

# REPORT OF THE DIRECTORS

The directors present their report together with the audited consolidated accounts of the Company and its subsidiaries (together the "Group") for the year ended 30 June 2006.

## **PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS**

The principal activity of the Company is investment holding. The principal activities of the subsidiary of the Company is set out in note 20 to the financial statements.

An analysis of the Group's performance by business and geographical segments is set out in note 7 to the financial statements.

## **RESULTS AND APPROPRIATIONS**

The results of the Group are set out in the Consolidated Income Statement on page 50.

No interim dividend was declared (2005: Nil) and the directors do not recommend the payment of a final dividend for the year ended 30 June 2006 (2005: Nil).

## **RESERVES**

Movements in the reserves of the Group and of the Company are set out in note 32 to the financial statements.

## **DONATIONS**

Charitable and other donations made by the Group amounted to HK\$30,000.

## **PROPERTY, PLANT AND EQUIPMENT**

Details of the movements in property, plant and equipment of the Group are set out in note 19 to the financial statements.

## **SHARE CAPITAL AND SHARE OPTION**

Details of the movements in share capital and share option of the Company are set out in note 31 to the financial statements.

## **DISTRIBUTABLE RESERVES**

Distributable reserves of the company at 30 June 2006, calculated in accordance with statutory provisions applicable in the Cayman Islands, amounted to HK\$140,924,000.

## **BORROWINGS**

Particulars of the borrowings of the group at the balance sheet date are set out in note 2, 33 and 34 to the financial statements.

# REPORT OF THE DIRECTORS

## RETIREMENT BENEFITS

The retirement benefits are set out in note 15 to the financial statements.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association and there was no restriction against such rights under the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 128.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year.

## DIRECTORS

The directors of the Company during the year and up to the date of this report are as follows:

### Executive directors:

Dr. Cheng Kar Shun, Henry (*Chairman*)  
 Mr. Doo Wai Hoi, William, *JP* (*Vice Chairman*)  
 Dr. Wai Fung Man, Norman (*Chief Executive Officer*)  
 Mr. To Hin Tsun, Gerald  
 Mr. Chow Yu Chun, Alexander

### Non-executive directors:

Mr. Lo Lin Shing, Simon  
 Mr. Ho Hau Chong, Norman

### Independent non-executive directors:

Mr. Wei Chi Kuan, Kenny (resigned on 8 September 2006)  
 Mr. Kwong Che Keung, Gordon  
 Mr. Hui Chiu Chung, *JP*  
 Mr. Tsui Hing Chuen, William, *JP* (appointed on 8 September 2006)

## REPORT OF THE DIRECTORS

In accordance with article 116 of the Company's articles of association, Mr. Lo Lin Shing, Simon, Mr. To Hin Tsun, Gerald, Mr. Ho Hau Chong, Norman and Mr. Chow Yu Chun, Alexander retires by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. In accordance with article 99 of the Company's articles of association, Mr. Tsui Hing Chuen, William, *JP* will retire from office and, being eligible, offer himself for re-election.

The directors of the Company, including the independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's articles of association.

The Company has received annual confirmations of independence from Mr. Wei Chi Kuan, Kenny (resigned on 8 September 2006), Mr. Kwong Che Keung, Gordon, Mr. Hui Chiu Chung, *JP* and Mr. Tsui Hing Chuen, William, *JP* (appointed on 8 September 2006), pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company considers the independent non-executive directors to be independent as at the date of this report.

### **DIRECTORS' SERVICE CONTRACTS**

None of the directors who are proposed for re-election at the forthcoming annual general meeting has any service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

### **DIRECTORS' INTERESTS IN CONTRACTS**

Save as disclosed in note 40 to the financial statements, no contract of significance in relation to the Group's businesses to which the Company, its subsidiaries, its fellow subsidiaries or its holding companies 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 directors and senior management are set out on pages 18 to 21.

### **DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS**

A summary of the directors' and senior management's remuneration is set out in note 14 to the financial statements.

### **DIRECTORS' RIGHTS TO ACQUIRE SHARE**

Save as disclosed under the section headed "DIRECTORS' INTERESTS IN SECURITIES" below, at no time during the year was the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangement to enable the Company's directors, their respective spouse, or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

# REPORT OF THE DIRECTORS

## DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2006, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

### (A) Long positions – Interests in shares

As at 30 June 2006, none of the directors of the Company had any interests in the shares of the Company.

The interests of the directors in the shares of associated corporations were as follows:

	Number of shares/amount of registered capital			Total	Approximate percentage of issued/registered capital as at 30 June 2006
	Personal interests	Family interests	Corporate interests		
<b>New World China Land Limited ("NWCL")</b>					
<i>(Ordinary shares of HK\$0.10 each)</i>					
Dr. Cheng Kar Shun, Henry	12,500,000	–	52,271,200 <sup>(1)</sup>	64,771,200	1.69%
Mr. Doo Wai Hoi, William, JP	8,750,000	–	59,050,000 <sup>(2)</sup>	67,800,000	1.77%
Mr. Chow Yu Chun, Alexander	6,250,000	–	–	6,250,000	0.16%
<b>New World Development Company Limited ("NWD")</b>					
<i>(Ordinary shares of HK\$1.00 each)</i>					
Dr. Cheng Kar Shun, Henry	–	300,000 <sup>(3)</sup>	–	300,000	0.01%
Mr. Kwong Che Keung, Gordon	30,000	–	–	30,000	0.00%
<b>NWS Holdings Limited ("NWSH")</b>					
<i>(Ordinary shares of HK\$1.00 each)</i>					
Dr. Cheng Kar Shun, Henry	3,179,199	587,000 <sup>(3)</sup>	8,000,000 <sup>(1)</sup>	11,766,199	0.61%
Mr. Chow Yu Chun, Alexander	2,450,701	–	–	2,450,701	0.13%
Mr. Doo Wai Hoi, William, JP	2,006,566	–	3,130,000 <sup>(2)</sup>	5,136,566	0.26%
Mr. Kwong Che Keung, Gordon	601,969	–	–	601,969	0.03%

