



Report of the Directors

(Financial figures are expressed in Hong Kong dollars)

The Directors submit their report together with the audited financial statements for the year ended 30 June 2006.

Principal activities

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are shown in note 19 to the financial statements.

Results

The results of the Group for the year ended 30 June 2006 are set out in the consolidated profit and loss account on page 46.

Dividend

The Directors recommended the payment of a final dividend for the year ended 30 June 2006 of \$0.12 per share (2004/05: \$0.20 per share) to the shareholders registered in the Company's register of members as at the close of business on 2 November 2006. As no interim dividend was paid by the Company during the year (2004/05: \$0.19 per share), the proposed final dividend makes a total dividend of \$0.12 per share for the financial year ended 30 June 2006 (2004/05: \$0.39 per share).

Five year financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is shown on page 43.

Reserves

Movements in the reserves of the Group and the Company during the year are set out on pages 51 to 53.

Distributable reserves

The reserves available for distribution to the shareholders of the Company amounted to \$3,707,286,000 at 30 June 2006 (30 June 2005: \$3,812,020,000).

Donations

During the year, charitable and other donations made by the Group amounted to \$2,000 (2004/05: \$61,000).

Fixed assets

Details of the movements in fixed assets are shown in note 18 to the financial statements.

Share capital

Details of the movements in share capital of the Company are shown in note 29 to the financial statements.



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(Financial figures are expressed in Hong Kong dollars)

Directors

The Directors of the Company during the year and up to the date of this report were:

- | | |
|---|--|
| * Mr. Raymond Kwok Ping-luen
<i>Chairman</i> | ** Mr. Eric Li Ka-cheung, <i>JP</i> |
| Mr. Douglas Li
<i>Chief Executive Officer</i> | ** Mr. Ng Leung-sing, <i>JP</i> |
| Mr. Patrick Chan Kai-lung | ** Dr. Sachio Semmoto
<i>(Retired on 4 November 2005)</i> |
| * Mr. Ernest Lai Ho-kai | ** Mr. Yang Xiang-dong |
| * Mr. Michael Wong Yick-kam | ** Mr. Eric Gan Fock-kin
<i>(Appointed on 1 December 2005)</i> |
| * Mr. Andrew So Sing-tak | |
| * Mr. Cheung Wing-yui | |
| * Mr. David Norman Prince
<i>(Appointed on 1 July 2005)</i> | |
| * <i>Non-Executive Director</i> | |
| ** <i>Independent Non-Executive Director</i> | |

In accordance with Bye-law No. 110(A) of the Company's Bye-laws, Messrs. Raymond Kwok Ping-luen, Michael Wong Yick-kam, Cheung Wing-yui and Yang Xiang-dong retire by rotation, and Mr. Eric Gan Fock-kin retires in accordance with Bye-law No. 101 at the forthcoming Annual General Meeting. All retiring Directors, being eligible, offer themselves for re-election. All remaining Directors shall continue in office.

The term of office of the Non-Executive Directors shall be governed by the provisions of Bye-laws No. 110 and No. 111 of the Company.

The Board has received from each Independent Non-Executive Director a written annual confirmation of their independence and is satisfied with their independence in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Directors' service contracts

Under an employment contract between the Company and Mr. Douglas Li dated 31 May 2001, Mr. Douglas Li has been appointed to act as Executive Director and Chief Executive Officer of the Group with effect from 17 July 2001. The contract can now be terminated by the Company by not less than 6 calendar months' notice (or payment in lieu of notice).

Under an employment contract between the Company and Mr. Patrick Chan Kai-lung dated 1 May 2002, Mr. Patrick Chan Kai-lung has been appointed to act as Executive Director of the Group with effect from 15 May 2002. The contract can be terminated by the Company by not less than 6 calendar months' notice (or payment in lieu of notice).

Apart from the above, none of the Directors has a service contract with the Company with a term of more than 3 years and which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' emoluments

The emoluments payable to the Directors of the Company are based on terms of the respective service contracts, if any. The director's fee payable is subject to annual assessment, approval and authorisation by shareholders at annual general meetings. Details of the emoluments paid and payable to the Directors of the Company for the financial year ended 30 June 2006 are shown in note 12 to the financial statements.

Directors' interests in contracts of significance

Apart from the connected transactions referred to in this report, no other contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Biographical details of Directors and senior management

Brief biographical details of the Directors and senior management are set out on pages 39 to 42.

