

The Directors have pleasure in presenting their Annual Report and Statement of Accounts for the year ended 30 June 2003.

GROUP ACTIVITIES

Following the completion of the disposal of traditional infrastructure assets during the year, the principal activities of the Group are the development, investment, operation and/or management of telecommunications, media and technology businesses. The principal activities of the principal subsidiaries, associated companies and jointly controlled entities are shown in Notes 37, 38 and 39 to the Accounts on pages 110 to 113.

ACCOUNTS

The consolidated results of the Group for the year ended 30 June 2003 and the state of the Company's and the Group's affairs at that date are set out in the Accounts on pages 64 to 113.

DIVIDENDS

A special dividend by way of distribution in specie was distributed to the shareholders of the Company on 29 January 2003. For details, please refer to paragraph (7) in the section headed "Connected Transactions" below and Note 11 to the Accounts.

RESERVES

The details of movements in reserves are set out in Note 29 to the Accounts.

FIXED ASSETS

Movements of fixed assets during the year are summarized in Note 25 to the Accounts.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, the Company repurchased total nominal amount of US\$3,900,000 of the 1% Convertible Bonds due 2003 listed on the Luxembourg Stock Exchange at prices ranging from 132 to 134. The remaining nominal amount of US\$169,246,000 of 1% Convertible Bonds due 2003 were redeemed at 143.4 by the Company on 3 March 2003.

Save for the foregoing, neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any of the Company's listed securities during the year.

DIRECTORS

The Directors who held office during the year and at the date of this report were:

| | |
|---------------------------------|---|
| Dr. Cheng Kar-Shun, Henry | |
| Mr. Doo Wai-Hoi, William | (resigned on 11 January 2003) |
| Mr. Chan Wing-Tak, Douglas | |
| Dr. Wai Fung-Man, Norman | (appointed on 17 January 2003) |
| Mr. Wong Chi-Chiu, Albert | (appointed on 17 January 2003) |
| Mr. Cheng Kar-Shing, Peter | (resigned on 17 January 2003) |
| Mr. Leung Chi-Kin, Stewart | (resigned on 17 January 2003) |
| Mr. Chan Kam-Ling | (resigned on 17 January 2003) |
| Mr. So Ngok | (resigned on 17 January 2003) |
| Dr. Li Kwok-Po, David | (resigned on 17 January 2003) |
| Mr. Cheng Wai-Chee, Christopher | (resigned on 17 January 2003) |
| Mr. Coull, Gary William John | (resigned on 17 January 2003) |
| Mr. Fu Sze-Shing | |
| Mr. Wilfried Ernst Kaffenberger | |
| Mr. Lai Hing-Chiu, Dominic | (appointed on 17 January 2003) |
| Dr. Lam Man-Kit, Dominic | (appointed on 17 January 2003) |
| Mr. Lee Sean, Sammy | (appointed on 17 January 2003) |
| Mr. Yeung Kun-Wah, David | (alternate Director to Mr. Wilfried Ernst Kaffenberger) |

Mr. Fu Sze-Shing, Dr. Wai Fung-Man, Norman, Mr. Wong Chi-Chiu, Albert, Mr. Lai Hing-Chiu, Dominic, Dr. Lam Man-Kit, Dominic and Mr. Lee Sean, Sammy retire in accordance with Articles 99 and 116 of the Company's Articles of Association and, being eligible, offer themselves for re-election.

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

DIRECTORS' INTEREST IN CONTRACTS

On 21 October 2002, NWS Holdings Limited ("NWSH", formerly known as Pacific Ports Company Limited and a then subsidiary of the Company) entered into a conditional agreement (the "Services Assets Sale Agreement") with New World Development Company Limited ("NWD", the controlling shareholder of the Company) and others pursuant to which NWSH acquired the entire equity interest of NWS Service Management Limited ("NWSSM", formerly known as New World Services Limited) for a consideration (comprising shares of NWSH) of approximately HK\$10,913 million. By virtue of their shareholdings in NWSSM, Mr. Cheng Kar-Shing, Peter, Mr. Leung Chi-Kin, Stewart and Mr. Chan Kam-Ling were interested in the Services Assets Sale Agreement.

Save as disclosed above, no 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, subsisted at the end of the year or at any time during the year.