# REPORT OF THE DIRECTORS

	Number of shares/amount of registered capital				Approximate percentage of issued/registered capital as at 30 June 2006
	Personal interests	Family interests	Corporate interests	Total	
<b>Fung Seng Estate Development (Shanghai) Co., Ltd.</b>					
<i>(Registered capital in US\$)</i>					
Mr. Doo Wai Hoi, William, JP	–	–	3,000,000 <sup>(4)</sup>	3,000,000	30%
<b>Master Services Limited</b>					
<i>(Ordinary shares of US\$0.01 each)</i>					
Mr. Chow Yu Chun, Alexander	16,335	–	–	16,335	1.63%
<b>Ramada Property Ltd.</b>					
<i>(Ordinary shares of US\$1.00 each)</i>					
Mr. Doo Wai Hoi, William, JP	–	–	200 <sup>(2)</sup>	200	20%
<b>Shanghai Juyi Real Estate Development Co., Ltd.</b>					
<i>(Registered capital in RMB)</i>					
Mr. Doo Wai Hoi, William, JP	–	–	229,500,000 <sup>(4)</sup>	229,500,000	30%

*Notes:*

- (1) These shares are beneficially owned by a company wholly-owned by Dr. Cheng Kar Shun, Henry.
- (2) These shares are beneficially owned by companies wholly-owned by Mr. Doo Wai Hoi, William, JP.
- (3) These shares are held by the spouse of Dr. Cheng Kar Shun, Henry.
- (4) These represent the participating interests held by a company wholly-owned by Mr. Doo Wai Hoi, William, JP.

## REPORT OF THE DIRECTORS

### (B) Long positions – Interests in underlying shares – share options

#### (i) The Company

As at 30 June 2006, the following directors had personal interest in options to subscribe for shares of the Company granted under the share option schemes of the Company:

Name of director	Date of grant	Number of share options					Balance as at 30 June 2006	Exercise Price HK\$	Exercise period	Closing price immediately before the date of grant HK\$
		Balance as at 1 July 2005	Granted during the year	Exercised during the year	Lapsed during the year	Adjusted during the year				
Dr. Cheng Kar Shun, Henry	28.1.2005	780,000	-	-	-	-	780,000	1.260	28.1.2005 to 31.12.2010	1.260
Mr. Cheng Ming Fun, Paul <sup>(1)</sup>	28.1.2005	78,000	-	-	(78,000)	-	-	1.260	28.1.2005 to 31.12.2010	1.260
Mr. Chow Yu Chun, Alexander	28.1.2005	482,000	-	-	-	-	482,000	1.260	28.1.2005 to 31.12.2010	1.260
Mr. Doo Wai Hoi, William, JP	28.1.2005	300,000	-	-	-	-	300,000	1.260	28.1.2005 to 31.12.2010	1.260
Mr. Ho Hau Chong, Norman	28.1.2005	78,000	-	-	-	-	78,000	1.260	28.1.2005 to 31.12.2010	1.260
Mr. Hui Chiu Chung, Stephen, JP	8.4.2005	78,000	-	-	-	-	78,000	1.276	8.4.2005 to 31.12.2010	1.240

## REPORT OF THE DIRECTORS

Name of director	Date of grant	Number of share options					Balance as at 30 June 2006	Exercise Price HK\$	Exercise period	Closing price immediately before the date of grant HK\$
		Balance as at 1 July 2005	Granted during the year	Exercised during the year	Lapsed during the year	Adjusted during the year				
Mr. Kwong Che Keung, Gordon	28.1.2005	78,000	-	-	-	-	78,000	1.260	28.1.2005 to 31.12.2010	1.260
Mr. Lo Lin Shing, Simon	8.2.2002 <sup>(2)</sup>	200,000	-	-	-	-	200,000	2.440 <sup>(2)</sup>	9.2.2002 to 8.2.2008	N/A
	28.1.2005	78,000	-	-	-	-	78,000	1.260	28.1.2005 to 31.12.2010	1.260
Mr. To Hin Tsun, Gerald	28.1.2005	482,000	-	-	-	-	482,000	1.260	28.1.2005 to 31.12.2010	1.260
Dr. Wai Fung Man, Norman	28.1.2005	482,000	-	-	-	-	482,000	1.260	28.1.2005 to 31.12.2010	1.260
Mr. Wei Chi Kuan, Kenny	28.1.2005	78,000	-	-	-	-	78,000	1.260	28.1.2005 to 31.12.2010	1.260
		<u>3,194,000</u>	<u>-</u>	<u>-</u>	<u>(78,000)</u>	<u>-</u>	<u>3,116,000</u>			

## Notes:

- (1) Mr. Cheng Ming Fun, Paul resigned as director of the Company on 6 April 2005. As such, the share options granted to him lapsed on 6 July 2005 pursuant to the share option scheme.
- (2) These share options were granted under the share option scheme adopted by the Company on 11 September 1998.
- (3) Save for note (2) above, all share options were granted under the share option scheme adopted by the Company on 28 May 2002.
- (4) The cash consideration paid by each director for each grant of the share options was HK\$1.00.

