

Directors' Report



The Directors present their report for the year ended 30 June 2007:

Principal Activities

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

The principal activities of the Group continue to be the development of and investment in properties for sale and rent. Ancillary and supporting businesses, which are described under subsidiaries on pages 167 to 170, are integrated with the main business of the Group. Revenue and contributions to operating profit from overseas activities are immaterial. A segmented analysis of revenue and contributions to operating profit after change on fair value of investment properties for the Group (excluding jointly controlled entities and associates) is set out below:

| | Revenue | | Operating Profit | |
|---|-----------------|-----------------|------------------|-----------------|
| | 2007 (HK\$M) | 2006 (HK\$M) | 2007 (HK\$M) | 2006 (HK\$M) |
| Property | | | | |
| Property sales | 14,242 | 10,890 | 5,739 | 6,885 |
| Rental income | 6,078 | 5,659 | 4,384 | 4,101 |
| | 20,320 | 16,549 | 10,123 | 10,986 |
| Hotel operation | 799 | 734 | 232 | 223 |
| Telecommunications | 4,039 | 3,779 | 183 | 118 |
| Other businesses | 5,836 | 4,536 | 1,189 | 1,077 |
| | 30,994 | 25,598 | 11,727 | 12,404 |
| Other income | | | 516 | 535 |
| Unallocated administrative expenses | | | (681) | (625) |
| Operating profit before change in fair value of investment properties | | | 11,562 | 12,314 |
| Increase in fair value of investment properties | | | 8,904 | 9,110 |
| Operating profit after change in fair value of investment properties | | | 20,466 | 21,424 |

Group Profits

Profit after taxation, including shares of profit from jointly controlled entities and associates, amounted to HK\$21,414 million (2006: HK\$20,038 million). After taking minority interests into account, profit attributable to Company's shareholders was HK\$21,226 million (2006: HK\$19,850 million).

Dividends

An interim dividend of HK\$0.70 per share (2006: HK\$0.70 per share) was paid on 2 April 2007. The Directors recommend a final dividend of HK\$1.60 per share (2006: HK\$1.50 per share), making a total dividend of HK\$2.30 per share for the full year ended 30 June 2007 (2006: HK\$2.20).

Purchase, Sale or Redemption of Shares

The Company has not redeemed any of its ordinary shares during the year. In addition, neither the Company nor any of its subsidiaries has purchased or sold any of the Company's ordinary shares during the year.

Directors' Report

Share Capital

Details of the share capital of the Company are shown in note 31 to the financial statements.

Share Premium and Reserves

Movements in the share premium and reserves of the Company and the Group during the year are shown in note 33 to the financial statements and on page 128 respectively.

Fixed Assets

Movements of fixed assets during the year are shown in notes 13 and 14 to the financial statements.

Group Financial Summary

The results, assets and liabilities of the Group for the last five years are summarized on page 90.

Properties

Particulars of major investment properties held by the Group are set out on pages 44 and 45.

Directors

The list of Directors is set out on page 4 of the report and their particulars are set out on pages 108 to 113. All Directors held office for the whole year. Mr. Law King-wan retired as a Director at the annual general meeting held on 7 December 2006. In accordance with Article 104(A) of the Company's Articles of Association, Dr. Fung Kwok-king, Victor; Mr. Yip Dicky Peter; Professor Wong Yue-chim, Richard; Dr. Li Ka-cheung, Eric; Mr. Chan Kui-yuen, Thomas and Mr. Kwong Chun will retire by rotation at the forthcoming annual general meeting (the "Annual General Meeting"). Dr. Fung Kwok-king, Victor will not offer himself for re-election whereas the other five retiring Directors, being eligible, will offer themselves for re-election at the Annual General Meeting. None of the Directors proposed for re-election has a service agreement with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

The Company has received from each Independent Non-Executive Director an annual confirmation of his independence pursuant to the independence guidelines under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and that the Company still considers the Independent Non-Executive Directors to be independent.