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 which businesses are considered to compete or likely to compete with the businesses of the Group | Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group | Nature of interest of the Director in the entity |
|---|--|--|---|
| Dr. Cheng Kar-Shun, Henry | Tamman Developments Limited | Investment in airport operation business* | Director |
| Mr. Chan Wing-Tak, Douglas | Tamman Developments Limited | Investment in airport operation business* | Director |
| Mr. Chan Kam-Ling [#] | Qingyuan Qiaoyuan Power Plant Company Limited | Operation of power plant* | Director |
| Mr. Wong Chi-Chiu, Albert ^{##} | New World Telephone Holdings Limited group of companies | Telecom services | Director |

* These businesses are no longer considered to be in competition with the businesses of the Group following the completion of the disposal of the traditional infrastructure assets to NWSH on 29 January 2003.

resigned as Director of the Company with effect from 17 January 2003.

appointed as Director of the Company with effect from 17 January 2003.

As the Board of Directors of the Company is independent from the boards of the aforesaid companies and none of the above 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.

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 or its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangements to enable the Directors 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 SECURITIES

As at 30 June 2003, the interests of the Directors and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO were as follows:

(A) The Company

Long positions in shares

| Name of Director | Number of shares held | | | Approximate percentage of issued share capital of the Company as at 30.6.2003 |
|----------------------------|-----------------------|------------------|-----------|---|
| | Personal interests | Family interests | Total | |
| Dr. Cheng Kar-Shun, Henry | — | 1,000,000 | 1,000,000 | 0.11 |
| Mr. Chan Wing-Tak, Douglas | 1,300,000 | 400,000 | 1,700,000 | 0.18 |

DIRECTORS' INTERESTS IN SECURITIES (Continued)
(A) The Company (Continued)

Long positions in underlying shares — share options

| Name of Director | Grant date | Options held at 1.7.2002 | Options lapsed during the year | Options held at 30.6.2003 | Exercise price per share HK\$ | Note |
|--|-------------------|---------------------------------|---------------------------------------|----------------------------------|--------------------------------------|-------------|
| Dr. Cheng Kar-Shun, Henry | 2 December 1998 | 600,000 | — | 600,000 | 10.20 | (1) |
| | 2 December 1998 | 2,400,000 | — | 2,400,000 | 12.00 | (2) |
| Mr. Doo Wai-Hoi, William* | 16 December 1998 | 200,000 | (200,000) | — | 10.20 | (1) |
| | 16 December 1998 | 800,000 | (800,000) | — | 12.00 | (2) |
| Mr. Chan Wing-Tak, Douglas | 26 November 1998 | 320,000 | — | 320,000 | 10.20 | (1) |
| | 26 November 1998 | 1,280,000 | — | 1,280,000 | 12.00 | (2) |
| Mr. Cheng Kar-Shing, Peter [#] | 1 December 1998 | 120,000 | (120,000) | — | 10.20 | (1) |
| | 1 December 1998 | 480,000 | (480,000) | — | 12.00 | (2) |
| Mr. Leung Chi-Kin, Stewart [#] | 8 December 1998 | 120,000 | (120,000) | — | 10.20 | (1) |
| | 8 December 1998 | 480,000 | (480,000) | — | 12.00 | (2) |
| Mr. Chan Kam-Ling [#] | 9 December 1998 | 200,000 | (200,000) | — | 10.20 | (1) |
| | 9 December 1998 | 800,000 | (800,000) | — | 12.00 | (2) |
| Mr. So Ngok [#] | 26 November 1998 | 200,000 | (200,000) | — | 10.20 | (1) |
| | 26 November 1998 | 800,000 | (800,000) | — | 12.00 | (2) |
| Dr. Li Kwok-Po, David [#] | 28 November 1998 | 120,000 | (120,000) | — | 10.20 | (1) |
| | 28 November 1998 | 480,000 | (480,000) | — | 12.00 | (2) |
| Mr. Cheng Wai-Chee, Christopher [#] | 11 December 1998 | 120,000 | (120,000) | — | 10.20 | (1) |
| | 11 December 1998 | 480,000 | (480,000) | — | 12.00 | (2) |
| Mr. Coull, Gary William John [#] | 26 November 1998 | 120,000 | (120,000) | — | 10.20 | (1) |
| | 26 November 1998 | 480,000 | (480,000) | — | 12.00 | (2) |
| Mr. Fu Sze-Shing | 23 September 1999 | 240,000 | — | 240,000 | 10.20 | (3) |
| | 23 September 1999 | 960,000 | — | 960,000 | 12.00 | (4) |
| Total | | 11,800,000 | (6,000,000) | 5,800,000 | | |

