

Report of the Board of Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2002.

Principal activities

The Group's principal activities during the year consisted primarily of securities and futures contracts broking and trading; the provision of margin and other financing; the provision of corporate advisory, placing and underwriting services; fund management; the provision of nominee and custodian services; and the provision of brokerage and agency services for saving plans. With the establishment of Tai Fook Bullion Limited, the Group commenced its gold bullion broking and trading activities during the year.

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 16 to the financial statements.

Segment information

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 March 2002 is set out in note 4 to the financial statements.

Results and dividends

The Group's loss for the year ended 31 March 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 69 to 121.

An interim dividend of HK1 cent per ordinary share was paid on 18 January 2002. The directors have resolved not to recommend the payment of a final dividend for the year.

Summary financial information

A summary of the published results, assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below. The amounts for each year in the five year summary have been adjusted for the effects of the retrospective changes in accounting policy affecting dividends and the impairment of goodwill, as detailed in note 2 to the financial statements. This summary does not form part of the audited financial statements.

Summary financial information (continued)

Results

	Year ended 31 March				
	2002 HK\$'000	2001 HK\$'000 (Restated)	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
TURNOVER	270,669	403,849	560,323	343,505	801,361
OPERATING PROFIT/(LOSS)	(121,614)	99,243	245,576	46,251	243,226
Share of profits/(loss) of					
associates	–	365	541	776	228
a jointly-controlled entity	(48)	–	–	–	–
PROFIT/(LOSS) BEFORE TAX	(121,662)	99,608	246,117	47,027	243,454
Tax	3,408	(5,350)	(33,727)	(7,591)	(62,338)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	(118,254)	94,258	212,390	39,436	181,116
Minority interests	–	(839)	(1,205)	(302)	75
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	(118,254)	93,419	211,185	39,134	181,191

Assets, Liabilities and Minority Interests

	31 March				
	2002 HK\$'000	2001 HK\$'000 (Restated)	2000 HK\$'000 (Restated)	1999 HK\$'000 (Restated)	1998 HK\$'000 (Restated)
TOTAL ASSETS	2,014,772	2,177,922	2,503,902	1,909,245	2,607,904
TOTAL LIABILITIES	(1,197,230)	(1,225,574)	(1,809,964)	(1,415,030)	(2,112,398)
MINORITY INTERESTS	–	–	(2,290)	(1,099)	–
	817,542	952,348	691,648	493,116	495,506

Fixed assets

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 13 to the financial statements.

Share capital, share options and warrants

Details of movements in the Company's share capital, share options and warrants during the year, together with the reasons therefor, are set out in note 31 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, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, redemption or sale of listed securities of the Company

During the year, the Company repurchased certain of its shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and these shares were subsequently cancelled by the Company. Further details of these transactions are set out in note 31 to the financial statements.

Except as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year other than as an agent for clients of the Company or its subsidiaries.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements.

Distributable reserves

At 31 March 2002, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to HK\$2,456,000. In addition, the Company's share premium account, in the amount of HK\$412,873,000, may be distributed in the form of fully paid bonus shares.

Charitable contributions

During the year, the Group made charitable contributions totalling HK\$125,587.

Major customers and suppliers

In the year under review, the turnover attributable to the five largest customers of the Group accounted for less than 30% of the Group's total turnover for the year.

None of the directors of the Company or any of their associates or any shareholder (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

The Group is a provider of financial services. In the opinion of the directors, it is therefore of no value to disclose details of the Group's suppliers.

