

Reports and Financial Statement

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The directors submit their report together with the audited accounts of the Group for the year ended 30 June 2005.

Principal activities and geographical analysis of operations

The principal activity of the Company is investment holding.

The principal activities of its subsidiary companies include:

- (i) the investment in and/or operation of facilities, contracting and transport; and
- (ii) the development, investment, operation and/or management of power plants, water treatment and waste management plants, roads as well as container terminals.

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 and the state of affairs of the Company and of the Group as at 30 June 2005 are set out in the accounts on pages 64 to 121.

The directors have resolved to recommend a final dividend for the year ended 30 June 2005 in scrip form equivalent to HK\$0.62 per share (2004: HK\$0.25 per share) with a cash option to shareholders registered on 29 November 2005. Together with the interim dividend of HK\$0.18 per share (2004: HK\$0.15 per share) paid in June 2005, total distributions for 2005 would thus be HK\$0.80 per share (2004: HK\$0.40 per share).

Subject to the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") granting the listing of and permission to deal in the new shares, each shareholder will be allotted fully paid shares having an aggregate market value equal to the total amount which such shareholder could elect to receive in cash and they be given the option to elect to receive payment in cash of HK\$0.62 per share instead of the allotment of shares. Full details of the final scrip dividend will be set out in a letter to be sent to shareholders together with a form of election for cash on or about 20 December 2005.

The register of members of the Company will be closed from Thursday, 24 November 2005 to Tuesday, 29 November 2005, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Standard Registrars Limited, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on Wednesday, 23 November 2005.

Subsidiary companies

Particulars of the Company's principal subsidiary companies are set out in note 37 to the accounts.

Jointly controlled entities and associated companies

Particulars of the Group's principal jointly controlled entities and associated companies are set out in notes 39 and 38 to the accounts respectively.

Report of the Directors

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 24 to the accounts.

Distributable reserves

At 30 June 2005, the Company's reserves available for distribution amounted to HK\$1.379 billion.

Donations

During the year, the Group made charitable donations amounting to HK\$2.6 million (2004: HK\$3.9 million).

Fixed assets

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

Share capital

Details of movements in the share capital of the Company during the year are set out in note 23 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.

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 subsidiary companies has purchased or sold any of the Company's listed securities during the year.

Major customers and suppliers

The aggregate amount of turnover and purchases attributable to the Group's five largest customers and suppliers respectively accounted for less than 30% of the Group's total turnover and purchases for the year ended 30 June 2005.

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.

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 Doo Wai Hoi, William

Mr Chan Kam Ling

Mr Tsang Yam Pui

Mr Wong Kwok Kin, Andrew

Mr Lam Wai Hon, Patrick

Mr Cheung Chin Cheung

Non-executive directors:

Mr Wilfried Ernst Kaffenberger

Mr To Hin Tsun, Gerald

Mr Dominic Lai

(re-designated from independent non-executive director to non-executive director on 28 September 2004)

Mr Yeung Kun Wah, David

(alternate director to Mr Wilfried Ernst Kaffenberger)

Mr Kwong Che Keung, Gordon *

Mr Cheng Wai Chee, Christopher *

The Honourable Shek Lai Him, Abraham *

(appointed on 28 September 2004)

* Independent non-executive directors

In accordance with the bye-law 87 of the Company's bye-laws, Dr Cheng Kar Shun, Henry, Mr Doo Wai Hoi, William, Mr Chan Kam Ling and Mr Wong Kwok Kin, Andrew will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Directors' interests in contracts

Save for the contracts amongst group companies, no other contracts of significance to which the Company or any of its subsidiary companies was a party and in which a director of the Company had an interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' service contracts

Save as disclosed above, 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 of compensation (other than statutory compensation).

Report of the Directors

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 business which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules") as set out below:

Name	Name of entity which businesses are considered to compete or likely to compete with the businesses of the Group	Description of business 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	HKR International Limited group of companies	Construction and property management	Director
	Shun Tak Holdings Limited group of companies	Investment in ferry services business	Director
	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 Lam Wai Hon, Patrick	Wai Kee Holdings Limited group of companies	Contracting	Director

Directors' rights to acquire shares or debentures

Save as the interests disclosed in the section headed "Directors' and Chief Executive's interests in securities" below, at no time during the year was the Company, or any of its holding companies, subsidiary companies or fellow subsidiary companies 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.

Directors' and Chief Executive's interests in securities

As at 30 June 2005, the directors, the chief executive and their respective associates had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to section 352 of the SFO:

(a) Interests in shares of the Company

Name	Number of shares			Total	Approximate percentage of issued share capital of the Company as at 30.06.05
	Personal interests	Family interests	Corporate interests		
Dr Cheng Kar Shun, Henry	2,000,000	587,000 ⁽¹⁾	8,000,000 ⁽²⁾	10,587,000	0.58%
Mr Doo Wai Hoi, William	1,333,333	–	826,000 ⁽³⁾	2,159,333	0.12%
Mr Chan Kam Ling	767,324	–	10,254,321 ⁽⁴⁾	11,021,645	0.60%
Mr Wong Kwok Kin, Andrew	4,068,348	2,650,051 ⁽⁵⁾	–	6,718,399	0.37%
Mr Lam Wai Hon, Patrick	317,384	–	4,551 ⁽⁶⁾	321,935	0.02%
Mr Cheung Chin Cheung	771,723	–	–	771,723	0.04%
Mr Kwong Che Keung, Gordon	400,000	–	–	400,000	0.02%
Mr Cheng Wai Chee, Christopher	406,866	–	–	406,866	0.02%
Dr Cheng Chi Pang, Leslie	176,759	–	–	176,759 ⁽⁷⁾	0.01%

