

DIRECTORS' REPORT

The directors present their report for the year ended 30 June 2004:

PRINCIPAL ACTIVITIES

The principal activity of the Company continues to be holding investments in various subsidiaries.

The principal activities of the Group continue to be the development of and investment in properties for sale and rent. Ancillary and supporting businesses, which are described under subsidiaries on pages 139 to 142, are integrated with the main business of the Group. Turnover and contributions to operating profit from overseas activities are immaterial. A segmented analysis of turnover and contributions to operating profit for the Group (excluding jointly controlled entities and associates) is set out below:

	Turnover		Profit from Operations before Finance Costs	
	2004 HK\$M	2003 HK\$M	2004 HK\$M	2003 HK\$M
Property				
Property sales	10,004	12,543	2,401	2,769
Rental income	4,978	5,175	3,729	3,857
	14,982	17,718	6,130	6,626
Hotel operation	597	510	227	154
Telecommunications	3,367	1,095	492	120
Other businesses	2,818	3,622	595	530
	21,764	22,945	7,444	7,430
Other revenue			633	332
Unallocated administrative expenses			(492)	(502)
Profit from operations before impairment of properties			7,585	7,260
Impairment of properties			–	(1,229)
Profit from operations			7,585	6,031

GROUP PROFITS

Profit after taxation, including shares of profit from jointly controlled entities and associates, amounted to HK\$7,200 million (2003 (restated): HK\$6,356 million). After taking minority interests into account, profit attributable to shareholders was HK\$6,923 million (2003 (restated): HK\$6,370 million).

DIVIDENDS

An interim dividend of HK\$0.60 per share (2003: HK\$0.60) was paid on 6 April 2004. The directors recommend a final dividend of HK\$1.05 per share (2003: HK\$1.00), making a total dividend of HK\$1.65 per share for the full year ended 30 June 2004 (2003: HK\$1.60).

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company did not redeem any of its ordinary shares during the year. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's ordinary shares during the year.

SHARE PREMIUM AND RESERVES

Movements in the share premium and reserves of the Company and the Group during the year are shown in note 28 to the financial statements.

DIRECTORS' REPORT

FIXED ASSETS

Movements of fixed assets during the year are shown in note 12 to the financial statements.

GROUP FINANCIAL SUMMARY

The results, assets and liabilities of the Group for the last 5 years are summarized on page 78.

PROPERTIES

Particulars of major investment properties held by the Group are set out on pages 38 to 39.

DIRECTORS

The list of directors is set out on page 4 of the report and their particulars are set out on pages 96 to 99. All directors, other than Mr. So Hing-woh, Victor who resigned as an executive director on 1 July 2004. In accordance with Article 104(A) of the Company's Articles of Association, Messrs. Chung Sze-yuen, Fung Kwok-king, Victor, Woo Po-shing and Kwan Cheuk-yin, William would retire by rotation at the forthcoming Annual General Meeting and, being eligible, would offer themselves for re-election. None of the directors proposed for re-election has a service agreement with the Company or any of its subsidiaries which is not determinable within 1 year without payment of compensation, other than statutory compensation.

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to the new independence guidelines under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("the Listing Rules") and that the Company still considers such directors to be independent.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30 June 2004, the interests and short positions of directors and chief executive in shares and, in respect of equity derivatives, underlying shares and debentures of the Company and its Associated Corporations as required to be disclosed under and within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") were as follows:

1. Long positions in shares and underlying shares of the Company:

Name of Director	Personal	Child under 18 or spouse	Corporate	Others	Equity derivatives (share option)	Total	% of shares in issue
Kwok Ping-sheung, Walter	–	–	–	1,078,322,522 ¹	75,000	1,078,397,522	44.91
Lee Shau-kee	486,340	–	343,000 ²	–	–	829,340	0.03
Kwok Ping-kwong, Thomas	1,901,281	304,065	–	1,076,372,214 ¹	75,000	1,078,652,560	44.92
Kwok Ping-luen, Raymond	–	–	–	1,079,515,895 ¹	75,000	1,079,590,895	44.96
Lo Chiu-chun, Clement	137,273	62,117	–	–	–	199,390	0
Law King-wan	20,000	70,267	–	–	–	90,267	0
Chan Kai-ming	41,186	–	–	–	75,000	116,186	0
Chan Kui-yuen, Thomas	–	66,000	126,500	–	225,000	417,500	0.01
Kwong Chun	702,722	339,358	–	–	75,000	1,117,080	0.04
Wong Yick-kam, Michael	70,904	–	–	–	225,000	295,904	0.01
Wong Chik-wing, Mike	120,999	–	–	–	225,000	345,999	0.01
Woo Ka-biu, Jackson (Alternate Director to Woo Po-shing)	–	1,000	–	–	–	1,000	0