Report of the Directors

(Financial figures are expressed in Hong Kong dollars)

Directors' interests and short positions

At 30 June 2006, the interests of the Directors, chief executive and their respective associates in shares, underlying shares and debentures of the Company and its associated corporations (as defined in the Securities and Futures Ordinance (the "SFO")) as recorded in the register maintained by the Company under section 352 of the SFO were as follows:

Interests in shares and underlying shares of the Company

Name of director	Shares				Equity derivatives		Percentage of aggregate interests to issued capital
	Personal	Spouse or child under 18	Controlled corporation	Others	Share options (Note)	Aggregate interests	
Raymond Kwok Ping-luen	—	—	—	2,237,767	—	2,237,767	0.38%
Douglas Li	—	—	—	—	3,000,000	3,000,000	0.51%
Patrick Chan Kai-lung	—	—	—	—	1,103,500	1,103,500	0.19%

Note: Information of the share options is listed below:

Name of director	Date of grant	Exercise price \$	Outstanding at 1 July 2005	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding at 30 June 2006
Douglas Li (Note 1)	10 February 2003	9.29	3,000,000	—	—	—	3,000,000
Patrick Chan Kai-lung (Notes 2 & 3)	10 February 2003	9.20	133,500	—	—	—	133,500
	5 February 2004	9.00	970,000	—	—	—	970,000

Notes:

- The options are exercisable at \$9.29 per share during the period from 10 February 2003 to 16 July 2011. The options, in the original number of 5,000,000, can be exercised up to 20% from 10 February 2003, up to 40% from 17 July 2003, up to 60% from 17 July 2004, up to 80% from 17 July 2005 and in whole from 17 July 2006.
- The options are exercisable at \$9.20 per share during the period from 2 May 2003 to 1 May 2012. The options, in the original number of 200,000, can be exercised up to one-third from 2 May 2003, up to two-thirds from 2 May 2004 and in whole from 2 May 2005.
- The options are exercisable at \$9.00 per share during the period from 5 February 2005 to 4 February 2014. The options can be exercised up to one-third from 5 February 2005, up to two-thirds from 5 February 2006 and in whole from 5 February 2007.

Interests in associated corporations

1. Interests in shares and underlying shares of Sun Hung Kai Properties Limited

Name of director	Shares				Equity derivatives		Percentage of aggregate interests to issued capital
	Personal	Spouse or child under 18	Controlled corporation	Others (Note 1)	Share options (Note 2)	Aggregate interests	
Raymond Kwok Ping-luen	—	—	—	1,082,165,895	75,000	1,082,240,895	43.44%
Michael Wong Yick-kam	70,904	—	—	—	75,000	145,904	0.006%
Eric Li Ka-cheung	—	—	18,000	—	—	18,000	0.0007%
Ernest Lai Ho-kai	—	—	—	—	—	—	—

Note 1: Of these shares, Messrs. Walter Kwok Ping-sheung, Thomas Kwok Ping-kwong and Raymond Kwok Ping-luen were deemed to be interested in 1,058,988,347 shares, which represented the same interests for the purpose of the SFO.

Note 2: Information of the share options is listed below:

Name of director	Date of grant	Exercise price \$	Outstanding at 1 July 2005	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding at 30 June 2006
Raymond Kwok Ping-luen	16 July 2001	70.00	75,000	—	—	—	75,000
Michael Wong Yick-kam	16 July 2001	70.00	75,000	—	—	—	75,000
Ernest Lai Ho-kai	16 July 2001	70.00	36,000	—	36,000	—	—

All options granted and accepted can 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 options will expire.

Report of the Directors

(Financial figures are expressed in Hong Kong dollars)

2. Interests in shares and underlying shares of SUNeVision Holdings Ltd.

Name of director	Shares				Equity derivatives		Percentage of aggregate interests to issued capital
	Personal	Spouse or child under 18	Controlled corporation	Others (Note 1)	Share options (Note 2)	Aggregate interests	
Raymond Kwok Ping-luen	—	—	—	1,742,500	116,666	1,859,166	0.09%
Michael Wong Yick-kam	100,000	—	—	—	60,000	160,000	0.0079%
Andrew So Sing-tak	—	—	—	—	1,800,000	1,800,000	0.08%

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

Note 2: Information of the share options is listed below:

Name of director	Date of grant	Exercise price \$	Outstanding at 1 July 2005	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding at 30 June 2006
Raymond Kwok Ping-luen	28 March 2000	10.38	251,666	—	—	(251,666)	—
	7 April 2001	2.34	233,333	—	—	(116,667)	116,666
Michael Wong Yick-kam	28 March 2000	10.38	120,000	—	—	(120,000)	—
	7 April 2001	2.34	120,000	—	—	(60,000)	60,000
Andrew So Sing-tak	8 July 2002	1.43	400,000	—	—	—	400,000
	29 November 2003	1.59	400,000	—	—	—	400,000
	10 November 2005	1.41	—	1,000,000	—	—	1,000,000

The above share options are exercisable in accordance with the terms of the relevant share option scheme and conditions of grant.