Notes:

- (1) The shares are held by the spouse of Dr Cheng Kar Shun, Henry.
- (2) The shares are held by a company wholly owned by Dr Cheng Kar Shun, Henry.
- (3) The shares are held by a company wholly owned by Mr Doo Wai Hoi, William.
- (4) The shares are held by a company of which Mr Chan Kam Ling holds 50% equity interests.
- (5) The shares are held by the spouse of Mr Wong Kwok Kin, Andrew.
- (6) The shares are held by a company wholly owned by Mr Lam Wai Hon, Patrick.
- (7) Dr Cheng Chi Pang, Leslie ceased to be a chief executive of the Company with effect from 12 March 2005 and the closing balance of his interest refers to the balance as at the date of cessation.
- (8) All the interests stated above represent long positions.

Report of the Directors

Directors' and Chief Executive's interests in securities (Continued)

(b) Interests in shares of associated corporations of the Company

	Number of shares/ amount of registered capital			Total	Approximate percentage of issued share/ registered capital as at 30.06.05
	Personal interests	Family interests	Corporate interests		
New World Development Company Limited					
(Ordinary shares of HK\$1.00 each)					
Mr Chan Kam Ling	135,335	–	–	135,335	0.00%
Mr Cheung Chin Cheung	61,405	–	–	61,405	0.00%
Mr Kwong Che Keung, Gordon	30,000	–	–	30,000	0.00%
Dr Cheng Chi Pang, Leslie	1,400	–	–	1,400 ⁽¹⁾	0.00%
New World TMT Limited					
(Ordinary shares of HK\$1.00 each)					
Dr Cheng Kar Shun, Henry	–	1,000,000 ⁽²⁾	–	1,000,000	0.11%
Mr Doo Wai Hoi, William	–	–	12,000,000 ⁽³⁾	12,000,000	1.26%
Mr Chan Kam Ling	6,800	–	–	6,800	0.00%
Mr Cheung Chin Cheung	100,000	–	–	100,000	0.01%
Dr Cheng Chi Pang, Leslie	200	–	–	200 ⁽¹⁾	0.00%
New World China Land Limited					
(Ordinary shares of HK\$0.10 each)					
Dr Cheng Kar Shun, Henry	–	–	52,271,200 ⁽⁴⁾	52,271,200	1.39%
Mr Doo Wai Hoi, William	1,750,000	–	45,050,000 ⁽³⁾	46,800,000	1.24%
Mr Chan Kam Ling	1,000,000	–	–	1,000,000	0.03%
Mr Wong Kwok Kin, Andrew	600,000	–	–	600,000	0.02%
Fung Seng Estate Development (Shanghai) Co., Ltd.					
(Registered capital in US\$)					
Mr Doo Wai Hoi, William	–	–	US\$3,000,000 ⁽⁵⁾	US\$3,000,000	30.00%
HH Holdings Corporation					
(Ordinary shares of HK\$1.00 each)					
Mr Chan Kam Ling	15,000	–	–	15,000	2.50%
Master Services Limited					
(Ordinary shares of US\$0.01 each)					
Mr Chan Kam Ling	16,335	–	–	16,335	1.63%
Mr Wong Kwok Kin, Andrew	44,915	–	–	44,915	4.49%

Directors' and Chief Executive's interests in securities (Continued)

(b) Interests in shares of associated corporations of the Company (Continued)

	Number of shares/ amount of registered capital			Total	Approximate percentage of issued share/ registered capital as at 30.06.05
	Personal interests	Family interests	Corporate interests		
Ramada Property Ltd.					
(Ordinary shares of US\$1.00 each)					
Mr Doo Wai Hoi, William	–	–	200 ⁽³⁾	200	20.00%
Shanghai Ju Yi Real Estate Development Co., Ltd.					
(Registered capital in RMB)					
Mr Doo Wai Hoi, William	–	–	RMB105,000,000 ⁽⁵⁾	RMB105,000,000	30.00%
Tai Fook Securities Group Limited					
(Ordinary shares in HK\$0.10 each)					
Mr Doo Wai Hoi, William	–	–	4,346,000 ⁽³⁾	4,346,000	0.74%
Wai Kee Holdings Limited					
(Ordinary shares of HK\$0.10 each)					
Mr Lam Wai Hon, Patrick	300,000	–	–	300,000	0.04%
Dr Cheng Chi Pang, Leslie	500,000	–	–	500,000 ⁽¹⁾	0.06%

Notes:

- (1) Dr Cheng Chi Pang, Leslie ceased to be a chief executive of the Company with effect from 12 March 2005 and the closing balance of his interest refers to the balance as at the date of cessation.
- (2) The shares are held by the spouse of Dr Cheng Kar Shun, Henry.
- (3) The shares are held by a company wholly owned by Mr Doo Wai Hoi, William.
- (4) The shares are held by a company wholly owned by Dr Cheng Kar Shun, Henry.
- (5) The interests represent the participating interests held by a company wholly owned by Mr Doo Wai Hoi, William.
- (6) All the interests stated above represent long positions.