## REPORT OF THE DIRECTORS

(ii) *NWCL*

Under the share option scheme of NWCL, a fellow subsidiary of the Company, the following directors of the Company were granted share options to subscribe for shares in NWCL:

Name of director	Date of grant	Exercise period <sup>(1)</sup>	Number of share options			Exercise price per share HK\$
			Balance as at 1 July 2005	Exercised during the year	Balance as at 30 June 2006	
Dr. Cheng Kar Shun, Henry	7.2.2001	8.3.2001 to 7.3.2006	12,500,000	(12,500,000)	-	1.782
Mr. Chow Yu Chun, Alexander	8.2.2001	9.3.2001 to 8.3.2006	6,250,000	(6,250,000)	-	1.782
Mr. Doo Wai Hoi, William, JP	8.2.2001	9.3.2002 to 8.3.2006	7,000,000	(7,000,000)	-	1.782

Notes:

- (1) The share options were exercisable within five years commencing from one month after the dates of grant, provided that the maximum number of share options that can be exercised during each anniversary year is 20% of the total number of share options granted together with any unexercised share options carried forward from the previous anniversary years.
- (2) The cash consideration paid by each director for each grant of the share options is HK\$10.00.



## REPORT OF THE DIRECTORS

### (iii) NWSH

Under the share option scheme of NWSH, a fellow subsidiary of the Company, the following directors of the Company were granted share options to subscribe for shares in NWSH:

Name of director	Date of grant	Exercise period	Number of share options			Balance as at 30 June 2006	Exercise price per share HK\$
			Balance as at 1 July 2005	Exercised during the year	Adjusted during the year <sup>(1)</sup>		
Dr. Cheng Kar Shun, Henry	21.7.2003	(2)	1,009,849	(1,009,849)	-	-	3.719
Mr. Chow Yu Chun, Alexander	21.7.2003	(3)	134,647	-	(134,647)	-	3.719
			-	-	134,944	134,944	3.711
Mr. Doo Wai Hoi, William, JP	21.7.2003	(2)	673,233	(673,233)	-	-	3.719
Mr. Kwong Che Keung, Gordon	21.7.2003	(2)	201,969	(201,969)	-	-	3.719
Mr. To Hin Tsun, Gerald	21.7.2003	(2)	201,969	(201,969)	-	-	3.719

#### Notes:

- (1) The number of share options and exercise price were adjusted by NWS Holdings Limited on 6 January 2006 and 13 June 2006 as a result of the issue of shares by NWS Holdings Limited to its shareholders who have elected to receive shares in lieu of cash for their entitlement of dividends as declared and paid by NWS Holdings Limited during the year.
- (2) Exercisable from 21 July 2005 to 20 July 2008.
- (3) This is divided into 2 tranches exercisable from 21 July 2004 and 21 July 2005 respectively to 20 July 2008, both dates inclusive.
- (4) The cash consideration paid by the director for each grant of the share options is HK\$10.00.

Save as disclosed above, as at 30 June 2006, none of the directors, chief executive or any of their associates had or deemed to have any interest or short positions in the shares, registered capital, underlying shares and debentures of the Company or any of its associated corporations as defined in the SFO that were required to be entered into the register kept by the Company pursuant to section 352 of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## REPORT OF THE DIRECTORS

### SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

Insofar as is known to the directors of the Company, as at 30 June 2006, the following parties (other than the directors or chief executive of the Company) were recorded in the register kept by the Company under section 336 of the SFO as being interested or deemed to be interested in 5% or more in the shares or underlying shares of the Company:

#### Long positions – Interests in the shares or underlying shares of the Company

Name	Capacity	Number of shares/underlying shares			Approximate percentage of issued capital as at 30 June 2006
		Interests in shares	Interests in physically settled unlisted equity derivatives	Total	
New World CyberBase Nominee Limited ("NWCBN")	Beneficial owner	2,100,000	23,185,245 <sup>(1)</sup>	25,285,245	26.52%
New World Telephone Holdings Limited	Interest of a controlled corporation	2,100,000 <sup>(2)</sup>	23,185,245 <sup>(2)</sup>	25,285,245	26.52%
Power Palace Group Limited ("PPG")	Beneficial owner	53,236,666	1,000,000,000 <sup>(3)</sup>	1,053,236,666	1,104.76%
NWD	Interest of controlled corporations	55,336,666 <sup>(4)</sup>	1,023,185,245 <sup>(4)</sup>	1,078,521,911	1,131.28%
Chow Tai Fook Enterprises Limited ("CTF")	Interest of a controlled corporation	55,336,666 <sup>(5)</sup>	1,023,185,245 <sup>(5)</sup>	1,078,521,911	1,131.28%
Million Dollar Trading Limited	Beneficial Owner	16,153,846	–	16,153,846	16.94%
New World CyberBase Limited	Interest of a controlled corporation	16,153,846 <sup>(6)</sup>	–	16,153,846	16.94%

## REPORT OF THE DIRECTORS

*Notes:*

- (1) These 23,185,245 underlying shares represent the shares which may be issued upon the exercise of any of the conversion rights attaching to the outstanding convertible note in the principal amount of HK\$28,286,000 issued to NWCBN on 2 November 2001.
- (2) NWCBN is a wholly-owned subsidiary of NWTHL. Accordingly, NWTHL is deemed to be interested in the shares/underlying shares held by NWCBN.
- (3) These 1,000,000,000 underlying shares represent the shares which may be issued upon the exercise of any of the conversion rights attaching to the convertible note in the principal amount of HK\$1,200 million issued to PPG on 6 July 2004.
- (4) Each of PPG and NWTHL is a wholly-owned subsidiary of NWD. Accordingly, NWD is deemed to have an interest in the shares/underlying shares held by PPG and in the shares/underlying shares deemed to be interested by NWTHL.
- (5) CTF and its subsidiaries have interests in more than one-third of the issued shares of NWD and is accordingly deemed to have an interest in the shares/underlying shares deemed to be interested by NWD.
- (6) Million Dollar Trading Limited is a wholly-owned subsidiary of New World CyberBase Limited. Accordingly, New World CyberBase Limited is deemed to be interested in the shares/underlying shares held by Million Dollar Trading Limited.

