

1. CORPORATE INFORMATION

During the year, the Group was involved in the following principal activities:

- securities and futures contracts broking and trading
- provision of margin financing
- provision of corporate advisory services
- provision of placing and underwriting services
- fund management
- provision of nominee and custodian services
- provision of brokerage and agency services for savings plan, liability and general insurance

Upon the disposal of the Group's interests in New World Risk Management (L) Limited and its subsidiaries on 29 September 2000, the Group ceased to provide brokerage and agency services for liability and general insurance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of equity investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2001. The results of the subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) sales of long and short term investments are recognised on the transaction dates when the relevant contract notes are executed;
- (b) commissions and brokerage income on dealings in securities, futures and options contracts and the profit and loss on trading in securities, futures and options contracts are recognised on the transaction dates when the relevant contract notes are executed;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

- (c) consultancy and financial advisory fees, placing, underwriting and sub-underwriting commissions, and insurance brokerage commissions are recognised on an accrual basis in accordance with the terms of the underlying agreements and mandates;
- (d) income from fund management, custodian and handling services is recognised in the period in which such services are rendered;
- (e) interest income is recognised on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (f) dividends from investments are recognised as income when the shareholders' right to receive payment is established.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Associate

An associate is a company, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of an associate are included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in an associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provision for diminution in value other than those considered to be temporary in nature deemed necessary by the directors.

Goodwill

Goodwill arising on consolidation of subsidiaries and on acquisition of associates represents the excess purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is eliminated against reserves in the year of acquisition. On disposal of subsidiaries and associates, the relevant portion of attributable goodwill previously eliminated against reserves is written back and included in the calculation of the gain or loss on disposal.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the lease term
Buildings	2.5%
Leasehold improvements	20%
Furniture, fixtures and equipment	20%
Computer equipment	30%
Motor vehicles	20%
Motor yacht	10%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Intangible assets

Intangible assets, representing eligibility rights to trade on or through The Stock Exchange of Hong Kong Limited ("Stock Exchange Trading Right") and the Hong Kong Futures Exchange Limited ("Futures Exchange Trading Right"), are stated at cost less accumulated amortisation.

Amortisation is calculated on a straight-line basis over a period of ten years to write off the cost of the rights over their estimated useful lives.

Other assets

Other assets held on a long-term basis are stated at cost less provisions for any impairment deemed necessary by the directors, on an individual asset basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long term investments

Long term investments are non-trading investments in listed and unlisted equity securities intended to be held on a long term basis.

Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. Unlisted securities are stated at their estimated fair values on an individual basis.

The gains or losses arising from changes in the fair values of securities are dealt with as movements in the long term investment revaluation reserve, until the securities are sold, collected, or otherwise disposed of, or until the securities are determined to be impaired, when the cumulative gain or loss derived from the securities recognised in the long term investment revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account for the period in which the impairment arises. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist in the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the profit and loss account to the extent of the amount previously charged.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account for the period in which they arise.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and associate are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Provident fund

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. The Scheme became effective from 31 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contribution vesting fully, in accordance with the rules of the Scheme.

Prior to the Scheme being effective, the Group operated a defined contribution retirement benefits scheme for those employees who were eligible to participate in the scheme. This scheme operated in a similar way to the Mandatory Provident Fund retirement benefit scheme, except that when an employee left the scheme prior to his/her interest in the Group's employee contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited contributions. With effect from 1 December 2000, this scheme was terminated.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

3. TURNOVER

Turnover represents commissions and brokerage income on dealings in securities, futures and options contracts, interest income from margin and other financing; consultancy and advisory fees; commissions earned from share placing; underwriting and sub-underwriting; income from fund management; income from custodian and handling services; profit and loss on trading in securities, futures and options contracts; dividend income from investments; and commissions earned from insurance broking, after elimination of all significant intra-group transactions.

Revenue from the following activities has been included in turnover.

	2001	2000
	HK\$'000	HK\$'000
Securities dealing and broking:		
Commission on securities dealings	130,298	190,104
Futures dealing and broking:		
Commission on dealings in futures/options/rolling forex/commodities contracts	11,268	13,211
Interest income:		
Margin and other financing	181,185	154,653
Corporate finance and advisory:		
Consultancy and advisory fee income	31,867	53,697
Placing, underwriting and sub-underwriting commission	38,171	99,440
Fund management:		
Commission on subscription and redemption of shares of a mutual fund	11	64
Management income	59	41
Income earned from provision of nominee and custodian services:		
Custodian and handling service fees	4,958	4,078
Income from proprietary trading:		
Profit/(loss) on securities trading	(27,902)	9,274
Dividend income	5,705	663
Profit/(loss) on futures and options contracts trading	238	(2,245)
Commission and brokerage income from insurance broking	27,991	37,343
	403,849	560,323

4. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	2001	2000
	HK\$'000	HK\$'000
Depreciation	20,230	12,196
Amortisation of intangible assets	491	—
Operating lease rentals in respect of:		
Land and buildings	20,134	17,683
Computer equipment	10,742	6,500
Auditors' remuneration	1,609	1,870
Staff costs (including directors' remuneration - note 5)		
Salaries and wages	132,981	106,287
Commission and bonuses	38,546	55,045
Contributions to provident fund	5,051	3,776
Less: Forfeited contributions (Note)	(506)	(424)
Net provident fund contributions	4,545	3,352
	176,072	164,684
Loss on disposal of fixed assets	—	1
Loss on disposal of an associate	—	37
Provision for doubtful debts	25,300	11,380
Interest expense for securities broking and margin financing operations:		
On bank loans and overdrafts	18,562	14,653
On other loans wholly repayable within five years	50,774	48,934
and after crediting:		
Gain on disposal of subsidiaries	18,132	—
Gain on disposal of a long term investment (after a transfer from the long term investment revaluation reserve of a surplus of HK\$18,861,000)	110,539	—
Gain on disposal of fixed assets	288	—
Unrealised gains/(losses) on short term listed investments, net	(37,274)	20,297
Exchange gains/(losses), net	(160)	160
Dividend income from listed investments	5,705	663
Interest income	189,631	162,399

Note:

The amount of forfeited contributions available to reduce contributions in future years at 31 March 2001 was not material.

5. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Fees:		
Executive	1,500	1,500
Non-executive	1,250	500
Independent non-executive	500	500
	3,250	2,500
Other emoluments:		
Executive:		
Salaries, allowances and benefits in kind	10,363	8,780
Bonuses paid and payable	6,465	10,400
Provident fund contributions	435	598
	20,513	22,278

The remuneration of the directors fell within the following bands:

	Number of directors	
	2001	2000
Nil - HK\$1,000,000	9	6
HK\$1,500,001 - HK\$2,000,000	1	—
HK\$2,000,001 - HK\$2,500,000	1	1
HK\$3,000,001 - HK\$3,500,000	1	—
HK\$4,500,001 - HK\$5,000,000	2	1
HK\$6,000,001 - HK\$6,500,000	—	2
	—	2

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

6. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included four (2000: four) directors, details of whose remuneration are disclosed in note 5 above. The details of the remuneration of the remaining one (2000: one) non-director, highest paid employee are as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Salaries, allowances and benefits in kind	1,330	1,143
Bonuses paid and payable	673	900
Provident fund contributions	71	51
	2,074	2,094

7. TAX

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2001 HK\$'000	2000 HK\$'000
Group:		
Provision for tax in respect of profit for the year:		
Hong Kong	6,292	32,935
Mainland China	79	169
Overseas	207	191
Underprovision/(overprovision) in prior year	(1,341)	313
	5,237	33,608
Share of tax attributable to an associate:		
Overseas	113	119
Tax charge for the year	5,350	33,727

There was no significant unprovided deferred tax in respect of the year (2000: Nil).

8. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$44,308,000 (2000: HK\$121,094,000).

9. DIVIDENDS

	2001 HK\$'000	2000 HK\$'000
Interim - HK4 cents (2000: HK8 cents) per ordinary share	19,536	29,286
Proposed final - HK2 cents (2000: HK11 cents) per ordinary share	9,766	40,268
	29,302	69,554

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$96,149,000 (2000: HK\$211,185,000), and the weighted average number of 428,774,354 (2000: 366,070,425) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31 March 2001 is based on the net profit attributable to shareholders for the year of HK\$96,149,000 (2000: HK\$211,185,000). The weighted average number of ordinary shares used in the calculation is the 428,774,354 (2000: 366,070,425) ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 294,307 (2000: 2,815,567) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all warrants and share options during the year.

11. FIXED ASSETS

Group

	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Furniture, fixtures and equipment HK\$'000	Computer equipment HK\$'000	Motor vehicles HK\$'000	Motor yacht HK\$'000	Total HK\$'000
Cost:							
At beginning of year	3,219	23,545	16,375	18,024	4,631	3,133	68,927
Additions	1,178	9,238	6,765	16,771	2,259	–	36,211
Disposals	–	–	(56)	–	(1,396)	–	(1,452)
Disposal of subsidiaries	–	(3,191)	(1,805)	(3,950)	–	–	(8,946)
Exchange realignment	–	–	(49)	–	–	–	(49)
At 31 March 2001	4,397	29,592	21,230	30,845	5,494	3,133	94,691
Accumulated depreciation:							
At beginning of year	262	14,130	12,717	13,289	1,737	1,238	43,373
Provided during the year	110	5,876	3,441	9,267	1,223	313	20,230
Disposals	–	–	(56)	–	(884)	–	(940)
Disposal of subsidiaries	–	(3,177)	(1,457)	(3,514)	–	–	(8,148)
Exchange realignment	–	–	(22)	–	–	–	(22)
At 31 March 2001	372	16,829	14,623	19,042	2,076	1,551	54,493
Net book value:							
At 31 March 2001	4,025	12,763	6,607	11,803	3,418	1,582	40,198
At 31 March 2000	2,957	9,415	3,658	4,735	2,894	1,895	25,554

