

Report of the Directors

The directors submit their report together with the audited accounts of the Group for the year ended 30 June 2004.

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, transport, financial and environmental services businesses;
- (ii) the development, investment, operation and/or management of toll roads, expressways, bridges and tunnel, power plant, water treatment and waste management plants; and
- (iii) the development, investment, operation and management of container handling, logistics and warehousing businesses.

An analysis of the Group's performance for FY2004 by business and geographical segments is set out in Note 2 to the accounts.

Results and appropriations

The results of the Group for FY2004 and the state of affairs of the Company and the Group at 30 June 2004 are set out in the accounts on pages 66 to 127.

The directors recommend the payment of a final dividend of HK\$0.25 (2003: HK\$0.20) per share which, together with the interim dividend paid on 30 April 2004 of HK\$0.15 (2003: Nil) per share, make total dividends for FY2004 of HK\$0.40 (2003: HK\$0.20) per share. This represents a total distribution for FY2004 of HK\$718.7 million (2003: HK\$367.6 million). Subject to the approval of the final dividend by the shareholders at the annual general meeting of the Company on 6 December 2004, it is expected that the final dividend will be paid to the shareholders whose names appear on the register of members of the Company on 6 December 2004.

The register of members of the Company will be closed from Wednesday, 1 December 2004 to Monday, 6 December 2004, both dates inclusive, during which period no transfer of shares will be registered. Dividend warrants will be despatched to shareholders on or about Wednesday, 15 December 2004. In order to qualify for the 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 Tuesday, 30 November 2004.

Subsidiary companies

Particulars of the Company's principal subsidiary companies are set out in Note 38 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 40 and 39 to the accounts respectively.

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Reserves

Details of movements in the reserves of the Company and the Group during FY2004 are set out in Note 25 to the accounts.

Distributable reserves

At 30 June 2004, the Company's reserves available for distribution amounted to HK\$892.8 million. In addition, the Company's share premium account, in the amount of HK\$7.188 billion, may be distributed in the form of fully paid bonus shares.

Donations

During FY2004, the Group made charitable donations amounting to HK\$3.9 million (2003: HK\$0.1 million).

Fixed assets

Details of movement in the fixed assets of the Company and the Group during FY2004 are set out in Note 12 to the accounts.

Share capital

Details of movement in the share capital of the Company during FY2004 are set out in Note 24 to the accounts.

Convertible bonds

During FY2004, NWSH Capital Finance Limited, a wholly owned subsidiary company of the Company, issued zero coupon guaranteed convertible bonds in the aggregate principal amount of HK\$1.350 billion. The bonds are guaranteed by the Company and are convertible at any time on and after 27 May 2004 and prior to 11 April 2009 into shares of HK\$1.00 each in the share capital of the Company at the conversion price of HK\$13.63 per share.

The directors consider that the issue of the bonds can strengthen the capital base of the Group.

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 FY2004. Neither the Company, nor any of its subsidiary companies has purchased or sold any of the Company's listed securities during FY2004.

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 FY2004.

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 FY2004.

Directors

The directors of the Company during FY2004 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 Wong Kwok Kin, Andrew

Mr Lam Wai Hon, Patrick

Mr Cheung Chin Cheung

(appointed on 1 October 2003)

Mr Tsang Yam Pui

(appointed on 10 June 2004)

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)

Mr Wong Kin Chow, Michael *

(resigned on 1 August 2003)

* Independent non-executive directors

In accordance with the bye-laws of the Company, Messrs Tsang Yam Pui, Shek Lai Him, Abraham, To Hin Tsun, Gerald, Dominic Lai and Kwong Che Keung, Gordon 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 FY2004 or at any time during this year.

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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).