Report of the Directors

Directors' and Chief Executive's interests in securities (Continued)

(c) Interests in underlying shares of the Company – share options

As at 30 June 2005, the following directors and chief executive of the Company have personal interests in options to subscribe for shares of the Company:

Name	Date of grant	Exercisable period (Note)	Number of share options				Balance as at 30.06.05	Exercise price per share ⁽¹⁴⁾ HK\$
			Balance as at 01.07.04	Exercised during the year	Adjusted during the year ⁽¹⁴⁾	Lapsed during the year		
Dr Cheng Kar Shun, Henry	21 July 2003	(1)	2,000,000	(1,000,000) ⁽⁴⁾	(1,000,000)	–	–	3.725
			–	–	1,009,849	–	1,009,849	3.719
Mr Doo Wai Hoi, William	21 July 2003	(1)	1,333,334	(666,667) ⁽⁴⁾	(666,667)	–	–	3.725
			–	–	673,233	–	673,233	3.719
Mr Chan Kam Ling	21 July 2003	(1)	1,333,334	(666,667) ⁽⁵⁾	(666,667)	–	–	3.725
			–	–	673,233	–	673,233	3.719
Mr Wong Kwok Kin, Andrew	21 July 2003	(1)	933,334	(466,667) ⁽⁶⁾	(466,667)	–	–	3.725
			–	–	471,263	–	471,263	3.719
Mr Lam Wai Hon, Patrick	21 July 2003	(1)	933,334	(366,667) ⁽⁷⁾	(566,667)	–	–	3.725
			–	–	572,248	–	572,248	3.719
Mr Cheung Chin Cheung	11 May 1999	(2)	300,000	(300,000) ⁽⁸⁾	–	–	–	6.930
	21 July 2003	(1)	400,000	(200,000) ⁽⁹⁾	(200,000)	–	–	3.725
			–	–	201,969	–	201,969	3.719
Mr Wilfried Ernst Kaffenberger	21 July 2003	(3)	600,000	–	(600,000)	–	–	3.725
			–	–	605,909	–	605,909	3.719
Mr To Hin Tsun, Gerald	21 July 2003	(1)	400,000	(200,000) ⁽¹⁰⁾	(200,000)	–	–	3.725
			–	–	201,969	–	201,969	3.719
Mr Dominic Lai	21 July 2003	(1)	400,000	(200,000) ⁽¹¹⁾	(200,000)	–	–	3.725
			–	–	201,969	–	201,969	3.719
Mr Kwong Che Keung, Gordon	21 July 2003	(1)	400,000	(200,000) ⁽¹²⁾	(200,000)	–	–	3.725
			–	–	201,969	–	201,969	3.719
Mr Cheng Wai Chee, Christopher	21 July 2003	(3)	600,000	(400,000) ⁽¹³⁾	(200,000)	–	–	3.725
			–	–	201,969	–	201,969	3.719
Dr Cheng Chi Pang, Leslie	21 July 2003	(3)	300,000	–	–	–	300,000 ⁽¹⁵⁾	3.725

Directors' and Chief Executive's interests in securities (Continued)

(c) Interests in underlying shares of the Company – share options (Continued)

Notes:

- (1) Divided into 2 tranches exercisable from 21 July 2004 and 21 July 2005 respectively to 20 July 2008, both dates inclusive.
- (2) 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.
- (3) Divided into 3 tranches exercisable from 21 January 2004, 21 July 2004 and 21 July 2005 respectively to 20 July 2008, both dates inclusive.
- (4) The exercise date was 19 October 2004. On 18 October 2004, being the trading date immediately before the share options were exercised, the closing price per share was HK\$10.10.
- (5) The exercise date was 25 October 2004. On 21 October 2004, being the trading date immediately before the share options were exercised, the closing price per share was HK\$10.50.
- (6) The exercise date was 25 August 2004. On 24 August 2004, being the trading date immediately before the share options were exercised, the closing price per share was HK\$8.80.
- (7) The exercise dates were 1 April 2005 and 6 April 2005 for options representing 300,000 shares and 66,667 shares respectively. On 31 March 2005 and 4 April 2005, being the trading dates immediately before the share options were exercised, the closing price per share was HK\$11.00 and HK\$10.85 respectively.
- (8) The exercise date was 16 September 2004. On 15 September 2004, being the trading date immediately before the share options were exercised, the closing price per share was HK\$9.30.
- (9) The exercise date was 22 November 2004. On 19 November 2004, being the trading date immediately before the share options were exercised, the closing price per share was HK\$11.10.
- (10) The exercise date was 21 October 2004. On 20 October 2004, being the trading date immediately before the share options were exercised, the closing price per share was HK\$11.10.
- (11) The exercise date was 4 August 2004. On 3 August 2004, being the trading date immediately before the share options were exercised, the closing price per share was HK\$8.60.
- (12) The exercise date was 15 November 2004. On 12 November 2004, being the trading date immediately before the share options were exercised, the closing price per share was HK\$11.25.
- (13) The exercise date was 30 November 2004. On 29 November 2004, being the trading date immediately before the share options were exercised, the closing price per share was HK\$11.10.
- (14) Pursuant to the 2001 Share Option Scheme (as defined hereinafter), the number of unexercised share options and exercise price are subject to adjustment in case of alteration in the capital structure of the Company. The Company declared the interim dividend for the year ended 30 June 2005 in scrip form (with cash option) on 14 March 2005 which gave rise to an adjustment to the number of unexercised share options and the exercise price in accordance with the said scheme. The exercise price per share of share options was adjusted from HK\$3.725 to HK\$3.719 with effect from 30 June 2005.
- (15) Dr Cheng Chi Pang, Leslie ceased to be a chief executive of the Company with effect from 12 March 2005 and the closing balance of his interest refers to the balance as at the date of cessation. His interest in the share options of the Company was re-classified as employee's interest after his cessation as a chief executive of the Company.
- (16) The cash consideration paid by each director or chief executive for the share options granted on 21 July 2003 was HK\$10.
- (17) All the interests stated above represent long positions.

