

# Report of the Directors

The directors of the Company submit their report together with the audited financial statements of 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 its subsidiary companies include:

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

An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year and the state of affairs of the Company and of the Group as at 30 June 2006 are set out in the financial statements on pages 68 to 143.

The directors have resolved to recommend a final dividend for the year ended 30 June 2006 in scrip form equivalent to HK\$0.20 per share (2005: HK\$0.62 per share) with a cash option to shareholders registered on 21 November 2006. Together with the interim dividend of HK\$0.24 per share (2005: HK\$0.18 per share) paid in June 2006, total distributions for the year ended 30 June 2006 would thus be HK\$0.44 per share (2005: HK\$0.80 per share).

Subject to the Listing Committee of the Hong Kong Stock Exchange granting the listing of and permission to deal in the new shares, each shareholder will be allotted fully paid shares having an aggregate market value equal to the total amount which such shareholder could elect to receive in cash and they be given the option to elect to receive payment in cash of HK\$0.20 per share instead of the allotment of shares. Full details of the final scrip dividend will be set out in a letter to be sent to shareholders together with a form of election for cash on or about 21 November 2006.

The register of members of the Company will be closed from Thursday, 16 November 2006 to Tuesday, 21 November 2006, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with Standard Registrars Limited, the Company's branch share registrars in Hong Kong, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Wednesday, 15 November 2006.

## SUBSIDIARY COMPANIES

Particulars of the Company's principal subsidiary companies are set out in note 42 to the financial statements.

## JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES

Particulars of the Group's principal associated companies and jointly controlled entities are set out in notes 43 and 44 to the financial statements respectively.

# Report of the Directors

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements.

## DISTRIBUTABLE RESERVES

At 30 June 2006, the Company's reserves available for distribution amounted to HK\$976.0 million.

## DONATIONS

During the year, the Group made charitable donations amounting to HK\$2.3 million (2005: HK\$2.6 million).

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 15 to the financial statements.

## INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year are set out in note 16 to the financial statements.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 28 to the financial statements.

## 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

During the year, NWSH Capital Finance Limited, a direct wholly owned subsidiary company of the Company, redeemed its zero coupon guaranteed convertible bonds from certain bondholders in the total amount of HK\$430 million.

Save as disclosed above, neither the Company nor any of its subsidiary companies has purchased, sold or redeemed any of the Company's listed securities during the year.

## MAJOR CUSTOMERS AND SUPPLIERS

The aggregate amount of turnover and purchases attributable to the Group's five largest customers and suppliers respectively accounted for less than 30% of the Group's total turnover and purchases for the year ended 30 June 2006.

## MANAGEMENT CONTRACTS

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

## DIRECTORS

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

Dr Cheng Kar Shun, Henry

Mr Doo Wai Hoi, William

Mr Chan Kam Ling

Mr Tsang Yam Pui

Mr Wong Kwok Kin, Andrew

Mr Lam Wai Hon, Patrick

Mr Cheung Chin Cheung

Mr William Junior Guilherme Doo

(appointed on 19 December 2005)

Mr Wilfried Ernst Kaffenberger

Mr To Hin Tsun, Gerald

Mr Dominic Lai

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 #

# Independent non-executive directors

In accordance with bye-law 86(2) of the Company's bye-laws, Mr William Junior Guilherme Doo will retire at the forthcoming annual general meeting and being eligible, will offer himself for re-election.

In accordance with bye-law 87 of the Company's bye-laws, Mr Lam Wai Hon, Patrick, Mr Cheung Chin Cheung, Mr Wilfried Ernst Kaffenberger and Mr Cheng Wai Chee, Christopher will retire by rotation at the forthcoming annual general meeting and being eligible, will offer themselves for re-election.