Directors' interests in competing business

During FY2004 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 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	Chow Tai Fook Enterprises Limited group of companies	Investment in bus services business	Director
	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 FY2004 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 2004, 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 30.06.04
	Personal interests	Family interests	Corporate interests		
Dr Cheng Kar Shun, Henry	1,000,000	587,000 ⁽¹⁾	–	1,587,000	0.09%
Mr Doo Wai Hoi, William	666,666	–	826,000 ⁽²⁾	1,492,666	0.08%
Mr Chan Kam Ling	670,657	–	10,254,321 ⁽³⁾	10,924,978	0.61%
Mr Wong Kwok Kin, Andrew	3,601,681	2,650,051 ⁽⁴⁾	–	6,251,732	0.35%
Mr Lam Wai Hon, Patrick	502,466	–	265,139 ⁽⁵⁾	767,605	0.04%
Mr Cheung Chin Cheung	258,700	–	–	258,700	0.01%
Mr Kwong Che Keung, Gordon	200,000	–	–	200,000	0.01%
Dr Cheng Chi Pang, Leslie	176,759	–	–	176,759	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 Mr Doo Wai Hoi, William.
- (3) The shares are held by a company of which Mr Chan Kam Ling holds 50% equity interests.
- (4) The shares are held by the spouse of Mr Wong Kwok Kin, Andrew.
- (5) The shares are held by a company wholly owned by Mr Lam Wai Hon, Patrick.
- (6) All the interests stated above represent long positions.

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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 capital as at 30.06.04
	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 Kwong Che Keung, Gordon	30,000	–	–	30,000	0.00%
Mr Cheung Chin Cheung	60,652	–	–	60,652	0.00%
Dr Cheng Chi Pang, Leslie	1,400	–	–	1,400	0.00%
New World TMT Limited					
(Ordinary shares of HK\$1.00 each)					
Dr Cheng Kar Shun, Henry	–	1,000,000 ⁽¹⁾	–	1,000,000	0.11%
Mr Doo Wai Hoi, William	–	–	12,000,000 ⁽²⁾	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	0.00%
New World China Land Limited					
(Ordinary shares of HK\$0.10 each)					
Mr Doo Wai Hoi, William	700,000	–	–	700,000	0.05%
Mr Chan Kam Ling	100,000	–	–	100,000	0.01%
Fung Seng Estate Development (Shanghai) Co., Ltd.					
(Registered capital in US\$)					
Mr Doo Wai Hoi, William	–	–	US\$3,000,000 ⁽³⁾	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 capital as at 30.06.04
	Personal interests	Family interests	Corporate interests		
Nanjing New World Chang Jiang Equipment Co. Ltd.					
(Registered capital in RMB)					
Mr Doo Wai Hoi, William	–	–	RMB5,357,275 ⁽³⁾	RMB5,357,275	21.18%
Nanjing Xinlidao Property Development Limited					
(Registered capital in HK\$)					
Mr Doo Wai Hoi, William	–	–	HK\$21,000,000 ⁽⁴⁾	HK\$21,000,000	35.00%
Ramada Property Ltd.					
(Ordinary shares of US\$1.00 each)					
Mr Doo Wai Hoi, William	–	–	200 ⁽²⁾	200	20.00%
Shanghai Juyi Real Estate Development Co., Ltd.					
(Registered capital in RMB)					
Mr Doo Wai Hoi, William	–	–	RMB105,000,000 ⁽⁴⁾	RMB105,000,000	30.00%
Tai Fook Securities Group Limited					
(Ordinary shares of HK\$0.10 each)					
Mr Wong Kwok Kin, Andrew	–	390,000 ⁽⁵⁾	–	390,000	0.08%
Wai Kee Holdings Limited					
(Ordinary shares of HK\$0.10 each)					
Mr Lam Wai Hon, Patrick	500,000	–	–	500,000	0.06%
Dr Cheng Chi Pang, Leslie	500,000	–	–	500,000	0.06%

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 Mr Doo Wai Hoi, William.
- (3) The interests represent the equity interests held by a company wholly owned by Mr Doo Wai Hoi, William.
- (4) The interests represent the participating interests held by a company wholly owned by Mr Doo Wai Hoi, William.
- (5) The shares are held by the spouse of Mr Wong Kwok Kin, Andrew.
- (6) All the interests stated above represent long positions.