Save as disclosed herein, as at 30 June 2006, the Company has not been notified by any other person or corporation, other than the directors of the Company whose interests are set out in the "DIRECTORS' INTERESTS IN SECURITIES", as having interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of the SFO, or as recorded in the register required to be kept by the Company under Section 336 of the SFO.

# REPORT OF THE DIRECTORS

## SHARE OPTION SCHEME

At an extraordinary general meeting of the Company held on 28 May 2002, the shareholders of the Company approved the termination of the share option scheme adopted by the Company on 11 September 1998 (the "1998 Share Option Scheme") and the adoption of a new share option scheme (the "2002 Share Option Scheme") in compliance with the requirements of the Listing Rules. Upon termination of the 1998 Share Option Scheme, no further options could be granted under the 1998 Share Option Scheme. However, the outstanding share options granted thereunder would continue to be valid and exercisable in accordance with the provisions of the 1998 Share Option Scheme.

The following is a summary of the terms of the 2002 Share Option Scheme:

### 1. Purpose

The purpose of the 2002 Share Option Scheme is to enable the Company to grant options to the participants as incentive or rewards for their contributions to the Group.

### 2. Participants

The participants of the 2002 Share Option Scheme include any director, employee, consultant, agent, supplier, customer or shareholder of the Group or any entity in which the Group holds any equity interest.

### 3. Number of shares available for issue

The total number of shares available for issue under the 2002 Share Option Scheme is 3,341,555 shares (adjusted as a result of the share consolidation on 7 July 2004) which represents 3.51% of the issued share capital of the Company as at the date of this report.

### 4. Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue unless separately approved by the shareholders in general meeting.

## REPORT OF THE DIRECTORS

### 5. Option period

An option may be exercised in accordance with the terms of the 2002 Share Option Scheme at any time during the period as the board of directors in its absolute discretion determine and in any event such period of time shall not be more than 10 years from the date upon which the offer of the option is made to the grantee.

### 6. Vesting period

The directors may, if consider appropriate, determine the minimum period for which an option must be held before it can be exercised.

### 7. Amount payable on acceptance of option

Upon acceptance of the offer for an option, the grantee shall pay HK\$1.00 as consideration for the grant.

### 8. Subscription price

The subscription price for a share in respect of any option granted shall be a price determined by the board of directors in its absolute discretion but shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business day immediately preceding the date of grant; and (iii) the nominal value of a share.

### 9. Life of the scheme

The 2002 Share Option Scheme is valid and effective for a term of 10 years commencing 28 May 2002.

Movements of the share options granted under the 1998 Share Option Scheme and the 2002 Share Option Scheme during the year were as follows:

#### (a) Share options to directors

Options had been granted to directors of the Company during the year under the 2002 Share Option Scheme. Details of which are disclosed under the section headed "DIRECTORS' INTERESTS IN SECURITIES" above.

## REPORT OF THE DIRECTORS

The directors consider that it is not appropriate to state the value of the options granted to the directors of the Company during the year since there are some limitations in generally accepted methodologies (including the Black-Scholes option pricing model and the binomial model) in the valuation of the options. Furthermore, since a number of variables which are crucial to the calculation of the value of the options cannot be reasonably determined, the directors believe that any valuation of the options granted during the year based on a great number of speculative assumptions would not be meaningful and may be misleading to the shareholders.

**(b) Share options to employees**

No share options were granted to employees of the Company under the 2002 Share Option Scheme.

There are no outstanding share options granted under the 1998 Share Option Scheme during the year.

### 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 purchases and sales for the year ended 30 June 2006 attributable to the Group's major suppliers and customers are as follows:

#### Purchases

– the largest supplier	23%
– five largest suppliers combined	50%

#### Sales

The aggregate amount of sales attributable to the Group's five largest customers represented less than 30% of the Group's total sales in 2006.

Save as disclosed in note 40 to the financial statements, none of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

# REPORT OF THE DIRECTORS

## CONNECTED TRANSACTIONS

Constitute continuing connected transactions under the Listing Rules, required to be disclosed in accordance with Chapter 14A of the Listing Rules, are as follows:

- (i) In the joint announcement of the Company and NWD dated 2 June 2004 ("Joint Announcement"), the Company announced that members of the Post-Completion NWD Group (as defined in the Joint Announcement) had entered into certain agreements with members of the NWPCS Group (as defined in the Joint Announcement). As such, the transactions contemplated under the following agreements constituted continuing connected transactions for the Company pursuant to the Listing Rules. On 6 September 2005, the Company further announced that additional cell sites were licensed from Post-Completion NWD Group. The details of the transactions contemplated under the various agreements, of which including the updated information, are set out as follows:

### A. Leasing and Licensing of Properties and Sharing of Common Facilities

The Post-Completion NWD Group has agreed to lease various properties to the NWPCS Group for use as its offices, retail shops, warehouse and switching centres.