DIRECTORS' INTERESTS IN SECURITIES (Continued)

(A) The Company (Continued)

Long positions in underlying shares — share options (Continued)

* resigned as Director of the Company with effect from 11 January 2003 and share options lapsed on 12 February 2003.

resigned as Director of the Company with effect from 17 January 2003 and share options lapsed on 18 February 2003.

Notes:

- (1) Exercisable from 1 July 1999 to 1 June 2004.
- (2) Divided into 3 tranches exercisable from 1 July 2000 to 1 June 2004, from 1 July 2001 to 1 June 2004 and from 1 July 2002 to 1 June 2004 respectively.
- (3) Exercisable from 1 July 2000 to 1 June 2005.
- (4) Divided into 3 tranches exercisable from 1 July 2001 to 1 June 2005, from 1 July 2002 to 1 June 2005 and from 1 July 2003 to 1 June 2005 respectively.
- (5) The above share options were granted under the share option scheme adopted by the Company on 3 October 1997 and the cash consideration paid by each Director for each grant of the share options is HK\$10.
- (6) No share option of the Company was exercised by the above Directors during the year ended 30 June 2003.

(B) Associated Corporations

NWSH

Long positions in shares of NWSH

| Name of Director | Number of shares held | | | Approximate percentage of issued share capital of NWSH as at 30.6.2003 |
|----------------------------|-----------------------|------------------|---------|--|
| | Personal interests | Family interests | Total | |
| Dr. Cheng Kar-Shun, Henry | — | 587,000 | 587,000 | 0.03 |
| Mr. Chan Wing-Tak, Douglas | 410,900 | — | 410,900 | 0.02 |

Long positions in underlying shares of NWSH — share options

| Name of Director | Grant date | Options held at 1.7.2002 | Options exercised during the year | Options held at 30.6.2003 | Exercise price per share HK\$ | Note |
|----------------------------|-------------|--------------------------|-----------------------------------|---------------------------|-------------------------------|------|
| Mr. Chan Wing-Tak, Douglas | 11 May 1999 | 1,000,000 | — | 1,000,000 | 6.93 | (1) |

DIRECTORS' INTERESTS IN SECURITIES (Continued)
(B) Associated Corporations (Continued)
NWSH (Continued)

Long positions in underlying shares of NWSH — share options (Continued)

Notes:

- (1) Divided into 4 tranches exercisable from 5 November 1999, 5 May 2001, 5 May 2002, 5 May 2003 respectively to 4 November 2004.
- (2) The share options were granted under the share option scheme adopted by NWSH on 11 April 1997.

New World China Land Limited (“NWCL”)

Long positions in underlying shares of NWCL — share options

| Name of Director | Grant date | Exercisable Period (Note 1) | Number of share options with exercise price per share of HK\$1.955 | | |
|---|------------------|--|--|---------------------------------|----------------------|
| | | | Held at 1.7.2002 | Exercised during the year | Held at 30.6.2003 |
| Dr. Cheng Kar-Shun, Henry | 7 February 2001 | 8 March 2001 to 7 March 2006 | 5,000,000 | — | 5,000,000 |
| Mr. Doo Wai-Hoi, William* | 8 February 2001 | 9 March 2002 to 8 March 2006 (Note 2) | 2,800,000 | — | 2,800,000 |
| Mr. Chan Wing-Tak, Douglas | 12 February 2001 | 13 March 2001 to 12 March 2006 | 500,000 | — | 500,000 |
| Mr. Cheng Kar-Shing, Peter [#] | 9 February 2001 | 10 March 2001 to 9 March 2006 | 2,500,000 | — | 2,500,000 |
| Mr. Leung Chi-Kin, Stewart [#] | 7 February 2001 | 8 March 2001 to 7 March 2006 | 500,000 | — | 500,000 |
| Mr. Chan Kam-Ling [#] | 9 February 2001 | 10 March 2002 to 9 March 2006 (Note 2) | 400,000 | — | 400,000 |
| Mr. So Ngok [#] | 9 February 2001 | 10 March 2001 to 9 March 2006 | 500,000 | — | 500,000 |

DIRECTORS' INTERESTS IN SECURITIES (Continued)**(B) Associated Corporations (Continued)*****New World China Land Limited ("NWCL") (Continued)****Long positions in underlying shares of NWCL — share options (Continued)*

* resigned as Director of the Company with effect from 11 January 2003.

resigned as Director of the Company with effect from 17 January 2003.