11. FIXED ASSETS (Continued)

Company

	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Furniture, fixtures and equipment HK\$'000	Computer equipment HK\$'000	Motor vehicles HK\$'000	Motor yacht HK\$'000	Total HK\$'000
Cost:							
At beginning of year	1,305	1,403	137	44	4,631	3,133	10,653
Additions	1,178	9,230	6,598	3	2,259	–	19,268
Disposal	–	–	–	–	(1,396)	–	(1,396)
At 31 March 2001	2,483	10,633	6,735	47	5,494	3,133	28,525
Accumulated depreciation:							
At beginning of year	33	365	73	15	1,737	1,238	3,461
Provided during the year	62	2,141	1,333	9	1,223	313	5,081
Disposal	–	–	–	–	(884)	–	(884)
At 31 March 2001	95	2,506	1,406	24	2,076	1,551	7,658
Net book value:							
At 31 March 2001	2,388	8,127	5,329	23	3,418	1,582	20,867
At 31 March 2000	1,272	1,038	64	29	2,894	1,895	7,192

The Group's leasehold land and buildings included above are held under the following lease terms:

	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
At cost:			
Medium term lease	1,914	–	1,914
Long term lease	1,178	1,305	2,483
	3,092	1,305	4,397

12. INTANGIBLE ASSETS

	Group	
	2001 HK\$'000	2000 HK\$'000
Cost:		
At beginning of year	4,731	–
Additions	3,400	–
Transfer from other assets	–	4,731
At 31 March	8,131	4,731
Accumulated amortisation:		
At beginning of year	–	–
Provided during the year	491	–
At 31 March	491	–
Net book value:		
At 31 March	7,640	4,731

Pursuant to the restructuring of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and the Hong Kong Futures Exchange Limited (the “Futures Exchange”), effective on 6 March 2000, the Group received five Stock Exchange Trading Rights, two Futures Exchange Trading Rights and 6,812,000 shares of HK\$1 each in the Hong Kong Exchanges and Clearing Limited (the “HKEC Shares”) in exchange for its five shares previously held in the Stock Exchange and two shares previously held in the Futures Exchange.

In the prior year, the carrying costs of the previously held shares in the Stock Exchange and Futures Exchange (note 16) were apportioned to the Stock Exchange Trading Rights, the Futures Exchange Trading Rights and the HKEC Shares on the basis of their respective estimated fair values on 6 March 2000.

The Stock Exchange Trading Rights and Futures Exchange Trading Rights (the “Trading Rights”) have been classified as intangible assets.

At 31 March 2000, the HKEC Shares were classified as an unlisted long term equity investment in note 16 to the financial statements. Subsequent to the classification under these balance sheet categories, the Trading Rights and the HKEC Shares have been treated under the accounting policies of the respective categories. No amortisation was charged against the Trading Rights for the prior year due to the proximity of the restructuring date to 31 March 2000.

13. OTHER ASSETS

	Group	
	2001 HK\$'000	2000 HK\$'000
At cost:		
Deposits with the Stock Exchange:		
Compensation fund	300	250
Fidelity fund	300	250
Dealers' deposit with Securities and Futures Commission	350	350
Stamp duty deposit	500	500
Contributions to The Central Clearing and Settlement System Guarantee Fund	430	400
Admission fee paid to Hong Kong Securities Clearing Company Limited	250	250
Admission fee paid to The SEHK Options Clearing House Limited	700	200
Reserve fund with The SEHK Options Clearing House Limited	1,500	1,500
Deposit with the Compensation Fund of the Futures Exchange	100	100
Deposit with HKFE Clearing Corporation Limited in contribution to the reserve fund	1,500	1,500
Compensation fund paid to The Shenzhen Stock Exchange Co., Ltd.	300	300
Settlement Risk Fund paid to The Shanghai Securities Central Clearing & Registration Corporation	387	387
Club debentures	368	368
	6,985	6,355

14. INTERESTS IN SUBSIDIARIES

	Company	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	105,377	110,477
Due from subsidiaries	379,011	157,790
Due to subsidiaries	(24,080)	—
	460,308	268,267

The amounts due from subsidiaries are unsecured, interest-free, except for an amount of HK\$181,456,000 (2000: HK\$58,124,000) which bears interest at Hong Kong prime rate per annum, and has no fixed terms of repayment.

The amounts due to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation and operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Tai Fook (BVI) Limited	British Virgin Islands	HK\$11,576	100%	—	Investment holding
Tai Fook Finance Company Limited	Hong Kong	HK\$2 (Non-voting deferred (Note 1) HK\$100,700,001)	—	100%	Investment holding, money lending and securities trading
Tai Fook Securities Company Limited	Hong Kong	HK\$100,000,000	—	100%	Investment holding, securities broking and dealing, margin financing, provision of placing, underwriting and sub-underwriting, and nominee services
Tai Fook Nominees Company Limited	Hong Kong	HK\$50,000,000	—	100%	Securities trading

14. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation and operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Tai Fook Futures Limited	Hong Kong	HK\$20,000,000	—	100%	Futures, options and rolling forex broking and trading
Tai Fook Research Limited	Hong Kong	HK\$1,000,000	—	100%	Provision of research services
Tai Fook Capital Limited	Hong Kong	HK\$10,000,000	—	100%	Provision of corporate advisory services
Tai Fook Investment Services Limited	Hong Kong	HK\$37,500,000	—	100%	Investment holding, securities broking and dealing
Tai Fook Risk Consultants Limited** (Note 2)	Hong Kong	HK\$100,000	—	100%	Insurance broking
Ocean Pilot Investments Limited*	British Virgin Islands	US\$1	—	100%	Investment holding
Prosper Ideal Limited*	Hong Kong	HK\$2	—	100%	Dormant
Tai Fook Securities (U.K.) Limited	United Kingdom	£50,000	—	100%	Provision of advisory services
Tai Fook Securities (U.S.) Inc.	United States of America	US\$50,000	—	100%	Securities broking
Tai Fook Asset Management Limited	Hong Kong	HK\$2,000,000	—	100%	Investment holding and asset management
Tai Fook Asset Management Nominees Limited*	Hong Kong	HK\$2	—	100%	Proprietary trading of derivative products

14. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation and operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Tai Fook Fund Management Company Limited	Bermuda/ Hong Kong	US\$12,000	—	100%	Fund management
Tai Fook Growth Enterprise Fund Limited*	Cayman Islands	HK\$2	—	100%	Authorised Fund
Tai Fook Information Technology Inc.	British Virgin Islands	US\$1	—	100%	Investment holding
Tai Fook Net Inc.	British Virgin Islands	US\$1	—	100%	Investment holding
Tai Fook On-line Inc.	British Virgin Islands	US\$1	—	100%	Investment holding
Tai Fook Information Systems Inc.*	British Virgin Islands	US\$1	—	100%	Investment holding
Tai Fook e-wealth club Inc.*	British Virgin Islands	US\$1	—	100%	Investment holding
Tai Fook Net Limited	Hong Kong	HK\$1,000,000	—	100%	Dormant
Tai Fook On-line Services Limited	Hong Kong	HK\$6,000,000	—	100%	Provision of electronic financial services
Tai Fook Information Systems Limited*	Hong Kong	HK\$11,000,000	—	100%	Provision of information technology solution
E-wealth Club Limited*	Hong Kong	HK\$1,000,000	—	100%	Club association

* incorporated during the year

** disposed of and reacquired during the year

14. INTERESTS IN SUBSIDIARIES (Continued)

Notes:

- The non-voting deferred shares carry no rights to dividends, no rights to attend or vote at general meetings and no rights to receive any surplus in a return of capital, in a winding-up or otherwise in respect of the first HK\$100,000,000,000 thereof.
- Subsequent to the balance sheet date, Tai Fook Risk Consultants Limited changed its name to Tai Fook Investment Consultants Limited on 25 April 2001.

15. INTEREST IN AN ASSOCIATE

	Group	
	2001 HK\$'000	2000 HK\$'000
Share of net assets	—	854
Due from an associate	—	14
	<u>—</u>	<u>868</u>

The Group's share of the post-acquisition reserves of the associate at 31 March 2001 was nil (2000: HK\$854,000).

The amount due from an associate in the prior year was unsecured, interest-free and was repaid during the year.

Particulars of the associate during the year were as follows:

Name	Business structure	Place of incorporation and operations	Percentage of ownership interest attributable to the Group		Principal activity
			2001	2000	
New World Insurance Services (Ontario) Limited	Corporate	Canada	—	41.65%	Insurance broking

16. INVESTMENTS

Long term investments

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Listed equity investment in Hong Kong, at market value	34,213	18,837	34,213	18,837
Unlisted equity investment in Hong Kong, at fair value (Note)	—	26,430	—	—
	34,213	45,267	34,213	18,837

Note:

The unlisted equity investment represented the HKEC Shares acquired in the restructuring as detailed in note 12. On 27 June 2000, the HKEC Shares were listed on the Stock Exchange. The Group subsequently disposed of the HKEC Shares.

At the balance sheet date, the listed investment was pledged to banks to secure certain banking facilities granted to the Company's subsidiaries.

Short term investments

	Group	
	2001 HK\$'000	2000 HK\$'000
Listed equity investments, at market value:		
Hong Kong	51,097	98,460
Elsewhere	301	138
U.S. Government bond, at fair value	1,516	1,513
	52,914	100,111

17. ADVANCES TO CUSTOMERS

Advances to customers represent loans to margin clients which are secured by the underlying pledged securities, are repayable on demand and bear interest at commercial rates. No ageing analysis is disclosed as, in the opinion of the directors, an ageing analysis is not relevant in view of the nature of the business of securities margin financing.

18. ACCOUNTS RECEIVABLE

	2001 HK\$'000	Group 2000 HK\$'000
Accounts receivable arising from the ordinary course of business of dealing in:		
Securities and equity options transactions:		
Clearing house, brokers and dealers	6,586	30,343
Cash clients	27,093	87,458
Futures and options contracts transactions:		
Clearing house, brokers and dealers	43,677	68,792
Payment in respect of the purchase of securities for which listing is pending on the Stock Exchange	—	34,631
Accounts receivable arising from the ordinary course of business of the provision of corporate advisory, placing and underwriting services and insurance broking	7,822	29,779
	85,178	251,003

The settlement terms of accounts receivable arising from the ordinary course of business of dealing in securities and equity options transactions are two days after the trade date, and those of accounts receivable arising from the ordinary course of business of dealing in futures and options contracts transactions are one day after the trade date. The above balances are all aged within 30 days.

The settlement terms of the payment in respect of the purchase of securities for which listing was pending on the Stock Exchange were in accordance with the terms set out in the subscription agreement. The above balance was aged within 30 days.

