

Report of the Board of Directors

The directors present their report and the audited financial statements of the Company and the Group for the period from 1 April 2003 to 31 December 2003.

Principal activities

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise securities and futures contracts broking and trading, the provision of margin and other financing, the provision of corporate advisory, placing and underwriting services, gold bullion contracts dealing and trading, leveraged foreign exchange trading, the provision of nominee and custodian services, fund management and the provision of agency services for savings plans. During the period, the Group commenced the leveraged foreign exchange trading business. Apart from the above, there were no significant changes in the nature of the Group's principal activities during the period.

Change of financial year end date

Pursuant to a resolution passed on 22 December 2003, the board resolved to change its financial year end date from 31 March to 31 December to coincide with the financial year end date of most local and international financial institutions, so as to facilitate the shareholders and stakeholders of the Company in evaluating the performance of the Group in comparison with those of other financial institutions.

Results and dividends

The Group's profit for the period from 1 April 2003 to 31 December 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 90 to 176.

An interim dividend of HK2 cents per ordinary share was paid on 16 January 2004. The directors recommend the payment of a final dividend of HK2 cents per ordinary share in respect of the period, to shareholders on the register of members on 25 May 2004. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

Summary financial information

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial period/years, as extracted from the audited financial statements and reclassified as appropriate, is set out below. The amounts for each period/year in the five year financial summary have been adjusted for the effects of the retrospective changes in the accounting policy affecting income tax, 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

	Period from 1 April 2003 to 31 December 2003 HK\$'000		Year ended 31 March		
	2003 HK\$'000 (Restated)	2003 HK\$'000 (Restated)	2002 HK\$'000 (Restated)	2001 HK\$'000 (Restated)	2000 HK\$'000 (Restated)
TURNOVER	245,258	273,779	270,669	403,849	560,323
OPERATING PROFIT/(LOSS)	45,881	(40,092)	(121,614)	99,243	245,576
Share of profits/(losses) of associates	–	–	–	365	541
jointly-controlled entities	(4)	(372)	(48)	–	–
PROFIT/(LOSS) BEFORE TAX	45,877	(40,464)	(121,662)	99,608	246,117
Tax	(4,297)	1,033	15,860	2,601	(30,768)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	41,580	(39,431)	(105,802)	102,209	215,349
Minority interests	–	–	–	(839)	(1,205)
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	41,580	(39,431)	(105,802)	101,370	214,144

Assets, liabilities and minority interests

	31 December 2003 HK\$'000		31 March		
	2003 HK\$'000 (Restated)	2003 HK\$'000 (Restated)	2002 HK\$'000 (Restated)	2001 HK\$'000 (Restated)	2000 HK\$'000 (Restated)
TOTAL ASSETS	2,883,828	2,146,237	2,032,843	2,185,873	2,506,861
TOTAL LIABILITIES	(2,061,376)	(1,380,096)	(1,202,849)	(1,225,574)	(1,809,964)
MINORITY INTERESTS	–	–	–	–	(2,290)
	822,452	766,141	829,994	960,299	694,607

Fixed assets

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

Share capital and share options

Details of movements in the Company's share capital and share options during the period, together with the reasons therefor, are set out in notes 31 and 32 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 period, 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 period 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 period are set out in note 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves

At 31 December 2003, 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\$47,564,000, of which HK\$11,339,000 has been proposed as a final dividend for the period. In addition, the Company's share premium account, in the amount of HK\$406,368,000, may be distributed in the form of fully paid bonus shares.

Charitable contributions

During the period, the Group made charitable contributions totalling HK\$52,692.

Major customers and suppliers

In the period 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 period.

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 period 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
Cheung Wing Yui, Edward*
Liang Chung Meng, Arthur* (resigned on 23 September 2003)
Wei Chi Kuan, Kenny* (appointed on 23 September 2003)

* Independent Non-executive Director

Directors *(continued)*

In accordance with the Company's bye-laws, Messrs. Luo Gang, Chan Kam Ling, Wong Kwok Kin, Andrew, Cheung Wing Yui, Edward and Wei Chi Kuan, Kenny 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 57, is the Chairman of the Company. Dr. Cheng joined the Group in November 1976. Dr. Cheng is the managing director of New World Development Company Limited, the chairman and managing director of New World China Land Limited and the chairman of New World TMT Limited and NWS Holdings Limited. He is also the managing director of NWD (Hotel Investments) Limited and a director of Chow Tai Fook Enterprises Limited and HKR International Limited. Dr. Cheng is the chairman of the Advisory Council for The Better Hong Kong Foundation and a committee member of the Tenth Chinese People's Political Consultative Conference of The People's Republic of China. In 2001, he was awarded the Gold Bauhinia Star by the Government of the Hong Kong Special Administrative Region (HKSAR). Dr. Cheng is a son of Mr. Cheng Yu Tung who is a substantial shareholder of the Company. He is also the brother-in-law of Mr. Doo Wai Hoi, William.