Directors

The directors of the Company during the year were:

Executive directors:

Cheng Kar Shun, Henry

Lo Lin Shing, Simon

Doo Wai Hoi, William

Wong Shiu Hoi, Peter

Lee Yiu Wing, William

Chan Chi On, Derek

Luo Gang

Non-executive directors:

Chan Wing Luk

To Hin Tsun, Gerald

Ho Hau Chong, Norman

Chan Kam Ling

Wong Kwok Kin, Andrew

Lam Wai Hon, Patrick (appointed on 1 February 2002)

Cheung Wing Yui, Edward*

Liang Chung Meng, Arthur*

* *Independent non-executive director*

In accordance with the Company's bye-laws, Messrs. Lo Lin Shing, Simon, Doo Wai Hoi, William, Luo Gang, To Hin Tsun, Gerald and Lam Wai Hon, Patrick will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Brief biographies of the directors and senior management

Directors

Executive Directors

CHENG Kar Shun, Henry, aged 55, is the Chairman of the Company. Dr. Cheng joined the Group in November 1976. He holds an Honorary Doctor of Business Administration in Hospitality Management Degree from Johnson & Wales University in Providence, Rhode Island, in U.S.A. and an Honorary Doctor of Law from the University of Western Ontario in Canada. Dr. Cheng has been an executive director of New World Development Company Limited since 1973 and its managing director since 1989. He is currently the chairman of New World Infrastructure Limited, New World China Land Limited, New World Telephone Holdings Limited and New World Services Limited; a managing director of New World Hotels (Holdings) Limited; and a director of various companies including Chow Tai Fook Enterprises Limited, Chow Tai Fook Nominee Limited, Chow Tai Fook Jewellery Company Limited and HKR International Limited. Dr. Cheng is the chief executive officer of a large number of development projects including the multi-billion dollar Hong Kong Convention and Exhibition Centre. He is the chairman of the Advisory Council for The Better Hong Kong Foundation and chairman of the Advisory Panel of the Asian Management Institute, University of Western Ontario. Dr. Cheng is also a member of the Advisory Board of the University of Alberta, Canada, a member of the Advisory Committee for the Harvard Asia Centre, a member of the John Harvard Fellows, a member of the Asian Advisory Board of the Prudential Insurance Company of America, a member of the Young Presidents' Organization (China Chapter) and a committee member of the Eighth & Ninth Chinese People's Political Consultative Committee of The People's Republic of China, a committee member of the Chinese General Chamber of Commerce and a member of the Hong Kong/Japan Business Co-operation Committee and the Hong Kong/European Union Business Cooperation Committee. Dr. Cheng is a son of Mr. Cheng Yu Tung who is a substantial shareholder of the Company.

LO Lin Shing, Simon, aged 46, is a Deputy-chairman of the Company. Mr. Lo joined the Group in June 1986. Mr. Lo possesses over 20 years of experience in the financial, securities and futures industries. He has been a member of the CME and IMM since 1986. Mr. Lo is the chairman of Asia Logistics Technologies Limited, Cyber On-Air Group Company Limited and New World CyberBase Limited. He is also an executive director of Asean Resources Holdings Limited, The Kwong Sang Hong International Limited and Pacific Ports Company Limited, as well as a non-executive director of Beijing Beida Jade Bird Universal Sci-Tech Company Limited, all of which are companies whose shares are listed on The Stock Exchange of Hong Kong Limited.

DOO Wai Hoi, William, aged 57, is a Deputy-chairman of the Company. Mr. Doo joined the Group in June 1986, left in July 1988 and rejoined in May 1996. He holds a Bachelor of Science Degree from the University of Toronto, Canada and a Master Degree in Science from the University of California, U.S.A. He also holds a Diploma of Graduate Gemologist from the Gemologist Institute of America. Mr. Doo is currently the vice-chairman of New World China Land Limited, New World Infrastructure Limited and New World Services Limited. He is also the managing director of Fung Seng Diamond Company Limited and is a director of NWD (Hotels Investments) Limited. Mr. Doo is appointed by The People's Republic of China as a member of the Executive Committee of Shanghai Committee of Chinese People's Political Consultative Conference. He has served as the Governor of the Canadian Chamber of Commerce in Hong Kong since 1995. Mr. Doo is the brother-in law of Dr. Cheng Kar Shun, Henry.