On 1 July 2002 and 15 December 2003, the Post-Completion NWD Group has agreed to let approximately 136,472 sq. ft. of the premises situated at Chevalier Commercial Centre, Kowloon Bay, Kowloon, Hong Kong as the head office of the NWPCS Group. In relation to the premises leased by the Post-Completion NWD Group to NWPCS Group, the rental payment was determined with reference to market rates at the time when the relevant agreement was signed. The term for the lease is for the period of three years up to and including 31 July 2006.

Out of the aforesaid area of 136,472 sq. ft. of the premises situated at Chevalier Commercial Centre, Kowloon Bay, Kowloon, Hong Kong, the NWPCS Group has agreed to license 59,236 sq. ft. of the aforesaid premises to New World Telecommunications Limited ("NWT") for use as the office of the NWT and to share some common facilities and related services with NWT. The license payment was determined with reference to market rates at the time when the relevant agreement was signed. The term for the lease is for the period of three years up to and including 31 July 2006.

## REPORT OF THE DIRECTORS

The NWPCS Group also agreed on 10 December 2001 and 10 May 2004 to lease premises from the Post-Completion NWD Group as warehouse and switching center for the term of three years up to 31 December 2005. The rental payments were determined with reference to market rates at the time when the relevant agreements were signed. For the agreement on 10 May 2004, the monthly rent is HK\$45,670.50 for the period from 1 January 2003 to 31 December 2005 and renewed after 31 December 2005 at monthly rent is HK\$83,650 for the period from 1 January 2006 to 30 June 2006.

On 30 June 2000, the Post-Completion NWD Group has agreed to license certain premises at World Peace Centre, Kwai Chung, New Territories, Hong Kong to NWPCS Group as a switching centre for operations of its infrastructure facilities under a co-location agreement. The license fee payable by NWPCS Group was determined with reference to market rates at the time when the co-location agreement was signed.

### A.1 – Leasing and licensing of properties – payments by NWPCS Group

Description	Date of Agreement	Expiry Date	Floor area (sq.ft.)	Lessor	Relationship of the lessor with the NWD Group	Actual amounts paid for the financial year ended 30 June 2006 (HK\$)
Tenancy of 8/F., 16/F., 17/F., 18/F., and Rooms 1112-1116 of 11/F., of Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Kowloon	1 July 2002/15 December 2003	31 July 2006	136,472	Newly Development Limited	a wholly-owned subsidiary of NWD	8,565,145
Tenancy of Workshops, 1-12, 10/F., World Peace Centre, 55 Wo Tong Tsui Street, Kwai Chung, New Territories	10 December 2001/ 10 May 2004	31 December 2005	13,492	Global Winner Limited	a jointly controlled entity of NWD	524,973
Co-location agreement for licensing of 6/F., World Peace Centre, 55 Wo Tong Tsui Street, Kwai Chung, New Territories	30 June 2000	30 June 2006	2,504	NWT	a wholly-owned subsidiary of NWD	2,477,796
					Total	<u>11,567,914</u>



# REPORT OF THE DIRECTORS

## A.2 – Licensing of properties – receipts by the NWPCS Group

Description	Date of Agreement	Expiry Date	Floor area (sq.ft.)	Licensee	Relationship of the licensee with the NWD Group	Actual amounts received for
						the financial year ended 30 June 2006 (HK\$)
Licensing of part of 8/F, 16/F, 17/F, 18/F, and Rooms 1112-1116 of 11/F, of Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Kowloon	19 May 2004	31 July 2006	59,236	NWT	a wholly-owned subsidiary of NWD	3,795,318
Management support agreement for sharing of office supplies and administration of common areas and supplemental agreements for 8/F, 16/F, 17/F, 18/F, and Rooms 1112-1116 of 11/F, of Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Kowloon	30 June 2000/ 22 March 2002/ 29 July 2002	31 July 2006	N.A.	NWT	a wholly-owned subsidiary of NWD	234,900
Total						4,030,218

## REPORT OF THE DIRECTORS

### B. Licensing of cell sites

In order to facilitate the NWPCS Group to provide geographic coverage of mobile services throughout Hong Kong, the Post-Completion NWD Group has licensed to the NWPCS Group the following premises as cell sites for installation and operations of antenna and repeater equipment which form an integral and mandatory part of the mobile network architect of the NWPCS Group. The licence payments were determined with reference to market rates at the time when the relevant agreements were signed and based on, among other factors, the locations of cell sites, total areas occupied, facilities provided and availability of alternative sites.

Description	Date of Agreement	Expiry Date	Licensor	Relationship of the Licensor with the NWD Group
Licensing of cell sites at main roof, New World Tower Two, 18 Queen's Road Central, Hong Kong	7 January 2005	20 March 2007	New World Tower Company Limited	a wholly-owned subsidiary of NWD
Licensing of cell sites at shop No. RBS03 of Pier 6, Central, Hong Kong and licensing of cell sites at shop No. RBS04 of North Point (West) Ferry Pier, Hong Kong	15 March 2004/ 29 March 2006	28 February 2006/ 29 February 2008	New World First Ferry Services Limited	a jointly controlled entity of NWD
Licensing of cell sites at roof and store room at 7/F, New World First Bus Depot, 8 Chong Fu Road, Chaiwan, Hong Kong	20 May 2004/ 1 December 2005	30 November 2005/ 30 November 2007	New World First Bus Services Limited	a jointly controlled entity of NWD
Licensing of cell sites at Grand Hyatt, 1 Harbour Road, Wanchai, Hong Kong	28 June 2004	30 June 2007	Grand Hyatt Hong Kong Limited	a 64% owned subsidiary of NWD
Licensing of cell sites at G/F., - 7/F., carpark at New World Tower, 18 Queen's Road, Central, Hong Kong	17 December 2004	31 December 2006	New World Tower Company Limited	a wholly-owned subsidiary of NWD
Licensing of cell sites at Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong	22 September 2003/ 21 October 2005	31 August 2005/ 31 August 2007	Renaissance Harbour View Hotel Limited	a 64% owned subsidiary of NWD