DIRECTORS' REPORT

- Notes:**
1. Of these shares in the Company, Messrs. Kwok Ping-sheung, Walter, Kwok Ping-kwong, Thomas and Kwok Ping-luen, Raymond were deemed to be interested in 1,056,338,347 shares, which represented the same interests and were therefore duplicated amongst these three directors for the purpose of the SFO.
 2. Dr. Lee Shau-kee was deemed to be interested in the 343,000 shares held through Superfun Enterprises Limited ("Superfun"). This corporation was wholly-owned by The Hong Kong and China Gas Company Limited which was 36.72% held by Henderson Investment Limited of which 73.48% was held by Kingslee S.A., a wholly-owned subsidiary of Henderson Land Development Company Limited. Henderson Land Development Company Limited was 61.87% held by Henderson Development Limited ("Henderson Development"). Hopkins (Cayman) Limited ("Hopkins") as trustee of a unit trust (the "Unit Trust") owned all the issued ordinary shares of Henderson Development. Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick") as trustees of respective discretionary trusts, held units in the Unit Trust. The entire issued share capital of Hopkins, Rimmer and Riddick were owned by Dr. Lee Shau-kee. He was taken to be interested in these 343,000 shares held by Superfun by virtue of the SFO.

2. Long positions in shares and underlying shares of SUNeVision Holdings Ltd.:

Name of Director	Personal	Others	Equity derivatives (share option)	Total	% of shares in issue
Kwok Ping-sheung, Walter	–	1,070,000*	456,667	1,526,667	0.07
Kwok Ping-kwong, Thomas	–	1,070,000*	456,667	1,526,667	0.07
Kwok Ping-luen, Raymond	–	1,742,500*	853,333	2,595,833	0.12
Chan Kai-ming	115,000	–	–	115,000	0
Chan Kui-yuen, Thomas	–	–	520,000	520,000	0.02
Kwong Chun	300,000	–	–	300,000	0.01
Wong Yick-kam, Michael	100,000	–	420,000	520,000	0.02
Wong Chik-wing, Mike	109,000	–	–	109,000	0

* **Note:** Of these shares in the Company, Messrs. Kwok Ping-sheung, Walter, Kwok Ping-kwong, Thomas and Kwok Ping-luen, Raymond were deemed to be interested in 1,070,000 shares, which represented the same interests and were therefore duplicated amongst these three directors for the purpose of the SFO.

3. Long positions in shares and underlying shares of other Associated Corporations:

(a) SmarTone Telecommunications Holdings Limited:

Name of Director	Others	% of shares in issue
Kwok Ping-luen, Raymond	2,237,767	0.38

(b) The Kowloon Motor Bus Holdings Limited:

Name of Director	Personal	% of shares in issue
Kwok Ping-sheung, Walter	61,522	0.01
Kwok Ping-luen, Raymond	393,350	0.09
Chung Sze-yuen	18,821	0

DIRECTORS' REPORT

(c) Each of Messrs. Kwok Ping-sheung, Walter, Kwok Ping-kwong, Thomas and Kwok Ping-luen, Raymond had the following interests in shares of the following Associated Corporations:

Name of Associated Corporation	Personal	Attributable holding through corporation	Attributable % of shares in issue through corporation	Actual holding through corporation	Actual % interests in issued shares
Superindo Company Limited	10	–	–	–	10
Super Fly Company Limited	10	–	–	–	10
Splendid Kai Limited	–	2,500*	25	1,500	15
Hung Carom Company Limited	–	25*	25	15	15
Tinyau Company Limited	–	1*	50	1	50
Open Step Limited	–	8*	80	4	40

* **Note:** Messrs. Kwok Ping-sheung, Walter, Kwok Ping-kwong, Thomas and Kwok Ping-luen, Raymond were deemed to be interested in these shares, which represented the same interests and were therefore duplicated amongst these three directors for the purpose of the SFO. Those shares were held by corporations in which they were entitled to control the exercise of one third or more of the voting rights in the general meetings of those corporations.

(d) Dr. Lee Shau-kee had corporate interests in shares of the following Associated Corporations:

Name of Associated Corporation	Total	% of shares in issue
Anbok Limited	2 ²	50
Billion Ventures Limited	1 ³	50
Central Waterfront Construction Company Limited	1 ⁴	50
Central Waterfront Property Holdings Limited	95 ⁵	95
Central Waterfront Property Investment Holdings Limited	50 ⁶	50
CWP Limited	1 ⁷	50
Daily Win Development Limited	100 ⁸	25
E Man - Sanfield JV Construction Company Limited	1 ⁹	50
Everise (H.K.) Limited	1 ¹⁰	50
Fullwise Finance Limited	2 ¹¹	50
Jade Land Resources Limited	1 ¹²	25
Joy Wave Development Limited	1 ¹³	50
Karnold Way Limited	2,459 ¹⁴	24.59
Maxfine Development Limited	3,050 ¹⁵	33.33
New Treasure Development Limited	1 ¹⁶	25
Royal Peninsula Management Service Company Limited	1 ¹⁷	50
Special Concept Development Limited	1 ¹⁸	25
Star Play Development Limited	1 ¹⁹	33.33
Successful Finance Limited	1 ²⁰	50
Teamfield Property Limited	4,918 ²¹	49.18
Topcycle Construction Company Limited	1 ²²	50
Topcycle Development Limited	1 ²³	50
Topcycle Project Management Limited	1 ²⁴	50
World Space Investment Limited	4,918 ²⁵	49.18