18. ACCOUNTS RECEIVABLE (Continued)

The ageing analysis of accounts receivable arising from the ordinary course of business of the provision of corporate advisory, placing and underwriting services and insurance broking is as follows:

	2001	2000
	HK\$'000	HK\$'000
Within 3 months	5,122	22,155
Between 4 to 6 months	1,950	6,566
Between 7 to 12 months	600	500
Over 1 year	150	558
	7,822	29,779

The Group maintains a defined credit policy which is regularly reviewed by the Credit Committee.

19. OTHER RECEIVABLES

	Note	Group		Company	
		2001	2000	2001	2000
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Prepayments, deposits and other debtors		18,527	44,269	7,256	371
Due from related companies	20	1,707	33,945	–	–
Loans receivable		8,593	9,129	–	–
		28,827	87,343	7,256	371

20. DUE FROM RELATED COMPANIES

The amounts due from related companies are unsecured, interest-free and have no fixed terms of repayment.

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Cash and bank balances	35,725	78,058	544	969
Time deposits	5,004	—	—	—
	40,729	78,058	544	969

22. ACCOUNTS PAYABLE

	Group	
	2001 HK\$'000	2000 HK\$'000
Accounts payable arising from the ordinary course of business of dealing in:		
Securities and equity options transactions:		
Clearing house, brokers and dealers	12,586	—
Cash clients	280,510	380,738
Margin clients	178,787	244,386
Futures and options contracts transactions:		
Clients	92,109	88,202
Accounts payable arising from the ordinary course of business of the provision of placing and underwriting services and insurance broking	1,726	66,889
	565,718	780,215

22. ACCOUNTS PAYABLE (Continued)

The settlement terms of accounts payable arising from the ordinary course of business of dealing in securities and equity options transactions in respect of clearing house, brokers and dealers and cash clients are two days after the trade date.

Included in accounts payable to cash clients arising from the ordinary course of business of dealing in securities and equity options transactions is an amount of approximately HK\$263,674,000 (2000: HK\$325,722,000) representing these clients' undrawn monies/excess deposits placed with the Group. The balances are repayable on demand. No ageing analysis is disclosed as, in the opinion of the directors, an ageing analysis is not relevant in view of the nature of the business of dealing in securities and equity options.

Accounts payable to margin clients arising from the ordinary course of business of dealing in securities and equity options transactions are repayable on demand. No ageing analysis is disclosed as, in the opinion of the directors, an ageing analysis is not relevant in view of the nature of the business of dealing in securities and equity options.

Accounts payable to clients arising from the ordinary course of business of dealing in futures and options contracts transactions are margin deposits received from clients for their trading of futures and options contracts. The excesses of the outstanding amounts over the required margin deposit stipulated are repayable to clients on demand. No ageing analysis is disclosed as, in the opinion of the directors, an ageing analysis is not relevant in view of the nature of the business of dealing in futures and options contracts.

The ageing analysis of accounts payable arising from the ordinary course of business of the provision of placing and underwriting services and insurance broking is as follows:

	2001 HK\$'000	2000 HK\$'000
Within 3 months	1,726	63,061
Between 4 to 6 months	—	3,828
	1,726	66,889

23. OTHER PAYABLES AND ACCRUALS

	Note	Group		Company	
		2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Accruals and other liabilities		41,345	45,440	4,359	1,920
Due to related companies	24	642	242,735	298	—
Proposed final dividend		9,766	40,268	9,766	40,268
		51,753	328,443	14,423	42,188

24. DUE TO RELATED COMPANIES

The amounts due to related companies in the prior year included an amount of HK\$238,747,000 due to Chow Tai Fook Jewellery Company Limited, which was repaid during the year. Except for an amount of HK\$237,000,000 which was secured by the listed shares held by the Group as security for advances to customers (with the customers' consent) and which bore interest at Hong Kong prime rate per annum, the balance was unsecured and interest-free. The remaining balance of HK\$3,988,000 was unsecured, interest-free and had no fixed terms of repayment.

The amounts due to related companies in the current year are unsecured, interest-free and have no fixed terms of repayment.

25. OTHER LOANS

	Group	
	2001 HK\$'000	2000 HK\$'000
Secured	5,164	43,157
Unsecured	107,231	609,952
	112,395	653,109

The secured loan is secured by the listed shares held by the Group as security for advances to customers (with the customers' consent) and by the Group's listed shares, bears interest at 6% per annum and is repayable on demand.

The unsecured loans bear interest at rates ranging from 4% to 6% per annum and are repayable within one year.

26. BANK LOANS AND OVERDRAFTS

	Group	
	2001 HK\$'000	2000 HK\$'000
Bank overdrafts		
Secured	13,684	9,422
Unsecured	81	–
Bank loans, secured	485,000	44,000
	498,765	53,422

The secured bank loans and overdrafts of the Group are secured by the listed shares held by the Group as security for advances to customers (with the customers' consent) and by the Group's listed shares.

27. DEFERRED TAX

	Group	
	2001 HK\$'000	2000 HK\$'000
Balance at beginning of year	312	312
Arising from disposal of subsidiaries	(29)	–
At 31 March	283	312

The provision for deferred tax as shown in the balance sheet relates principally to timing differences arising from accelerated depreciation allowances.