# REPORT OF THE DIRECTORS

Description	Date of Agreement	Expiry Date	Licensor	Relationship of the Licensor with the NWD Group
Licensing of cell sites at Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong	9 February 2004/ 18 February 2006	28 February 2006/ 28 February 2008	Kiu Lok Service Management Company Limited	a 54% owned subsidiary of NWD
Licensing of cell sites at New World First Ferry Office, Room G12-13, G/F, China Hong Kong Ferry Terminal, Tsimshatsui, Kowloon	9 July 2003	30 June 2006	New World First Ferry Services (Macau) Limited	a jointly controlled entity of NWD
Licensing of cell sites at Flat roof and upper roof of East Wing Office Building, New World Centre, 20 Salisbury Road, Tsimshatsui, Kowloon	2 November 2004	31 August 2006	Hong Kong Island Development Limited	a wholly-owned subsidiary of NWD
Licensing of cell sites at Level 3A, multi-storey car park, New World Centre, 18-24 Salisbury Road, Tsimshatsui, Kowloon (negotiation of license renewal under way)	18 March 2004	28 February 2006	Hong Kong Island Development Limited	a wholly-owned subsidiary of NWD
Licensing of cell sites at The Amazon, New World Centre, Palace Mall, 12 Salisbury Road, Tsimshatsui, Kowloon (negotiation of license renewal under way)	23 June 2004	31 July 2006	Hong Kong Island Development Limited	a wholly-owned subsidiary of NWD
Licensing of cell sites at Basement 1 and 2, Level 0, 2-4, 7-12, 14-18, New World Renaissance Hotel	31 December 2003/ 26 May 2005/ 26 April 2006	31 December 2005/ 31 December 2005/ 31 December 2006	New World Hotel Company Limited	a 64% owned subsidiary of NWD

# REPORT OF THE DIRECTORS

Description	Date of Agreement	Expiry Date	Licensor	Relationship of the Licensor with the NWD Group
Licensing of cell sites at roof, Riviera Plaza, 28 Wing Shun Street, Tsuen Wan, New Territories	11 December 2004	31 January 2007	Tsuen Wan Properties Limited	a wholly-owned subsidiary of NWD
Licensing of cell sites at New World Centre, 20 Salisbury Road, Kowloon, Hong Kong (New World Centre East)	31 May 2004	28 February 2006	Hong Kong Island Development Ltd.	a wholly-owned subsidiary of NWD
Licensing of cell sites at New World Centre, 18-24 Salisbury Road, Kowloon, Hong Kong (West & East Wing)	6 May 2004	31 March 2006	Hong Kong Island Development Ltd.	a wholly-owned subsidiary of NWD
Licensing of cell sites at 2/F, 1 Chun Ming Road, Lantau Island, Chek Lap Kook Lot 1	1 July 2003	30 June 2005 and automatic renewal	NWT	a wholly-owned subsidiary of NWD
Licensing of cell sites at Shop No. RBS02, Tuen Mun Pier, Hong Kong	7 November 2005	29 June 2007 and terminate on 31 July 2006	New World First Ferry Services Ltd.	a jointly controlled entity held by a non-wholly owned subsidiary of NWD
Licensing of cell sites at ATL Logistics Centre, Berth 3, Kwai Chung Container Terminal, Kwai Chung, New Territories	19 October 2004	31 August 2007	ATL Logistics Centre Hong Kong Ltd.	a jointly controlled entity held by a non-wholly owned subsidiary of NWD
Licensing of cell sites at Hong Kong Dragon Cruise Pier, Expo Drive East, Wanchai, Hong Kong	10 August 2005	30 June 2007 but terminated on 31 July 2006	New World First Travel Services Ltd.	a jointly controlled entity held by a non-wholly owned subsidiary of NWD
Licensing of cell sites at 12 Salisbury Road, Kowloon, Hong Kong (Name Change to Palace Mall)	23 June 2004	31 July 2006	Hong Kong Island Development Ltd.	a wholly-owned subsidiary of NWD
Licensing of cell sites at Roof Area of Control Room, Avenue of Star, Kowloon, Hong Kong	29 July 2004	31 July 2006	Hong Kong Island Development Ltd.	a wholly-owned subsidiary of NWD

## REPORT OF THE DIRECTORS

### C. Interconnection, transmission, traffic routing and related services

The fixed telecommunications networks of NWT and the mobile networks of the NWPCS Group are interconnected under an interconnection agreement (as supplemented) for delivery of telephone calls. Pursuant to the interconnection agreement, the NWPCS Group has agreed to pay for the inter-switch transmission (ISW) links, point-of-interconnection (POI) links, public non-exclusive telephone services (PNETS) charges and mobile number porting (MNP) and dipping charges. The charges of the said services were determined either by Office of the Telecommunications Authority of Hong Kong or by reference to the applicable rates of PCCW-HKT Limited.

The NWPCS Group has leased some high-speed transmission links from NWT for connection amongst its cell sites, retail shops, switching centers, offices and some telephone lines for office use of the NWPCS Group. The NWPCS Group has also agreed to use the wholesale international direct dial traffic routing service of NWT.