DIRECTORS' REPORT

- Notes:**
1. *Dr. Lee Shau-kee had an indirect interest of 61.87% in Henderson Land Development Company Limited. Henderson Land Development Company Limited was 61.87% held by Henderson Development Limited ("Henderson Development"). Hopkins (Cayman) Limited ("Hopkins") as trustee of a unit trust (the "Unit Trust") owned all the issued ordinary shares of Henderson Development. Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick") as trustees of respective discretionary trusts, held units in the Unit Trust. The entire issued share capital of Hopkins, Rimmer and Riddick were owned by Dr. Lee Shau-kee. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited by virtue of the SFO.*
 2. *Dr. Lee Shau-kee was deemed to be interested in the 2 shares held through Everise (H.K.) Limited. This corporation was wholly-owned by Masterland Limited, a wholly-owned subsidiary of Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.*
 3. *Dr. Lee Shau-kee was deemed to be interested in the 1 share held through Chico Investment Limited. This corporation was wholly-owned by Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.*
 4. *Dr. Lee Shau-kee was deemed to be interested in the 1 share held through E Man Construction Company Limited. This corporation was wholly-owned by Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.*
 5. *Dr. Lee Shau-kee was deemed to be interested in the 95 shares held through Central Waterfront Property Investment Holdings Limited. This corporation was 50% held by Primeland Investment Limited of which 68.42% was held by Starland International Limited, a wholly-owned subsidiary of Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.*
 6. *Dr. Lee Shau-kee was deemed to be interested in the 50 shares held through Primeland Investment Limited. This corporation was 68.42% held by Starland International Limited, a wholly-owned subsidiary of Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.*
 7. *Dr. Lee Shau-kee was deemed to be interested in the 1 share held through Starland International Limited. This corporation was wholly-owned held by Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.*
 8. *Dr. Lee Shau-kee was deemed to be interested in the 100 shares held through Citiright Development Limited. This corporation was wholly-owned held by Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.*
 9. *Dr. Lee Shau-kee was deemed to be interested in the 1 share held through E Man Construction Company Limited. This corporation was wholly-owned held by Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.*
 10. *Dr. Lee Shau-kee was deemed to be interested in the 1 share held through Masterland Limited. This corporation was wholly-owned held by Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.*
 11. *Dr. Lee Shau-kee was deemed to be interested in the 2 shares held through Everise (H.K.) Limited. This corporation was 50% held by Masterland Limited, a wholly-owned subsidiary of Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.*
 12. *Dr. Lee Shau-kee was deemed to be interested in the 1 share held through Citiplus Limited. This corporation was wholly-owned held by Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.*
 13. *Dr. Lee Shau-kee was deemed to be interested in the 1 share held through E Man Construction Company Limited. This corporation was wholly-owned held by Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.*
 14. *Dr. Lee Shau-kee was deemed to be interested in the 2,459 shares held through Chico Investment Limited. This corporation was wholly-owned by Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.*

DIRECTORS' REPORT

15. *Dr. Lee Shau-kee was deemed to be interested in the 3,050 shares held through Quickcentre Properties Limited. This corporation was 50% held by Henderson (China) Investment Company Limited of which 100% was held by Andco Limited, a wholly-owned subsidiary of Henderson China Holdings Limited. This corporation was 65.32% held by Brightland Enterprises Limited, a wholly-owned subsidiary of Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.*
16. *Dr. Lee Shau-kee was deemed to be interested in the 1 share held through Citiplus Limited. This corporation was wholly-owned by Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.*
17. *Dr. Lee Shau-kee was deemed to be interested in the 1 share held through Well Born Real Estate Management Limited. This corporation was wholly-owned by Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.*
18. *Dr. Lee Shau-kee was deemed to be interested in the 1 share held through Citiplus Limited. This corporation was wholly-owned by Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.*
19. *Dr. Lee Shau-kee was deemed to be interested in the 1 share held through Henderson Investment Limited. This corporation was 73.48% held by Kingslee S.A., a wholly-owned subsidiary of Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.*
20. *Dr. Lee Shau-kee was deemed to be interested in the 1 share held through Join Fortune Development Limited. This corporation was wholly-owned by Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.*
21. *Dr. Lee Shau-kee was deemed to be interested in the 4,918 shares held through Billion Ventures Limited. This corporation was 50% held by Chico Investment Limited, a wholly-owned subsidiary of Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.*
22. *Dr. Lee Shau-kee was deemed to be interested in the 1 share held through E Man Construction Company Limited. This corporation was wholly-owned by Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.*
23. *Dr. Lee Shau-kee was deemed to be interested in the 1 share held through Dandy Investments Limited. This corporation was a wholly-owned subsidiary of Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.*
24. *Dr. Lee Shau-kee was deemed to be interested in the 1 share held through Dandy Investments Limited. This corporation was a wholly-owned subsidiary of Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.*
25. *Dr. Lee Shau-kee was deemed to be interested in the 4,918 shares held through Billion Ventures Limited. This corporation was 50% held by Chico Investment Limited, a wholly-owned subsidiary of Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.*

The interests of the directors and the chief executive in the share options (being regarded for the time being as unlisted physically settled equity derivatives) of the Company and its Associated Corporations are stated in detail in the Share Option Schemes section stating below.