Brief biographies of the directors and senior management (continued)

WONG Shiu Hoi, Peter, aged 61, is the Managing Director and Chief Executive of the Company. Mr. Wong holds a Master of Business Administration Degree from the University of East Asia in Macau. Mr. Wong possesses over 30 years of experience in the financial services industry. He has extensive experience in and knowledge of the securities industry and investment consultancy while working for various financial institutions before joining the Group in November 1987. He is a non-executive director of Ching Hing (Holdings) Limited, a company whose shares are listed on The Stock Exchange of Hong Kong Limited. He is a registered dealer and a registered investment adviser under the Securities Ordinance of Hong Kong. Mr. Wong is a listing committee member of both the Main Board and Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and a deputy-chairman of The Hong Kong Institute of Directors.

LEE Yiu Wing, William, aged 42, is the Executive Director and Chief Operating Officer of the Company. Mr. Lee is responsible for the management of all operations divisions as well as the corporate services and sales department. Mr. Lee first joined the Group in 1988 and subsequently rejoined us in 1997 after his departure in 1995. Mr. Lee is a member of both the Hong Kong Institute of Directors and the Hong Kong Securities Institute. He holds a BA Degree in Economics and Management from the University of Guelph, Canada. He possesses over 14 years of experience in the financial services industry.

CHAN Chi On, Derek, aged 39, is an Executive Director of the Company and the Deputy Managing Director of Tai Fook Capital Limited. Mr. Chan joined the Group in 1996, and is in charge of the corporate finance division. Mr. Chan holds a Master of Business Administration Degree from the Hong Kong University of Science & Technology as well as a Social Sciences Degree in Economics from the University of Hong Kong. Mr. Chan is a registered investment adviser under the Securities Ordinance of Hong Kong. He possesses over 10 years of experience in the financial services industry. Mr. Chan published a book on the subject of listing procedures and securities rules & regulations. Mr. Chan is an executive director of Asean Resources Holdings Limited, a company whose shares are listed on The Stock Exchange of Hong Kong Limited.

LUO Gang, aged 68, is an Executive Director of the Company. Mr. Luo joined the Group in October 1993. He graduated from Beijing Polytechnic University in 1959 with a certificate in machinery manufacturing and design. He was formerly the deputy commissioner of China North Industries Corporation and the general manager of Nanjing Yanxing Company in The People's Republic of China.

Non-executive Directors

CHAN Wing Luk, aged 50, is a Non-executive Director of the Company. Mr. Chan joined the Group in September 1990. He holds a Bachelor of Science Degree from the University of Hong Kong. Mr. Chan has more than 29 years of experience in the financial services industry. He formerly held responsible positions in various financial institutions, both in Hong Kong and in Singapore. He is currently an independent market commentator on the financial services industry in Hong Kong.

Brief biographies of the directors and senior management (continued)

TO Hin Tsun, Gerald, aged 53, is a Non-executive Director of the Company. Mr. To joined the Group in May 1996. He has been a practising solicitor in Hong Kong since 1975. He is also qualified as a solicitor in the United Kingdom, as well as an advocate and solicitor in Singapore. He is currently the senior and managing partner of Messrs. T. S. Tong & Co., Solicitors and Notaries. Mr. To is also a non-executive director of Asean Resources Holdings Limited, Asia Logistics Technologies Limited, The Kwong Sang Hong International Limited, New World CyberBase Limited and Pacific Ports Company Limited, all of which are companies whose shares are listed on The Stock Exchange of Hong Kong Limited.

HO Hau Chong, Norman, aged 46, is a Non-executive Director of the Company. Mr. Ho joined the Group in May 1996. He is a director of Tak Hung (Holding) Company Limited and Honorway Investments Limited, which are private companies owned by his family. He is also a director of Asia Logistics Technologies Limited, CITIC Pacific Limited, Lee Hing Development Limited and Hong Kong Ferry (Holdings) Company Limited. He is a member of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Society of Accountants. He has over 20 years of experience in international finance and property development.