Description	Date of Agreement	Expiry Date	Party	Relationship of the Party with the NWD Group
Price review for telephone line service and supplemental agreement	8 February 2002/ 12 December 2003/ 31 May 2004	30 June 2006	NWT	a wholly-owned subsidiary of NWD
Wholesale international direct dial 009 agreement and supplemental agreement	3 July 2000/ 31 May 2004	30 June 2006	NWT	a wholly-owned subsidiary of NWD
Interconnection agreement regarding provision of ISW links, POI links, PNETS charges and MNP, as supplemented by:	30 June 2000	30 June 2006	NWT	a wholly-owned subsidiary of NWD
<ul style="list-style-type: none"> <li>a. Letter agreement dated 1 May 1999 regarding POI E1, MNP and dipping services</li> <li>b. Summary of terms and conditions for interconnection and POI dated 10 January 2002</li> <li>c. Summary of terms and conditions for provision of inter-switch E1 links for data transmission dated 1 May 2002</li> <li>d. Letter agreement dated 21 February 2003</li> <li>e. Annex dated 31 March 2003</li> <li>f. Supplemental agreement dated 31 March 2003 to summary of terms and conditions for provision of inter-switch E1 links for data transmission</li> <li>g. Letter agreement dated 2 February 2004</li> <li>h. Letter agreement dated 7 May 2004 regarding the offer of renewal for POI ports</li> <li>i. Supplemental agreement dated 31 May 2004</li> </ul>				

## REPORT OF THE DIRECTORS

Description	Date of Agreement	Expiry Date	Party	Relationship of the Party with the NWD Group
Letter agreement for ETS transit as amended by a fax message and supplemental agreement	3 July 2000/6 February 2004/31 May 2004	30 June 2006	NWT	a wholly-owned subsidiary of NWD
Letter agreement for E1 service for NWPCS in MTR stations	9 November 1988	December 2005	NWT	a wholly-owned subsidiary of NWD
Offer for contract renewal for multiple protocols labeling switch service and supplemental agreement	27 October 2002/ 20 November 2003/ 31 May 2004	30 June 2006	NWT	a wholly-owned subsidiary of NWD
Purchase order for leasing of OC3 fibre link and supplemental agreement	5 February 2002/31 May 2004	30 June 2006	NWT	a wholly-owned subsidiary of NWD
Order for T3 link data services and supplemental agreement	7 April 2003/ 31 May 2004	30 June 2006	NWT	a wholly-owned subsidiary of NWD
Data link service and supplemental agreement	Between August 1997 and December 2002/ 31 May 2004	30 June 2006	NWT	a wholly-owned subsidiary of NWD

In addition, the NWPCS Group and NWT have entered into the following agreements since 1 July 2003:

Description	Date of Agreement	Expiry Date	Party	Relationship of the Party with the NWD Group
Letter agreement regarding international internet protocols transit service	5 August 2003	30 June 2006	NWT	a wholly-owned subsidiary of NWD
Letter agreement regarding international internet protocols transit service	5 August 2003	30 June 2006	NWT	a wholly-owned subsidiary of NWD
MultiCom IPLC service application form	16 June 2003	30 June 2006	NWT	a wholly-owned subsidiary of NWD
Letter agreement regarding E1 data services and supplemental agreement	11 November 2003/ 31 May 2004	30 June 2006	NWT	a wholly-owned subsidiary of NWD
Offer of renewal for POI ports (supplemental to the interconnect agreement dated 30 June 2000)	7 May 2004	30 June 2006	NWT	a wholly-owned subsidiary of NWD

## REPORT OF THE DIRECTORS

### D. Dealership, value transfer arrangement and provision of miscellaneous services

The NWPCS Group has appointed NWT to act as its non-exclusive dealer to sell prepaid SIM cards and recharge coupons for the prepaid SIM cards to any mobile services users. In addition, commercial agreement has been entered between the NWPCS Group and NWT, which allows the prepaid international calling card customers of NWT to transfer the credit balance in the customers' prepaid international calling card of NWT to the mobile SIM card of the NWPCS Group. On the other hand, NWT also appointed the NWPCS Group as its non-exclusive dealer for prepaid and post-paid international calling cards, and for enlisting international direct dial 009 customers. No transactions took place during the year pursuant to these agreements.

The NWPCS Group has also entered into other agreements with the Post-Completion NWD Group, under which NWD Group will continue to provide miscellaneous services to the NWPCS Group.

#### D.1 – Dealership, value transfer arrangement and provision of miscellaneous services – payments by NWPCS Group

Description	Date of Agreement	Expiry Date	Party	Relationship of the Party with the NWD Group	Actual amounts paid
					for the financial year ended 30 June 2006 (HK\$)
Agreement for appointment of NWT as non-exclusive dealer for prepaid SIM cards and recharge coupons and supplemental agreement	17 May 2002/ 31 May 2004	30 June 2006	NWT	a wholly-owned subsidiary of NWD	-
Value transfer agreement and supplemental agreement	30 April 2004/ 31 May 2004	30 June 2006	NWT	a wholly-owned subsidiary of NWD	-
Agreement for cleaning for the office of NWPCS	18 December 2003	31 December 2005	Pollution and Protection Services Limited	a 54% owned subsidiary of NWD	201,414
				Total	<u>201,414</u>

## REPORT OF THE DIRECTORS

### D.2 – Dealership – receipts by the NWPCS Group

Description	Date of Agreement	Expiry Date	Party	Relationship of the Party with the NWD Group	Actual amounts paid for the financial year ended 30 June 2006 (HK\$)
Dealer distribution agreement for appointing NWPCS as the non-exclusive distributor for international calling card and for enlisting IDD009 customers and supplemental agreement	30 June 2000/ 31 May 2004	30 June 2006	NWT	a wholly-owned subsidiary of NWD	-