28. SHARE CAPITAL

Shares

	Company	
	2001 HK\$'000	2000 HK\$'000
Authorised:		
600,000,000 ordinary shares of HK\$0.10 each	60,000	60,000
Issued and fully paid:		
488,409,699 (2000: 366,074,854) ordinary shares of HK\$0.10 each	48,841	36,607

During the year, the following movements in share capital were recorded:

- (a) 280,000 shares of HK\$0.10 each were issued for cash at a subscription price of HK\$1.836 per share pursuant to the exercise of the Company's share options for a total cash consideration, before expenses, of HK\$514,080.
- (b) 24,420 shares of HK\$0.10 each were issued for cash at a subscription price of HK\$1.77 per share pursuant to the exercise of the Company's warrants for a total cash consideration, before expenses, of HK\$43,223.
- (c) On 18 and 28 September 2000, pursuant to two subscription agreements dated 19 August 2000 entered into by the Company and Dominance Resources Limited ("DRL"), an independent third party, and the Company and Quality First Services Limited ("QFSL"), an indirect non-wholly owned subsidiary of New World Development Company Limited, for DRL's and QFSL's subscription of 24,406,085 and 97,624,340 new ordinary shares of the Company at a subscription price of HK\$1.83 per share, 122,030,425 new ordinary shares of the Company were issued for a total cash consideration, before expenses, of HK\$223,315,678. Following the subscription, QFSL became a substantial shareholder of the Company. QFSL changed its name to NWS Financial Management Services Limited on 23 August 2000.

28. SHARE CAPITAL (Continued)

Shares (Continued)

A summary of the transactions during the year with reference to the above movements of the Company's ordinary share capital is as follows:

	Number of ordinary shares of HK\$0.10 each	Amount HK\$'000
As at 1 April 2000	366,074,854	36,607
Exercise of options to acquire shares at a subscription price of HK\$1.836 per share in the Company	280,000	28
Exercise of warrants to acquire shares at a subscription price of HK\$1.77 per share in the Company	24,420	3
Issue of new shares at a cash subscription price of HK\$1.83 per share to DRL and QFSL pursuant to two subscription agreements dated 19 August 2000	122,030,425	12,203
As at 31 March 2001	488,409,699	48,841

Warrants

Pursuant to an ordinary resolution passed at the special general meeting of the Company held on 19 September 1997, a bonus issue of warrants was made in the proportion of one warrant for every five shares held by members on the register of members of the Company on 19 September 1997. A total of 74,000,000 warrants were issued on 22 September 1997 pursuant to this bonus issue. Each warrant entitled the holder thereof to subscribe in cash for one fully paid ordinary share of HK\$0.10 at an initial subscription price of HK\$4.125 per share, subject to adjustment, at any time from the date of commencement of dealing of the warrants on The Stock Exchange of Hong Kong Limited on 29 September 1997 to 31 August 1999 (both dates inclusive).

In the prior year, two warrants were exercised and the remaining 73,999,196 warrants of the Company lapsed unexercised on 31 August 1999.

Pursuant to an ordinary resolution passed at the special general meeting of the Company held on 8 November 1999, a bonus issue of warrants was made in the proportion of one warrant for every five shares held by members on the register of members of the Company on 5 November 1999. A total of 73,213,760 warrants were issued on 8 November 1999 pursuant to this bonus issue. Each warrant entitles the holder thereof to subscribe in cash for one fully paid ordinary share of HK\$0.10 at an initial subscription price of HK\$1.77 per share, subject to adjustment, at any time from the date of commencement of dealing of the warrants on The Stock Exchange of Hong Kong Limited on 15 November 1999 to 31 October 2002 (both dates inclusive).

28. SHARE CAPITAL (Continued)**Warrants** (Continued)

In the prior year, 6,050 warrants were exercised and as at 31 March 2000, the Company had 73,207,710 warrants outstanding. During the year, 24,420 warrants were exercised and at the balance sheet date, the Company had 73,183,290 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 73,183,290 additional ordinary shares of HK\$0.10 each and generate cash proceeds to the Company of HK\$129,534,423 before the related share issue expenses.

Share options

During the year, 280,000 share options were exercised and the remaining 5,960,000, 18,000,000 and 790,000 share options granted by the Company to certain directors and employees of the Group on 7 April 1997, 5 September 1997 and 29 September 1997 pursuant to the share option scheme adopted on 17 July 1996 lapsed unexercised on 8 October 2000, 7 March 2001 and 30 March 2001, respectively. Details of the movements in the share options during the year are as follows:

Exercise period	8 October 1997 to 8 October 2000	7 March 1998 to 7 March 2001	30 March 1998 to 30 March 2001
Number of share options outstanding at beginning of year	6,240,000	18,000,000	790,000
Number of share options exercised during the year	(280,000)	—	—
Number of share options expired during the year	(5,960,000)	(18,000,000)	(790,000)
Number of share options outstanding at end of year	—	—	—
Exercise price per share (HK\$)	1.836	4.24	4.152