Report of the Directors

Directors' and Chief Executive's interests in securities (Continued)

(d) Interests in underlying shares of associated corporations of the Company – share options

(i) New World China Land Limited

Under the share option scheme of New World China Land Limited (“NWCL”), a fellow subsidiary company of the Company, the following directors of the Company have personal interests in options to subscribe for shares in NWCL which have been granted to them as follows:

Name	Date of grant	Exercisable period ⁽¹⁾	Number of share options				Exercise price per share ⁽²⁾ HK\$
			Balance as at 01.07.04	Exercised during the year	Adjusted during the year ⁽²⁾	Balance as at 30.06.05	
Dr Cheng Kar Shun, Henry	7 February 2001	8 March 2001 to 7 March 2006	5,000,000	–	(5,000,000)	–	1.955
			–	–	12,500,000	12,500,000	1.782
Mr Doo Wai Hoi, William	8 February 2001	9 March 2002 to 8 March 2006	2,800,000	–	(2,800,000)	–	1.955
			–	–	7,000,000	7,000,000	1.782
Mr Chan Kam Ling	9 February 2001	10 March 2005 to 9 March 2006	400,000	(300,000)	(100,000)	–	1.955
			–	–	250,000	250,000	1.782

Notes:

- (1) The share options are exercisable within five years commencing from one month after the date of grant, provided that the maximum number of share options that can be exercised during each anniversary year is 20% of the total share options granted together with any unexercised share options carried forward from the previous anniversary years.
- (2) Pursuant to the share option scheme of NWCL, the number of share options and exercise price are subject to adjustment in case of alteration in NWCL's capital structure. Accordingly, the rights issue as announced by NWCL on 18 February 2005 constitutes an event giving rise to an adjustment to the exercise price and number of outstanding share options in accordance with the share option scheme. The exercise price per share of the share options has been adjusted from HK\$1.955 to HK\$1.782 with effect from 9 April 2005.
- (3) The cash consideration paid by each director for each grant of the share options was HK\$10.
- (4) All the interests stated above represent long positions.

Directors' and Chief Executive's interests in securities (Continued)

(d) Interests in underlying shares of associated corporations of the Company – share options (Continued)

(II) New World Mobile Holdings Limited

Under the share option scheme of New World Mobile Holdings Limited (“NWMH”), a fellow subsidiary company of the Company, the following directors of the Company have personal interests in options to subscribe for shares in NWMH which have been granted to them as follows:

Name	Date of grant	Exercisable period	Number of share options			Exercise price per share HK\$
			Balance as at 01.07.04	Granted during the year	Balance as at 30.06.05	
Dr Cheng Kar Shun, Henry	28 January 2005	28 January 2005 to 31 December 2010	–	780,000	780,000	1.26
Mr Doo Wai Hoi, William	28 January 2005	28 January 2005 to 31 December 2010	–	300,000	300,000	1.26
Mr To Hin Tsun, Gerald	28 January 2005	28 January 2005 to 31 December 2010	–	482,000	482,000	1.26
Mr Kwong Che Keung, Gordon	28 January 2005	28 January 2005 to 31 December 2010	–	78,000	78,000	1.26

Notes:

- (1) No share option of NWMH was exercised by the above directors during the year.
- (2) The cash consideration paid by each director for each grant of the share options was HK\$1.
- (3) All the interests stated above represent long positions.

Save as disclosed above, no interests and short positions were held or deemed to be taken to be held under Part XV of the SFO by any director or chief executive of the Company or their respective associates in the shares, the underlying shares and debentures of the Company or any of its associated corporations which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which are required pursuant to section 352 of the SFO to be entered in the register referred to therein.

Report of the Directors

Share Option Schemes

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 grant options to executive directors or full-time employees of the Group to subscribe for shares in the Company. Subsequent to the amendment of Chapter 17 of the Listing Rules in 2001, a new share option scheme was adopted by the Company on 6 December 2001 thereafter certain rules of such scheme were altered and approved by the shareholders of the Company held on 12 March 2003 (the “2001 Share Option Scheme”). Under the 2001 Share Option Scheme, the directors of the Company may at their discretion grant options to any eligible participants as defined in the scheme to subscribe for shares in the Company.