Directors' and Chief Executive's Interests

As at 30 June 2007, the interests and short positions of the Directors and chief executives 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")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as adopted by the Company, to be notified to the Company and the Stock Exchange, were as follows:

I. Long positions in shares and underlying shares of the Company

| Name of Director | Number of shares held | | | | Total | Number of underlying shares held under equity derivatives | Total | % of shares in issue |
|--|---|--|---|----------------------------|---------------|---|---------------|----------------------|
| | Personal interests (held as beneficial owner) | Family interests (interests of spouse or child under 18) | Corporate interests (interests of controlled corporation) | Other interests | | | | |
| Kwok Ping-sheung, Walter | 75,000 | — | — | 1,084,972,522 ¹ | 1,085,047,522 | — | 1,085,047,522 | 43.54 |
| Lee Shau-kee | 486,340 | — | 343,000 ² | — | 829,340 | — | 829,340 | 0.03 |
| Kwok Ping-kwong, Thomas | 1,976,281 | 304,065 | — | 1,083,022,214 ¹ | 1,085,302,560 | — | 1,085,302,560 | 43.55 |
| Kwok Ping-luen, Raymond | 75,000 | — | — | 1,086,165,895 ¹ | 1,086,240,895 | — | 1,086,240,895 | 43.59 |
| Wong Yue-chim, Richard | — | 1,000 | — | — | 1,000 | — | 1,000 | 0 |
| Woo Po-shing | — | — | — | — | — | 236,800 ³ | 236,800 | 0 |
| Li Ka-cheung, Eric | — | — | 18,000 ⁴ | — | 18,000 | — | 18,000 | 0 |
| Lo Chiu-chun, Clement | 90,000 | — | — | — | 90,000 | — | 90,000 | 0 |
| Chan Kai-ming | 41,186 | — | — | — | 41,186 | — | 41,186 | 0 |
| Chan Kui-yuen, Thomas | — | 66,000 | 126,500 ⁵ | — | 192,500 | — | 192,500 | 0 |
| Kwong Chun | 777,722 | 339,358 | — | — | 1,117,080 | — | 1,117,080 | 0.04 |
| Wong Yick-kam, Michael | 145,904 | — | — | — | 145,904 | — | 145,904 | 0 |
| Wong Chik-wing, Mike | 195,999 | — | — | — | 195,999 | — | 195,999 | 0 |
| Woo Ka-biu, Jackson (Alternate Director to Woo Po-shing) | — | 1,000 | — | — | 1,000 | — | 1,000 | 0 |

Notes:

- Of these shares in the Company, Messrs. Kwok Ping-sheung, Walter; Kwok Ping-kwong, Thomas and Kwok Ping-luen, Raymond were deemed to be interested in 1,062,988,347 shares by virtue of being beneficiaries of certain discretionary trusts, which represented the same interests and were therefore duplicated amongst these three Directors for the purpose of the SFO.
- Dr. Lee Shau-kee was deemed to be interested in the 343,000 shares in the Company held through Superfun Enterprises Limited ("Superfun"). This corporation was wholly-owned by The Hong Kong and China Gas Company Limited ("HK China Gas") which was 38.55% held by Henderson Investment Limited ("Henderson Investment") of which 67.94% was held by Kingslee S.A. ("Kingslee"), a wholly-owned subsidiary of Henderson Land Development Company Limited ("Henderson Land Development"). Henderson Land Development was 57.80% held by Henderson Development Limited ("Henderson Development"). Hopkins (Cayman) Limited ("Hopkins") as trustee of a unit trust (the "Unit Trust") owned all the issued ordinary shares of Henderson Development. Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick") as trustees of respective discretionary trusts, held units in the Unit Trust. The entire issued share capital of Hopkins, Rimmer and Riddick were owned by Dr. Lee Shau-kee. He was taken to be interested in the 343,000 shares in the Company held by Superfun by virtue of the SFO.
- These underlying shares were derived from unlisted and physically settled equity link note held by Sir Po-shing Woo as beneficial owner.
- These shares were held by a company in which Dr. Li Ka-cheung, Eric owned 12.20% of its issued share capital.
- These shares were held by a company which obliged to act in accordance with the instructions of Mr. Chan Kui-yuen, Thomas.

Directors' Report

2. Long positions in shares and underlying shares of associated corporations of the Company

(a) SUNeVision Holdings Ltd. ("SUNeVision")

| Name of Director | Number of shares held | | Number of underlying shares held under equity derivatives | Total | % of shares in issue |
|--------------------------|---|------------------------|---|-----------|----------------------|
| | Personal Interests (held as beneficial owner) | Other interests | | | |
| Kwok Ping-sheung, Walter | — | 1,070,000 ¹ | — | 1,070,000 | 0.05 |
| Kwok Ping-kwong, Thomas | — | 1,070,000 ¹ | — | 1,070,000 | 0.05 |
| Kwok Ping-luen, Raymond | — | 1,742,500 ¹ | — | 1,742,500 | 0.08 |
| Kwong Chun | 300,000 | — | — | 300,000 | 0.01 |
| Wong Yick-kam, Michael | 100,000 | — | — | 100,000 | 0 |
| Wong Chik-wing, Mike | 109,000 | — | — | 109,000 | 0 |

Note:

1. Of these shares in SUNeVision, Messrs. Kwok Ping-sheung, Walter; Kwok Ping-kwong, Thomas and Kwok Ping-luen, Raymond were deemed to be interested in 1,070,000 shares by virtue of being beneficiaries of certain discretionary trusts, which represented the same interests and were therefore duplicated amongst these three Directors for the purpose of the SFO.