29. RESERVES

Group

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Long term investment revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 1999	209,950	489	4,634	38,665	(62,790)	288	257,952	449,188
Premium on shares issued upon exercise of warrants	10	–	–	–	–	–	–	10
Movement in fair values of long term investments	–	–	–	–	24,013	–	–	24,013
Release on disposal of an associate	–	–	–	–	–	(104)	–	(104)
Exchange adjustment on translation of overseas subsidiaries and associates	–	–	–	–	–	35	–	35
Net profit for the year	–	–	–	–	–	–	211,185	211,185
Dividends	–	–	–	–	–	–	(69,554)	(69,554)
At 31 March 2000	209,960	489	4,634	38,665	(38,777)	219	399,583	614,773
At 1 April 2000	209,960	489	4,634	38,665	(38,777)	219	399,583	614,773
Premium on new shares issued	211,113	–	–	–	–	–	–	211,113
Premium on shares issued upon exercise of warrants	41	–	–	–	–	–	–	41
Premium on shares issued upon exercise of share options	486	–	–	–	–	–	–	486
Movement in fair value of a long term investment	–	–	–	–	15,376	–	–	15,376
Goodwill eliminated against capital reserve released on disposal of subsidiaries	–	–	–	4,106	–	–	–	4,106
Release on disposal of subsidiaries	–	–	–	–	–	(20)	–	(20)
Release on disposal of a long term investment	–	–	–	–	(18,861)	–	–	(18,861)
Exchange adjustment on translation of overseas subsidiaries	–	–	–	–	–	(120)	–	(120)
Net profit for the year	–	–	–	–	–	–	96,149	96,149
Dividends	–	–	–	–	–	–	(29,302)	(29,302)
At 31 March 2001	421,600	489	4,634	42,771	(42,262)	79	466,430	893,741

29. RESERVES (Continued)

Company

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Long term investment revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 1999	209,950	489	7,310	(62,790)	4,993	159,952
Premium on shares issued upon exercise of warrants	10	—	—	—	—	10
Movement in fair value of a long term investment	—	—	—	5,152	—	5,152
Net profit for the year	—	—	—	—	121,094	121,094
Dividends	—	—	—	—	(69,554)	(69,554)
At 31 March 2000	209,960	489	7,310	(57,638)	56,533	216,654
At 1 April 2000	209,960	489	7,310	(57,638)	56,533	216,654
Premium on new shares issued	211,113	—	—	—	—	211,113
Premium on shares issued upon exercise of warrants	41	—	—	—	—	41
Premium on shares issued upon exercise of share options	486	—	—	—	—	486
Movement in fair value of a long term investment	—	—	—	15,376	—	15,376
Net profit for the year	—	—	—	—	44,308	44,308
Dividends	—	—	—	—	(29,302)	(29,302)
At 31 March 2001	421,600	489	7,310	(42,262)	71,539	458,676

29. RESERVES (Continued)

Profits retained by:

	2001 HK\$'000	Group 2000 HK\$'000
The Company and subsidiaries	466,430	398,725
Associates	—	858
	466,430	399,583

The contributed surplus of the Group arose in 1996 as a result of the group reorganisation in preparation for listing and represented the difference between the nominal value of the share capital issued by the Company and the aggregate of the share capital and share premium of the subsidiaries acquired.

The contributed surplus of the Company arose in 1996 as a result of the same group reorganisation and represented the difference between the nominal value of the share capital issued by the Company and the aggregate net asset value of the subsidiaries acquired at the date of acquisition. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus provided certain conditions are met.

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow/(outflow) from operating activities

	2001	2000
	HK\$'000	HK\$'000
Profit from operating activities	101,973	245,576
Interest income	(8,446)	(7,746)
Depreciation	20,230	12,196
Amortisation of intangible assets	491	–
Dividends from listed investments	(5,705)	(663)
Loss/(gain) on disposal of fixed assets	(288)	1
Gain on disposal of subsidiaries	(18,132)	–
Loss on disposal of an associate	–	37
Gain on disposal of a long term investment	(110,539)	–
Provision for doubtful debts	25,300	11,380
Unrealised losses/(gains) on short term investments, net	37,274	(20,297)
Decrease in amounts due from associates	14	145
Decrease/(increase) in short term investments	9,922	(19,714)
Decrease/(increase) in advances to customers	(120,459)	41,061
Decrease/(increase) in accounts receivable	143,846	(34,410)
Decrease/(increase) in prepayments, deposits and other debtors	20,334	(30,542)
Decrease in amounts due from related companies	1,042	9,868
Decrease in loans receivable	536	11
Decrease/(increase) in cash held on behalf of customers	116,507	(479,767)
Increase/(decrease) in accounts payable	(157,550)	139,547
Increase in accruals and other liabilities	2,307	26,299
Decrease in amounts due to related companies	(221,798)	(267,289)
Increase/(decrease) in other loans	(540,714)	641,628
	(703,855)	267,321
Net cash inflow/(outflow) from operating activities	(703,855)	267,321

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Share capital and share premium account HK\$'000	Minority interests HK\$'000
Balance at 1 April 1999	246,557	1,099
Net cash inflow from financing activities	10	—
Share of profit for the year	—	1,205
Effect of foreign exchange translation	—	(14)
	<hr/>	<hr/>
Balance at 31 March 2000 and 1 April 2000	246,567	2,290
Net cash inflow from financing activities	223,874	—
Share of profit for the year	—	839
Dividend paid to a minority shareholder of a subsidiary	—	(2,550)
Disposal of subsidiaries	—	(579)
	<hr/>	<hr/>
Balance at 31 March 2001	470,441	—

(c) Acquisition of a subsidiary

The net asset acquired represented other receivables of HK\$100,000 which was satisfied by cash consideration paid of the same amount.