3. Interests in shares of other associated corporations

Mr. Raymond Kwok Ping-luen had the following interests in the shares of the following associated corporations:

Name of associated corporation	Beneficial owner	Attributable holding through corporation (Note)	Attributable percentage of shares in issue through corporation	Actual holding through corporation	Actual percentage interests in issued shares
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. Walter Kwok Ping-sheung, Thomas Kwok Ping-kwong and Raymond Kwok Ping-luen were deemed to be interested in these shares, which represented the same interests for the purpose of the SFO. These 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.

The interests of the Directors and chief executive in the share options of the Company and its associated corporations are being regarded for the time being as unlisted physically settled equity derivatives. The details of the share options of the Company are stated under the section headed Share Option Scheme below.

Save as disclosed above, at 30 June 2006, none of the Directors and chief executive (including their spouses and children under 18 years of age) and their respective associates had or deemed to have any interests or short positions in shares, underlying shares or debentures of the Company, its subsidiaries or any of 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 of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO or pursuant to the "Model Code for Securities Transactions by Directors of Listed Companies" of the Listing Rules.

Arrangement to purchase shares or debentures

Other than the share options as mentioned above, at no time during the year was the Company or any of its subsidiaries or the Company's holding company or any subsidiaries of the holding company 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 or of any other body corporate.

Directors' interests in competing business

None of the Directors of the Company has interest in any business which may compete with the business of the Group.

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(Financial figures are expressed in Hong Kong dollars)

Share Option Scheme

Pursuant to the terms of the share option scheme adopted by the Company on 15 November 2002 (the "Share Option Scheme"), the Company may grant options to the participants, including directors and employees of the Group, to subscribe for shares of the Company. A summary of the terms of the Share Option Scheme will be set out below.

Movements of the share options granted to the participants pursuant to the Share Option Scheme during the year ended 30 June 2006 are as follows:

Grantee	Date of grant	Exercise price \$	Exercise period	Outstanding at 1 July 2005	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding at 30 June 2006
Directors								
Douglas Li	10 February 2003	9.29	10 February 2003 to 16 July 2011	3,000,000	—	—	—	3,000,000
Patrick Chan Kai-lung	10 February 2003	9.20	2 May 2003 to 1 May 2012	133,500	—	—	—	133,500
	5 February 2004	9.00	5 February 2005 to 4 February 2014	970,000	—	—	—	970,000
Employees								
	5 February 2004	9.00	5 February 2005 to 4 February 2014	8,410,000	—	—	(1,258,000)	7,152,000
	6 December 2004	8.01	6 December 2005 to 5 December 2014	193,000	—	—	—	193,000
	4 January 2005	8.70	4 January 2006 to 3 January 2015	193,000	—	—	—	193,000
	1 March 2005	9.05	1 March 2006 to 28 February 2015	193,000	—	—	—	193,000

Other than the share options stated above, no share options had been granted by the Company to the other participants pursuant to the Share Option Scheme.

Save as disclosed above, no other share options were granted, exercised, cancelled or lapsed during the year.

Valuation of share options

No share options was granted during the year, however, in assessing the value of the share options granted during the year ended 30 June 2005, the Black-Scholes option pricing model adjusted for dividends (the "Black-Scholes Model") was used. The Black-Scholes Model is one of the generally accepted methodologies used to calculate the value of options and is one of the recommended option pricing models set out in Chapter 17 of the Listing Rules. The variables and assumptions adopted in assessing the value of the share options granted during the year ended 30 June 2005 under the Black-Scholes Model are as follows:

Grantee	Grant date	Expected life of the options	Risk free rate	Expected volatility	Expected dividend yield
Employees	6 December 2004	5 years	2.73%	22.85%	6.20%
	4 January 2005	5 years	2.66%	22.84%	6.20%
	1 March 2005	5 years	3.37%	20.29%	6.20%

(a) Expected life of the options

The expected life of the options used in the calculation represents the weighted average expected life of the options as measured from the date of grant (the "Measurement Date").

(b) Risk free interest rate

The risk free interest rate used in the calculation represents the weighted average yield of the relevant Hong Kong Exchange Fund Notes corresponding to the expected life of the options as at the Measurement Date.