CHAN Kam Ling, aged 61, is a Non-executive Director of the Company. Mr. Chan joined the Group in September 2000. He became a director of New World Development Company Limited in 1994 and also an executive director of New World Infrastructure Limited in 1995 and New World China Land Limited in 1999. Mr. Chan is currently the managing director of New World Services Limited, Hip Hing Construction Company Limited, Sino-French Holdings (Hong Kong) Limited and Macao Water Supply Company Limited as well as a director of Companhia de Electricidade de Macau - CEM, S.A. . He has more than 30 years of experience in construction and property investment industry.

WONG Kwok Kin, Andrew, aged 56, is a Non-executive Director of the Company. Mr. Wong joined the Group in September 2000. He has over 25 years of experience in hotel and project management, as well as finance and human resources administration. Mr. Wong is presently an executive director of New World Services Limited and Sky Connection Limited. He is also a director of New World First Holdings Limited and New World Telephone Holdings Limited. In addition, Mr. Wong has been an executive director of several subsidiaries and affiliated of the New World Group, which provide duty-free liquor and tobacco concession, communication services as well as estate management in both Hong Kong and the PRC. Mr. Wong had been an executive director of New World Hotels (International) Limited and Renaissance Hotel Group N.V., a company listed on the New York Stock Exchange, from 1995 to 1997. He had also worked in Price Waterhouse and Bowater Group of Companies (UK) before.

LAM Wai Hon, Patrick, aged 39, was appointed as a Non-executive Director of the Company on 1 February 2002. Mr. Lam is a Chartered Accountant by training and holds a Master of Business Administration Degree from the University of Edinburgh and a Bachelor Degree from the University of Essex, the United Kingdom. He is a fellow of the Hong Kong Society of Accountants, and of the Institute of Chartered Accountants of England and Wales, and a member of the Institute of Chartered Accountants of Ontario, Canada. Mr. Lam is presently Assistant General Manager of New World Development Company Limited. He is also an executive director of New World Services Limited and Hong Kong Convention and Exhibition Centre (Management) Limited, and a director of Wai Kee Holdings Ltd. Prior to joining the New World Group, Mr. Lam worked for an international accounting firm.

Brief biographies of the directors and senior management (continued)

CHEUNG Wing Yui, Edward, aged 52, is a Non-executive Director of the Company. Mr. Cheung joined the Group in July 1996. He has been a practising lawyer in Hong Kong since 1979 and has also been admitted as a solicitor in the United Kingdom and as an advocate and solicitor in Singapore. He is currently a partner of Messrs. Woo, Kwan, Lee & Lo, Solicitors and Notaries. Mr. Cheung is a non-executive director of seven other listed companies and company secretary to another three listed companies. He is also a Council Member of the Open University of Hong Kong.

LIANG Chung Meng, Arthur, aged 53, is a Non-executive Director of the Company. Mr. Liang joined the Group in April 1997. He has been an executive director of Hong Kong China Hydrofoil Limited since 1980. He is also an executive director of Yin Cheong Company Limited, whose businesses include property investment and hotel operations. Mr. Liang has more than 21 years of experience in the shipping and property investment industry.

Senior Management

WONG Yat Hang, Peter, aged 45, is the Group Chief Financial Officer and an Executive Director of Tai Fook Finance Company Limited and Tai Fook Management Consultancy Limited. Mr. Wong also spearheaded the Total Quality Management and Quality Assurance Functions of the Group. Prior to joining the Group in 1997, Mr. Wong was a professional management consultant with more than 15 years' experience, specialized in Strategic, Financial and Performance Improvement Management. His portfolio covered over 40 local and multinational companies throughout Hong Kong and the PRC, as well as other Asian countries. A Graduate from the University of Birmingham in the United Kingdom, Mr. Wong obtained a Bachelor of Science Degree and a Postgraduate Diploma in Finance. He is currently a fellow member of the Hong Kong Institute of Directors and serves as the committee member of Business Valuation.