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

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

As at 30 June 2004, 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	Number of share options				Balance as at 30.06.04	Exercisable period (Note)	Exercise price per share HK\$
		Balance as at 01.07.03	Granted during the year	Exercised during the year	Lapsed during the year			
Dr Cheng Kar Shun, Henry	21 July 2003	–	3,000,000	1,000,000	–	2,000,000	(1)	3.725
Mr Doo Wai Hoi, William	21 July 2003	–	2,000,000	666,666	–	1,333,334	(1)	3.725
Mr Chan Kam Ling	21 July 2003	–	2,000,000	666,666	–	1,333,334	(1)	3.725
Mr Wong Kwok Kin, Andrew	21 July 2003	–	1,400,000	466,666	–	933,334	(1)	3.725
Mr Lam Wai Hon, Patrick	21 July 2003	–	1,400,000	466,666	–	933,334	(1)	3.725
Mr Cheung Chin Cheung	11 May 1999	300,000	–	–	–	300,000	(2)	6.930
	21 July 2003	–	600,000	200,000	–	400,000	(1)	3.725
Mr Wilfried Ernst Kaffenberger	21 July 2003	–	600,000	–	–	600,000	(3)	3.725
Mr To Hin Tsun, Gerald	21 July 2003	–	600,000	200,000	–	400,000	(1)	3.725
Mr Kwong Che Keung, Gordon	21 July 2003	–	600,000	200,000	–	400,000	(1)	3.725
Mr Cheng Wai Chee, Christopher	21 July 2003	–	600,000	–	–	600,000	(3)	3.725
Mr Dominic Lai	21 July 2003	–	600,000	200,000	–	400,000	(1)	3.725
Dr Cheng Chi Pang, Leslie	21 July 2003	–	300,000	–	–	300,000	(3)	3.725

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 closing price per share immediately before 21 July 2003, the date of grant, was HK\$3.6 and the cash consideration paid by each director or chief executive for the share options granted on that day is HK\$10.
- (5) The weighted average closing price of the shares immediately before the date on which share options were exercised was HK\$9.47.
- (6) 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

(i) New World China Land Limited (“NWCL”)

Under the share option scheme of NWCL, a fellow subsidiary company of the Company, the following directors of the Company, who are also directors of NWCL during FY2004, 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	Share options with exercise price per share of HK\$1.955	
			Balance as at 01.07.03	Balance as at 30.06.04
Dr Cheng Kar Shun, Henry	7 February 2001	8 March 2001 to 7 March 2006 ⁽¹⁾	5,000,000	5,000,000
Mr Doo Wai Hoi, William	8 February 2001	9 March 2002 to 8 March 2006 ⁽²⁾	2,800,000	2,800,000
Mr Chan Kam Ling	9 February 2001	10 March 2002 to 9 March 2006 ⁽²⁾	400,000	400,000

Notes:

- (1) The share options are exercisable during a period of five years commencing from the expiry of one month after the dates of each grant when the offers of share options were accepted, provided that the maximum number of share options that can be exercised during a year is 20% of the total number of the share options granted together with any unexercised share options carried forward from the previous years, unless otherwise specified in Note (2).
- (2) The share options are exercisable during the remaining exercisable period of four years, provided that the maximum number of share options that can be exercised during a year is 25% of the outstanding balance of the share options held.
- (3) The cash consideration paid by each director for each grant of the share options is HK\$10.
- (4) All the interests stated above represent long positions.

No share option of NWCL was exercised by the above directors during FY2004.

(ii) New World TMT Limited (“NWTMT”)

Under a share option scheme of NWTMT, a fellow subsidiary company of the Company, the following director of the Company, who is also director of NWTMT, has personal interest in options to subscribe for shares in NWTMT during FY2004, which were lapsed on 2 June 2004, as follows:

Name	Date of grant	Share options with exercise price per share of HK\$10.20 ⁽¹⁾		Share options with exercise price per share of HK\$12.00 ⁽²⁾	
		Balance as at 01.07.03	Balance as at 30.06.04	Balance as at 01.07.03	Balance as at 30.06.04
Dr Cheng Kar Shun, Henry	2 December 1998	600,000	–	2,400,000	–

Notes:

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

No share option of NWTMT was exercised by the above director during FY2004.