Save as disclosed above, as at 30 June 2004, none of the directors and the chief executive of the Company were, under Divisions 7 and 8 of Part XV of the SFO, taken to be interested or deemed to have any other interests or short positions in shares, underlying shares or debentures of the Company and its Associated Corporations, that were required to be entered into the register kept by the Company pursuant to section 352 of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

DIRECTORS' REPORT

SHARE OPTION SCHEMES

1. Share Option Schemes of the Company

The Company once adopted a share option scheme on 20 November 1997 ("the Old Scheme"). Since its adoption, the Company had granted two lots of share options on 15 February 2000 and 16 July 2001. All options granted and accepted can still be exercised up to one third during the second year from the date of grant, up to two thirds during the third year from the date of grant, and in whole or in part during the fourth and fifth years from the date of grant, thereafter the relevant option will expire.

The Company by ordinary resolutions passed at its extraordinary general meeting held on 5 December 2002 has adopted a new share option scheme ("the New Scheme") and terminated the Old Scheme in order to comply with the new requirements under the then revised Chapter 17 of the Listing Rules. No further options may be offered under the Old Scheme. However, the outstanding options granted under the Old Scheme mentioning in the following paragraphs shall continue to be subject to the provisions of the Old Scheme and the revised provisions of Chapter 17 of the Listing Rules. No option shares have been granted under the New Scheme to any person since its adoption.

The following shows the outstanding positions of the directors and the chief executive as at 30 June 2004 with respect to their share options granted under the Old Scheme:

Name of director	Date of grant	Exercise price HK\$	Balance as at 1.7.2003	Granted during the year	Exercised during the year	Number of share options	
						Cancelled/Lapsed during the year	Balance as at 30.6.2004
Kwok Ping-sheung, Walter	16.7.2001	70.00	75,000	-	-	-	75,000
Kwok Ping-kwong, Thomas	16.7.2001	70.00	75,000	-	-	-	75,000
Kwok Ping-luen, Raymond	16.7.2001	70.00	75,000	-	-	-	75,000
Chan Kai-ming	16.7.2001	70.00	75,000	-	-	-	75,000
Chan Kui-yuen, Thomas	15.2.2000	70.00	150,000	-	-	-	150,000
	16.7.2001	70.00	75,000	-	-	-	75,000
Kwong Chun	16.7.2001	70.00	75,000	-	-	-	75,000
Wong Yick-kam, Michael	15.2.2000	70.00	150,000	-	-	-	150,000
	16.7.2001	70.00	75,000	-	-	-	75,000
Wong Chik-wing, Mike	15.2.2000	70.00	150,000	-	-	-	150,000
	16.7.2001	70.00	75,000	-	-	-	75,000

A summary of the movements during the year 30 June 2004 of the share options granted under the Old Scheme to the employees of the Company working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance, other than the directors and the chief executive as disclosed above, is as follows:

Date of grant	Exercise price HK\$	Balance as at 1.7.2003	Granted during the year	Exercised during the year	Number of share options	
					Cancelled/Lapsed during the year	Balance as at 30.6.2004
15.2.2000	70.00	360,000	-	-	-	360,000
16.7.2001	70.00	1,410,000	-	24,000	36,000	1,350,000

DIRECTORS' REPORT

Other than the participants as stated above, the Company had not granted since the adoption of the Old Scheme any share options to any other persons as required to be disclosed under Rule 17.07 of the Listing Rules.

Major terms of share option schemes of the Company

The major terms of the Old Scheme and the New Scheme (together as "the Schemes"), in conjunction with the requirements of Chapter 17 of the Listing Rules, are as follows:

1. The purposes of the Schemes are to provide incentives to the participants.
2. The participants of the Schemes are employees including the executive directors of the Company and its subsidiaries.
3. The total number of shares which may be issued upon exercise of all options to be granted under the Schemes must not in aggregate exceed 10% of the issued share capital of the Company at the date of approval of the New Scheme or 30% of the issued share capital of the Company from time to time. No options may be granted under the Schemes if this will result in such limit exceeded. As at 23 September 2004, the number of shares available for issue in respect thereof is 240,093,136 shares.
4. No participant shall be granted an option which, if exercised in full, would result in such participant's maximum entitlement to exceed 25% of the aggregate number of shares for the time being issued and issuable under the Old Scheme.

Pursuant to the New Scheme, the total number of shares of the Company issued and to be issued upon exercise of options (whether exercised or outstanding) granted in 12-month period to each participant must not exceed 1% of the shares of the Company in issue.

5. The exercise period of any option granted under the Old Scheme must not be more than 5 years commencing on the date of grant. The exercise period of any option granted under the New Scheme shall be determined by the Board but such period must not exceed 10 years from the date of grant of the relevant option.
6. No option can be exercised during the first year of the exercise period under the Old Scheme. Pursuant to the New Scheme, the Board has the authority to determine the minimum period for which an option must be held before it can vest, the New Scheme itself does not specify any minimum holding period.
7. Pursuant to the Schemes, the acceptance of an offer of the grant of the respective options must be made within 28 days from the date of grant with a non-refundable payment of HK\$1.00 from each grantee.
8. The exercise price of an option to subscribe for shares granted pursuant to the Schemes shall be the highest of:
 - the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date on which an offer is made to a participant, which must be a business day;
 - the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date on which an offer is made; and
 - the nominal value of the shares of the Company.
9. The Old Scheme and the New Scheme shall be valid and effective till 19 November 2007 and 4 December 2012 respectively.