- (ii) On 1 November 2004, an Agreement for Provision of Transmission Links was entered into between New World PCS Limited ("NWPCS"), a wholly-owned subsidiary of the Company (on or before 31 March 2006), and NWT, a wholly-owned subsidiary of NWD, in relation to the provision of E1 transmission links by NWT to NWPCS for the purpose of inter-connecting the switches in the NWPCS network between any two exchanges.
- (iii) On 19 May 2005, a Master Agreement for Telecommunications and Interconnection Services was entered into between NWPCS and NWT for the provision by NWT to NWPCS of interconnection, transmission, traffic routing and other related services such as wholesale international direct dial services, local and international transmission links services at various transmission speed, and porting and dipping service for mobile number portability from a term of three years from 1 June 2005 to 31 May 2008.
- (iv) On 21 June 2005, a Call Centre Management Services Agreement was entered into between NWPCS and Shenzhen Xiang Long Communication Co., Ltd. ("XLC") pursuant to which XLC would provide call centre facilities and management services to NWPCS for a term of 25 months from 1 June 2005 to 30 June 2007.

XLC is a wholly-owned subsidiary of New World TMT Limited ("NWTMT") which in turn is a non-wholly owned subsidiary of NWD. As such, the entering into of the Call Centre Management Services Agreement constituted a continuing connected transaction for the Company.



## REPORT OF THE DIRECTORS

The values of the transactions for the year ended 30 June 2006 were as follows:

<b>Nature of transactions</b>	<b>Amount paid/to be paid by the NWPCS Group</b>
	<i>HK\$'000</i>
Leasing and licensing of properties	11,568
Licensing of cell sites	2,901
Interconnection, transmission, traffic routing and other related services	25,552
Call centre services	1,574
Provision of miscellaneous services	201

<b>Nature of transactions</b>	<b>Amount received/to be received by the NWPCS Group</b>
	<i>HK\$'000</i>
Licensing of properties and sharing of common facilities	235

The directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

The independent non-executive directors of the Company have confirmed that the above-mentioned continuing connected transactions were entered into: (i) in the ordinary and usual course of the Group's business; (ii) in accordance with the terms of the respective agreements governing such transactions on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole; and (iii) either on normal commercial terms or on terms no less favourable to the Group than those available to or from independent third parties.

Furthermore, the auditors of the Company have confirmed to the board of directors in writing that the abovementioned 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;
- (iii) have not exceeded the cap disclosed in the previous announcements dated 2 June 2004, 1 November 2004, 19 May 2005 and 21 June 2005 and 6 September 2005; and
- (iv) are in accordance with the pricing policies of the Group if the transactions involve provision of goods or services by the Group.

# REPORT OF THE DIRECTORS

## **DIRECTORS' INTEREST IN COMPETING BUSINESS**

As at 30 June 2006, to the best knowledge of the Directors, none of the Directors and their respective associates were considered to have any interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group.

## **AUDIT COMMITTEE**

The Audit Committee was established in May 1999 and has written terms of reference. The audit committee, which comprises the three independent non-executive directors of the Company namely Mr. Kwong Che Keung, Gordon, Mr. Hui Chiu Chung, *JP* and Mr. Tsui Hing Chuen, William, *JP*. The Committee which is chaired by Mr. Kwong Che Keung, Gordon is responsible for overseeing the Group's financial reporting and internal control system and has reviewed the audited consolidated accounts of the Group for the year ended 30 June 2006.

## **REMUNERATION COMMITTEE**

The Remuneration Committee was established in June 2005 and has written terms of reference. The majority members are independent. The Committee is chaired by Dr. Wai Fung Man, Norman and the other members are Mr. Hui Chi Chung, *JP* and Mr. Tsui Hing Chuen, William, *JP*.

The Remuneration Committee is responsible for formulating and recommending remuneration policy to the board and determining the remuneration of executive directors and members of senior management, as well as reviewing and making recommendations on the Group's share option scheme, bonus structure, provident fund and other compensation related issues. The Committee has reviewed the remuneration of executive directors and members of senior management.

## **CORPORATE GOVERNANCE**

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 10 to 17.

# REPORT OF THE DIRECTORS

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors as at the date of this report, the Company has maintained a sufficient public float throughout the year.

## AUDITORS

Ernst & Young were auditors of the Company for the four financial years ended 31 December 2002. During the year ended 31 December 2003, Ernst & Young resigned and PricewaterhouseCoopers had been appointed as auditors of the Company.

The accounts for the financial year ended 30 June 2006 have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

## BOARD MEMBERS

As at the date of this Report, the Board of the Company comprises (i) five executive directors namely Dr. Cheng Kar Shun, Henry (Chairman), Mr. Doo Wai Hoi, William, *JP* (Vice Chairman), Dr. Wai Fung Man, Norman (Chief Executive Officer), Mr. To Hin Tsun, Gerald and Mr. Chow Yu Chun, Alexander; (ii) two non-executive directors namely Mr. Lo Lin Shing, Simon and Mr. Ho Hau Chong, Norman; and (iii) three independent non-executive directors namely Mr. Kwong Che Keung, Gordon, Mr. Hui Chiu Chung, *JP* and Mr. Tsui Hing Chuen, William, *JP*.

By order of the Board

**Dr. Cheng Kar Shun, Henry**  
*Chairman*

Hong Kong, 10 October 2006