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

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

(iii) Wai Kee Holdings Limited ("Wai Kee")

Under a share option scheme of Wai Kee, an associated company of the Company, the following director and chief executive of the Company, who are also directors of Wai Kee, have personal interests in options to subscribe for shares in Wai Kee as follows:

Name	Date of grant	Exercisable period	Share options with exercise price per share of HK\$0.34		
			Balance as at 01.07.03	Exercised during the year	Balance as at 30.06.04
Mr Lam Wai Hon, Patrick	29 November 2000	29 November 2001 to 28 November 2004	500,000	500,000	–
Dr Cheng Chi Pang, Leslie	29 November 2000	29 November 2001 to 28 November 2004	500,000	500,000	–

Notes:

- (1) The cash consideration paid by each director of Wai Kee for each grant of the share options is HK\$1.
- (2) All the interests stated above represent long positions.

(iv) New World Capital Finance Limited ("NWCF")

During FY2004, the following director of the Company has interests in the debentures issued by NWCF, a fellow subsidiary of the Company, which were finally redeemed by NWCF on 9 June 2004, with details as follows:

Name	Balance as at 01.07.2003		Balance as at 30.06.2004	
	Interest as founder of discretionary trust	Family interest	Interest as founder of discretionary trust	Family interest
	US\$	US\$	US\$	US\$
Mr Cheng Wai Chee, Christopher	9,200,000 ⁽¹⁾	100,000 ⁽²⁾	–	–

Notes:

- (1) The debentures were convertible into 2,898,522 shares of HK\$1 each of NWD up to 9 May 2004.
- (2) The debentures were convertible into 31,505 shares of HK\$1 each of NWD up to 9 May 2004.

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.

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 (the “2001 Share Option Scheme”) thereafter certain rules of such scheme were altered and approved by the shareholders of the Company on 12 March 2003. 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 entity belonging to any of the following classes: <ul style="list-style-type: none"> (i) any eligible employee; (ii) any non-executive director (including independent non-executive directors) 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;

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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. It was expired on 11 April 2000 and no further share option can be granted.	<p>(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;</p> <p>(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</p> <p>(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.</p> <p>Renewal of the 10% general limit on grant of options under the share option scheme was approved by the shareholders of the Company on 12 March 2003. Thus, the Company can grant options to subscribe for up to 178,075,900 shares of the Company under this scheme.</p> <p>On 21 July 2003, the Company granted options to certain eligible participants to subscribe for 41,497,000 shares of the Company. Therefore, the total number of shares available for issue under this scheme is 136,578,900 representing approximately 7.59% of the Company's issued share capital as at the date of this report.</p>
Maximum entitlement of each participant under the scheme	No eligible participant 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.

Share option schemes (Continued)

	1997 Share Option Scheme	2001 Share Option Scheme
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 share 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 share 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.
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 10 years from the date of adoption, i.e. 6 December 2001.

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Share option schemes (Continued)

During FY2004, 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	Number of share options				Balance as at 30.06.04	Exercisable period (Note)	Exercise price per share
	Balance as at 01.07.03	Granted during the year	Exercised during the year	Lapsed during the year			
11 May 1999	1,600,000	–	–	–	1,600,000	(1)	HK\$6.930
11 May 1999	100,000	–	70,000	–	30,000	(2)	HK\$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) Divided into 5 tranches exercisable from 5 November 1999, 5 May 2001, 5 May 2002, 5 May 2003 and 5 May 2004 respectively 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\$7.75.