2. Share Option Schemes of Subsidiaries

a. Pre-IPO Share Option Scheme of SUNeVision Holdings Ltd.

SUNeVision Holdings Ltd. ("SUNeVision") had adopted a share option scheme ("SeV Pre-IPO Share Option Scheme"). Since its adoption, SUNeVision had granted four lots of share options ("SeV Pre-IPO Share Options") pursuant to the SeV Pre-IPO Share Option Scheme.

The options at the exercise price of HK\$10.38 per share may be exercised in accordance with the terms of the relevant scheme as to:

- (i) one third of the options within 3 years commencing on 31 December 2000;
- (ii) a further one third of the options within 3 years commencing on 31 December 2001;
- (iii) the remaining one third of the options within 3 years commencing on 31 December 2002; and
- (iv) the options will expire at the close of business on 30 December 2005.

The options at the price of HK\$3.885 per share may be exercised in accordance with the terms of the relevant scheme as to:

- (i) one third of the options within 3 years commencing on 15 November 2001;
- (ii) a further one third of the options within 3 years commencing on 15 November 2002;
- (iii) the remaining one third of the options within 3 years commencing on 15 November 2003; and
- (iv) the options will expire at the close of business on 14 November 2006.

The options at the exercise price of HK\$2.34 per share may be exercised in accordance with the terms of the relevant scheme as to:

- (i) one third of the options within 3 years commencing on 20 March 2002;
- (ii) a further one third of the options within 3 years commencing on 20 March 2003;
- (iii) the remaining one third of the options within 3 years commencing on 20 March 2004; and
- (iv) the options will expire at the close of business on 19 March 2007.

The options at the exercise price of HK\$1.43 per share may be exercised in accordance with the terms of the relevant scheme as to:

- (i) one third of the options within 3 years commencing on 8 July 2003;
- (ii) a further one third of the options within 3 years commencing on 8 July 2004;
- (iii) the remaining one third of the options within 3 years commencing on 8 July 2005; and
- (iv) the options will expire at the close of business on 7 July 2008.

DIRECTORS' REPORT

b. New Share Option Scheme of SUNeVision Holdings Ltd.

SUNeVision by shareholders' resolutions passed at its annual general meeting held on 3 December 2002, has adopted a new share option scheme ("SeV New Share Option Scheme") and terminated the SeV Pre-IPO Share Option Scheme. These have become effective on 5 December 2002 as a result of the passing of ordinary resolutions approving the same by the shareholders of the Company at its extraordinary general meeting held on the same day. No further options may be offered under the SeV Pre-IPO Share Option Scheme. However, the outstanding options granted under the SeV Pre-IPO Share Option Scheme shall continue to be subject to the provisions of the Pre-IPO Share Option Scheme and the provisions of Chapter 23 of the Rules Governing the Listing of Securities on the Growth Enterprises Market of the Stock Exchange (the "GEM Listing Rules").

Since its adoption, SUNeVision had granted one lot of share options at the exercise price of HK\$1.59 per share ("SeV Share Options") which may be exercised in accordance with the terms of the SeV New Share Option Scheme as to:

- (i) an amount up to one third of the grant within 3 years commencing on 29 November 2004;
- (ii) the remaining amount but up to two thirds of the grant within 3 years commencing on 29 November 2005;
- (iii) the remaining amount within 3 years commencing on 29 November 2006; and
- (iv) the options will expire at the close of business on 28 November 2009.

The following shows the outstanding positions of the directors and chief executive of the Company as at 30 June 2004 with respect to their SeV Pre-IPO Share Options and SeV Share Options:

Name of director	Date of grant	Exercise price HK\$	Balance as at 1.7.2003	Granted during the year	Exercised during the year	Number of share options		Balance as at 30.6.2004
						Cancelled/ Lapsed during the year		
Kwok Ping-sheung, Walter	28.3.2000	10.38	415,000	-	-	138,333	276,667	456,667
	7.4.2001	2.34	180,000	-	-	-	180,000	
Kwok Ping-kwong, Thomas	28.3.2000	10.38	415,000	-	-	138,333	276,667	456,667
	7.4.2001	2.34	180,000	-	-	-	180,000	
Kwok Ping-luen, Raymond	28.3.2000	10.38	755,000	-	-	251,667	503,333	853,333
	7.4.2001	2.34	350,000	-	-	-	350,000	
Chan Kui-yuen, Thomas	28.3.2000	10.38	510,000	-	-	170,000	340,000	520,000
	7.4.2001	2.34	180,000	-	-	-	180,000	
Wong Yick-kam, Michael	28.3.2000	10.38	360,000	-	-	120,000	240,000	420,000
	7.4.2001	2.34	180,000	-	-	-	180,000	

DIRECTORS' REPORT

A summary of the movements during the year ended 30 June 2004 of the SeV Pre-IPO Share Options and the SeV Share Options granted to the employees of the Company working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance, other than the directors and chief executive as disclosed above, is as follows:

Date of grant	Exercise price HK\$	Balance as at 1.7.2003	Number of share options			Balance as at 30.6.2004	
			Granted during the year	Exercised during the year	Cancelled/Lapsed during the year		
28.3.2000	10.380	2,320,000	–	–	773,333	1,546,667	
30.11.2000	3.885	687,500	–	–	–	687,500	
7.4.2001	2.340	1,170,000	–	–	–	1,170,000	
8.7.2002	1.430	750,000	–	–	–	750,000	
29.11.2003	1.590	0	1,850,000	–	–	1,850,000	6,004,167

Other than the participants as stated above, SUNeVision had not granted since the adoption of the SeV Pre-IPO Share Option Scheme and the SeV New Share Option Scheme any options to any other persons as required to be disclosed under Rule 17.07 of the Listing Rules.

c. Valuation of the SeV Share Options

Pursuant to Rule 17.08 of the Listing Rules, the valuation of the SeV Share Options granted during the year ended 30 June 2004 is as follows:

Name of Participants	Number of Options granted on 29.11.2003	Option Value as at 29.11.2003	Option Value as at 30.06.2004
Aggregate total of Employees of the Company	1,850,000	HK\$1,418,765	HK\$1,067,080

The closing price of the share of SUNeVision immediately before the date on which such SeV Share Options were granted was HK\$1.59 (as of 28 November 2003).

According to the Black-Scholes model*, the total value of the SeV Share Options granted on 29 November 2003 was estimated at HK\$ 1,418,765 with the following variables and assumptions:

1. Risk Free Rate

3.262%, being the approximate yield of 5-year Exchange Fund Note traded on 29 November 2003.

2. Expected Volatility

47.83%, being the annualized volatility of the closing price of the shares of SUNeVision from 29 November 2002 to 28 November 2003.

DIRECTORS' REPORT

3. *Expected Dividend*

- (i) Yield : 0%, being 2003 prospective dividend yield of the shares of SUNeVision.
- (ii) Growth Rate : 0% p.a., being 3-year historical dividend growth rate of SUNeVision.

4. *Expected Life of such SeV Share Options is 6 years with the following assumptions:*

- (i) There is no material difference between the expected volatility over the whole life of such SeV Share Options and the historical volatility of the shares of SUNeVision over the period from 29 November 2002 to 28 November 2003.
- (ii) There is no material difference between the dividend growth rate over the whole life of such SeV Share Options and the historical dividend growth rate of SUNeVision over the previous 3 years.

According to the Black-Scholes model*, the total value of the SeV Share Options granted on 29 November 2003 was estimated at HK\$1,067,080 as at 30 June 2004 with the following variables and assumptions:

1. *Risk Free Rate*

3.722%, being the approximate yield of 5-year Exchange Fund Note traded on 30 June 2004.

2. *Expected Volatility*

45.72%, being the annualized volatility of the closing price of the shares of SUNeVision from 1 July 2003 to 30 June 2004.

3. *Expected Dividend*

- (i) Yield : 0%, being 2003 prospective dividend yield of the share of SUNeVision.
- (ii) Growth Rate : 0% p.a., being 5-year historical dividend growth rate of SUNeVision.

4. *Expected Life of such SeV Share Options 5.4 years with the following assumptions:*

- (i) There is no material difference between the expected volatility over the whole life of such SeV Share Options and the historical volatility of the shares of SUNeVision over the period from 1 July 2003 to 30 June 2004.
- (ii) There is no material difference between the dividend growth rate over the whole life of such SeV Share Options and the historical dividend growth rate of SUNeVision over the previous 3 years.

All the options forfeited before expiry of the SeV New Share Option Scheme will be treated as lapsed options which will not be added back to the number of shares available to be issued under the SeV New Share Option Scheme.

*** Note:** *The Black-Scholes model (the "Model") is developed to estimate the fair value of publicly traded options that have no vesting restriction and are fully transferable. The Model is only one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.*

DIRECTORS' REPORT

d. Share Option Scheme of iAdvantage Limited

The Company operates another share option scheme which was approved for iAdvantage Limited ("iAdvantage Share Option Scheme"), a subsidiary of the Company. No option shares for iAdvantage Limited ("iAdvantage") have been granted to any person since its adoption as required to be disclosed under the Listing Rules.

e. Major terms of share option schemes of the subsidiaries

The major terms of SeV Pre-IPO Share Option Scheme, SeV New Share Option Scheme and iAdvantage Share Option Scheme (together as "the SeV Schemes"), in conjunction with the requirements of Chapter 23 of the GEM Listing Rules, are as follows:

1. The purposes of the SeV Schemes are to provide incentives to their respective participants.
2. The participants of the SeV New Share Option Scheme include (i) executive or non-executive directors (or any persons proposed to be appointed as such) or any employees (whether full-time or part-time) of each member of the SUNeVision Group; (ii) any consultants, professional and other advisers to each member of the SUNeVision Group (or persons, firms or companies proposed to be appointed for providing such services); (iii) any chief executives or substantial shareholders of SUNeVision; (iv) any associates of a director, chief executive or substantial shareholder of SUNeVision; and (v) any employees of substantial shareholder of SUNeVision, as absolutely determined by the Board.

The participants of the SeV Pre-IPO Share Option Scheme include full-time employee of SUNeVision or its subsidiaries including executive directors of SUNeVision or its subsidiaries.

The participants of the iAdvantage Share Option Scheme include full-time employee of iAdvantage or its subsidiaries including executive directors of iAdvantage or its subsidiaries.