HUI Yee, Wilson, aged 43, is the Director of Sales and Marketing for the Group and an Executive Director of Tai Fook Securities Company Limited. Mr. Hui is responsible for the development and management of the Group's retail brokerage business. Mr. Hui joined the Group in 1995 after 14 years of experience in the banking and securities industries. He holds a Bachelor Degree in Economics and Management Studies from the University of Hong Kong. He is currently a member of the Hong Kong Institute of Directors and the Hong Kong Securities Institute.

WONG Chung Mun, Sunny, aged 44, is the Director of Sales and Marketing for the Group and an Executive Director of Tai Fook Futures Limited and Tai Fook Bullion Limited. Mr. Wong is responsible for the development and management of the Group's retail brokerage, securities, futures and bullion businesses. Mr. Wong joined the Group in 1998 after 20 years of experience in the securities and futures industry. He holds a Bachelor Degree of Arts from the Chinese University of Hong Kong. He is currently a member of the Hong Kong Securities Institute and Hong Kong Institute of Directors.

WU Kwok Leung, Edmond, aged 48, is the Operations Director of the Group. Before joining the Group, Mr. Wu held senior position with various financial institutions. He was formerly Vice President of First Pacific Bank Limited, Commercial Banking Group and Chief Operations Manager of The Sanwa Bank Limited, in charge of all departments and sub-branch operations in Hong Kong. Mr. Wu has more than 25 years of experience in the field of banking and finance. He holds a Master of Business Administration Degree from the University of East Asia, Macau and a Diploma of Management for Executive Development from the Chinese University of Hong Kong.

Brief biographies of the directors and senior management (continued)

LAU Chi Keung, Sammy, aged 42, is the Finance Director of the Group. Mr. Lau is responsible for the accounting and financial management. Mr. Lau holds a Master of Applied Finance Degree from the University of Western Sydney, Australia. Prior to joining the Group in 1997, he has more than 15 years of working experience in the Asia Pacific region. He is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants. Mr. Lau is also a senior associate member of the Australasian Institute of Banking and Finance, and a member of the Hong Kong Institute of Directors and the Hong Kong Securities Institute. He is currently studying a Diploma of Business Administration in the PRC from the Hong Kong Productivity Council.

Directors' service contracts

Each of Mr. Lo Lin Shing, Simon, Mr. Wong Shiu Hoi, Peter and Mr. Luo Gang has entered into a service agreement with the Company. Particulars of these agreements are set out below:

- (a) Each service agreement is for a term of three years commencing on 1 August 1996 and shall continue thereafter until terminated by either party giving to the other not less than six months' prior written notice.
- (b) The initial salaries of Mr. Lo Lin Shing, Simon, Mr. Wong Shiu Hoi, Peter and Mr. Luo Gang were HK\$175,000, HK\$175,000 and HK\$83,500 per month, respectively, which were adjusted at a rate determined by the independent non-executive directors on 1 January 1997 and thereafter on 1 January in each year during the term of their service agreements.
- (c) Each of Mr. Lo Lin Shing, Simon, Mr. Wong Shiu Hoi, Peter and Mr. Luo Gang is entitled to such management bonus as may be determined by the board of directors with the aggregate of the management bonuses payable to all executive directors in respect of any financial year not exceeding 5% of the consolidated profits of the Group after tax and minority interests but before extraordinary items for the relevant financial year.
- (d) Each of such directors shall abstain from voting and not be counted in the quorum in respect of any resolution regarding the amount of management bonus available to himself.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' interests in contracts

No director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Directors' interests in shares and warrants

At 31 March 2002, the interests of the directors in the share capital and warrants of the Company and its associated corporations (as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")), as required to

