shijiazhuang New World Plaza and Qingyuan Low-Cost Housing Development owned by Business Talent, Mariss Investments and Million Shine, respectively.

By virtue of the fact that Solar Leader is a wholly-owned subsidiary of NWD which in turn is a controlling shareholder of the Company, the Disposal constituted a connected transaction for the Company. An announcement relating to the Disposal was published on 28th December 2001.

- (12) On 10th June 2002, STRED entered into a loan agreement with a bank whereby the bank agreed to grant to STRED a loan facility of RMB100,000,000 for a term of 3 years to finance a property development project and as general working capital.

The Company had provided a corporate guarantee in respect of the full repayment of the principal and interest payable under the facility. The provision of the aforesaid guarantee constituted a connected transaction for the Company pursuant to rule 14.25(2)(a) of the Listing Rules.

Connected transactions (continued)

(13) On 16th July 2002, Guangzhou Xin Yi Development Limited ("GXVD") was granted a 4-year term loan facility of up to HK\$171,600,000 and a revolving loan facility of up to RMB228,250,000 by a bank to finance the construction and development costs of its property project. The loan facilities were severally guaranteed by the Company and Chow Tai Fook Enterprises Limited ("CTF") as to 90.5% and 9.5%, respectively, in proportion to their indirect shareholdings in GXVD.

Since CTF and its subsidiaries have interests in more than one-third of the issued shares of NWD, CTF is deemed to be a connected person of the Company. The provision of the aforesaid guarantee by the Company constituted a connected transaction for the Company pursuant to rule 14.25(2)(b) of the Listing Rules.

(14) On 19th July 2002, the Company executed a corporate guarantee in respect of the full obligation and liabilities of Shanghai Ju Yi Real Estate Development Co., Ltd. ("SJYRED") under loan facilities as granted by a bank of up to an aggregate principal amount of RMB100,000,000 for a term of 7 years to finance the property project undertaken by SJYRED. SJYRED is beneficially owned as to 80% and 20% by NWDC and Stanley respectively. Stanley has agreed to indemnify the Company in respect of its liability under the guarantee as to 20% and pay to the Company a guarantee fee of 0.25% per annum on the amount of the loan facilities being utilised by SJYRED.

By virtue of the fact that Stanley is a substantial shareholder of certain subsidiaries of the Group, the granting of the aforesaid guarantee and the payment of guarantee fee by Stanley constituted connected transactions for the Company and an announcement was published on 22nd July 2002.

The Company had been granted a conditional waiver by The Stock Exchange of Hong Kong Limited ("Stock Exchange") from strict compliance of the requirements of Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules") in respect of transactions (1) to (7) above which constituted connected transactions as defined in the Listing Rules. These transactions have been reviewed by independent non-executive directors of the Company who have confirmed that the transactions were:

- (a) in the ordinary course of business of the Company;
- (b) on normal commercial terms and on an arm's length basis;
- (c) where there are agreements governing such transactions, such transactions have been carried out in accordance with the terms of the agreements governing such transactions, or where there are no such agreements, on terms no less favourable than terms available to or from independent third parties;
- (d) entered into on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (e) within the maximum amounts as agreed with the Stock Exchange.

The aforesaid conditional waiver in respect of transactions (2) to (6) above was expired on 30th June 2002. The Company had applied for, and the Stock Exchange had granted, renewal of the conditional waiver in respect of the construction services being provided or to be provided by the group companies of NWD to the Group, including transactions (3) and (4) above, for three financial years ending 30th June 2005. The relevant announcement was published on 2nd July 2002.

Save as disclosed above, a summary of significant related party transactions that do not constitute connected transactions made during the year is disclosed in note 33 to the accounts.

Directors' interests in securities

As at 30th June 2002, the interests of the directors and their associates in the securities of the Company and its associated corporations within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