(b) SmarTone Telecommunications Holdings Limited ("SmarTone")

| Name of Director | Number of shares held | | Number of underlying shares held under equity derivatives | Total | % of shares in issue |
|-------------------------|------------------------|-----------|---|-----------|----------------------|
| | Other interests | Total | | | |
| Kwok Ping-luen, Raymond | 2,237,767 ¹ | 2,237,767 | — | 2,237,767 | 0.38 |

Note:

1. Mr. Kwok Ping-luen, Raymond was deemed to be interested in these shares by virtue of being beneficiary of certain discretionary trust(s) for the purpose of the SFO.

(c) Transport International Holdings Limited

| Name of Director | Number of shares held | | Number of underlying shares held under equity derivatives | Total | % of shares in issue |
|--------------------------|---|---------|---|---------|----------------------|
| | Personal interests (held as beneficial owner) | Total | | | |
| Kwok Ping-sheung, Walter | 61,522 | 61,522 | — | 61,522 | 0.01 |
| Kwok Ping-luen, Raymond | 393,350 | 393,350 | — | 393,350 | 0.09 |
| Chung Sze-yuen | 18,821 | 18,821 | — | 18,821 | 0 |

(d) USI Holdings Limited

| Name of Director | Number of shares held | | Number of underlying shares held under equity derivatives | Total | % of shares in issue |
|------------------------|--|-----------|---|-----------|----------------------|
| | Family interests (interests of spouse or child under 18) | Total | | | |
| Fung Kwok-king, Victor | 3,985,272 | 3,985,272 | — | 3,985,272 | 0.76 |

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

| Name of Associated Corporation | Attributable holding through corporation | Attributable % of shares in issue through corporation | Actual holding through corporation | Actual % interests in issued shares |
|--------------------------------|--|---|------------------------------------|-------------------------------------|
| Splendid Kai Limited | 2,500 | 25 | 1,500 ¹ | 15 |
| Hung Carom Company Limited | 25 | 25 | 15 ¹ | 15 |
| Tinyau Company Limited | 1 | 50 | 1 ¹ | 50 |
| Open Step Limited | 8 | 80 | 4 ¹ | 40 |

Note:

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

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- (f) Dr. Lee Shau-kee had corporate interests in shares of the following associated corporations:

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

Notes:

1. Dr. Lee Shau-kee was deemed to be interested in the 343,000 shares in the Company held through Superfun. This corporation was wholly-owned by HK China Gas which was 38.55% held by Henderson Investment of which 67.94% was held by Kingslee, a wholly-owned subsidiary of Henderson Land Development. Henderson Land Development was 57.80% held by Henderson Development. Hopkins as trustee of the Unit Trust owned all the issued ordinary shares of Henderson Development. Rimmer and Riddick as trustees of respective discretionary trusts, held units in the Unit Trust. The entire issued share capital of Hopkins, Rimmer and Riddick were owned by Dr. Lee Shau-kee. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development. He was taken to be interested in the 343,000 shares in the Company held by Superfun by virtue of the SFO.
2. Dr. Lee Shau-kee was deemed to be interested in the two shares held through Everise (H.K.) Limited. This corporation was 50% held by Masterland Limited, a wholly-owned subsidiary of Henderson Land Development. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development as set out in Note 1.
3. Dr. Lee Shau-kee was deemed to be interested in the one share held through Chico Investment Limited. This corporation was wholly-owned by Henderson Land Development. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development as set out in Note 1.
4. Dr. Lee Shau-kee was deemed to be interested in the one share held through E Man Construction Company Limited. This corporation was wholly-owned by Henderson Land Development. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development as set out in Note 1.
5. Dr. Lee Shau-kee was deemed to be interested in the 100 shares held through Central Waterfront Property Investment Holdings Limited. This corporation was 34.21% held by Starland International Limited ("Starland"), a wholly-owned subsidiary of Henderson Land Development. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development as set out in Note 1.