Directors' interests in shares and warrants (continued)

be recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or, as otherwise notified the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Model Code"), were as follows:

(A) Shares

(a) The Company

Number of shares held and nature of interest

Name of director	Personal	Family	Corporate	Total
Lo Lin Shing, Simon	1,000,000	–	70,616,222 <i>(Note 1)</i>	71,616,222
Wong Shiu Hoi, Peter	12,700,000	–	–	12,700,000
Lee Yiu Wing, William	300,000	–	–	300,000
Chan Chi On, Derek	460,000	–	–	460,000
Chan Wing Luk	2,000,000	–	–	2,000,000
Wong Kwok Kin, Andrew	–	390,000 <i>(Note 2)</i>	–	390,000

(b) The associated corporation

Name of director	Class of shares	Name of associated corporation	Number of shares held (Corporate interests)
Lo Lin Shing, Simon	Non-voting deferred shares	Tai Fook Finance Company Limited <i>(Note 3)</i>	47,670,000 <i>(Note 1)</i>

Notes:

- (1) These shares are held by Wellington Equities Inc., a company beneficially wholly-owned by Mr. Lo Lin Shing, Simon.
- (2) These shares are held by Mrs. Wong Li Chak Wing, Winnie, the spouse of Mr. Wong Kwok Kin, Andrew.
- (3) Tai Fook Finance Company Limited is an indirect wholly-owned subsidiary of the Company.

(B) Warrants of the Company

Number of warrants held and nature of interest

Name of director	Personal	Family	Corporate	Total
Lo Lin Shing, Simon	200,000	–	14,123,244 <i>(Note)</i>	14,323,244
Wong Shiu Hoi, Peter	2,480,000	–	–	2,480,000
Chan Chi On, Derek	92,000	–	–	92,000
Chan Wing Luk	400,000	–	–	400,000

Note:

These warrants are held by Wellington Equities Inc., a company beneficially wholly-owned by Mr. Lo Lin Shing, Simon.

Directors' interests in shares and warrants (continued)

In addition to the above, a director has a non-beneficial personal equity interest in a subsidiary held for the benefit of the Group solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company and any of its associated corporations (as defined in the SDI Ordinance), as required to be recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance, or as otherwise notified the Company and the Stock Exchange pursuant to the Model Code.

Directors' rights to acquire shares or debentures

Apart from as disclosed under the section "Directors' interests in shares and warrants" above and "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Share option scheme

The share option scheme (the "Scheme") of the Company was adopted for the purpose of attracting, retaining and motivating talented employees and executive directors of the Company and its subsidiaries to strive towards long term performance targets set by the Company and its subsidiaries and at the same time allowing the participants to enjoy the results of the Company attained through their effort and contribution.

Under the Scheme, options may be granted to any employees or executive directors of the Company or its subsidiaries.

The maximum number of shares in respect of which options may be granted (together with shares issued pursuant to options exercised and shares in respect of which any option remains outstanding) under the Scheme and any other share option schemes of the Company will not exceed 10% of the issued share capital of the Company from time to time excluding any shares issued pursuant to the Scheme. As at the date of the annual report, a total of 251,369 shares (representing approximately 0.05% of the existing issued share capital of the Company) are available for issue under the Scheme. The maximum entitlement of each participant under the Scheme is 25% of the maximum number of shares in respect of which options may be granted as calculated above.

The period within which an option may be exercised shall be determined by the board of directors at its absolute discretion and in any event such period of time shall not exceed a period of three years commencing on the expiry of six months after the date on which the option is accepted in accordance with the terms of the Scheme and expiring on the last day of such period or 16 July 2006, whichever is the earlier. The board of directors may also impose restrictions on the exercise of such option during the period in which an option may be exercised. The amount payable on acceptance of each grant of option is HK\$1.00. The full amount of the subscription price must be paid on exercise of the option.