	Personal interests	Family interests	Corporate interests (note 2)
New World China Land Limited			
(Ordinary shares of HK\$0.10 each)			
Mr. Doo Wai-hoi, William	700,000	–	–
Mr. Chan Kam-ling	100,000	–	–
Mr. Chow Kwai-cheung	126	–	–
New World Development Company Limited			
(Ordinary shares of HK\$1.00 each)			
Mr. Leung Chi-kin, Stewart	23,253	–	–
Mr. Chan Kam-ling	90,470	–	–
Mr. Chow Kwai-cheung	20,818	–	–
New World Infrastructure Limited			
(Ordinary shares of HK\$1.00 each)			
Dr. Cheng Kar-shun, Henry	–	1,000,000	–
Mr. Chan Wing-tak, Douglas	700,000	–	–
Mr. Chan Kam-ling	6,800	–	–
Extensive Trading Company Limited			
(Non-voting deferred shares of HK\$1.00 each)			
Mr. Cheng Kar-shing, Peter	–	–	380,000
Mr. Leung Chi-kin, Stewart	160,000	–	–
Mr. Chan Kam-ling	–	–	80,000
Mr. Chow Kwai-cheung	80,000	–	–
Mr. Chow Yu-chun, Alexander	80,000	–	–
Hip Hing Construction Company Limited			
(Non-voting deferred shares of HK\$100.00 each)			
Mr. Chan Kam-ling	15,000	–	–
HH Holdings Corporation			
(Ordinary shares of HK\$1.00 each)			
Mr. Chan Kam-ling	15,000	–	–

Directors' interests in securities (continued)

	Personal interests	Family interests	Corporate interests (note 2)
International Property Management Limited			
(Non-voting deferred shares of HK\$10.00 each)			
Mr. Chan Kam-ling	1,350	–	–
Master Services Limited			
(Ordinary shares of US\$0.01 each)			
Mr. Leung Chi-kin, Stewart	16,335	–	–
Mr. Chan Kam-ling	16,335	–	–
Mr. Chow Kwai-cheung	16,335	–	–
Mr. Chow Yu-chun, Alexander	16,335	–	–
Matsuden Company Limited			
(Non-voting deferred shares of HK\$1.00 each)			
Mr. Leung Chi-kin, Stewart	44,000	–	–
Mr. Chan Kam-ling	–	–	44,000
Mr. Chow Kwai-cheung	44,000	–	–
Mr. Chow Yu-chun, Alexander	44,000	–	–
New World Services Limited			
(Ordinary shares of HK\$0.10 each)			
Mr. Cheng Kar-shing, Peter	–	–	3,382,788
Mr. Leung Chi-kin, Stewart	4,214,347	–	250,745
Mr. Chan Kam-ling	–	–	10,602,565
Mr. Chow Kwai-cheung	2,562,410	–	–
Mr. Chow Yu-chun, Alexander	2,562,410	–	–
Progreso Investment Limited			
(Non-voting deferred shares of HK\$1.00 each)			
Mr. Leung Chi-kin, Stewart	–	–	119,000
Tai Yieh Construction & Engineering Company Limited			
(Non-voting deferred shares of HK\$1,000.00 each)			
Mr. Chan Kam-ling	250	–	–
Urban Property Management Limited			
(Non-voting deferred shares of HK\$1.00 each)			
Mr. Cheng Kar-shing, Peter	–	–	750
Mr. Leung Chi-kin, Stewart	750	–	–
Mr. Chow Kwai-cheung	750	–	–
Mr. Chow Yu-chun, Alexander	750	–	–
YE Holdings Corporation			
(Ordinary shares of HK\$1.00 each)			
Mr. Leung Chi-kin, Stewart	37,500	–	–

Notes:

- (1) Details of the directors' interests in share options of the Company, New World Infrastructure Limited and Pacific Ports Company Limited, are disclosed under the sections "Directors' rights to acquire shares or debentures" and "Share option scheme".
- (2) These shares are beneficially owned by a company in which the relevant director is deemed to be entitled under the SDI Ordinance to exercise or control the exercise of one-third or more of the voting power at its general meeting.

Save as disclosed above, as at 30th June 2002, none of the directors, chief executive or any of their associates had any beneficial or non-beneficial interests 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) Directors' rights to acquire shares in the Company were disclosed under the section "Share option scheme" below.
- (B) Under a share option scheme of a fellow subsidiary, New World Infrastructure Limited ("NWI"), 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 are also directors of NWI and have personal interests in share options to subscribe for shares in NWI which have been granted to them as follows:

Name of directors	Date of grant	Number of share options outstanding at 30th June 2002 with exercise price per share of	
		HK\$10.20 (note 1)	HK\$12.00 (note 2)
Dr. Cheng Kar-shun, Henry	2nd December 1998	600,000	2,400,000
Mr. Cheng Kar-shing, Peter	1st December 1998	120,000	480,000
Mr. Doo Wai-hoi, William	16th December 1998	200,000	800,000
Mr. Leung Chi-kin, Stewart	8th December 1998	120,000	480,000
Mr. Chan Kam-ling	9th December 1998	200,000	800,000
Mr. Chan Wing-tak, Douglas	26th November 1998	320,000	1,280,000
Mr. So Ngok	26th November 1998	200,000	800,000
Mr. Cheng Wai-chee, Christopher	11th December 1998	120,000	480,000
Mr. Fu Sze-shing	23rd September 1999	240,000 (note 3)	960,000 (note 4)