LO Lin Shing, Simon, aged 48, 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 The Kwong Sang Hong International 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 59, 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 and NWS Holdings Limited. He is a director of NWD (Hotels Investments) Limited and Fung Seng Diamond Company 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 63, 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 responsible officer of Tai Fook Securities Company Limited and Tai Fook Capital Limited under the Securities and Futures Ordinance. Mr. Wong is a listing committee member of The Stock Exchange of Hong Kong Limited and a deputy-chairman of The Hong Kong Institute of Directors.

LEE Yiu Wing, William, aged 43, 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 institution & corporate services and sales department. Mr. Lee first joined the Group in 1988 and subsequently rejoined us in 1997 after his departure in 1995. He is a responsible officer of Tai Fook Securities Company Limited and Tai Fook Investment Services Limited under the Securities and Futures Ordinance. 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 15 years of experience in the financial services industry.

CHAN Chi On, Derek, aged 40, 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 responsible officer of Tai Fook Capital Limited under the Securities and Futures Ordinance. 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.

LUO Gang, aged 70, 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.

Brief biographies of the directors and senior management *(continued)*

Non-executive Directors

CHAN Wing Luk, aged 51, 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 30 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.

TO Hin Tsun, Gerald, aged 54, 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 Asia Logistics Technologies Limited, The Kwong Sang Hong International Limited, New World CyberBase Limited and NWS Holdings Limited, all of which are companies whose shares are listed on The Stock Exchange of Hong Kong Limited.

HO Hau Chong, Norman, aged 48, 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 63, 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 New World China Land Limited in 1999 respectively. Mr. Chan is currently the managing director and chief executive officer of NWS Holdings Limited. He is also managing director of 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. Mr. Chan has more than 30 years of experience in construction, property investment and infrastructure industry.

Brief biographies of the directors and senior management *(continued)*

WONG Kwok Kin, Andrew, aged 58, 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 NWS Holdings 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 companies 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 Mainland China. 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 41, is a Non-executive Director of the Company. Mr. Lam joined the Group in 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 NWS Holdings 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.

CHEUNG Wing Yui, Edward, aged 54, is an Independent 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 a number of listed companies. He is also a Council Member of the Open University of Hong Kong.

WEI Chi Kuan, Kenny, aged 46, is an Independent Non-executive Director of the Company. Mr. Wei joined the Group in September 2003. Mr. Wei holds a Bachelor of Arts Degree from the University of Western Ontario. He has over 25 years of experience in the banking industry. Mr. Wei is also an independent non-executive director of Asia Logistics Technologies Limited and New World CyberBase Limited, both of which are companies whose shares are listed on The Stock Exchange of Hong Kong Limited.

Brief biographies of the directors and senior management *(continued)*

Senior Management

WONG Yat Hang, Peter, aged 46, 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 Finance, Human Resources, Administration and Corporate Development Functions of the Group. Prior to joining the Group in 1997, Mr. Wong was a professional management consultant with more than 15 years' experience, specialised 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 of 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 45, 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. He is a responsible officer of Tai Fook Securities Company Limited under the Securities and Futures Ordinance. 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.

WU Kwok Leung, Edmond, aged 50, is the Operations Director of the Group and an Executive Director of Tai Fook Securities Company Limited. Mr. Wu has more than 25 years of experience in the field of banking and finance. 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. 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. He is currently a member of the Hong Kong Institute of Directors.

LAU Chi Keung, Sammy, aged 44, 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 and a Diploma of Business Administration in the PRC. 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.

Brief biographies of the directors and senior management *(continued)*

YING Tak Sun, Nelson, aged 35, is the Chief Technology Officer and Head of On-Line Services of the Group. Mr. Ying is responsible for developing the Group's technology strategy and overseeing the alignment of the Group's objectives with its online operation, information technology research and development activities. Prior to joining the Group in 2001, Mr. Ying has over 16 years of experience in financial and technology management consulting, and software development spanning several Wall Street financial institutions and global consulting firms. Mr. Ying holds a Bachelor of Computer Science from Boston College in the United States of America.