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 the scheme	As incentive to executive directors and employees of the Group.	To reward directors and employees of the Group for past service or performance, to provide incentive and motivation or reward to eligible participants for increase performance or making contribution to the Group, to attract and retain persons of right caliber with the necessary experience to work for the Group and to foster a sense of corporate identity.
Participants of the scheme	Executive directors or full-time employees of the Group.	Eligible participant may be a person or an entity belonging to any of the following classes: (i) any eligible employee; (ii) any non-executive director (including independent non-executive director) of the Group or any invested entity of the Group (the “Invested Entity”); (iii) any supplier of goods or services to any member of the Group or any Invested Entity; (iv) any customer of any member of the Group or any Invested Entity; (v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; (vi) any shareholder of any member of the Group or any invested entity or any holder of any securities issued by any member of the Group or any Invested Entity; (vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and

Share Option Schemes (Continued)

	1997 Share Option Scheme	2001 Share Option Scheme
Total number of shares available for issue under the scheme and percentage of issued share capital as at the date of this annual report	Options to subscribe for 2,000,000 shares had been granted by the Company under this scheme. This Scheme was expired on 11 April 2000 and no further share option can be granted. All unexercised share options granted under this scheme were lapsed on 5 November 2004.	(viii) any joint venture partner or business alliance that co-operates with any member of the Group or any Invested Entity in any area of business operation or development. The Company had granted options to certain eligible persons to subscribe for 41,497,000 shares of the Company under this scheme up to the date of this report. Furthermore, an adjustment on the number of unexercised options were made on 30 June 2005 as a result of the declaration of interim scrip dividend for the year end 30 June 2005. A total of 142,723 additional options were granted under the said adjustment. The total number of shares available for issue under this scheme is 138,225,201 representing approximately 7.54% of the Company's issued share capital as at the date of this report.
Maximum entitlement of each participant under the scheme	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 for which share options may be granted.	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 share capital of the Company in issue.
The period which the shares must be taken up under an option	At any time during a period as specified by the directors, which shall not be more than 10 years from the date of grant of the options.	At any time during a period as specified by the directors, however in any event the share options must be exercised within 10 years from the date of grant of the options.
The minimum period for which an option must be held before it can be exercised	Any period as determined by the directors.	Any period as determined by the directors.
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	Nil	HK\$10 is to be paid as consideration for the grant of option within 14 days from the date of offer.

Report of the Directors

Share Option Schemes (Continued)

	1997 Share Option Scheme	2001 Share Option Scheme
The basis of determining the exercise price	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 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 price 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 remaining life of the scheme	The scheme was expired on 11 April 2000.	The scheme shall be valid and effective for a period of ten years from the date of adoption, i.e. 6 December 2001.

During the financial year ended 30 June 2005, movement of share options granted by the Company under the 1997 Share Option Scheme and the 2001 Share Option Scheme were as follows:

- (1) Details of the movement of share options granted to directors and chief executive of the Company are disclosed under the section headed "Directors' and Chief Executive's interests in securities" above.
- (2) Details of the movement of share options to other eligible persons were as follows:
 - (a) Under the 1997 Share Option Scheme

Date of grant	Exercisable period (Note)	Number of share options				Balance as at 30.06.05	Exercise price per share HK\$
		Balance as at 01.07.04	Exercised during the year	Lapsed during the year	Adjusted during the year		
11 May 1999	(1)	1,600,000	(1,000,000)	(600,000)	–	–	6.930
11 May 1999	(2)	30,000	(30,000)	–	–	–	6.930

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) Exercisable from 5 May 2004 to 4 November 2004, both dates inclusive.
- (3) The weighted average closing price of the shares immediately before the date on which share options were exercised was HK\$10.893.

Share Option Schemes (Continued)

(b) Under the 2001 Share Option Scheme

Date of grant	Exercisable period (Note)	Number of share options				Balance as at 30.06.05	Exercise price per share ⁽²⁾ HK\$
		Balance as at 01.07.04	Exercised during the year	Lapsed during the year	Adjusted during the year ⁽²⁾		
21 July 2003	(1)	19,202,002	(9,179,060)	(752,677)	(9,270,265)	–	3.725
		–	–	–	9,664,076	9,664,076 ⁽³⁾	3.719

Notes:

- (1) Divided into 3 tranches exercisable from 21 January 2004, 21 July 2004 and 21 July 2005 respectively to 20 July 2008, both dates inclusive.
- (2) Pursuant to the 2001 Share Option Scheme, the number of unexercised share options and exercise price are subject to adjustment in case of alteration in the capital structure of the Company. The Company declared the interim dividend for the year ended 30 June 2005 in scrip form (with cash option) on 14 March 2005 which gave rise to an adjustment to the number of unexercised share options and the exercise price in accordance with the said scheme. The exercise price per share of share options was adjusted from HK\$3.725 to HK\$3.719 with effect from 30 June 2005.
- (3) The balance includes the interest in 300,000 share options of the Company held by Dr Cheng Chi Pang, Leslie which was re-classified as employee's interest from chief executive's interest with effect from the date of his cessation as a chief executive of the Company, i.e. 12 March 2005.
- (4) The weighted average closing price of the shares immediately before the dates on which share options were exercised was HK\$9.502.