Share option scheme (continued)

The subscription price for any particular option shall be determined by the board of directors and shall be the higher of (a) a price being not less than 80% of the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five days on which the Stock Exchange is open for the business of dealing in securities immediately preceding the date of offer of the grant of an option; and (b) the nominal value of a share.

The Scheme shall be valid for 10 years and shall expire on 16 July 2006.

The Stock Exchange amended the requirements for share option schemes under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The new requirements came into effect on 1 September 2001 and make some of the provisions of the Scheme no longer applicable. Approval is being sought from shareholders at the forthcoming special general meeting to be held on 23 August 2002 for adopting a new share option scheme which complies with the new requirements of the Listing Rules and terminating the Scheme. Details of which are set out in a circular to be despatched to the shareholders subsequently.

The following share options were outstanding under the Scheme during the year:

Name or category of participant	Number of share options				At 31 March 2002	Date of grant of share options*	Exercise period of share options	Price of the Company's shares***		
	At 1 April 2001	Granted during the year	Exercised during the year	Lapsed during the year				Exercise price of share options**	Immediately preceding the grant date of share options HK\$	Immediately preceding the exercise date of share options HK\$
Directors										
Lo Lin Shing, Simon	-	4,500,000	-	-	4,500,000	15 May 2001	16 November 2001 - 16 November 2004	0.93	1.12	N/A
Wong Shiu Hoi, Peter	-	4,500,000	-	-	4,500,000	15 May 2001	16 November 2001 - 16 November 2004	0.93	1.12	N/A
Lee Yiu Wing, William	-	2,500,000	-	-	2,500,000	15 May 2001	16 November 2001 - 16 November 2004	0.93	1.12	N/A
Chan Chi On, Derek	-	2,500,000	-	-	2,500,000	15 May 2001	16 November 2001 - 16 November 2004	0.93	1.12	N/A
Luo Gang	-	1,000,000	-	-	1,000,000	15 May 2001	16 November 2001 - 16 November 2004	0.93	1.12	N/A
	-	15,000,000	-	-	15,000,000					
Other employees In aggregate	-	21,400,000	-	-	21,400,000	15 May 2001	16 November 2001 - 16 November 2004	0.93	1.12	N/A
	-	36,400,000	-	-	36,400,000					

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period. All share options referred to above are subject to a 6-month vesting period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed as immediately preceding the grant date of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options. The price of the Company's shares disclosed as immediately preceding the exercise date of the share options is the weighted average of the Stock Exchange closing prices over all the exercises of share options within the disclosure category.

Share option scheme (continued)

Summary details of the Company's share option scheme are also set out in note 31 to the financial statements.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the share options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are cancelled prior to their exercise date are deleted from the register of outstanding share options.

The directors have obtained the following theoretical valuations of the share options granted during the year, calculated using the Black-Scholes option pricing model (the "Model") as at the date of the grant of the share options:

Grantee	Number of share options granted during the year	Theoretical value of share options HK\$
Lo Lin Shing, Simon	4,500,000	720,000
Wong Shiu Hoi, Peter	4,500,000	720,000
Lee Yiu Wing, William	2,500,000	400,000
Chan Chi On, Derek	2,500,000	400,000
Luo Gang	1,000,000	160,000
Other employees	21,400,000	3,424,000

The Model is developed to estimate the fair value of publicly traded options that have no vesting restriction and are fully transferable. The Model is only one of the commonly used models to estimate the fair value of an option.

The significant assumptions used in the calculation of the theoretical values of the share options are as follows:

- Risk free rate: 4.87%, being the approximate yield of 3-year Hong Kong Exchange Fund Note traded on 15 May 2001
- Expected volatility: 26.7%, being the annualised volatility of the closing price of the Company's shares from 15 May 2000 to 15 May 2001
- Expected dividend yield: 9.6%, being 5-year average historical dividend yield of the Company's shares
- Expected life of the share options: 3 years

Assumption:

There is no material difference between the expected volatility over the whole life of the share options and the historical volatility of the Company's shares over the period from 15 May 2000 to 15 May 2001.