Notes:

- (1) Exercisable from 1st July 1999 to 1st June 2004, unless otherwise stated.
- (2) Divided into 3 tranches exercisable from 1st July 2000, 2001 and 2002 to 1st June 2004 respectively, unless otherwise stated.
- (3) Exercisable from 1st July 2000 to 1st June 2005.
- (4) Divided into 3 tranches exercisable from 1st July 2001, 2002 and 2003 to 1st June 2005 respectively.

The cash consideration paid by each director for each grant of the share options is HK\$10. No share option has been exercised by the directors under the share option scheme of NWI for the year ended 30th June 2002.

Directors' rights to acquire shares or debentures (continued)

(C) Under another share option scheme of a fellow subsidiary, Pacific Ports Company Limited ("PPCL"), the following director of the Company, who is also a director of PPCL, has personal interests in share options to subscribe for shares in PPCL which have been granted to him as follows:

Name of director	Date of grant	Number of share options outstanding at 30th June 2002 with exercise price per share of HK\$0.693
Mr. Chan Wing-tak, Douglas	11th May 1999	10,000,000 (note)

Note: Divided into 4 tranches exercisable from 5th November 1999, 5th May 2001, 5th May 2002, 5th May 2003 to 4th November 2004 respectively.

No share option has been exercised by the director under the share option scheme of PPCL for the year ended 30th June 2002.

Except for the foregoing, at no time during the year was the Company, its subsidiaries, its fellow subsidiaries or its holding company, a party to any arrangements to enable the directors of the Company or chief executive 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 competing business

During the year and up to the date of this report, 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 directors	Name of entities with competing businesses	Business activities of the entities	Nature of interest of directors in the entities
Dr. Cheng Kar-shun, Henry	Tianjin Tianzheng Property & Merchants Co., Ltd.	Land improvement in Tianjin	Director
	Wuxi Ramada Hotel Company Limited	Hotel operation in Wuxi	Director
	Beijing Jiang Guang Development Limited	Hotel operation in Beijing	Director

Name of directors	Name of entities with competing businesses	Business activities of the entities	Nature of interest of directors in the entities
Mr. Doo Wai-hoi, William	Tianjin Tianzheng Property & Merchants Co., Ltd.	Land improvement in Tianjin	Director
	北方同福酒店有限公司	Hotel operation in Harbin	Director
	上海新華美大酒店有限公司	Hotel operation in Shanghai	Director
	天津新世界房地產有限公司	Property development in Tianjin	Director
Mr. Chow Yu-chun, Alexander	Guangzhou Metropolitan Properties Co., Ltd.	Property development in Guangzhou	Director
	Guangzhou New World Properties Development Co., Ltd.	Property development in Guangzhou	Director
	Grand New World Hotel Company Limited	Hotel operation in Xian	Director
Mr. Chan Kam-ling	Grand New World Hotel Company Limited	Hotel operation in Xian	Director
Mr. Chow Kwai-cheung	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
	北京市天竺花園別墅發展有限公司	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.

Substantial shareholders' interests in shares

As at 30th June 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the following parties had interests of 10% or more of the issued share capital of the Company:

Name	Number of shares held
Chow Tai Fook Enterprises Limited	1,050,768,800 (note 1)
New World Development Company Limited ("NWD")	1,050,768,800 (note 2)

Notes:

- (1) Chow Tai 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) This represents the 1,011,714,293 shares directly held by NWD, 22,508,064 shares held by Great Worth Holdings Limited ("GWH") and 16,546,443 shares held by High Earnings Holdings Limited ("HEH"). GWH and HEH are 59% and 51.3% indirectly owned subsidiaries of NWD respectively. NWD is deemed to have interests in the shares held by GWH and HEH.

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 30th June 2002.

Share option scheme

The share option scheme of the Company ("Share Option Scheme") was adopted pursuant to a resolution passed on 18th December 2000 and will remain in force for 10 years from that date. The purpose of adopting the Share Option Scheme is to provide incentive to the eligible participants, being the executive directors and employees of the Group, to contribute further to the success of the Group.