## DIRECTORS' INTERESTS IN CONTRACTS

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

## DIRECTORS' SERVICE CONTRACTS

No director has a service contract which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

# Report of the Directors

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this report, the following directors are considered to have interests in the businesses 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 whose business is considered to compete or likely to compete with the businesses of the Group	Description of business of the entity which is 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 transport 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' interests in securities" below, at no time during the year was the Company, or any of its holding companies, subsidiary companies or fellow subsidiary companies a party to any arrangement to enable the directors or chief executives 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' INTERESTS IN SECURITIES

As at 30 June 2006, the directors 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 30.06.06
	Personal interests	Family interests	Corporate interests		
Dr Cheng Kar Shun, Henry	3,179,199	587,000 <sup>(1)</sup>	8,000,000 <sup>(2)</sup>	11,766,199	0.61%
Mr Doo Wai Hoi, William	2,006,566	–	3,130,000 <sup>(3)</sup>	5,136,566	0.26%
Mr Chan Kam Ling	1,043,891	–	10,254,321 <sup>(4)</sup>	11,298,212	0.58%
Mr Wong Kwok Kin, Andrew	3,959,911	–	–	3,959,911	0.20%
Mr Lam Wai Hon, Patrick	956,921	–	4,895 <sup>(5)</sup>	961,816	0.05%
Mr Cheung Chin Cheung	973,692	–	–	973,692	0.05%
Mr William Junior Guilherme Doo	–	–	163,720 <sup>(6)</sup>	163,720	0.01%
Mr Kwong Che Keung, Gordon	601,969	–	–	601,969	0.03%
Mr Cheng Wai Chee, Christopher	703,288	–	–	703,288	0.04%

Notes:

- (1) The shares are held by the spouse of Dr Cheng Kar Shun, Henry.
- (2) The shares are held by a company wholly owned by Dr Cheng Kar Shun, Henry.
- (3) The shares are held by a company wholly owned by Mr Doo Wai Hoi, William.
- (4) The shares are held by a company of which Mr Chan Kam Ling holds 50% equity interests.
- (5) The shares are held by a company wholly owned by Mr Lam Wai Hon, Patrick.
- (6) The shares are held by a company wholly owned by Mr William Junior Guilherme Doo.
- (7) All the interests stated above represent long positions.

# Report of the Directors

## DIRECTORS' 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/registered capital as at 30.06.06
	Personal interests	Family interests	Corporate interests		
<b>NWD</b>					
(Ordinary shares of HK\$1.00 each)					
Dr Cheng Kar Shun, Henry	–	300,000 <sup>(1)</sup>	–	300,000	0.01%
Mr Chan Kam Ling	138,425	–	–	138,425	0.00%
Mr Wong Kwok Kin, Andrew	200,000	–	–	200,000	0.01%
Mr Cheung Chin Cheung	61,405	–	–	61,405	0.00%
Mr Kwong Che Keung, Gordon	30,000	–	–	30,000	0.00%
<b>New World China Land Limited</b>					
(Ordinary shares of HK\$0.10 each)					
Dr Cheng Kar Shun, Henry	12,500,000	–	52,271,200 <sup>(2)</sup>	64,771,200	1.69%
Mr Doo Wai Hoi, William	8,750,000	–	59,050,000 <sup>(3)</sup>	67,800,000	1.77%
Mr Chan Kam Ling	1,250,000	–	–	1,250,000	0.03%
Mr Wong Kwok Kin, Andrew	500,000	–	–	500,000	0.01%
<b>Fung Seng Estate Development (Shanghai) Co., Ltd.</b>					
(Registered capital in US\$)					
Mr Doo Wai Hoi, William	–	–	US\$3,000,000 <sup>(4)</sup>	US\$3,000,000	30.00%
<b>HH Holdings Corporation</b>					
(Ordinary shares of HK\$1.00 each)					
Mr Chan Kam Ling	15,000	–	–	15,000	2.50%
<b>Master Services Limited</b>					
(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%
<b>Ramada Property Ltd.</b>					
(Ordinary shares of US\$1.00 each)					
Mr Doo Wai Hoi, William	–	–	200 <sup>(3)</sup>	200	20.00%