Report of the Directors

Substantial shareholders' interest in securities

As at 30 June 2005 so far as are known to the directors, the following parties (other than a director or chief executive of the Company) were recorded in the register kept by the Company under section 336 of the SFO as being directly or indirectly interested or deemed to be interested in 5% or more of the issued share capital of the Company:

Name	Number of shares			Approximate percentage to the issued share capital of the Company
	Beneficial interests	Corporate interests	Total	
Chow Tai Fook Enterprises Limited	59,831,893	986,178,843 ⁽¹⁾	1,046,010,736	57.31%
New World Development Company Limited	675,912,210	310,266,633 ⁽²⁾	986,178,843	54.03%
Mombasa Limited	308,261,889	–	308,261,889	16.89%

Notes:

- (1) Chow Tai Fook Enterprises Limited ("CTF"), together with its subsidiary companies, have interests in more than one-third of the issued shares of New World Development Company Limited ("NWD") and CTF is accordingly deemed to have an interest in the shares interested by or deemed to be interested by NWD.
- (2) NWD holds 100% indirect interest in Mombasa Limited and is accordingly deemed to have an interest in the shares held by Mombasa Limited in the Company. NWD is also deemed to be interested in 2,004,744 shares in the Company which are held by Financial Concepts Investment Limited, a non wholly owned subsidiary company of NWD.
- (3) All the interests stated above represent long positions.

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 2005.

Sufficiency of Public Float

According to information that is available to the Company, the percentage of the Company's shares which are in the hands of the public exceeds 25% of the Company's total number of issued shares.

Connected transactions

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

- (1) Following the reorganization of the Group, which was completed on 29 January 2003, the Company was expected to engage in a number of transactions of a recurrent nature which constitute continuing connected transactions between the Group and NWD and its associates under the Listing Rules. Such transactions were categorized as construction services, electrical and mechanical engineering services ("E & M engineering services"), facility management services, property management services, security and guarding services, cleaning and landscaping services, financial services, rental of properties, etc.

As NWD indirectly owns an aggregate of approximately 54% of the listed share capital of the Company, transactions between: (i) NWD and its associates; and (ii) the Group, constitute connected transactions for the Company under the Listing Rules. The abovesaid continuing connected transactions were approved by the independent shareholders at the special general meeting of the Company held on 12 March 2003. Moreover, a conditional waiver was obtained by the Company from the Hong Kong Stock Exchange on 8 April 2003 (the "Conditional Waiver") from strict compliance with the connected transactions requirements under the then Listing Rules.

The Company made an announcement on 30 May 2005 that due to the deconsolidation of NWS Transport Services Limited from the accounts of the Company and the general adverse economic conditions in Hong Kong in recent years, a decrease in the annual turnover of the Group for the year ended 30 June 2005 was expected. The transaction values of the E & M engineering services, the facility management services, the property management services and other services (including rental of properties and the management services) under the Conditional Waiver were expected to exceed their respective annual caps.

Pursuant to the terms of the Conditional Waiver, the Company will have to comply with the reporting, announcement and independent shareholders' approval requirements with respect to those categories of continuing connected transactions with transaction values which are expected to exceed their respective annual caps. The new annual caps for the abovementioned categories of services were approved by the independent shareholders at the special general meeting of the Company held on 30 June 2005.

As at 30 June 2005, the contract amounts for each category of services were summarized as follows:

Category of services	Approximate total contract amount HK\$'m	Approximate percentage of the Group's turnover	Annual cap
Facility management services	11.3	N/A	HK\$16 million
Construction services	956.9	9.30%	25% of the Group's turnover
E & M engineering services	271.8	N/A	HK\$304 million
Property management services	29.7	N/A	HK\$45 million
Security and guarding services	23.5	0.23%	0.35% of the Group's turnover
Cleaning and landscaping services	57.1	0.56%	0.8% of the Group's turnover
Financial services	4.7	0.05%	0.1% of the Group's turnover
Rental of properties and other services	14.6	N/A	HK\$31 million

Report of the Directors

Connected transactions (Continued)

- (2) On 20 May 2004, Merryhill Group Limited (now known as NWS Transport Services Limited, "NWST") and the Company entered into a master services agreement (the "NWST Master Services Agreement") under which NWST agreed to, and procured that members of the NWST Group (including NWST and its subsidiaries) engage relevant members of the Group to provide operational services, which includes construction services, E & M engineering services, facility management services, security and guarding services, cleaning and landscaping services, financial services and property management services and such other types of services as NWST and the Company may agree upon from time to time in writing, to NWST and/or relevant members of the NWST Group during the term of the NWST Master Services Management. Moreover, under the NWST Master Services Agreement, NWST also agreed and undertook that it shall procure the relevant members of the NWST Group to rent or otherwise license spare office, commercial, storage and car-parking spaces in the depots of the relevant members of the NWST Group to members of the Group.

The transactions contemplated under the NWST Master Services Agreement were expected to be of a recurrent nature and will occur on a regular and continuing basis in the ordinary and usual course of business of the Group. As CTF is a substantial shareholder of the Company and NWST is an associate of CTF, the NWST Master Services Agreement and all the transactions contemplated thereunder constituted continuing connected transactions for the Company under the Listing Rules.

Furthermore, before the completion of the share exchange on 9 March 2004, members of the Group entered into transactions on a recurring basis with members of the New World First Holdings Limited and its subsidiaries as well as Citybus Limited and its subsidiaries (which, upon completion of the said share exchange, became members of the NWST Group) regarding the provision of the said operational services and the rental or licensing of spaces for the daily operation of the relevant parties. These transactions also became continuing connected transactions for the Company under the Listing Rules (the "Existing CCT").