The maximum number of shares of the Company in respect of which share options may be granted (together with the number of shares issued pursuant to share options exercised and number of shares in respect of which share options remain outstanding) under the Share Option Scheme, shall not, when aggregate with any shares subject to any other scheme, exceed 10% of the issued share capital of the Company from time to time, excluding the number of shares issued and allotted pursuant to the Share Option Scheme. The maximum entitlement of each participant under the Share Option Scheme is 25% of the aggregate number of all shares of the Company for the time being issued and issuable under the Share Option Scheme.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of HK\$10 by way of consideration for the grant of the offer. The exercise period of the share options granted is to be determined by the directors of the Company, and shall not exceed 5 years commencing on the expiry of one month after the date of acceptance of the grant of the share options and expiring on the last day of the 5-year period and notwithstanding that the period of the Share Option Scheme may have expired.

The subscription price of the share options shall be determined by the directors of the Company, being not less than the higher of (i) 80% of the average of the closing price of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of the offer of the share options and (ii) the nominal value of the shares of the Company.

As at 30th June 2002, the total number of shares of the Company that may be issued pursuant to the exercise of the outstanding share options granted under the Share Option Scheme was 54,811,600 shares, representing 3.7% of the issued share capital of the Company as at 30th June 2002.

In view of the new requirements of Chapter 17 of the Listing Rules which came into effect on 1st September 2001, a resolution will be proposed at the forthcoming annual general meeting to be held on 26th November 2002 to adopt a new share option scheme and to terminate the operation of the existing Share Option Scheme.

Movements of share options granted to the directors and employees of the Group under the Share Option Scheme during the year ended 30th June 2002 were as follows:

(A) Share options to directors

Name of director	Date of grant	Exercisable period (note 1)	Number of share options with exercise price per share of HK\$1.955		
			Balance as at 1st July 2001	Exercised during the year	Outstanding as at 30th June 2002
Dr. Cheng Kar-shun, Henry	7th February 2001	8th March 2001 to 7th March 2006	5,000,000	–	5,000,000
Mr. Doo Wai-hoi, William	8th February 2001	9th March 2001 to 8th March 2006	3,500,000	(700,000) (note 2)	2,800,000
Mr. Cheng Kar-shing, Peter	9th February 2001	10th March 2001 to 9th March 2006	2,500,000	–	2,500,000
Mr. Chow Yu-chun, Alexander	8th February 2001	9th March 2001 to 8th March 2006	2,500,000	–	2,500,000
Mr. Leung Chi-kin, Stewart	7th February 2001	8th March 2001 to 7th March 2006	500,000	–	500,000
Mr. Chan Kam-ling	9th February 2001	10th March 2001 to 9th March 2006	500,000	(100,000) (note 3)	400,000
Mr. Chow Kwai-cheung	9th February 2001	10th March 2001 to 9th March 2006	500,000	–	500,000
Mr. Chan Wing-tak, Douglas	12th February 2001	13th March 2001 to 12th March 2006	500,000	–	500,000
Mr. So Ngok	9th February 2001	10th March 2001 to 9th March 2006	500,000	–	500,000
Total			16,000,000	(800,000)	15,200,000

Share option scheme (continued)

(A) Share options to directors (continued)

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 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 years.
- (2) The exercise date was 27th July 2001. On 26th July 2001, being the trading date immediately before the share options were exercised, the weighted average closing price per share was HK\$2.92.
- (3) The exercise date was 26th October 2001. On 24th October 2001, being the trading day immediately before the share options were exercised, the weighted average closing price per share was HK\$2.33.
- (4) The cash consideration paid by each director for each grant of the share options is HK\$10.

(B) Share options to employees

Date of grant	Number of share options					Subscription price per share HK\$
	Balance as at 1st July 2001	Granted during the year (note 2)	Exercised during the year (note 3)	Lapsed during the year	Outstanding as at 30th June 2002	
5th February 2001 to 2nd March 2001	37,044,000	–	(1,659,200)	(2,757,200)	32,627,600	1.955
2nd May 2001 to 29th May 2001	458,400	–	–	–	458,400	2.605
29th June 2001 to 26th July 2001	–	2,485,200	–	(157,200)	2,328,000	3.192
31st August 2001 to 27th September 2001	–	2,149,200	(19,200)	–	2,130,000	2.380
26th March 2002 to 22nd April 2002	–	2,067,600	–	–	2,067,600	2.265
Total	37,502,400	6,702,000	(1,678,400)	(2,914,400)	39,611,600	

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 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 years.
- (2) The closing prices per share immediately before 29th June 2001, 31st August 2001 and 26th March 2002, the dates of grant, were HK\$3.75, HK\$2.75 and HK\$2.23, respectively.
- (3) The weighted average closing price of the shares immediately before the dates on which share options were exercised was HK\$2.51.