Directors' service contracts

Each of Mr. Lo Lin Shing, Simon, Mr. Wong Shiu Hoi, Peter, Mr. Lee Yiu Wing, Mr. Chan Chi On and Mr. Luo Gang has entered into a new service agreement with the Company on 10 December 2003. The new service agreement of each of Mr. Lo Lin Shing, Simon, Mr. Wong Shiu Hoi, Peter and Mr. Luo Gang supersedes the previous service agreement dated 17 July 1996 entered into between each of Mr. Lo Lin Shing, Simon, Mr. Wong Shiu Hoi, Peter and Mr. Luo Gang and the Company. Particulars of these new service agreements are set out below:

- (a) Each service agreement is for a term of three years commencing on 1 January 2004 and thereafter continuing until terminated by either party giving to the other not less than six months' prior written notice.
- (b) The salaries of Mr. Lo Lin Shing, Simon, Mr. Wong Shiu Hoi, Peter, Mr. Lee Yiu Wing, Mr. Chan Chi On and Mr. Luo Gang were HK\$225,000, HK\$225,000, HK\$117,000, HK\$135,000 and HK\$91,800 per month, respectively, which shall be adjusted from time to time at a rate to be determined by the independent non-executive directors.
- (c) Each of Mr. Lo Lin Shing, Simon, Mr. Wong Shiu Hoi, Peter, Mr. Lee Yiu Wing, Mr. Chan Chi On 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 the executive directors in respect of any financial year not exceeding 5% of the consolidated profit of the Group after tax and minority interests but before extraordinary items for the relevant financial year.
- (d) Each of such directors are required to 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, either directly or indirectly, 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 period.

Directors' interests and short positions in shares, underlying shares and debentures

At 31 December 2003, the interests and short positions of the directors in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

(a) The Company

Name of directors	Number of shares held			Number of underlying shares held under equity derivatives	Total	Percentage of the Company's issued share capital
	Personal interests	Family interests	Corporate interests			
Lo Lin Shing, Simon	1,000,000 <i>(Note 1)</i>	–	70,616,222 <i>(Note 2)</i>	4,500,000 <i>(Note 3)</i>	76,116,222	16.11
Wong Shiu Hoi, Peter	12,450,000 <i>(Note 1)</i>	–	–	4,500,000 <i>(Note 3)</i>	16,950,000	3.59
Lee Yiu Wing, William	–	–	–	2,500,000 <i>(Note 3)</i>	2,500,000	0.53
Chan Chi On, Derek	460,000 <i>(Note 1)</i>	–	–	2,500,000 <i>(Note 3)</i>	2,960,000	0.63
Chan Wing Luk	2,000,000 <i>(Note 1)</i>	–	–	–	2,000,000	0.42
Wong Kwok Kin, Andrew	–	390,000 <i>(Note 4)</i>	–	–	390,000	0.08
Luo Gang	–	–	–	1,000,000 <i>(Note 3)</i>	1,000,000	0.21

Directors' interests and short positions in shares, underlying shares and debentures
(continued)

(b) The associated corporation

Name of director	Name of associated corporation	Class of shares	Number of shares held (Corporate interests)	Number of underlying shares held under equity derivatives	Total	Percentage of the associated corporation's issued share capital
Lo Lin Shing, Simon	Tai Fook Finance Company Limited (Note 5)	Non-voting deferred shares	47,670,000 (Note 2)	–	47,670,000	47.34

Notes:

- (1) These shares are held by the relevant director as beneficial owner.
- (2) These shares are held by Wellington Equities Inc., a company beneficially wholly-owned by Mr. Lo Lin Shing, Simon.
- (3) This represents interests in the share options held by the relevant director as beneficial owner for subscribing the relevant underlying shares in respect of the share options granted by the Company under the 1996 Share Option Scheme, details of which are further disclosed in note 32 to the financial statements.
- (4) These shares are held by Mrs. Wong Li Chak Wing, Winnie, the spouse of Mr. Wong Kwok Kin, Andrew.
- (5) Tai Fook Finance Company Limited is an indirect wholly-owned subsidiary of the Company.

All the interests disclosed above represent long positions in the shares and underlying shares of the Company and its associated corporation.

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 registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Directors' rights to acquire shares or debentures

Save as disclosed under the heading "Directors' interests and short positions in shares, underlying shares and debentures" above and in the share option scheme disclosures in note 32 to the financial statements, at no time during the period 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 schemes

The directors have estimated the theoretical valuation of the 19,450,000 share options granted during the period, calculated using the Black-Scholes option pricing model (the "Model") as at the date of the grant of the options, at a theoretical value of HK\$9,530,000.