**DIRECTORS' 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/registered capital as at 30.06.06
	Personal interests	Family interests	Corporate interests		
<b>Shanghai Juyi Real Estate Development Co., Ltd.</b>					
(Registered capital in RMB)					
Mr Doo Wai Hoi, William	–	–	RMB229,500,000 <sup>(4)</sup>	RMB229,500,000	30.00%
<b>Taifook Securities Group Limited</b>					
(Ordinary shares of HK\$0.10 each)					
Mr Doo Wai Hoi, William	–	–	4,346,000 <sup>(3)</sup>	4,346,000	0.75%
Mr William Junior Guilherme Doo	24,406,085	–	–	24,406,085	4.21%
<b>Wai Kee Holdings Limited</b>					
(Ordinary shares of HK\$0.10 each)					
Mr Lam Wai Hon, Patrick	300,000	–	–	300,000	0.04%

## Notes:

- (1) The shares are held by the spouse of Dr Cheng Kar Shun, Henry.
- (2) The shares are held by a company wholly owned by Dr Cheng Kar Shun, Henry.
- (3) The shares are held by a company wholly owned by Mr Doo Wai Hoi, William.
- (4) The interests represent the participating interests held by a company wholly owned by Mr Doo Wai Hoi, William.
- (5) All the interests stated above represent long positions.

# Report of the Directors

## DIRECTORS' INTERESTS IN SECURITIES (CONTINUED)

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

As at 30 June 2006, the following directors of the Company have personal interests in options to subscribe for shares of the Company:

Name	Date of grant	Exercisable period (Notes)	Number of share options				Balance as at 30.06.06	Exercise price per share HK\$
			Balance as at 01.07.05	Exercised during the year	Adjusted during the year <sup>(13)</sup>	Lapsed during the year		
Dr Cheng Kar Shun, Henry	21 July 2003	(1)	1,009,849	(1,009,849) <sup>(4)</sup>	–	–	–	3.719
Mr Doo Wai Hoi, William	21 July 2003	(1)	673,233	(673,233) <sup>(5)</sup>	–	–	–	3.719
Mr Chan Kam Ling	21 July 2003	(1)	673,233	(673,233) <sup>(6)</sup>	–	–	–	3.719
Mr Wong Kwok Kin, Andrew	21 July 2003	(1)	471,263	(471,263) <sup>(7)</sup>	–	–	–	3.719
Mr Lam Wai Hon, Patrick	21 July 2003	(2)	572,248	(572,248) <sup>(8)</sup>	–	–	–	3.719
Mr Cheung Chin Cheung	21 July 2003	(1)	201,969	(201,969) <sup>(8)</sup>	–	–	–	3.719
Mr Wilfried Ernst Kaffenberger	21 July 2003	(3)	605,909	–	(605,909)	–	–	3.719
			–	–	607,248	–	607,248	3.711 <sup>(13)</sup>
Mr To Hin Tsun, Gerald	21 July 2003	(1)	201,969	(201,969) <sup>(9)</sup>	–	–	–	3.719
Mr Dominic Lai	21 July 2003	(1)	201,969	(201,969) <sup>(10)</sup>	–	–	–	3.719
Mr Kwong Che Keung, Gordon	21 July 2003	(1)	201,969	(201,969) <sup>(11)</sup>	–	–	–	3.719
Mr Cheng Wai Chee, Christopher	21 July 2003	(1)	201,969	(201,969) <sup>(12)</sup>	–	–	–	3.719



## DIRECTORS' INTERESTS IN SECURITIES (CONTINUED)

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

Notes:

- (1) Exercisable from 21 July 2005 to 20 July 2008, both dates inclusive.
- (2) Divided into 2 tranches exercisable from 21 July 2004 and 21 July 2005 respectively to 20 July 2008, both dates inclusive.
- (3) Divided into 3 tranches exercisable from 21 January 2004, 21 July 2004 and 21 July 2005 respectively to 20 July 2008, both dates inclusive.
- (4) The exercise date was 29 September 2005. On 28 September 2005, being the trading date immediately before the share options were exercised, the closing price per share was HK\$12.35.
- (5) The exercise date was 3 October 2005. On 30 September 2005, being the trading date immediately before the share options were exercised, the closing price per share was HK\$12.50.
- (6) The exercise date was 14 September 2005. On 13 September 2005, being the trading date immediately before the share options were exercised, the closing price per share was HK\$12.50.
- (7) The exercise date was 22 July 2005. On 21 July 2005, being the trading date immediately before the share options were exercised, the closing price per share was HK\$12.25.
- (8) The exercise date was 10 November 2005. On 9 November 2005, being the trading date immediately before the share options were exercised, the closing price per share was HK\$11.85.
- (9) The exercise date was 12 October 2005. On 10 October 2005, being the trading date immediately before the share options were exercised, the closing price per share was HK\$12.65.
- (10) The exercise date was 26 July 2005. On 25 July 2005, being the trading date immediately before the share options were exercised, the closing price per share was HK\$12.35.
- (11) The exercise date was 8 September 2005. On 7 September 2005, being the trading date immediately before the share options were exercised, the closing price per share was HK\$12.55.
- (12) The exercise date was 5 October 2005. On 4 October 2005, being the trading date immediately before the share options were exercised, the closing price per share was HK\$12.55.
- (13) Pursuant to the existing share option scheme of the Company, the number of unexercised share options and exercise price are subject to adjustment in case of alteration in the capital structure of the Company. The Company approved the distributions of final dividend for the year ended 30 June 2005 and interim dividend for the year ended 30 June 2006 both in scrip form (with cash option) on 29 November 2005 and 13 March 2006 respectively, which gave rise to adjustments to the number of unexercised share options and the exercise price in accordance with the said scheme. The exercise price per share of share options was adjusted from HK\$3.719 to HK\$3.711 with effect from 6 January 2006.
- (14) The cash consideration paid by each director for each grant of the share options was HK\$10.
- (15) All the interests stated above represent long positions.

# Report of the Directors

## DIRECTORS' INTERESTS IN SECURITIES (CONTINUED)

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

#### (i) *New World China Land Limited*

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

Name	Date of grant	Exercisable period	Number of share options			Exercise price per share HK\$
			Balance as at 01.07.05	Exercised during the year	Balance as at 30.06.06	
Dr Cheng Kar Shun, Henry	7 February 2001	8 March 2001 to 7 March 2006	12,500,000	(12,500,000)	–	1.782
Mr Doo Wai Hoi, William	8 February 2001	9 March 2002 to 8 March 2006	7,000,000	(7,000,000)	–	1.782
Mr Chan Kam Ling	9 February 2001	10 March 2005 to 9 March 2006	250,000	(250,000)	–	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 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 was HK\$10.
- (3) All the interests stated above represent long positions.

**DIRECTORS' INTERESTS IN SECURITIES (CONTINUED)****(d) Interests in underlying shares of associated corporations of the Company – Share options (Continued)***(ii) New World Mobile Holdings Limited*

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

Name	Date of grant	Exercisable period	Number of share options as at 30.06.06	Exercise price per share HK\$
Dr Cheng Kar Shun, Henry	28 January 2005	28 January 2005 to 31 December 2010	780,000	1.26
Mr Doo Wai Hoi, William	28 January 2005	28 January 2005 to 31 December 2010	300,000	1.26
Mr To Hin Tsun, Gerald	28 January 2005	28 January 2005 to 31 December 2010	482,000	1.26
Mr Kwong Che Keung, Gordon	28 January 2005	28 January 2005 to 31 December 2010	78,000	1.26

Notes:

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

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

# Report of the Directors

## SHARE OPTION SCHEME

On 6 December 2001, the Company adopted a share option scheme (the "Scheme") and certain rules of this Scheme were amended and approved by the shareholders of the Company on 12 March 2003. Under such Scheme, the directors of the Company may at their discretion grant options to any eligible participant (as explained hereinafter) to subscribe for shares in the Company.