(B) Share options to employees (continued)

The fair value of the share options granted during the year with the exercise price per share of HK\$3.19, HK\$2.38 and HK\$2.27 is estimated at HK\$0.81, HK\$0.99 and HK\$1.08, respectively using the Black-Scholes option pricing model. Value is estimated based on the risk-free rate of 4.1% per annum with reference to the rate prevailing on the Exchange Fund Notes, a one-year period historical volatility of 0.60, assuming no dividend and an expected option life of 5 years.

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, such option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. As the characteristics of the options granted during the year are significantly different from those of publicly traded options and changes in the subjective inputs may materially affect the fair value estimate, the Black-Scholes option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

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

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.

Code of best practice

The Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules during the year, except that the non-executive directors are not appointed for a specific term as they are subject to retirement by rotation at Annual General Meeting in accordance with Article 116 of the Company's Articles of Association.

Practice Note 19 of the Listing Rules – Supplementary information**(A) Financial assistance and guarantees to affiliated companies**

In accordance with the requirements under paragraph 3.3 of Practice Note 19 ("PN 19") of the Listing Rules, the directors of the Company reported below the details of advances to, and guarantees given for the benefit of, their affiliated companies (as defined by PN 19).

As at 30th June 2002, the Company and its subsidiaries had advanced an aggregate amount of HK\$8,456,687,000 (2001: HK\$7,108,520,000) to affiliated companies (included in amounts disclosed in notes 16 and 17 to the accounts), guaranteed bank loans and other borrowing facilities for the benefit of the affiliated companies in the amount of HK\$1,322,568,000 (2001: HK\$796,307,000) (included in the amounts disclosed in note 30 to the accounts) and contracted to further provide an aggregate amount of HK\$1,117,119,000 (2001: HK\$2,422,672,000) in capital and loans to affiliated companies. The advances are unsecured, interest free except for an aggregate amount of HK\$6,535,232,000 (2001: HK\$5,755,929,000) which carry interest ranging from 4% to 12% per annum (2001: 4% to 12% per annum). Other than an amount of HK\$361,371,000 (2001: Nil) which is repayable by instalments up to December 2016, the advances have no fixed repayment terms. Contracted capital and loan contributions to affiliated companies would be funded by proceeds from internal resources and bank and other borrowings of the Group.

Practice Note 19 of the Listing Rules – Supplementary information (continued)

(A) Financial assistance and guarantees to affiliated companies (continued)

In addition, in accordance with the requirements under paragraph 3.10 of PN 19, the Company is required to include in its annual report a proforma combined balance sheet of its affiliated companies which should include significant balance sheet classifications and state the attributable interest of the Company in the affiliated companies. The Company has numerous affiliated companies and is of the opinion that it is not practical nor meaningful to prepare a proforma combined balance sheet and such information may be misleading. Pursuant to PN 19 the Company made an application to, and has received a waiver from, the Stock Exchange as an alternative to provide the following statement.

As at 30th June 2002, the Group's total exposure on the combined indebtedness reported by such affiliated companies (including amounts owing to the Group) amounted to approximately HK\$16,232,310,000 (2001: HK\$15,195,395,000). Such affiliated companies reported no capital commitments and contingent liabilities as at 30th June 2002 (2001: Nil).

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

In accordance with the requirements under paragraph 3.9 of PN 19 of the Listing Rules, the directors of the Company reported below the details of loan facilities which include conditions relating to specific performance of the controlling shareholder of the Company.

On 9th May 2002, the Company was granted a 4-year term loan facility of up to HK\$500,000,000 and on 16th July 2002, GXVD, a 90.5% owned subsidiary, was granted a 4-year term loan facility of up to HK\$171,600,000 and a revolving loan facility of up to RMB228,250,000. Upon the granting of each of these loan facilities, the Company undertook to the respective lenders that NWD would retain a holding of at least 51% beneficial interest in the issued share capital of the Company throughout the terms of these facilities. Failure to perform the undertaking which continues for a period of 14 days following the date of notice given by the lender will constitute an event of default.

Auditors

The accounts 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, 18th October 2002