(c) Expected volatility

The expected volatility used in the calculation represents the annualised volatility of the closing price of the Company for the last 12 months from the Measurement Date.

(d) Expected dividend yield

The expected dividend yield used in the calculation represents the average dividend yield for the two financial years ended 30 June 2003 and 2004.

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(Financial figures are expressed in Hong Kong dollars)

Using the Black-Scholes Model in assessing the value of the share options granted during the year ended 30 June 2005, the options would have an aggregate value of approximately \$483,272 represented as follows:

Number of share options granted during the year ended 30 June 2005	Estimated weighted average value per option \$	Estimated value of options granted during the year ended 30 June 2005 \$
193,000	0.81	156,137
193,000	0.87	168,682
193,000	0.82	158,453
579,000		483,272

No adjustment has been made for possible future forfeiture of the options. The change in accounting policy following the adoption of the new Hong Kong Financial Reporting Standard 2 resulted in the recognition of the fair value of options granted as staff cost with a corresponding increase in a capital reserve within equity. The equity amount is recognised in the capital reserve until either the options are exercised (when it is transferred to the share premium account) or the options expire (when it is released directly to retained profits).

It should be noted that the value of options calculated using the Black-Scholes Model is based on various assumptions and is only an estimate of the value of share options granted. It is possible that the financial benefit accruing to the grantee of an option will be considerably different from the value determined under the Black-Scholes Model.

A summary of the principal terms of the Share Option Scheme is set out below pursuant to the requirements as contained in Chapter 17 of the Listing Rules:

(a) Purpose

The purpose of the Share Option Scheme is to reward participants who have made a valuable contribution to the growth of the Group and to enable the Group to recruit and/or to retain employees who are regarded as valuable to the Group or are expected to be able to contribute to the business development of the Group.

(b) Participants

Any employee, agent, consultant or representative of the Company or any of the subsidiaries, including any director of the Company or any of the subsidiaries who has made valuable contribution to the growth of the Group based on his work experience, industry knowledge, performance, business connections or other relevant factors, will be eligible to participate in the Scheme at the invitation of the Directors.

(c) Maximum number of shares available for issue

The Company can issue options so that the total number of shares that may be issued upon exercise of all options to be granted under all the share option schemes does not in aggregate exceed 10% of the shares in issue on the date of adoption of the Share Option Scheme. The Company may renew this limit at any time, subject to shareholders' approval and the issue of a circular and in accordance with the Listing Rules provided that the number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes does not exceed 30% of the shares in issue from time to time. At 28 August 2006, the number of shares available for issue in respect thereof is 11,834,500 shares which represents approximately 2.03% of the issued ordinary shares of the Company.

(d) Maximum entitlement of each participant

The maximum entitlement for any participant is that the total number of shares issued and to be issued upon exercise of options granted and to be granted in any 12-month period up to the date of the latest grant does not exceed 1% of the relevant class of shares in issue.

(e) Time of exercise of option

No option may be exercised later than 10 years after it has been granted and no option may be granted more than 10 years after the date on which the Scheme is adopted by the Company in general meeting.

The Scheme does not specify any minimum holding period before the option can be exercised but the Board has the authority to determine the minimum holding period when the options are granted.

(f) Payment on acceptance of option

Acceptance of offer to grant an option shall be sent in writing together with a remittance in favour of the Company of \$1.00 by way of consideration for the grant must be received by the Secretary of the Company within 28 days from the date of the making of such offer.

(g) Basis of determining the exercise price

The option price per share payable upon the exercise of any option will be determined by the Directors upon the grant of such option. It will be at least the higher of (i) the average closing price of a share as stated in the daily quotations sheets issued by the Stock Exchange for the 5 business days immediately preceding the day of offer of such option; (ii) the closing price of a share as stated in the Stock Exchange's daily quotations sheet on the day of offer of such option, which must be a business day; and (iii) the nominal value of a share.

(h) Remaining life of the Scheme

The Share Option Scheme shall be valid and effective for a period of 10 years commencing from the adoption of the Scheme on 15 November 2002.