Summary of the Scheme disclosed in accordance with the Listing Rules is as follows:

Purpose of the Scheme	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	<p>Eligible participant may be a person or an entity belonging to any of the following classes:</p> <ul style="list-style-type: none"> <li>(i) any eligible employee;</li> <li>(ii) any non-executive director (including independent non-executive director) of the Group or any invested entity of the Group (the "Invested Entity");</li> <li>(iii) any supplier of goods or services to any member of the Group or any Invested Entity;</li> <li>(iv) any customer of any member of the Group or any Invested Entity;</li> <li>(v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;</li> <li>(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;</li> <li>(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</li> <li>(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.</li> </ul>

**SHARE OPTION SCHEME (CONTINUED)**

Total number of shares available for issue under the Scheme and percentage of issued share capital as at the date of this annual report

The Company had granted options to certain eligible participants to subscribe for 41,497,000 shares of the Company under this Scheme up to the date of this report. Furthermore, adjustments on the number of unexercised options were made on 6 January 2006 and 13 June 2006 as a result of the declaration of final dividend for the year ended 30 June 2005 and the interim dividend for the year ended 30 June 2006. A total of 471,402 additional options were granted during the year under the said adjustments.

The total number of shares available for issue under the Scheme is 137,796,670 representing approximately 7.05% of the Company's issued share capital as at the date of this report.

Maximum entitlement of each participant under the Scheme

Unless approved by shareholders of the Company, the total number of shares issued and to be issued upon exercise of the share options granted to each eligible participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the share capital of the Company in issue.

The period which the shares must be taken up under an option

At any time during a period as specified by the directors, however in any event the share options must be exercised within 10 years from the date of grant of options.

The minimum period for which an option must be held before it can be exercised

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

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 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 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 SCHEME (CONTINUED)

During the financial year ended 30 June 2006, movement of share options granted by the Company under the Scheme was as follows:

- (1) Details of the movement of share options granted to directors of the Company were disclosed under the section headed "Directors' interests in securities" above.
- (2) Details of the movement of share options to other eligible participants were as follows:

Date of grant	Exercisable period (Note)	Number of share options				Balance as at 30.06.06	Exercise price per share HK\$
		Balance as at 01.07.05	Exercised during the year	Lapsed during the year	Adjusted during the year <sup>(2)</sup>		
21 July 2003	(1)	9,664,076	(8,149,579)	(42,871)	(1,471,626)	–	3.719
		–	–	–	1,941,689	1,941,689	3.711 <sup>(2)</sup>

Notes:

- (1) Divided into 3 tranches exercisable from 21 January 2004, 21 July 2004 and 21 July 2005 respectively to 20 July 2008, both dates inclusive.
- (2) Pursuant to the existing share option scheme of the Company, the number of unexercised share options and exercise price are subject to adjustment in case of alteration in the capital structure of the Company. The Company approved the distributions of final dividend for the year ended 30 June 2005 and interim dividend for the year ended 30 June 2006 both in scrip form (with cash option) on 29 November 2005 and 13 March 2006 respectively, which gave rise to adjustments to the number of unexercised share options and the exercise price in accordance with the said scheme. The exercise price per share of share options was adjusted from HK\$3.719 to HK\$3.711 with effect from 6 January 2006.
- (3) The weighted average closing price of the shares immediately before the dates on which share options were exercised was HK\$11.376.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30 June 2006, 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	
Cheng Yu Tung Family (Holdings) Limited	–	1,120,121,613 <sup>(1)</sup>	1,120,121,613	57.63%
Centennial Success Limited	–	1,120,121,613 <sup>(2)</sup>	1,120,121,613	57.63%
Chow Tai Fook Enterprises Limited	59,831,893	1,060,289,720 <sup>(3)</sup>	1,120,121,613	57.63%
NWD	681,410,776	378,878,944 <sup>(4)</sup>	1,060,289,720	54.55%
Mombasa Limited	331,578,383	–	331,578,383	17.06%

Notes:

- (1) Cheng Yu Tung Family (Holdings) Limited holds 51% direct interest in Centennial Success Limited (“CSL”) and is accordingly deemed to have an interest in the shares deemed to be interested by CSL.
- (2) CSL holds 100% direct interest in Chow Tai Fook Enterprises Limited (“CTF”) and is accordingly deemed to have an interest in the shares interested by or deemed to be interested by CTF.
- (3) CTF, together with its subsidiary companies, hold more than one-third of the issued shares of NWD and is accordingly deemed to have an interest in the shares interested by or deemed to be interested by NWD.
- (4) NWD holds 100% indirect interest in Mombasa Limited and is accordingly deemed to have an interest in the shares held by Mombasa Limited in the Company. NWD is also deemed to be interested in 2,041,513 shares held by Financial Concepts Investment Limited, 14,336,552 shares held by Hing Loong Limited, 14,336,552 shares held by Fine Reputation Incorporated, 13,504,885 shares held by New World Hotels Corporation Limited and 3,081,059 shares held by Hong Kong Island Development Limited, all of them are subsidiary companies of NWD.
- (5) 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 2006.