Notes:

- (1) The share options are exercisable during a period of five years commencing from the expiry of one month after the dates of each 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), unless as specified in Note (2).
- (2) The share options were exercisable during the remaining exercisable period of four years, provided that the maximum number of share options that can be exercised during a year is 25% of the outstanding balance of the share options held on the respective commencement dates of the exercisable periods.
- (3) The above share options were granted under the share option scheme adopted by NWCL on 18 December 2000 and the cash consideration paid by each Director for each grant of the share options is HK\$10.

Save as disclosed above, as at 30 June 2003, none of the Directors, chief executive or any of their associates had any interests or short positions in the shares, 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 Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30 June 2003, the interests or short positions of substantial shareholders (as defined in the Listing Rules) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Long positions in shares

| Name | Number of shares held | | | Approximate percentage of issued share capital of the Company as at 30.6.2003 |
|---|-----------------------|---------------------|-------------|---|
| | Beneficial interests | Corporate interests | Total | |
| Chow Tai Fook Enterprises Limited (Note 1) | — | 519,919,085 | 519,919,085 | 54.60 |
| New World Development Company Limited ("NWD") (Note 2) | — | 519,919,085 | 519,919,085 | 54.60 |
| Sea Walker Limited ("SWL") (Note 3) | — | 516,561,485 | 516,561,485 | 54.25 |
| Mombasa Limited | 516,561,485 | — | 516,561,485 | 54.25 |
| AIG Asian Infrastructure Management II Ltd. as general partner of AIG Asian Infrastructure Management II LP as general partner of AIG Asian Infrastructure Fund II LP | — | 96,848,750 | 96,848,750 | 10.17 |

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) NWD holds 100% interest in SWL and NWD is accordingly deemed to have an interest in the shares held by SWL. NWD is also indirectly interested in 3,357,600 shares in the Company through its various subsidiaries.
- (3) Mombasa Limited is a wholly owned subsidiary of SWL and its interests in the Company is deemed to be held by SWL.

Save as disclosed above, no other person was recorded in the register kept pursuant to Section 336 of the SFO as having an interest in 10% or more of the issued share capital of the Company as at 30 June 2003.

OTHER PERSONS' INTERESTS IN SECURITIES

As at 30 June 2003, the interests or short positions of persons (other than Directors or chief executive or substantial shareholders (as defined in the Listing Rules)) in the shares and underlying shares of the Company as recorded in the register as required to be kept under Section 336 of the SFO were as follows:

Long positions in shares

| Name | Number of shares held | | | Approximate percentage of issued share capital of the Company as at 30.6.2003 |
|---|-----------------------|---------------------|------------------------|---|
| | Beneficial interests | Corporate interests | Total | |
| Steven Shmuel Gross (Note 1) | — | 53,691,200 | 53,691,200 | 5.64 |
| World Link Development Limited ("World Link") | 41,361,000 | 12,330,200 | 53,691,200 (Note 2) | 5.64 |

Notes:

- (1) Steven Shmuel Gross owns 100% interest in World Link and he is accordingly deemed to have an interest in the shares held by World Link.
- (2) This interest represents 41,361,000 shares held by World Link and 12,330,200 shares held by Long Victory Group Limited which is a wholly owned subsidiary of World Link. World Link is deemed to be interested in the shares held by Long Victory Group Limited.

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 30 June 2003.

SHARE OPTION SCHEMES

Pursuant to the share option schemes adopted on 3 October 1997 (the "1997 Share Option Scheme") and 6 December 2001 (the "2001 Share Option Scheme"), the Company may grant options to Directors and employees of the Company or any of its subsidiaries to subscribe for shares in the Company. No option had been granted under the 2001 Share Option Scheme since its adoption.