(b) Under the 2001 Share Option Scheme

Date of grant	Number of share options				Balance as at 30.06.04	Exercisable period (Note)	Exercise price per share
	Balance as at 01.07.03	Granted during the year	Exercised during the year	Lapsed during the year			
21 July 2003	–	27,797,000	7,558,651	1,036,347	19,202,002	(1)	HK\$3.725

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) The closing price per share immediately before 21 July 2003, the date of grant, was HK\$3.6.
- (3) The weighted average closing price of the shares immediately before the date on which share options were exercised was HK\$8.49.

Share option schemes (Continued)

The fair value of the share options granted during the year with exercise price per share of HK\$3.725 is estimated at HK\$4.91 using the Black-Scholes option pricing model. The fair value is estimated based on the risk-free rate of 4.598% per annum with reference to the rate prevailing on the Exchange Fund Notes, a one-year period historical volatility of 56.72%, assuming a dividend yield of approximately 5% per annum and an expected option life of four years.

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

Substantial shareholders' interest in securities

As at 30 June 2004, 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	
CTF	59,831,893	969,779,643 ⁽¹⁾	1,029,611,536	57.44%
NWD	664,587,141	305,192,502 ⁽²⁾	969,779,643	54.10%
Mombasa Limited	303,221,591	–	303,221,591	16.92%

Notes:

- (1) CTF (together with its subsidiary companies) have interests in more than one-third of the issued shares of 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 interests 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 1,970,911 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 2004.

Report of the Directors

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 FY2004 and up to the date of this report:

- (1) Following the reorganization of the Group, which was completed on 29 January 2003, the Company is expected to be engaged in a number of transactions of a recurrent nature which constitute connected transactions between the Group and NWD and its associates under the Listing Rules. Such transactions can be categorized as construction services, electrical and mechanical 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. Such continuing connected transactions were approved by the independent shareholders at the special general meeting of the Company held on 12 March 2003.

As at 30 June 2004, an aggregate consideration of approximately HK\$2.113 billion had been received by the Group in respect of the services provided to NWD and its associates while an aggregate rental of approximately HK\$28.0 million had been paid by the Group to NWD and its associates.

- (2) On 19 March 2003, New World First Ferry Services (Macau) Limited ("NWFF (Macau)"), Best Conquer Properties Limited ("Best Conquer"), the registered owners of eight vessels (the "Vessel Owners"), CTF and Star Success Enterprises Limited ("Star Success") entered into a master charter agreement (the "Master Charter Agreement"), pursuant to which NWFF (Macau) conditionally agreed to enter into eight separate bareboat charters (the "Bareboat Charters") with the Vessel Owners. Under the Bareboat Charters, NWFF (Macau) chartered the eight vessels for an initial term of four years commencing from the date of the Bareboat Charters. The charter hire payable by NWFF (Macau) to each Vessel Owner each year is equal to 25% of the fare revenue from the operation of its respective vessel for that year.

Under the Master Charter Agreement, CTF and Star Success agreed to provide guarantees in favour of NWFF (Macau) for the fact that if the net profit before tax of NWFF (Macau) attributable to the operation of the vessels (the "Vessels Operation Profit") for any particular financial year as set out in its pro forma consolidated or combined profit and loss accounts during the charter period is less than HK\$10.0 million (or such lesser amount as is proportional, on the basis of a 365-day year, thereto in respect of any part of a charter period which does not extend to the entire financial year of NWFF (Macau)) (the "Guaranteed Sum"), CTF will pay NWFF (Macau) an amount equal to the shortfall in cash within two months after the issue of certificate by auditors upon finalization of the said accounts, provided that such amount shall not in any event exceed the aggregate charter hires payable and actually paid by NWFF (Macau) to the Vessel Owners under the Bareboat Charters for the relevant year (the "Shortfall").

Connected transactions (Continued)

(2) (Continued)

NWFF (Macau) was an indirect wholly owned subsidiary company of the Company. Star Success is an indirect wholly owned subsidiary company of CTF, which is the controlling shareholder of NWD, which in turns holds approximately 54% of the issued share capital (and hence a controlling shareholder) of the Company. Best Conquer and the Vessel Owners are direct or indirect wholly owned subsidiary companies of Star Success and, accordingly, are connected persons of the Company, the entering into and performance of the Master Charter Agreement constituted connected transactions for the Company under the Listing Rules. Moreover, given the ongoing nature of the transactions contemplated under the Bareboat Charters, such transactions constituted continuing connected transactions for the Company under the Listing Rules.