## 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 during the year and up to the date of this report.

# Report of the Directors

## CONNECTED TRANSACTIONS

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

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

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

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

During the year ended 30 June 2006, the contract amounts for each category of services under the NWST Master Services Agreement and the Existing CCT were summarized as follows:

Category of services	Approximate total contract amount HK\$'000	Annual cap HK\$'000
<i>Contracts under the NWST Master Services Agreement:</i>		
Facility management services	1,431.5	15,500.0
Construction services	–	27,000.0
E & M engineering services	48.5	900.0
Property management services	66.0	900.0
Security and guarding services	233.7	5,500.0
Cleaning and landscaping services	22,062.6	35,000.0
Financial services	503.4	1,300.0
Rental or licensing of spare spaces	1,296.3	6,600.0
<i>Contracts under the Existing CCT:</i>		
Facility management services	–	400.0
E & M engineering services	3.8	95.0
Property management services	479.3	700.0
Security and guarding services	540.8	900.0
Cleaning and landscaping services	1,144.9	14,000.0
Rental or licensing of spare spaces	–	450.0



## CONNECTED TRANSACTIONS (CONTINUED)

- (2) On 5 August 2004, an agreement (the “Agreement”) was entered into between 四川犍為電力(集團)股份有限公司 (unofficial translation being Sichuan Qianwei Power (Group) Share Co., Ltd., “Qianwei Power Group”) and Lucrative Rich Limited, a then indirect wholly owned subsidiary company of the Company, for the disposal of all the Group’s 60% interest in 四川犍為大立電力有限公司 (unofficial translation being Sichuan Qianwei Dali Power Company Limited, “Qianwei”) at a consideration of RMB48.0 million.

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

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

The Company further announced on 13 December 2004 that due to the internal corporate restructuring of Qianwei Power Group, Lucrative Rich Limited entered into two sale and purchase agreements on 13 December 2004 both with Qianwei Power Group for the transfer of its 35% interest in Qianwei to Qianwei Power Group, and its remaining 25% interest in Qianwei to Qianwei Power Group or its nominee, in replacement of the Agreement. The consideration for such disposal remained unchanged and the material terms of the Agreement remained substantially unchanged. Transfers of the said interests were completed during the year.

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

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

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

# Report of the Directors

## CONNECTED TRANSACTIONS (CONTINUED)

During the year ended 30 June 2006, the contract amounts for each category of services under the NWD Master Services Agreement were summarized as follows:

Category of services	Approximate total contract amount HK\$m	Annual cap HK\$m
Contracting services	1,961.6	3,288.0
Facility management services	11.8	17.0
Security and guarding services	23.7	33.0
Cleaning and landscaping services	59.6	70.0
Financial services	3.0	9.0
Property management services	27.8	50.0
Other services:		
(a) Rental of properties and vessels	22.8	35.0
(b) Sale of food products	0.1	1.0

- (4) On 27 June 2006, NWS Service Management Limited ("NWSS", an indirect wholly owned subsidiary company of the Company) and NWST entered into a shareholder's loan agreement (the "Shareholder's Loan Agreement") whereby NWSS agreed to lend to NWST a shareholder's loan for the sum of HK\$100 million for its restructuring the existing debts and financing working capital requirement.

The term of the shareholder's loan is for the period from the date of granting of the shareholder's loan to 8 March 2009 or for such other period as the parties may agree on from time to time, interest shall accrue on any outstanding amount of the shareholder's loan at a rate of Hong Kong Interbank Offered Rate plus 0.6% per annum.