SHARE OPTION SCHEMES (Continued)

Summary of share option schemes of the Company disclosed in accordance with the Listing Rules is as follows:

| | 1997 Share Option Scheme | 2001 Share Option Scheme |
|--|--|--|
| Purpose of schemes | As incentive to employees (including any Director) of the Company or any of its subsidiaries. | To provide an opportunity for employees (including any Director) of the Company or any of its subsidiaries 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 Director) of the Company or its subsidiaries. | Full time employees (including any Director) 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 | <p>6,352,800 shares (approximately 0.67% of the issued share capital as at the date of this annual report), being the outstanding options unexercised.</p> <p>No further options will be granted under the 1997 Share Option Scheme upon adoption of the 2001 Share Option Scheme.</p> | <p>The total number of shares which may be issued upon exercise of all options to be granted under the 2001 Share Option Scheme and any other schemes of the Company must not in aggregate exceed 10% of the shares in issue as at the date of adoption of the 2001 Share Option Scheme, i.e. 85,533,125 shares (the 10% Limit), representing approximately 8.98% of the issued share capital as at the date of this annual report.</p> <p>The 10% Limit may be refreshed with the approval of shareholders of the Company.</p> <p>The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2001 Share Option Scheme and any other schemes must not exceed 30% of the shares in issue from time to time.</p> <p>No option has been granted under the 2001 Share Option Scheme since its adoption.</p> |

SHARE OPTION SCHEMES (Continued)

| | 1997 Share Option Scheme | 2001 Share Option Scheme |
|---|--|--|
| 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. |
| 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 6 months after the date of grant of an option 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 7 years commencing on the expiry of 1 month after the date of grant of an option and expiring on the last day of the 7-year period. |
| The minimum period for which an option must be held before it can be exercised | 6 months | 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 | The exercise price shall be determined by the Directors, being the higher of <ul style="list-style-type: none"> (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; and (b) the nominal value of a share. | The exercise price shall be determined by the Directors, being at least the higher of <ul style="list-style-type: none"> (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 (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. |
| The remaining life of the schemes | The 1997 Share Option Scheme shall be valid and effective for a period of 10 years commencing on the adoption date i.e. 3 October 1997. | The 2001 Share Option Scheme shall be valid and effective for a period of 10 years commencing on the adoption date i.e. 6 December 2001. |

SHARE OPTION SCHEMES (Continued)
(A) Share Options to Directors

Details of the share options granted to Directors under the 1997 Share Option Scheme were disclosed under the section headed "Directors' Interests in Securities" above.

(B) Share Options to Employees

The Company had granted options under the 1997 Share Option Scheme to employees of the Group (the "Employees"). The movements in the aggregate number of the share options granted to the Employees during the year and balance outstanding at 30 June 2003 were as follows:

| Grant date | Options held at 1.7.2002 | Options lapsed during the year | Options held at 30.6.2003 | Exercise price per share HK\$ | Note |
|--------------------------------------|--------------------------|--------------------------------|---------------------------|-------------------------------|------|
| 18 November 1998 to 16 December 1998 | 162,000 | (119,200) | 42,800 | 10.20 | (1) |
| 18 November 1998 to 16 December 1998 | 1,911,000 | (1,401,000) | 510,000 | 12.00 | (2) |
| Total | 2,073,000 | (1,520,200) | 552,800 | | |

Notes:

(1) Exercisable from 1 July 1999 to 1 June 2004.

(2) Divided into 3 or 5 tranches exercisable from 1 July 1999 to 1 June 2004, from 1 July 2000 to 1 June 2004, from 1 July 2001 to 1 June 2004, from 1 July 2002 to 1 June 2004 and from 1 July 2003 to 1 June 2004 respectively.

Also, pursuant to the share option scheme adopted by NWSH on 11 April 1997, options to subscribe for 300,000 shares of NWSH at an exercise price of HK\$6.93 per share were granted to an employee of the Company on 11 May 1999. The options are divided into 4 tranches exercisable from 5 November 1999, 5 May 2001, 5 May 2002 and 5 May 2003 respectively to 4 November 2004. The said employee was seconded to NWSH during the year and ceased to be an employee of the Company following the termination of the Secondment Agreement (as defined below) on 16 May 2003. As at the date of cessation of employment, all the options granted to the said employee by NWSH have not yet been exercised.