NWD and the Company made a joint announcement on 12 August 2004 stating the fact that based on the unaudited profit and loss account of NWFF (Macau) for FY2004, there would be a shortfall in the Vessels Operation Profit for the Guaranteed Sum. According to the audited financial statements of NWFF (Macau), the Shortfall amounts to HK\$30.9 million as at 30 June 2004.

Subsequent to the completion of the Share Exchange Agreement (as defined below) on 9 March 2004, NWFF (Macau) was no longer a subsidiary company of the Company. Since then the guarantee provided by CTF for the Vessels Operation Profit of NWFF (Macau) and the transactions contemplated under the Bareboat Charters had ceased to be continuing connected transactions for the Company.

(3) On 13 November 2003, certain members of the Group entered into 13 separate agreements with 肇慶市公路發展總公司 (unofficial translation being Zhaoqing Highway Development Ltd., "ZHD") for the disposal of all of the Group's interests in 13 sino-foreign co-operative joint ventures in the PRC (the "Toll Road Projects", which engaged in the development and operation of certain toll roads and toll bridge in the PRC) to ZHD for an aggregate consideration of approximately HK\$1.168 billion. These Toll Road Projects include the following joint venture companies:

- (a) Zhaoqing Xinde Bridge Limited
- (b) Zhaoqing Xingao Highways Company, Limited
- (c) Guangdong Xinzhaogao Highways Company, Limited
- (d) Zhaoqing Gaoyao Xinhua Highways Limited
- (e) Guangdong Gaoyao Xinjun Highways Limited
- (f) Guangdong Gaoyao Xinwei Highways Limited
- (g) Zhaoqing Gaoyao Xinshuang Jin Highways Limited
- (h) Zhaoqing Xinhui Highways Company, Limited
- (i) Zhaoqing Xinning Highways Company, Limited
- (j) Zhaoqing Xinjiang Highways Limited
- (k) Zhaoqing Xinde Highways Company, Limited
- (l) Zhaoqing Xinfeng Highways Company, Limited
- (m) Zhaoqing Deqing Xinyue Highways Limited

Report of the Directors

Connected transactions (Continued)

(3) (Continued)

The consideration for the disposal of the Toll Road Projects was paid by ZHD in cash by three installments: the first installment of HK\$958.0 million was paid before 1 January 2004, the second installment of HK\$90.0 million was paid before 1 March 2004 and the last installment of HK\$120.0 million was paid before 1 June 2004. Completion of the relevant agreements would take place on the later of (i) 31 December 2003 or (ii) such date when the transfer of interest in the relevant Toll Road Project had been approved by the relevant PRC approving authorities.

Each of the members of the Group participating in the Toll Road Projects is an indirectly wholly owned subsidiary company of the Company and each of the Toll Road Projects was also a subsidiary company of the Company. In addition, ZHD was the substantial shareholder of Zhaoqing Xingao Highways Company, Limited, Guangdong Xinzhaogao Highways Company, Limited, Zhaoqing Xinhui Highways Company, Limited and Zhaoqing Xinning Highways Company, Limited, all being non wholly owned subsidiary companies of the Company, ZHD was a connected person of the Company. The disposal of the Toll Road Projects as contemplated under the abovesaid agreements constituted connected transaction for the Company.

The transfers of interest in the Toll Road Projects as contemplated under the abovesaid agreements were completed in early 2004.

- (4) CTF, Merryhill Group Limited (“Merryhill”, a then indirect wholly owned subsidiary company of CTF which held, among other investments, the Citybus Group (Citybus Limited and its subsidiary companies)) and the Company entered into a share exchange agreement on 8 December 2003 (the “Share Exchange Agreement”) in connection with a proposed share exchange which, if completed, would place the respective transport and related businesses of CTF and the Company under Merryhill (the “Proposed Share Exchange”).