6. Dr. Lee Shau-kee was deemed to be interested in a total of 50 shares of which 34.21 shares were held through Starland and 15.79 shares were held through Prominence Properties Limited ("Prominence"). Starland was wholly-owned by Henderson Land Development. Prominence was wholly-owned by HK China Gas which was 38.55% held by Henderson Investment of which 67.94% was held by Kingslee, a wholly-owned subsidiary of Henderson Land Development. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development as set out in Note 1.
7. Dr. Lee Shau-kee was deemed to be interested in the one share held through Starland. This corporation was wholly-owned by Henderson Land Development. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development as set out in Note 1.
8. Dr. Lee Shau-kee was deemed to be interested in the 100 shares held through Citiright Development Limited. This corporation was wholly-owned by Henderson Land Development. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development as set out in Note 1.
9. Dr. Lee Shau-kee was deemed to be interested in the one share held through Masterland Limited. This corporation was wholly-owned by Henderson Land Development. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development as set out in Note 1.
10. Dr. Lee Shau-kee was deemed to be interested in the one share held through Atex Resources Limited. This corporation was wholly-owned by Mightymark Investment Limited, a wholly-owned subsidiary of Henderson Land Development. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development as set out in Note 1.
11. Dr. Lee Shau-kee was deemed to be interested in the one share held through Citiplus Limited. This corporation was wholly-owned by Henderson Land Development. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development as set out in Note 1.
12. Dr. Lee Shau-kee was deemed to be interested in the 2,459 shares held through Chico Investment Limited. This corporation was wholly-owned by Henderson Land Development. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development as set out in Note 1.
13. Dr. Lee Shau-kee was deemed to be interested in the 3,050 shares held through Quickcentre Properties Limited. This corporation was 50% held by Henderson (China) Investment Company Limited of which 100% was held by Andcoe Limited, a wholly-owned subsidiary of Henderson China Holdings Limited. This corporation was 100% held by Brightland Enterprises Limited, a wholly-owned subsidiary of Henderson Land Development. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development as set out in Note 1.
14. Dr. Lee Shau-kee was deemed to be interested in the one share held through Well Born Real Estate Management Limited. This corporation was wholly-owned by Henderson Land Development. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development as set out in Note 1.
15. Dr. Lee Shau-kee was deemed to be interested in the one share held through Henderson Investment. This corporation was 67.94% held by Kingslee, a wholly-owned subsidiary of Henderson Land Development. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development as set out in Note 1.
16. Dr. Lee Shau-kee was deemed to be interested in the 4,918 shares held through Billion Ventures Limited. This corporation was 50% held by Chico Investment Limited, a wholly-owned subsidiary of Henderson Land Development. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development as set out in Note 1.
17. Dr. Lee Shau-kee was deemed to be interested in the one share held through Dandy Investments Limited. This corporation was a wholly-owned subsidiary of Henderson Land Development. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development as set out in Note 1.

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

Save as disclosed above, as at 30 June 2007, none of the Directors and the chief executive of the Company were, under Divisions 7 and 8 of Part XV of the SFO, taken to be interested or deemed to have any other interests or short positions in shares, underlying shares or debentures of the Company and its associated corporations, that were required to be entered into the register kept by the Company pursuant to section 352 of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Report

Share Option Schemes

I. Share Option Schemes of the Company

The Company once adopted a share option scheme on 20 November 1997 (the "Old Scheme"). Since its adoption, the Company had granted two lots of share options on 15 February 2000 and 16 July 2001 respectively. The first lot and the second lot of share options all expired on 14 February 2005 and 15 July 2006 respectively.

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

The outstanding positions of the Directors and the chief executive of the Company as at 30 June 2007 with respect to their share options granted under the Old Scheme are as follows:

| Name of Director | Date of grant | Exercise price (HK\$) | Number of share options | | | | Balance as at 30.6.2007 | Weighted average closing price ¹ (HK\$) |
|--------------------------|---------------|-----------------------|-------------------------|-------------------------|---------------------------|-----------------------------------|-------------------------|--|
| | | | Balance as at 1.7.2006 | Granted during the year | Exercised during the year | Cancelled/ Lapsed during the year | | |
| Kwok Ping-sheung, Walter | 16.7.2001 | 70.00 | 75,000 | — | 75,000 | — | — | 78.80 |
| Kwok Ping-kwong, Thomas | 16.7.2001 | 70.00 | 75,000 | — | 75,000 | — | — | 78.80 |
| Kwok Ping-luen, Raymond | 16.7.2001 | 70.00 | 75,000 | — | 75,000 | — | — | 78.80 |
| Chan Kai-ming | 16.7.2001 | 70.00 | 75,000 | — | 75,000 | — | — | 78.95 |
| Chan Kui-yuen, Thomas | 16.7.2001 | 70.00 | 75,000 | — | 75,000 | — | — | 78.80 |
| Kwong Chun | 16.7.2001 | 70.00 | 75,000 | — | 75,000 | — | — | 78.80 |
| Wong Yick-kam, Michael | 16.7.2001 | 70.00 | 75,000 | — | 75,000 | — | — | 78.80 |
| Wong Chik-wing, Mike | 16.7.2001 | 70.00 | 75,000 | — | 75,000 | — | — | 78.80 |

Note:

1. This refers to the weighted average closing price of the shares of the Company immediately before the dates on which share options were exercised.

The movements during the year 30 June 2007 of the share options granted under the Old Scheme to the employees of the Company working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance, other than the Directors and the chief executive of the Company as disclosed above, are summarised as follows:

| Date of grant | Exercise price (HK\$) | Number of share options | | | | Balance as at 30.6.2007 | Weighted average closing price ¹ (HK\$) |
|---------------|-----------------------|-------------------------|-------------------------|---------------------------|-----------------------------------|-------------------------|--|
| | | Balance as at 1.7.2006 | Granted during the year | Exercised during the year | Cancelled/ Lapsed during the year | | |
| 16.7.2001 | 70.00 | 210,000 | — | 174,000 | 36,000 | — | 79.04 |

Note:

1. This refers to the weighted average closing price of the shares of the Company immediately before the dates on which share options were exercised.

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

During the year ended 30 June 2007, no share option was granted under the Old Scheme and the New Scheme.

Major terms of share option schemes of the Company

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

1. The purposes of the Schemes are to provide incentives to the participants.
2. The participants of the Schemes are employees including the Executive Directors of the Company and its subsidiaries.
3. The total number of shares which may be issued upon exercise of all options to be granted under the Schemes must not in aggregate exceed 10% of the issued share capital of the Company at the date of approval of the New Scheme. The 10% limit may be refreshed with the approval by ordinary resolution of the shareholders. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be granted must not exceed 30% of the issued share capital of the Company from time to time. As at 13 September 2007, the number of shares available for issue in respect thereof is 249,183,336 shares of the Company, representing 10% of the issued shares of the Company.

4. No participant shall be granted an option which, if exercised in full, would result in such participant's maximum entitlement to exceed 25% of the aggregate number of shares of the Company for the time being issued and issuable under the Old Scheme.

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

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

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2. Share Option Schemes of the Subsidiaries

(a) SUNeVision

SUNeVision had adopted a share option scheme (the "SUNeVision Old Scheme"), the principal terms of which were summarized in the section headed "Statutory and General Information Share Option Schemes" in Appendix 5 to SUNeVision's prospectus dated 6 March 2000. By ordinary shareholders' resolutions of SUNeVision passed at its annual general meeting held on 3 December 2002, SUNeVision had adopted another share option scheme (the "SUNeVision New Scheme") and terminated the SUNeVision Old Scheme. These have become effective on 5 December 2002 as a result of the passing of ordinary resolutions approving the same by the shareholders of the Company at its extraordinary general meeting held on the same day.

(i) SUNeVision Old Scheme

Since the adoption of the SUNeVision Old Scheme, SUNeVision had granted four lots of share options, of which the options at the exercise price of HK\$10.38 per share had expired at the close of business on 30 December 2005. No further options may be offered under the SUNeVision Old Scheme. However, the outstanding options granted under the SUNeVision Old Scheme shall continue to be subject to the provisions of the SUNeVision Old Scheme and the provisions of Chapter 23 of the Rules Governing the Listing of Securities on the Growth Enterprises Market of the Stock Exchange (the "GEM Listing Rules").

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

- (a) one-third of the options within three years commencing on 15 November 2001;
- (b) a further one-third of the options within three years commencing on 15 November 2002; and
- (c) the remaining one-third of the options within three years commencing on 15 November 2003.

The options expired at the close of business on 14 November 2006.

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

- (a) one-third of the options within three years commencing on 20 March 2002;
- (b) a further one-third of the options within three years commencing on 20 March 2003; and
- (c) the remaining one-third of the options within three years commencing on 20 March 2004.