As at 30 June 2005, the contract amounts for each category of services under the NWST Master Services Agreement and the Existing CCT were summarized as follows:

Category of services	Approximate total contract amount HK\$'000	Annual cap HK\$'000
<i>Contracts under the NWST Master Services Agreement:</i>		
Facility management services	678.0	15,500
Construction services	–	27,000
E & M engineering services	7.5	900
Property management services	–	900
Security and guarding services	274.0	5,500
Cleaning and landscaping services	20,219.9	35,000
Financial services	165.0	1,300
Rental or licensing of spare spaces	190.5	6,600
<i>Contracts under the Existing CCT:</i>		
Facility management services	245.6	400
E & M engineering services	72.5	95
Property management services	509.8	700
Security and guarding services	767.8	900
Cleaning and landscaping services	2,279.3	14,000
Rental or licensing of spare spaces	380.9	450

Connected transactions (Continued)

- (3) On 5 August 2004, an agreement (the “Agreement”) was entered into between 四川犍為電力(集團)股份有限公司 (unofficial translation being Sichuan Qianwei Dali Power Company Limited, “Qianwei Power Group”) and Lucrative Rich Limited, an indirect wholly owned subsidiary company of the Company, for the disposal of all the Group’s interest in 四川犍為大立電力有限公司 (unofficial translation being Sichuan Qianwei Dali Power Company Limited, “Qianwei”) at a consideration of RMB48.0 million.

The consideration is payable by Qianwei Power Group in cash by two instalments. The first instalment of RMB26.0 million was paid on the date of signing of the agreement and the remaining balance was paid in December 2004. Completion will take place upon fulfillment of all the condition precedents as set out in the agreement and on the date when the full amount of the consideration has been wired to overseas bank account specified by Lucrative Rich Limited.

Qianwei Power Group, by virtue of its substantial shareholding in Qianwei, was a connected person of the Company. The disposal of interest in Qianwei as contemplated under the abovesaid agreement constituted connected transactions for the Company under the Listing Rules.

The Company further announced on 13 December 2004 that due to the internal corporate restructuring of Qianwei Power Group, Lucrative Rich entered into two sale and purchase agreements on 13 December 2004 both with Qianwei Power Group for the transfer of its 35% interest in Qianwei to Qianwei Power Group, and its remaining 25% interest in Qianwei to Qianwei Power Group or its nominee, in replacement of the Agreement. The consideration for such disposal remains unchanged while the material terms of the Agreement remain substantially unchanged. The procedures for transfer of the said interests are arranging in progress.

- (4) On 30 May 2005, NWD and the Company entered into a master services agreement (the “NWD Master Services Agreement”) whereby (a) NWD agreed to, and agreed to procure that members of the NWD Group (as defined in the NWD Master Services Agreement) shall, to the extent practicable, engage members of the Group to provide certain operational services, which include contracting services, facility management services, security and guarding services, cleaning and landscaping services, financial services, property management services, etc., and to sell frozen food products to NWD and/or relevant members of the NWD Group and (b) the Company agreed to, and agreed to procure that members of the Group shall, to the extent practicable, engage members of the NWD Group to rent properties and vessels to the Group, during the term of the NWD Master Services Agreement.

The NWD Master Services Agreement has an initial term of three years (from 1 July 2005 to 30 June 2008). Subject to re-compliance with the reporting, announcement and independent shareholders’ approval requirements under Rules 14A.45 to 14A.48 of the Listing Rules and/or any other applicable requirements under the Listing Rules at the relevant time, the NWD Master Services Agreement may be renewed for a further term of three years unless either party gives written notice to the other party not later than two months before the expiry of the initial term.

As NWD holds approximately 54% of the total issued share capital of the Company, it is a substantial shareholder of the Company and hence, a connected person of the Company. Accordingly, the transactions contemplated under the NWD Master Services Agreement constitute continuing connected transactions of the Company. The Master Services Agreement and the continuing connected transactions contemplated thereunder were approved by the independent shareholders at the special general meeting of the Company held on 30 June 2005.

Report of the Directors

Connected transactions (Continued)

- (5) On 14 June 2005, Hip Hing Engineering (Macau) Limited (“Hip Hing (Macau)”, an indirect wholly owned subsidiary company of the Company) as management contractor entered into a management contractor agreement with Arc of Triumph Development Company Limited (“ATDL”) as developer in respect of the construction work of a 55-storey super deluxe residential, hotel and entertainment complex building with apartments, amenities and a shopping area to be constructed and developed called “Arc de Triomphe, Macau” (the “Project”) for a service fee of approximately HK\$27 million. The consideration is payable in stages according to the development and construction of the Project. Moreover, ATDL will pay Hip Hing (Macau) and Hip Hing (Macau) will pay the sub-contractors according to the arrangements between Hip Hing (Macau) and the sub-contractors under their respective construction agreements. The relevant construction work is expected to be completed in 3 phases. The first phase is expected to be completed by September 2006, the second phase by May 2008 and the third phase by February 2009.