CONNECTED TRANSACTIONS

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

- (1) Three tenancy agreements were entered into on 23 August 2000 between the Company and New World Tower Company Limited ("NWT") in respect of the office premises at 8/F. and 16/F., Tower 2, New World Tower occupied by the Company. The term of tenancies are for approximately three years commencing from July 2000 or August 2000 to 30 June 2003 at a total annual rental of HK\$3,601,440. NWT is a wholly owned subsidiary of New World Development Company Limited ("NWD"), the Company's ultimate holding company.

The tenancies in respect of the office premises at 8/F. and 16/F., Tower 2, New World Tower were terminated on 1 February 2003 and 1 April 2003 respectively.

CONNECTED TRANSACTIONS (Continued)

- (2) On 3 December 1998, the Company and CSX World Terminals Hong Kong Limited ("CSXHK") entered into a deed of guarantee (the "CSXWT 8 Guarantee") in respect of the obligations of CSXWT Terminal 8 Limited ("CSXWT 8"). The Company also entered into another deed of guarantee (the "Sunmall Guarantee") in respect of the obligations of Sunmall Limited ("Sunmall") on the same date. Both the CSXWT 8 Guarantee and the Sunmall Guarantee are in favour of Asia Container Terminals Limited ("ACT"), which is one of the joint developers of the Container Terminal No. 9 ("CT9") at Tsing Yi, and its shareholders. The shareholders of ACT included two independent third parties, Sunmall and CSXWT 8 holding 57%, 13.5% and 29.5% interest respectively. Sunmall was at that time a wholly owned subsidiary of the Company and CSXWT 8 was a non-wholly owned subsidiary owned as to 66.1% indirectly by the Company and 33.9% by CSXHK. CSXHK is a connected person of the Company only by virtue of CSXHK's substantial shareholding in CSXWT 8.

Pursuant to a restructuring dated 3 December 1999, the shareholders of ACT transferred all their ACT shares to Asia Container Terminals Holdings Limited ("ACTH") in exchange for shares in ACTH. ACT then became a wholly owned subsidiary of ACTH which shareholders and their respective shareholdings are the same as that of ACT before the restructuring. All rights and obligations of ACT under the shareholders' agreement, the shareholders' funding agreement and the shareholders' loan agreement of ACT (the "ACT Agreements") were assumed by ACTH.

Following the completion in March 2000 of the disposal of all port and port-related investments to NWS Holdings Limited ("NWSH", formerly known as Pacific Ports Company Limited and a then subsidiary of the Company), Sunmall and CSXWT 8 became indirect non-wholly owned subsidiaries held through NWSH.

Under the CSXWT 8 Guarantee, the Company and CSXHK unconditionally, irrevocably and severally guarantee in the proportion of each of their respective shareholdings in CSXWT 8, to ACTH and each of its shareholders (other than CSXWT 8) that, if for any reason CSXWT 8 does not (a) pay any sum payable by or expressed to be payable by it, or (b) perform any of its obligations, under the ACT Agreements, the Company and CSXHK will pay that sum or (as the case may be) perform that obligation on demand by ACTH or any one or more of its shareholders.

Under the Sunmall Guarantee, the Company unconditionally and irrevocably guarantee to ACTH and each of its shareholders (other than Sunmall) that, if for any reason Sunmall does not (a) pay any sum payable by or expressed to be payable by it, or (b) perform any of its obligations, under the ACT Agreements, the Company will pay that sum or (as the case may be) perform that obligation on demand by ACTH or any one or more of its shareholders.

On 23 January 2003, the parties to the CSXWT 8 Guarantee entered into a deed of release whereby the Company was released from the CSXWT 8 Guarantee with effect from 16 November 2001. On the same date, the parties to the Sunmall Guarantee and NWSH entered into a deed of novation pursuant to which the Company was released from the Sunmall Guarantee with effect from the date of completion of the Reorganization (as defined below).