The options expired at the close of business on 19 March 2007.

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

- (a) one-third of the options within three years commencing on 8 July 2003;
- (b) a further one-third of the options within three years commencing on 8 July 2004; and
- (c) the remaining one-third of the options within three years commencing on 8 July 2005.

The options will expire at the close of business on 7 July 2008.

During the year ended 30 June 2007, no share option was granted under the SUNeVision Old Scheme.

(ii) SUNeVision New Scheme

SUNeVision had granted two lots of share options under the SUNeVision New Scheme since its adoption.

The options at the exercise price of HK\$1.59 per share may be exercised in accordance with the terms of the relevant scheme as to:

- (a) an amount up to one-third of the grant within three years commencing on 29 November 2004;
- (b) the remaining amount but up to two-thirds of the grant within three years commencing on 29 November 2005; and
- (c) the remaining amount within three years commencing on 29 November 2006.

The options will expire at the close of business on 28 November 2009.

The options at the exercise price of HK\$1.41 per share may be exercised in accordance with the terms of the relevant scheme in full at any time within three years from 10 November 2005 and the options will expire at the close of business on 9 November 2008.

During the year ended 30 June 2007, no share option was granted under the SUNeVision New Scheme.

The outstanding positions of the Directors and chief executive of the Company as at 30 June 2007 with respect to their share options granted under the SUNeVision Old Scheme and the SUNeVision New Scheme are as follows:

| Name of Director | Date of grant | Exercise price (HK\$) | Number of share options | | | | |
|--------------------------|---------------|-----------------------|-------------------------|-------------------------|---------------------------|-----------------------------------|-------------------------|
| | | | Balance as at 1.7.2006 | Granted during the year | Exercised during the year | Cancelled/ Lapsed during the year | Balance as at 30.6.2007 |
| Kwok Ping-sheung, Walter | 7.4.2001 | 2.34 | 60,000 | — | — | 60,000 | — |
| Kwok Ping-kwong, Thomas | 7.4.2001 | 2.34 | 60,000 | — | — | 60,000 | — |
| Kwok Ping-luen, Raymond | 7.4.2001 | 2.34 | 116,666 | — | — | 116,666 | — |
| Chan Kui-yuen, Thomas | 7.4.2001 | 2.34 | 60,000 | — | — | 60,000 | — |
| Wong Yick-kam, Michael | 7.4.2001 | 2.34 | 60,000 | — | — | 60,000 | — |

The movements during the year ended 30 June 2007 of the share options granted under the SUNeVision Old Scheme and the SUNeVision New Scheme to the employees of the Company working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance, other than the Directors and chief executive of the Company as disclosed above, are summarized as follows:

| Date of grant | Exercise price (HK\$) | Number of share options | | | | | Weighted average closing price ¹ (HK\$) |
|---------------|-----------------------|-------------------------|-------------------------|---------------------------|-----------------------------------|-------------------------|--|
| | | Balance as at 1.7.2006 | Granted during the year | Exercised during the year | Cancelled/ Lapsed during the year | Balance as at 30.6.2007 | |
| 30.11.2000 | 3.885 | 295,833 | — | — | 295,833 | — | N/A |
| 7.4.2001 | 2.340 | 330,000 | — | — | 330,000 | — | N/A |
| 8.7.2002 | 1.430 | 550,000 | — | 366,667 | 183,333 | — | 1.88 |
| 29.11.2003 | 1.590 | 1,700,000 | — | 1,129,667 | 66,667 | 503,666 | 1.89 |
| 10.11.2005 | 1.410 | 1,570,000 | — | 1,570,000 | — | — | 1.88 |

Note:

1. This refers to the weighted average closing price of the shares of SUNeVision immediately before the dates on which share options were exercised.

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

(b) iAdvantage Limited ("iAdvantage")

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

Directors' Report

(c) **SmarTone**

Pursuant to the terms of the share option scheme of SmarTone (the "SmarTone Scheme") adopted on 15 November 2002, SmarTone may grant options to the participants, including directors and employees of SmarTone group, to subscribe for shares of SmarTone. No option shares for SmarTone have been granted to any Director or employee of the Company since its adoption as required to be disclosed under the Listing Rules.

(d) **Major terms of share option schemes of the subsidiaries**

(i) **SUNeVision Old Scheme, SUNeVision New Scheme and iAdvantage Scheme**

The major terms of the SUNeVision Old Scheme, the SUNeVision New Scheme and the iAdvantage Scheme (collectively "the SUNeVision Schemes"), are summarized as follows:

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

The participants of the SUNeVision Old Scheme include full-time employees of SUNeVision or its subsidiaries including executive directors of SUNeVision or its subsidiaries.