Moreover, on the same day, Hip Hing (Macau), as a management contractor, entered into a sub-contractor construction agreement with Vibro (Macau) Limited (“Vibro (Macau)”, an indirect non-wholly owned subsidiary company of the Company), as a sub-contractor, in respect of the piling work of the Project for the contract amount of approximately MOP87.8 million (approximately HK\$83.4 million). The consideration is payable by ATDL to Hip Hing (Macau) in stages according to the progress of the piling work. Then Hip Hing (Macau) will pay Vibro (Macau) according to the arrangements in the abovesaid management contractor agreement and the said sub-contractor construction agreement. The relevant piling work is expected to be completed by September 2006.

By virtue of the fact that 40% of the equity interest in ATDL is held by Cheung Hung Development (Holdings) Limited, of which CTF Group (CTF and its subsidiaries) held 48.75% interest. CTF is the controlling shareholder of NWD while NWD is the holding company of the Company, as such, ATDL is a connected person of the Company. Thus, the abovesaid management contractor agreement constitutes a connected transaction for the Company under the Listing Rules. Furthermore, according to the arrangements of the said management contractor agreement, ATDL will make payments to Hip Hing (Macau) and Hip Hing (Macau) will make payments to Vibro (Macau) under the terms of the said sub-contractor construction agreement. As such, the said sub-contractor construction agreement also constitutes a connected transaction for the Company under the Listing Rules.

The continuing connected transactions mentioned in (1) and (2) above have been reviewed by the independent non-executive directors of the Company who have confirmed that the transactions have been entered into:

- (a) in the ordinary course of business of the Company;
- (b) on normal commercial terms;
- (c) in accordance with the relevant 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) on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (e) within the caps disclosed in the relevant press announcements.

Moreover, the Company has received from its auditors a letter reporting that the continuing connected transactions mentioned in (1) and (2) above:

- (a) were approved by the Executive Committee of the Company;
- (b) were in accordance with the terms of the relevant agreements governing such transactions; and

Connected transactions (Continued)

(c) were within the caps, where appropriate, set out under the relevant press announcements.

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

Disclosure pursuant to Rules 13.20 and 13.22 of the Listing Rules

The information as required to disclose under Rules 13.20 and 13.22 of the Listing Rules in relation to the Company's advance to an entity and the financial assistance and guarantees to affiliated companies provided by the Company are as follows:

(a) Advance to an entity

As at 30 June 2005, the Group has made advances to First Star Development Limited ("First Star", a jointly controlled entity of the Group which is engaged in the investment of a property development project) in the aggregate amount of HK\$1.563 billion for financing its project costs. Such advances include the sum of HK\$562.8 million due from First Star, which is interest free, unsecured and has no fixed repayment term, and guarantees provided by the Group up to the amount of HK\$1.0 billion for certain banking facilities offered to First Star. These advances represent approximately 8% of the total market capitalization of the Company.

(b) Financial assistance and guarantees to affiliated companies

As at 30 June 2005, the Group has provided financial assistance, by way of shareholder loans/advances, in the aggregate amount of HK\$2.598 billion to its affiliated companies (included in amounts disclosed in notes 14, 15 and 18 to the accounts), guaranteed bank loans and other borrowing facilities for the benefit of the affiliated companies in the amount of HK\$1.067 billion (included in the amounts disclosed in note 31 to the accounts) and contracted to provide an aggregate amount of HK\$15.8 million in capital and loans to affiliated companies. The said amounts, in aggregate, represents approximately 18% of the total market capitalization of the Company.

The advances are unsecured, interest free and have no definite repayment terms except for an aggregate amount of HK\$454.6 million which carry interest ranging from 2% to 10% per annum, an amount of HK\$7.8 million which carries interest at Hong Kong prime rate per annum, and an amount of HK\$731.2 million which is repayable on or before 2010. Contracted capital and loan contributions to affiliated companies would be funded by borrowings or internal resources of the Group.

Pursuant to Rule 13.22 of the Listing Rules, a proforma combined balance sheet of those affiliated companies with financial assistance from the Group and the Group's attributable interest in those affiliated companies as at 30 June 2005 are presented as follows:

	Proforma combined balance sheet HK\$m	Group's attributable interest HK\$m
Non-current assets	21,608.2	9,352.9
Current assets	9,870.2	3,614.3
Current liabilities	(7,281.3)	(2,812.6)
Non-current liabilities	(5,622.2)	(2,199.9)
Shareholders' loan and advances	(6,964.8)	(2,597.5)
	11,610.1	5,357.2

Report of the Directors

Disclosure pursuant to Rules 13.20 and 13.22 of the Listing Rules (Continued)

(b) Financial assistance and guarantees to affiliated companies (Continued)

The proforma combined balance sheet of the affiliated companies is prepared by combining their balance sheets, after making adjustments to conform with the Group's significant accounting policies and re-grouping into significant balance sheet classification, as at 30 June 2005.

Employees and remuneration policies

As at 30 June 2005, over 43,000 staff were employed by entities under the Group's management of which some 28,000 were employed in Hong Kong. Total staff related costs, excluding directors' remunerations, were HK\$2.189 billion (2004: HK\$2.789 billion) of which provident funds and staff bonuses were included. Remuneration packages including salaries, bonuses and share options are granted to employees according to individual performance and are reviewed according to general market conditions every year. Structured training programmes were provided to employees on an ongoing basis.

Details of the retirement benefits schemes of the Company are set out in note 29 to the accounts.

Five-year financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 124 and 125.

Auditors

The accounts for the year ended 30 June 2005 have been audited by PricewaterhouseCoopers, who 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, 5 October 2005