The Black-Scholes model is a generally accepted method of valuing options. The significant assumptions used in the calculation of the theoretical value of the shares options were:

Risk free interest rate:	3.5%, being the approximate yield of 5-year Hong Kong Exchange Fund Note traded on 5 September 2003
Expected volatility:	43.9%, being the annualised volatility of the closing price of the Company's shares from 5 September 2002 to 5 September 2003
Expected dividend yield:	1.02%, being 5-year average historical dividend yield of the Company's shares
Expected life of the share options:	5.5 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 5 September 2002 to 5 September 2003.

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.

Detailed disclosures relating to the Company's share option schemes are set out in note 32 to the financial statements.

Substantial shareholders

At 31 December 2003, the interests and short positions of those persons (other than the directors of the Company) in the shares and underlying shares of the Company as required to be recorded in the register maintained by the Company pursuant to Section 336 of the SFO, were as follows:

Name of shareholders	Notes	Number of shares held and nature of interests		Number of underlying shares held under equity derivatives	Total	Percentage of the Company's issued share capital
		Direct	Deemed			
Chow Tai Fook Nominee Limited	(1)	107,140,540	–	–	107,140,540	22.68
Chow Tai Fook Enterprises Limited	(2)	30,977,916	97,624,340	–	128,602,256	27.22
New World Development Company Limited (“NWD”)	(3)	–	97,624,340	–	97,624,340	20.67
NWS Holdings Limited (“NWS”)	(4)	–	97,624,340	–	97,624,340	20.67
NWS Service Management Limited (incorporated in the Cayman Islands) (“NWSSM (Cayman)”)	(5)	–	97,624,340	–	97,624,340	20.67
NWS Service Management Limited (incorporated in the British Virgin Islands) (“NWSSM (BVI)”)	(6)	–	97,624,340	–	97,624,340	20.67
NWS Financial Management Services Limited		97,624,340	–	–	97,624,340	20.67
Wellington Equities Inc.	(7)	70,616,222	–	–	70,616,222	14.95
Ku Ming Mei, Rouisa	(8)	–	71,616,222	4,500,000	76,116,222	16.11
Dominance Resources Limited (“DRL”)	(9)	–	24,406,085	–	24,406,085	5.17
Doo Guilherme William Junior		24,406,085	–	–	24,406,085	5.17

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 in which NWD is deemed to be interested.
- (3) NWD has interests in more than one-third of the issued shares of NWS and is accordingly deemed to have an interest in the shares in which NWS is deemed to be interested.
- (4) NWSSM (Cayman) is a wholly-owned subsidiary of NWS and its interest in the Company is deemed to be held by NWS.
- (5) NWSSM (BVI) is a wholly-owned subsidiary of NWSSM (Cayman) and its interest in the Company is deemed to be held by NWSSM (Cayman).
- (6) NWS Financial Management Services Limited is a wholly-owned subsidiary of NWSSM (BVI) and its interest in the Company is deemed to be held by NWSSM (BVI).
- (7) These shares are held by Wellington Equities Inc., a company beneficially wholly-owned by Mr. Lo Lin Shing, Simon and have been shown in the corporate interests of Mr. Lo Lin Shing, Simon in the Company as set out in the section headed “Directors’ interests and short positions in shares, underlying shares and debentures” above.
- (8) Ms. Ku Ming Mei, Rouisa, the spouse of Mr. Lo Lin Shing, Simon is deemed to be interested in these shares and underlying shares. They have been shown in the total interests of Mr. Lo Lin Shing, Simon in the Company as set out in the section headed “Directors’ interests and short positions in shares, underlying shares and debentures” above.
- (9) These shares are held by DRL as nominee for Mr. Doo Guilherme William Junior and DRL is accordingly deemed to have an interest in the shares in which Mr. Doo Guilherme William Junior is interested.

Substantial shareholders *(continued)*

All the interests disclosed above represent long positions in the shares and underlying shares of the Company.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares, underlying shares and debentures" above, had registered an interest or short positions in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Connected transactions

The connected transactions undertaken by the Group are included in the transactions set out in note 37 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 that 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 period.

Directors' interests in competing businesses

At 31 December 2003, the following directors are considered to have interests in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, as set out below:

Name of director	Entity whose businesses are considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group	Nature of interest of the director in the entity
Lam Wai Hon, Patrick	Certain subsidiaries of East Asia Secretaries (BVI) Limited	Provision of corporate advisory services, nominee and custodian services	Director of East Asia Secretaries (BVI) Limited and certain of its subsidiaries

As the board of directors of the Company is independent from the board of the aforesaid companies and the above directors do not control the board of the Company, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of such companies.

Post balance sheet event

Details of the significant post balance sheet event of the Group are set out in note 38 to the financial statements.

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

Dr. CHENG Kar Shun, Henry
Chairman

Hong Kong, 15 April 2004