CTF and the Company agreed that upon and after completion of the Share Exchange Agreement, each of CTF and the Company would own 50% of the total issued share capital of Merryhill. In this connection, the following steps had been undertaken at completion (in the order stated) to put in place the 50:50 shareholding structure and made up the difference between the equity values of the Merryhill Group (Merryhill and its subsidiary companies) and the NWFH Group (New World First Holdings Limited (“NWFH”) and its subsidiary companies):

- (a) Merryhill declared and paid a dividend in cash in the amount of the lesser of: (i) HK\$102.6 million (being 50% of the difference between the equity values of the NWFH Group and the Merryhill Group as at 31 October 2003); and (ii) the full amount of the distributable reserves of Merryhill as at completion to Enrich Group Limited, an indirect wholly owned subsidiary company of CTF;
- (b) The Company capitalized a portion of the inter-company shareholder loans and other advances owed by members of the NWFH Group to the Group (“NWFH Shareholder Loans”) to increase the equity value of the NWFH Group such that the resultant equity value of the NWFH Group would be equal to the equity value of the Merryhill Group;

Connected transactions (Continued)

(4) (Continued)

- (c) The Company procured the transfer of the entire issued share capital of NWFH, including the new NWFH shares allotted and issued to the Company pursuant to the capitalization of a portion of the NWFH Shareholder Loans to Merryhill and assigned the uncanceled portion of the NWFH Shareholder Loans to Merryhill;
- (d) the consideration for the transfer and assignment mentioned in step (c) above was satisfied by:
 - (i) Merryhill issuing and allotting certain new Merryhill shares as consideration for the entire issued share capital of NWFH as well as the capitalized portion of the NWFH Shareholder Loans at face value; and
 - (ii) Merryhill paying, on a dollar-for-dollar basis, an amount in cash as consideration for the uncanceled portion of the NWFH Shareholder Loans at face value,in each case, to the Company or its nominee(s); and
- (e) Merryhill repaid a part of the inter-company shareholder loans owed by members of the Merryhill Group to the CTF group to CTF and issued and allotted certain new Merryhill shares to CTF for the purpose of capitalizing the remaining balance of these loans.

As CTF is a substantial shareholder and hence a connected person of the Company under the Listing Rules, the Proposed Share Exchange constituted a discloseable and connected transaction for the Company under the Listing Rules and therefore required the approval of the independent shareholders of the Company at a general meeting.

The transactions contemplated under the Proposed Share Exchange were approved by the independent shareholders at the special general meeting of the Company on 8 January 2004 and the Proposed Share Exchange was completed on 9 March 2004.

- (5) On 12 November 2003, Citybus Limited ("Citybus", a then indirect wholly owned subsidiary company of CTF) entered into a vehicle supply agreement with New World First Bus Services Limited ("NWFB", a then indirect wholly owned subsidiary company of the Company), whereby Citybus contracted to purchase 10 single-deck buses from NWFB at the aggregate cash price of approximately HK\$1.7 million.

On 8 December 2003, Citybus entered into another vehicle supply agreement with NWFB whereby Citybus contracted to purchase nine double-deck buses from NWFB at the aggregate cash price of approximately HK\$16.8 million.

CTF is a substantial shareholder of the Company, Citybus, being a wholly owned subsidiary company of CTF, was then a connected person of the Company. The transactions under the said vehicle supply agreements constituted connected transactions for the Company under the Listing Rules.

Report of the Directors

Connected transactions (Continued)

- (6) On 20 May 2004, Merryhill and the Company entered into a master services agreement (the “Master Services Agreement”) under which Merryhill agreed to, and procured that members of the Merryhill Group engage relevant members of the Group to provide operational services, which includes construction services, electrical and mechanical 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 Merryhill and the Company may agree upon from time to time in writing, to Merryhill and/or relevant members of the Merryhill Group during the term of the Master Services Agreement. Moreover, under the Master Services Agreement, Merryhill also agreed and undertook that it shall procure the relevant members of the Merryhill Group to rent or otherwise license spare office, commercial, storage and car-parking spaces in the depots of the relevant members of the Merryhill Group to members of the Group.