3. The total number of shares which may be issued upon exercise of all options to be granted under the SeV Pre-IPO Share Option Scheme and SeV New Share Option Scheme shall not in aggregate exceed 10% of the total number of shares in issue as at the date of the approval of the SeV New Share Option Scheme. As at 5 December 2002, the number of share available for issue in respect thereof was 202,619,750. The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the SeV Pre-IPO Share Option Scheme and SeV New Share Option Scheme must not exceed 30% of the shares in issue from time to time (or such higher percentage as may be allowed under the GEM Listing Rules). As at 23 September 2004, the number of shares available for issue in respect thereof was 202,619,750.

The maximum number of shares in respect of which options may be granted under the iAdvantage Share Option Scheme must not exceed 10% of the total number of shares of iAdvantage in issue from time to time. The issued share capital of iAdvantage as at 23 September 2004 is HK\$4. No option shares for the iAdvantage Share Option Scheme have been granted to any person since its adoption.

4. Pursuant to SeV New Share Option 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 shall not exceed 1% of the total number of shares in issue. As at 23 September 2003, the total number of Shares in issue was 2,026,197,500.

Pursuant to SeV Pre-IPO Share Option Scheme and the iAdvantage Share Option Scheme, no participant shall be granted an option which, if exercised in full, would result in such participants' maximum entitlement to exceed 25% of the aggregate number of the shares for the time being issued and issuable under the respective scheme.

DIRECTORS' REPORT

5. An option granted under the SeV New Share Option Scheme may be exercised at any time during the option period after the option has been granted by the Board. An option period is a period to be determined by the Board at its absolute discretion and notified by the Board to each grantee as being the period during which an option may be exercised, such period to expire not later than 10 years after the date of the grant of the option.

The exercise period of any option granted under the SeV Pre-IPO Share Option Scheme must not be less than 3 years to be notified by the Board of SUNeVision to each grantee which period of time shall commence on the date of grant of the option and expire on such date as determined by the Board or 28 February 2010, whichever is the earlier, and subject to the provisions for early termination contained therein.

The exercise period of any option granted under the iAdvantage Share Option Scheme must not be less than 3 years to be notified by the Board of iAdvantage to each grantee which period of time shall commence on the date of grant of the option and expire on such date as determined by the Board of iAdvantage or 28 February 2010, whichever is the earlier, and subject to the provisions for early termination contained therein.

6. Pursuant to each of the SeV New Share Option Scheme, there is neither any performance targets that need to be achieved by the grantee before an option can be exercised nor any minimum period for which an option must be held before the option can be exercised.

Pursuant to each of the SeV Pre-IPO Share Option Scheme and the iAdvantage Share Option Scheme, an option may be exercised in accordance with the terms of the respective Scheme at any time during a period to be notified by the respective Board to each grantee.

7. Pursuant to the Schemes, the acceptance of an offer of the grant of the respective options must be made within 28 days from the date of grant with a non-refundable payment of HK\$1.00 from the grantee.
8. The exercise price of an option to subscribe for shares granted pursuant to each of the SeV New Share Option Scheme and the SeV Pre-IPO Share Option Scheme shall be the highest of:
 - the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date on which an offer is made to a participant, which must be a business day;
 - the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date on which an offer is made; and
 - the nominal value of the shares of the respective company.

The exercise price of an option to subscribe for shares granted pursuant to the iAdvantage Share Option Scheme shall be determined by the Board and notified to the grantee and shall not be less than the nominal value of the shares of iAdvantage provided that in the case of a grantee which is a director of any holding company of iAdvantage which is also listed on the GEM or the Main Board or his or her associate, the subscription price shall be determined on a fair and reasonable basis and not to be less than the latest audited net tangible assets per share of iAdvantage.

9. The SeV New Share Option Scheme shall be valid and effective till 3 December 2012. Both the SeV Pre-IPO Share Option Scheme and the iAdvantage Share Option Scheme shall be valid and effective till 28 February 2010.

DIRECTORS' REPORT

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the share option schemes as mentioned above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company to acquire benefits by means of the acquisition of shares in or debenture of the Company or of any other body corporate.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2004, the long positions of every person, other than a director or the chief executive of the Company, who had an interest in shares of the Company which fall to be disclosed to the Company under Part XV of the SFO were as follows:

Name	As Trustee	Corporate interest	Other nature	Total number of shares	% of shares in issue
HSBC International Trustee Limited	1,070,254,447	772,601	8,000,000	1,079,027,048*	44.94

* **Note:** Of the above shares in the Company in which HSBC International Trustee Limited was interested, 1,056,338,347 shares were the shares referred to in the Note 1 to the section on "Directors' and Chief Executive's Interests".

INTERESTS OF OTHER PERSONS

During the year, other than the interests in shares and underlying shares of the Company and its Associated Corporations held by the directors, the chief executive and substantial shareholders stated above, there were no other persons with interests recorded in the register required to be kept under section 336 of the SFO.

BANK AND OTHER BORROWINGS

Details of bank borrowings are set out in notes 21 and 23 to the financial statements on page 130.

INTEREST CAPITALIZED

Interest capitalized during the year amounted to HK\$86 million (2003: HK\$233 million).