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

3. The total number of shares which may be issued upon exercise of all options to be granted under the SUNeVision Old Scheme and the SUNeVision New Scheme shall not in aggregate exceed 10% of the total number of shares in issue of SUNeVision as at the date of the approval of the SUNeVision New Scheme. The 10% limit may be refreshed with the approval by ordinary resolution of the shareholders of SUNeVision. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the SUNeVision Old Scheme and the SUNeVision New Scheme must not exceed 30% of the issued share capital of SUNeVision from time to time (or such higher percentage as may be allowed under the GEM Listing Rules). As at 13 September 2007, the number of shares of SUNeVision available for issue in respect thereof was 195,939,750 shares of SUNeVision, representing approximately 9.645% of the issued shares of SUNeVision.

The maximum number of shares in respect of which options may be granted under the iAdvantage Scheme must not exceed 10% of the total number of shares in issue of iAdvantage from time to time. The issued share capital of iAdvantage as at 13 September 2007 is HK\$4.00. No share options have been granted to any person under the iAdvantage Scheme since its adoption.

4. Pursuant to the SUNeVision New Scheme, the total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue of SUNeVision. As at 13 September 2007, the total number of shares in issue of SUNeVision was 2,031,148,383.

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

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

The exercise period of any option granted under the SUNeVision Old Scheme must not be less than three years to be notified by the board of SUNeVision to each grantee which period of time shall commence on the date of grant of the option and expire on such date as determined by the board of SUNeVision or 28 February 2010, whichever is the earlier; and subject to the provisions for early termination contained in the scheme.

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

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

Pursuant to each of the SUNeVision Old Scheme and the iAdvantage Scheme, an option may be exercised in accordance with the terms of the respective schemes at any time during a period to be notified by the respective boards to each grantee.

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

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

9. The SUNeVision New Scheme shall be valid and effective till 3 December 2012. Both the SUNeVision Old Scheme and the iAdvantage Scheme shall be valid and effective till 28 February 2010.

Directors' Report

(ii) SmarTone Scheme

The major terms of the SmarTone Scheme, in conjunction with the requirements of Chapter 17 of the Listing Rules, are as follows:

1. The purpose of the SmarTone Scheme is to reward participants who have made a valuable contribution to the growth of the SmarTone group and to enable the SmarTone group to recruit and/or to retain employees who are regarded as valuable to the SmarTone group or are expected to be able to contribute to the business development of the SmarTone group.
2. Any employee, agent, consultant or representative of SmarTone or any of its subsidiaries, including any director of SmarTone or any of its subsidiaries who has made valuable contribution to the growth of the SmarTone group based on his work experience, industry knowledge, performance, business connections or other relevant factors, will be eligible to participate in the SmarTone Scheme at the invitation of the directors of SmarTone.
3. SmarTone can issue option so that the total number of shares that may be issued upon exercise of all options to be granted under all the share option schemes does not in aggregate exceed 10% of the shares in issue on the date of adoption of the SmarTone Scheme. SmarTone may renew this limit at any time, subject to its shareholders' approval and the issue of a circular and in accordance with the Listing Rules provided that the number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes does not exceed 30% of the shares of SmarTone in issue from time to time. At 13 September 2007, the number of shares available for issue in respect thereof is 56,041,134 shares which represents approximately 9.67 % of the issued ordinary shares of SmarTone.
4. The maximum entitlement for any participant is that the total number of shares of SmarTone issued and to be issued upon exercise of options granted and to be granted in any 12-month period up to the date of the latest grant does not exceed 1% of the relevant class of shares of SmarTone in issue.
5. No option may be exercised later than 10 years after it has been granted and no option may be granted more than 10 years after the date on which the SmarTone Scheme is adopted by SmarTone in general meeting.
6. The SmarTone Scheme does not specify any minimum holding period before the option can be exercised but the board of SmarTone has the authority to determine the minimum holding period when the options are granted.
7. Acceptance of offer to grant an option shall be sent in writing together with a remittance in favour of SmarTone of HK\$1.00 by way of consideration for the grant and must be received by the secretary of SmarTone within 28 days from the date of the making of such offer.
8. The option price per share payable upon the exercise of any option will be determined by the directors of SmarTone upon the grant of such option. It will be at least the higher of (i) the average closing price of a share of SmarTone as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the day of offer of such option; (ii) the closing price of a share of SmarTone as stated in the Stock Exchange's daily quotations sheet on the day of offer of such option, which must be a business day; and (iii) the nominal value of a share of SmarTone.
9. The SmarTone Scheme shall be valid and effective for a period of 10 years commencing from the adoption of the SmarTone Scheme on 15 November 2002.