- (3) ACT entered into a facility agreement (the "ACT Refinanced Loan") in respect of project financing of CT9 for HK\$2,700 million on 13 November 2001 to refinance the facility agreement (the "ACT Loan") dated 31 January 2000. The ACT Refinanced Loan was severally guaranteed by the Company and the other shareholders of ACTH in proportion of their respective effective equity interest in ACTH which wholly owns ACT. Accordingly, the Company guaranteed 32.9995% of the ACT Refinanced Loan.

After the acquisition of all port and port-related investments from the Company in 2000, NWSH holds the Company's former interest in ACTH but the Company remained the guarantor for purpose of the ACT Loan and therefore, the ACT Refinanced Loan.

The Company was released from the guarantee in relation to the ACT Refinanced Loan with effect from the date of completion of the Reorganization (as defined below) pursuant to a deed of release and assumption dated 23 January 2003 made between the Company, NWSH and the facility agent.

CONNECTED TRANSACTIONS (Continued)

- (4) On 19 April 2001, a shareholders' agreement was entered into between Front Drive Limited ("Front Drive", a wholly owned subsidiary of NWSH which was a then 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 8 which is in turn a subsidiary of NWSH), and ATL Logistics Centre Hong Kong Limited ("ATL") which is an associated company of CSX and a jointly controlled entity of NWSH 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 in Yantian District, PRC. ATLY is owned as to 18.17% by Front Drive, 31.83% by Kingsfund and 50% by ATL.

According to the terms of the aforesaid shareholders' agreement, shareholders' loans will be called by ATLY on a pro-rata basis when required. As NWSH ceased to be a subsidiary of the Company following the completion of the Reorganization (as defined below) on 29 January 2003, this transaction no longer constitutes a connected transaction of the Company. As at 28 January 2003, shareholders' loans for ATLY in the total amount of HK\$2,008,185 had been advanced by Front Drive.

- (5) On 19 September 2001, 27 December 2002 and 27 February 2003, Touchful Limited ("Touchful"), a wholly owned subsidiary of the Company, entered into loan agreements ("Loan Agreements") with Apex-Pro Systems Limited ("Apex-Pro"), an indirect 62.75% subsidiary of the Company in which no connected person of the Company is a substantial shareholder, whereby Touchful provides advances up to HK\$2,000,000, HK\$300,000 and HK\$200,000 respectively to Apex-Pro at an interest rate of 8% per annum. These advances shall be repayable on demand provided that if the advances together with accrued interest is not repaid in full by the first anniversary of the date of the respective Loan Agreements, Apex-Pro shall, upon the request of Touchful, capitalize the outstanding amount of the advances (based on a pre-money valuation of HK\$10 million for the entire issued share capital of Apex-Pro as at the date of the respective Loan Agreements) into new shares of Apex-Pro. As at the date of this report, the above advances have not been repaid and Touchful has not made any request for capitalization of such outstanding amount.

Touchful also entered into the following loan agreements with Apex-Pro which were repaid during the year:

- (a) a loan agreement dated 27 December 2002 in respect of a short-term loan of HK\$105,000 for the purpose of rental deposit on new office; and
- (b) a loan agreement dated 30 April 2003 in respect of a short-term financing of HK\$120,000 bearing interest at the rate of 8% per annum.
- (6) Xiamen Xiang Yu Quay Co., Ltd. ("CJV 1") was 8% owned by Xiamen Xiangyu Group Corporation ("Xiangyu Group") and 92% owned by New World (Xiamen) Port Investments Limited ("NW (Xiamen)", an indirect wholly owned subsidiary of NWSH) while Xiamen Xiangyu Free Trade Zone Huijian Quay Co., Ltd. ("CJV 2") was 40% owned by Xiangyu Group and 60% owned by NW (Xiamen). CJV 1 and CJV 2 owned berth no. 12 and berth nos. 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 CJV 1, CJV 2 and Xiamen Xiangyu Free Port Developing Co., Ltd. ("WSOLLC", a wholly owned subsidiary of Xiangyu Group which owned berth nos. 15 and 16 in the East Channel Port Zone of Xiamen in the PRC), pursuant to which CJV 1 merged with CJV 2 and WSOLLC by way of absorption (the "Merger"). A new joint venture company under the name of CJV 1 (the "New JV") was established as a result of the Merger.

CONNECTED TRANSACTIONS (Continued)

The New JV is owned as to 50% by Xiangyu Group and 50% by NW (Xiamen). The total investment and the registered capital of the New JV are 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.