Share option scheme (continued)

The measurement dates used in the theoretical valuation calculations were the dates on which the share options were granted. The values of share options calculated using the Model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of the assumptions of expected future performance input to the Model, and certain inherent limitations of the Model itself.

Substantial shareholders

At 31 March 2002, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Notes	Number of shares held and nature of interest		Percentage of the Company's issued share capital
		Direct	Deemed	
Chow Tai Fook Nominee Limited	(1)	107,140,540	–	22.31
Chow Tai Fook Enterprises Limited	(2)	30,977,916	97,624,340	26.78
New World Development Company Limited (“NWD”)	(3)	–	97,624,340	20.33
Citiplus Investment Limited (“CIL”)	(4)	–	97,624,340	20.33
New World Services Limited (incorporated in the Cayman Islands) (“NWS (Cayman)”)	(5)	–	97,624,340	20.33
New World Services Limited (incorporated in the British Virgin Islands) (“NWS (BVI)”)	(6)	–	97,624,340	20.33
NWS Financial Management Services Limited		97,624,340	–	20.33
Wellington Equities Inc.	(7)	70,616,222	–	14.70

Notes:

- (1) Mr. Cheng Yu Tung beneficially owns all of the issued shares in Chow Tai Fook Nominee Limited.
- (2) Chow Tai Fook Enterprises Limited and its subsidiaries have interests in more than one-third of the issued shares of NWD and is accordingly deemed to have an interest in the shares deemed to be interested by NWD.
- (3) CIL is a wholly-owned subsidiary of NWD and its interest in the Company is deemed to be held by NWD.
- (4) NWS (Cayman) is a 51% owned subsidiary of CIL and its interest in the Company is deemed to be held by CIL.
- (5) NWS (BVI) is a wholly-owned subsidiary of NWS (Cayman) and its interest in the Company is deemed to be held by NWS (Cayman).
- (6) NWS Financial Management Services Limited is a wholly-owned subsidiary of NWS (BVI) and its interest in the Company is deemed to be held by NWS (BVI).
- (7) These shares were shown in the corporate interests in the Company of Mr. Lo Lin Shing, Simon as set out in the section “Directors’ interests in shares and warrants”.

Substantial shareholders (continued)

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section “Directors’ interests in shares and warrants” above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

Connected transactions

The connected transactions undertaken by the Group are included in the transactions set out in note 38 to the financial statements.

The independent non-executive directors have confirmed to the board of directors that the connected transactions arose in the ordinary and usual course of the Group’s business and they were entered into based on normal commercial terms and in accordance with the terms of the agreements of the underlying transactions. The independent non-executive directors also confirmed that the income derived from the provision of financial services to the directors and the substantial shareholders of the Company and their respective associates did not exceed 10% of the Group’s total turnover for the year.

Directors’ interests in competing businesses

Given that the fundamental nature of the securities investment and trading business of Asean Resources Holdings Limited is regarded not the same as that of the Group, the interests of Messrs. Lo Lin Shing, Simon, Chan Chi On, Derek and To Hin Tsun, Gerald previously disclosed as directors in Asean Resources Holdings Limited are not considered to have any interests in the businesses which compete or are likely to compete (the “Competing Businesses”), either directly or indirectly, with the businesses of the Group.

Save as disclosed above, during the year and up to the date of this report, none of the directors are considered to have interests in the Competing Businesses, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules.

Code of Best Practice

In the opinion of the directors, the Company complied with the Code of Best Practice (the “Code”) as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company’s bye-laws.



Audit committee

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises two independent non-executive directors and a non-executive director of the Company.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the board

CHENG Kar Shun, Henry
Chairman

Hong Kong, 8 July 2002