As at the date of execution of the Shareholder's Loan Agreement, the Company through NWSS held 50% indirect equity interests in NWST while the remaining 50% equity interests were indirectly held by CTF. CTF held approximately 35% of the total issued share capital of NWD, in turn, held approximately 54% of the total issued share capital of the Company. By virtue of CTF being a substantial shareholder of the Company and NWST being an associate of CTF, NWST was a connected person of the Company. The Shareholder's Loan Agreement and the transaction contemplated thereunder constituted a connected transaction for the Company under the Listing Rules.

The continuing connected transactions mentioned in (1) and (3) 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 set out in the relevant press announcement or circular.

Moreover, the Company has received from its auditors a letter reporting that the continuing connected transactions mentioned in (1) and (3) above:

- (a) were approved by the Executive Committee of the Company;
- (b) were entered into in accordance with the terms of the relevant agreements governing such transactions; and
- (c) were within the caps set out in the relevant press announcement or circular.

Save as disclosed above, a summary of significant related party transactions, which do not constitute connected transactions, made during the year is disclosed in note 37 to the financial statements.

## DISCLOSURE PURSUANT TO RULES 13.20 AND 13.22 OF THE LISTING RULES

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

### (a) Advance to an entity

As at 30 June 2006, 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\$1.689 billion for financing its project costs. Such advances include the sum of HK\$689.4 million due from First Star, which is interest free, unsecured and has no fixed repayment term, and guarantees provided by the Group up to the amount of HK\$1.0 billion for certain banking facilities offered to First Star. These advances represent approximately 7% under the assets ratio as defined under Rule 14.07(1) of the Listing Rules.

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

As at 30 June 2006, the Group has provided financial assistance, by way of shareholders' loans/advances, in the aggregate amount of HK\$2.606 billion to its affiliated companies (included in amounts disclosed in notes 19, 20 and 23 to the financial statements), guaranteed bank loans and other borrowing facilities for the benefit of the affiliated companies in the amount of HK\$1.086 billion (included in the amounts disclosed in note 35 to the financial statements) and contracted to provide an aggregate amount of HK\$928.1 million in capital and loans to affiliated companies. The said amounts, in aggregate, represent approximately 18% under the assets ratio as defined under Rule 14.07(1) of the Listing Rules.

The advances are unsecured, interest free and have no definite repayment terms except for an aggregate amount of HK\$260.1 million which carries interest ranging from 2% to 10% per annum, an amount of HK\$100.1 million which carries interest at 0.6% over Hong Kong Interbank Offered Rate per annum, an amount of HK\$26.7 million which carries interest at Hong Kong prime rate per annum, and an amount of HK\$274.9 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)

Pursuant to Rule 13.22 of the Listing Rules, a proforma combined balance sheet of those affiliated companies with financial assistance from the Group and the Group's attributable interest in those affiliated companies as at 30 June 2006 are presented as follows:

	Proforma combined balance sheet HK\$m	Group's attributable interest HK\$m
Non-current assets	29,423.8	13,161.1
Current assets	10,660.3	4,186.2
Current liabilities	(8,934.5)	(3,457.1)
Non-current liabilities	(7,893.8)	(3,559.8)
Shareholders' loans and advances	(6,260.3)	(2,606.0)
	16,995.5	7,724.4

The proforma combined balance sheet of the affiliated companies is prepared by combining their balance sheets, after making adjustments to conform with the Group's significant accounting policies and re-grouping into significant balance sheet classification, as at 30 June 2006.

### EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2006, over 42,000 staff were employed by companies under the Group's management of which some 25,000 were employed in Hong Kong. Total staff related costs, excluding directors' remunerations, were HK\$2.190 billion (2005: HK\$2.226 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 accordingly to general market conditions every year. Structured training programmes were provided to employees on an ongoing basis.

### FIVE - YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 146 and 147.

### AUDITORS

The financial statements for the year ended 30 June 2006 have been audited by PricewaterhouseCoopers, who will retire at the forthcoming annual general meeting of the Company and, being eligible, will offer themselves for re-appointment.

On behalf of the Board

**Dr Cheng Kar Shun, Henry**

*Chairman*

Hong Kong, 9 October 2006