The Merger was completed on 28 January 2003.

NW (Xiamen) was a wholly owned subsidiary of NWSH which in turn was a 75% subsidiary of the Company during the year. WSOLLC is a connected person of the Company only by virtue of being a wholly owned subsidiary of a substantial shareholder of CJV 2 and is not otherwise connected with the Company.

- (7) On 21 October 2002, agreements were entered into by the Company, NWD and NWSH (a then subsidiary of the Company) which resulted in the reorganization of NWD and the NWI Groups (the "Reorganization"). The Reorganization comprises three inter-conditional parts: (a) the acquisition of the traditional infrastructure assets by NWSH from the Company for an aggregate consideration (comprising cash, shares of NWSH and an undertaking by NWSH to pay certain liabilities of the Company) of approximately HK\$10,227 million, subject to certain adjustments, if any, on the cash portion of the consideration; (b) the acquisition of NWS Service Management Limited ("NWSSM", formerly known as New World Services Limited) by NWSH from the NWSSM shareholders for a share consideration of approximately HK\$10,913 million; and (c) a distribution of all the ordinary shares of NWSH held by the Company (including consideration shares issued by NWSH and the ordinary shares allotted by NWSH upon conversion in full of the preference shares) (the "NWSH Distribution Shares") to its shareholders in the ratio of 5.87 NWSH Distribution Shares to one NWI share held on 9 January 2003.

The Reorganization was completed on 29 January 2003 and thereafter NWSH becomes a fellow subsidiary of the Company.

- (8) On 29 January 2003, the Company and NWSH entered into a secondment agreement (the "Secondment Agreement") pursuant to which the Company agreed to second 71 employees (the "Secondees") to NWSH or companies within the enlarged NWSH group following the completion of the Reorganization with effect from the date of the Secondment Agreement until 30 June 2003 (or such other date as may be agreed by the parties) unless terminated earlier in accordance with the provisions of the Secondment Agreement. During the secondment period, salaries and any other employment benefits as provided in the applicable laws, paid to the Secondees in accordance with the employment contracts of the Secondees with the Company and the Company's employment policies during the secondment period were borne by NWSH. The Secondment Agreement was terminated with effect from 16 May 2003 and the aggregate consideration paid by NWSH to the Company pursuant to the Secondment Agreement up to the date of termination amounted to HK\$9,882,975.47.
- (9) On 8 July 2003, the Company had provided a financial support undertaking in relation to the total investment amount and registered capital (amounting to US\$150,000 respectively) as stated in the articles of association of 北京諾美亞生物科技有限公司, a wholly foreign owned enterprise to be established by NoveMed Group Ltd., in the PRC. NoveMed Group Ltd. is an indirect 65% subsidiary of the Company in which no connected person of the Company is a substantial shareholder.

CONNECTED TRANSACTIONS (Continued)

The Company had been granted a waiver by the Hong Kong Stock Exchange from the strict compliance with the disclosure requirements of Chapter 14 of the Listing Rules in respect of transaction (8) above. The transaction has been reviewed by Mr. Lai Hing-Chiu, Dominic and Dr. Lam Man-Kit, Dominic, both independent Non-executive Directors of the Company who have confirmed that the transaction was:

- (a) entered into in the ordinary and usual course of business of the Company;
- (b) conducted on normal commercial terms and fair and reasonable so far as the 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 significant related party transactions that did not constitute connected transactions made during the year was disclosed in Note 33 to the Accounts on page 109.

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.

According to the understanding of the Directors, none of the Directors, their associates or any shareholders who owned more than 5% of the Company's share capital had any interest in the five largest customers or suppliers.

CODE OF BEST PRACTICE

The Company has complied throughout the financial year ended 30 June 2003 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") 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.

Due to the change of the board of Directors, the audit committee was reconstituted on 13 March 2003. The members of the audit committee now consist of independent Non-executive Directors — Mr. Lai Hing-Chiu, Dominic and Dr. Lam Man-Kit, Dominic. Mr. Lai is the chairman of the committee. A principal duty of the audit committee is to review and supervise the Company's financial reporting process and internal controls.

AUDITORS

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

On behalf of the Board
Dr. Cheng Kar-Shun, Henry
Chairman

Hong Kong, 16 October 2003