Disclosable interests and short positions of shareholders under the SFO

At 30 June 2006, the following parties (other than the Directors and chief executive of the Company) had interests of 5% or more in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO or as notified to the Company:

Name of shareholder	Note	Number of shares interested	Percentage of shares to issued share capital
Cellular 8 Holdings Limited ("Cellular 8")	1 and 2	306,439,472	52.58%
Sun Hung Kai Properties Limited ("SHKP")	1 and 2	320,607,397	55.01%
HSBC International Trustee Limited ("HSBC")	3	321,599,708	55.18%
Marathon Asset Management Limited		49,328,840	8.46%
Brandes Investment Partners, L.P.		39,621,680	6.80%
Templeton Asset Management Limited		29,214,500	5.01%

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(Financial figures are expressed in Hong Kong dollars)

Notes:

1. For the purposes of the SFO, the interest of Cellular 8 in the 306,439,472 shares of the Company noted above against the name of Cellular 8 is also attributed to SHKP on the basis that SHKP controls one-third or more of Cellular 8. The number of shares noted above against the name of SHKP therefore duplicates the interest of Cellular 8.
2. For the purposes of the SFO, the same interest of Cellular 8 is also attributed to those subsidiaries of SHKP through which SHKP holds its interest in Cellular 8. Those subsidiaries are TFS Development Company Limited and Fourseas Investments Limited.
3. For the purposes of the SFO, the interest of SHKP noted above against its name (and the interest of each of its subsidiaries noted above) is also attributed to HSBC by reference to the interests in shares which HSBC holds (or deemed to hold) in SHKP. The number of shares noted above against the name of HSBC therefore duplicates the interest of SHKP.

Save as disclosed above, no other parties had registered as having an interest of 5% or more in the shares or underlying shares of the Company or having short positions as recorded in the register kept under section 336 of the SFO.

Sufficiency of public float

Based on the information that is publicly available to the Company and within the knowledge of its Directors, it is confirmed that there is sufficient public float of the Company's shares in the market at the date of this report.

Purchase, sale or redemption of shares

At no time during the year ended 30 June 2006 was there any purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares.

Pre-emptive rights

There is no provision for pre-emptive rights under either the Company's Bye-laws or the laws in Bermuda.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Major customers and suppliers

The percentages of the Group's purchases attributable to major suppliers are as follows:

Percentage of purchases attributable to the Group's largest supplier	9%
Percentage of purchases attributable to the Group's five largest suppliers	31%

None of the Directors and their associates had an interest in the major suppliers noted above.

During the year, the Group sold less than 30% of its total goods and services to its five largest customers.

Connected transactions

1. Certain related party transactions as disclosed in note 32 to the financial statements also constituted connected transactions. The following transactions between certain connected persons (as defined in the Listing Rules) and the Group have been entered into and/or are continuing for which relevant announcements, if necessary, had been made by the Company in accordance with the requirements of the Listing Rules.
 - (a) Certain subsidiaries and associates of SHKP, the controlling shareholder of the Company, have leased premises to the Group for use as offices, retail shops and warehouses and have granted licences to the Group for the installation of base stations, antenna and telephone cables on certain premises owned by them. For the year ended 30 June 2006, rental, licence fees and management fees paid and payable totalled \$56,276,000.

- (b) Certain wholly-owned subsidiaries of SHKP provided general insurance services to the Group. For the year ended 30 June 2006, insurance premiums paid and payable were \$5,436,000.
- (c) New-Alliance Asset Management (Asia) Limited, an associate of SHKP up to 2 May 2006, has been appointed as the investment manager of the Group's Occupational Retirement Scheme since October 1999. For the year ended 30 June 2006, no fee was paid by the Group as New-Alliance Management (Asia) Limited was remunerated by way of fee levied on mutual funds to which the Group's Occupational Retirement Scheme subscribes.

The above transactions have been reviewed by the Company's Independent Non-Executive Directors. The Independent Non-Executive Directors confirmed that these continuing connected transactions were entered into by the Group in the ordinary and usual course of business and on normal commercial terms or on terms no less favourable than terms available from independent third parties.

The Independent Non-Executive Directors also confirmed that the transactions were entered into in accordance with the agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company further confirmed that the continuing connected transactions (i) have received the approval of the Company's Board of Directors; (ii) have been entered into in accordance with the relevant agreements governing the transactions; and (iii) have not exceeded the cap for each category disclosed in previous announcement.

2. At 30 June 2006, the Group had an interest in an associated company, the major shareholder of which is a subsidiary of SHKP. The principal activity of the associated company is to invest in an equity fund which primarily invests in technology related companies in the People's Republic of China.

The above disclosure of the continuing connected transactions of the Group has complied with the disclosure requirements in accordance with the Listing Rules.

Auditors

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment. As recommended by the Audit Committee, a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board
Raymond Kwok Ping-luen
Chairman

Hong Kong, 28 August 2006