CHARITABLE DONATIONS

HK\$40 million was donated during the year (2003: HK\$70 million).

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

The interests of directors of the Company in competing businesses that are required to be disclosed pursuant to Rule 8.10 of the Listing Rules are as follows:

Messrs. Kwok Ping-sheung, Walter, Kwok Ping-kwong, Thomas and Kwok Ping-luen, Raymond are brothers (collectively "the Kwok Brothers") within a family whose businesses consist of property development and investment in Hong Kong through companies in which they have maintained certain personal and deemed interests. As such, they are regarded as being interested in such competing businesses ("Excluded Businesses") with the Company and its subsidiaries ("the Group"). However, when compared with the dominance and size of operations of the Group, such Excluded Businesses are immaterial. Since the Group does not have property developments and investments in locations other than in Hong Kong and Mainland and the Kwok family does not have such business in the Mainland, the Kwok Brothers are therefore not regarded to be interested in such Excluded Businesses of the Group in the Mainland.

Messrs. Kwok Ping-sheung, Walter and Kwok Ping-luen, Raymond are directors of The Kowloon Motor Bus Holdings Limited in which the Group has a substantial interest, which businesses consist of property development and investment. In this regard, each of them is regarded to be interested in such Excluded Businesses with the Group.

DIRECTORS' REPORT

Dr. Lee Shau-kee is the Chairman and Managing Director of Henderson Land Development Co. Limited and Henderson Investment Limited. He is also Chairman of The Miramar Hotel and Investment Co. Limited and The Hong Kong and China Gas Company Limited, a director of Henderson China Holdings Limited and certain subsidiaries of the aforementioned listed companies. In addition to his being a director, Dr. Lee has maintained certain personal and deemed interests in some of these companies, which businesses consist of property development and investment, property management, infrastructure, internet and telecommunication services, which constitute Excluded Businesses of the Group. Dr. Lee is a non-executive director of the Company, who is not involved in the daily management of the Group.

Messrs. Kwok Ping-luen, Raymond and Wong Yick-kam, Michael are non-executive directors of USI Holdings Limited and Mr. Wong Yick-kam, Michael also acts as alternate director to Mr. Kwok Ping-luen, Raymond. The Group has a substantial interest in the company, which businesses consist of property development and investment, and therefore each of them is regarded to be interested in such Excluded Businesses with the Group.

Other than the family businesses of the Kwok Brothers, the above-mentioned Excluded Businesses are managed by separate publicly listed companies with independent management and administration. In this respect, coupled with diligence of its independent non-executive directors and the Audit Committee, the Group is capable of carrying on its businesses independent of, and at arms length from, the Excluded Businesses mentioned above.

CONNECTED TRANSACTIONS

The Company did not have any connected transactions which were subject to the reporting requirements under Chapter 14A of the Listing Rules.

FINANCIAL ASSISTANCE AND GUARANTEES TO AFFILIATED COMPANIES

The Group has provided financial assistance to and guarantees for facilities granted to certain associated companies and jointly controlled entities (collectively the "Affiliated Companies" within the definition under Chapter 13 of the Listing Rules) which together in aggregate exceeds the relevant percentage ratios of 8% under the Listing Rules. In accordance with the continuing disclosure requirements under Rule 13.22, the Company has applied and received a waiver from the Stock Exchange to provide the following statement as an alternative of disclosing a proforma combined balance sheet of the Affiliated Companies.

Statement of indebtedness, contingent liabilities and capital commitments of the Affiliated Companies as at 30 June 2004:

	Total amounts	The Group's
	HK\$M	attributable interest
		HK\$M
Indebtedness*	69,205	30,098
Contingent liabilities	–	–
Capital commitments	3,321	1,123

* **Note:** Including advances from the bank loans guaranteed by the Group.

INTEREST IN CONTRACTS

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director had a material interest subsisted at any time during the year.

MAJOR CUSTOMERS AND SUPPLIERS

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

DIRECTORS' REPORT

AUDITORS

The retiring auditors, Messrs. Deloitte Touche Tohmatsu, have signified their willingness to continue in office. A resolution will be proposed at the Annual General Meeting to re-appoint them and to authorize the directors to fix their remuneration.

AUDIT COMMITTEE

The Audit Committee, which was established pursuant to the requirements of the Listing Rules, comprising Sir Sze-yuen Chung (Chairman), Mr. Kwan Cheuk-yin, William and Mr. Lo Chiu-chun, Clement met twice in the year.

During the meetings, the Committee reviewed and made recommendations on the improvement of the Company's financial reporting process and internal controls.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Code of Conduct regarding securities transactions by directors as set out in Appendix 10 to the Listing Rules during the relevant accounting period and all directors have complied with the required standard of dealings set out therein.

CODE OF BEST PRACTICE

In the opinion of the directors, during the relevant accounting period, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules except that the non-executive directors were not appointed for specific terms. However, the non-executive directors are subject to retirement by rotation and re-election at the annual general meetings in accordance with the Company's Articles of Association.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its directors, the directors confirm that the Company has maintained during the year the amount of public float as required under the Listing Rules.

This report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Board.

Kwok Ping-sheung, Walter
Chairman & Chief Executive

Hong Kong, 23 September 2004