The transactions contemplated under the Master Services Agreement are 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 Merryhill is an associate of CTF, the Master Services Agreement and all the transactions contemplated thereunder constitute continuing connected transactions for the Company under the Listing Rules.

Furthermore, before the completion of the Proposed Share Exchange, members of the Group entered into transactions on a recurring basis with members of the NWFH Group as well as the Citybus Group (which, upon completion, became members of the Merryhill 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 upon completion of the Proposed Share Exchange.

As at 30 June 2004, an aggregate consideration of approximately HK\$3.1 million had been received by the Group in respect of the services provided to Merryhill Group while an aggregate rental of approximately HK\$0.06 million had been paid by the Group to the Merryhill Group.

- (7) On 5 August 2004, an agreement was entered into between 四川犍為電力(集團)股份有限公司 (unofficial translation being Sichuan Qianwei Power (Group) Share Co., Ltd., “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 四川犍為大興電力有限公司 (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 installments. The first installment of RMB26.0 million was paid on the date of signing of the agreement and the second installment of RMB22.0 million is payable on or before 30 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 settled.

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.

Connected transactions (Continued)

The continuing connected transactions mentioned in (1), (2) and (6) 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.

Disclosure pursuant to Rules 13.20 and 13.22 of the Listing Rules

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

(a) Advance to an entity

As at 30 June 2004, 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\$1.573 billion for financing its project costs. Such advances include the sum of HK\$544.0 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\$1.029 billion for certain banking facilities offered to First Star. These advances represent approximately 10% of the total market capitalization of the Company.

(b) Financial assistance and guarantees to affiliated companies

As at 30 June 2004, the Group has provided financial assistance, by way of shareholder loans/advances, in the aggregate amount of HK\$2.464 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\$2.150 billion (included in the amounts disclosed in Note 32 to the accounts) and contracted to provide an aggregate amount of HK\$33.0 million in capital and loans to affiliated companies. The said amounts, in aggregate, represents approximately 29% 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\$444.9 million which carry interest ranging from 2% to 14% per annum, an amount of HK\$9.0 million which carries interest at three-month HIBOR per annum, an amount of HK\$3.9 million which carries interest at Hong Kong prime rate per annum, and an amount of HK\$640.0 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.

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)

In accordance with the requirements under Rule 13.22, the Company is required to include in its annual report a pro forma combined balance sheet of its affiliated companies which should include significant balance sheet classifications and state the attributable interest of the Company in the affiliated companies. The Company has numerous affiliated companies and the directors are of the opinion that it is not practical nor meaningful to prepare a pro forma combined balance sheet and such information may be misleading. The Company made an application to, and has received a confirmation from the Hong Kong Stock Exchange as an alternative to provide the following statement.

As at 30 June 2004, based on the financial statements of the respective affiliated companies of the Group, these affiliated companies had outstanding borrowings of about HK\$20.005 billion, comprising secured bank loans of about HK\$10.895 billion, unsecured bank loans of about HK\$2.901 billion and other loans of about HK\$6.209 billion. The total commitments for capital expenditure of the affiliated companies amounted to about HK\$1.676 billion and total contingent liabilities amounted to about HK\$1.056 billion as at 30 June 2004.

Employees and remuneration policies

As at 30 June 2004, over 43,000 staff were employed by entities under the Group's management of which some 29,000 were employed in Hong Kong. Total staff related costs, excluding directors' remunerations, were HK\$2.789 billion (2003: HK\$1.146 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 are provided to employees on an ongoing basis.

Details of the retirement benefits schemes of the Company are set out in Note 30 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 periods is set out on pages 130 and 131.

Auditors

The accounts for FY2004 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, 15 October 2004