Arrangement to Purchase Shares or Debentures

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

Interests of Substantial Shareholders

As at 30 June 2007, the long positions of every person, other than a Director or the chief executive of the Company, who had interest or short positions in the shares or underlying shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

| Name | As Trustee | Corporate interest | Beneficial owner | Others | Total number of shares | % of shares in issue |
|---|---------------|--------------------|------------------|--------|----------------------------|----------------------|
| HSBC International Trustee Limited ("HITL") | 1,087,523,359 | — | — | — | 1,087,523,359 ¹ | 43.64 |
| Cerberus Group Limited ("CGL") | — | 1,056,638,347 | — | — | 1,056,638,347 ¹ | 42.42 |
| Vantage Captain Limited ("VCL") | — | 75,830,929 | 980,807,418 | — | 1,056,638,347 ¹ | 42.42 |

Note:

1. The shares in which VCL was interested were the same shares in which CGL was interested; the shares in which CGL was interested formed part of the shares in which HITL was interested. As at 30 June 2007, the actual duplicate interests held by VCL, CGL and HITL in the Company were 1,062,988,347 shares which were also the same shares referred to in Note 1 of sub-section 1 under the section headed "Directors and Chief Executive's Interests".

Interests of Other Persons

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

Emolument Policy and Long Term Incentive Schemes of the Group

At at 30 June 2007, the Group employed more than 27,000 employees. Compensation for the Group is made reference to the market, individual performance and contributions. Extensive use of bonuses to link performance with reward is adopted. The Group also provides a comprehensive benefit package and career development opportunities, including retirement schemes, medical benefits, and both internal and external training appropriate to individual needs.

A share option scheme is in place to provide appropriate long-term incentive of key staff of the Group. Details of the share option scheme of the Company are set out in the section headed "Share Option Schemes".

Basis of Determining Emolument to Directors

The same remuneration philosophy is applicable to the Directors of the Group. Apart from benchmarking against the market, the Company looks at individual competence, contributions and the affordability of the Company in determining the exact level of remuneration for each Director. Appropriate benefits schemes are in place for the Executive Directors, including the share option scheme, similar to those offered to other employees of the Group.

Bank and Other Borrowings

Details of bank borrowings are set out in notes 26 and 28 to the financial statements on pages 155 and 156.

Interest Capitalized

Interest capitalized during the year amounted to HK\$624 million (2006: HK\$389 million).

Charitable Donations

HK\$49.3 million was donated during the year (2006: HK\$65.5 million).

Directors' Report

Directors' Interests in Competing Businesses

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

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

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

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

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

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

Connected Transactions

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

Financial Assistance and Guarantees to Affiliated Companies

The Group has provided financial assistance to and guarantees for facilities granted to certain associated companies and jointly controlled entities (collectively the "Affiliated Companies" within the definition under Chapter 13 of the Listing Rules) which together in aggregate exceeds the relevant percentage ratios of 8% under the Listing Rules. In accordance with the continuing disclosure requirements under Listing Rule 13.22, a proforma combined balance sheet of the Affiliated Companies and the Group's attributable interest in the Affiliated Companies as at 30 June 2007 are presented below:

| | Proforma combined balance sheet (HK\$M) | The Group's attributable interest (HK\$M) |
|-------------------------|---|---|
| Non-current assets | 39,320 | 17,052 |
| Current assets | 19,116 | 7,704 |
| Current liabilities | (3,318) | (1,253) |
| Non-current liabilities | (50,836) | (21,971) |
| | 4,282 | 1,532 |

Interest in Contracts

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

Major Customers and Suppliers

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

Auditors

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

Audit Committee

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed with management regarding auditing, internal control and financial reporting matters including the review of the Company's audited results for the year ended 30 June 2007.

Corporate Governance

A report on the principal corporate governance practices adopted by the Company is set out on pages 76 to 79.

Sufficiency of Public Float

As at the date of this report, based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company maintained the amount of public float as required under the Listing Rules.

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

Kwok Ping-sheung, Walter
Chairman & Chief Executive

Hong Kong, 13 September 2007