The subsidiary acquired during the year made no significant contribution to the Group in respect of the cash flows, turnover and contribution to the consolidated profit after tax and before minority interests for the year.

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(d) Disposal of subsidiaries

	2001 HK\$'000	2000 HK\$'000
Net assets disposed of:		
Fixed assets	798	—
Interest in an associate	1,106	—
Accounts receivable	20,603	—
Prepayments, deposits and other debtors	5,430	—
Due from related companies	31,196	—
Prepaid tax	403	—
Cash held on behalf of customers	18,905	—
Cash and bank balances	9,841	—
Accounts payable	(56,951)	—
Accruals and other liabilities	(6,357)	—
Due to related companies	(20,295)	—
Tax payable	(789)	—
Deferred tax	(29)	—
Minority interests	(579)	—
	3,282	—
Goodwill eliminated against capital reserve released upon disposal	4,106	—
Exchange reserve released	(20)	—
Gain on disposal of subsidiaries	18,132	—
	25,500	—
Satisfied by:		
Cash	25,500	—

Analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	2001 HK\$'000	2000 HK\$'000
Cash consideration received	25,500	—
Cash and bank balances disposed of	(9,841)	—
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	15,659	—

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(d) Disposal of subsidiaries (Continued)

The subsidiaries disposed of during the year contributed HK\$17,424,000 to the Group's net operating cash flows, paid HK\$16,216,000 in respect of the net returns on investments and servicing of the finance, paid HK\$546,000 in respect of tax and paid HK\$231,000 in respect of investing activities, but had no significant impact in respect of the financing activities.

The results of the subsidiaries disposed of during the year had no significant impact on the turnover or the consolidated profit after tax for the year ended 31 March 2001.

(e) Major non-cash transaction

As further detailed in note 12 to the financial statements, during the prior year, the Group received five Stock Exchange Trading Rights, two Futures Exchange Trading Rights and 6,812,000 shares of HK\$1 each in the Hong Kong Exchanges and Clearing Limited in exchange for its shares held in the Stock Exchange and the Futures Exchange.

31. COMMITMENTS

(a) Capital commitments

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Contracted for	3,379	—	1,876	—
Authorised, but not contracted for	4,550	—	4,550	—
	7,929	—	6,426	—

In addition, the Group's share of capital commitment of a joint venture not included in the above is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Authorised, but not contracted for	4,596	—

The Group, together with the other venturers, have committed to invest in a Sino-foreign joint stock company whereby the aggregate capital commitment, being the total registered capital, is HK\$47,100,000. Pursuant to an agreement entered into between the venturers, a 2.5% interest in the joint venture is attributable to the Group for which the Group's capital commitment amounted to HK\$4,596,000.

31. COMMITMENTS (Continued)

- (b) At 31 March 2001, the Company and the Group had commitments under non-cancellable operating leases in respect of land and buildings expiring in the following year as follows:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Land and buildings expiring:				
Within one year	9,349	320	7,526	—
In the second to fifth years, inclusive	11,752	16,686	7,471	12,254
	21,101	17,006	14,997	12,254

32. CONTINGENT LIABILITIES

At the balance sheet date, corporate guarantees provided by the Company for banking facilities granted to subsidiaries amounted to HK\$1,705,000,000 (2000: HK\$1,385,000,000). The amounts drawn down against these facilities at the year end amounted to HK\$488,684,000 (2000: HK\$52,301,000).

33. RELATED PARTY TRANSACTIONS

- (a) During the year, the Company leased from New World Tower Company Limited, a company controlled by Chow Tai Fook Enterprises Limited ("CTF"), which is itself a company controlled by the family of Mr. Cheng Kar Shun, certain office premises at New World Tower, 16-18 Queen's Road Central, Hong Kong, at a monthly rental, including management and air-conditioning fees, of approximately HK\$1,217,000 for various terms between one to four years. The Group paid total rental of HK\$14,604,000 (2000: HK\$11,040,000) for the year. The rentals paid were calculated by reference to open market rentals as confirmed to the Group by an independent professional valuer.
- (b) Chow Tai Fook Jewellery Company Limited ("CTFJ"), an affiliated company of CTF and a company controlled by the family of Mr. Cheng Kar Shun, made advances to the Group during the year and such advances were repaid prior to the year end. Of the outstanding balance of HK\$238,747,000 as at 31 March 2000, HK\$237,000,000 was secured by the listed shares held by the Group as security for advances to customers (with customers' consent) and bore interest at Hong Kong prime rate per annum. The remaining balance of HK\$1,747,000 was unsecured and interest-free. The interest paid to CTFJ for the year amounted to HK\$35,567,000 (2000: HK\$35,883,000).

33. RELATED PARTY TRANSACTIONS (Continued)

- (c) During the year, the Group provided corporate advisory services to the companies which are controlled by the family of Mr. Cheng Kar Shun and to the companies of which Mr. Lo Lin Shing, Simon, a director of the Company, is also a director of the companies. The corporate advisory fee income from those transactions amounted to HK\$4,545,000 (2000: HK\$21,170,000) for the year and were charged in accordance with terms similar to those offered to unrelated customers.
- (d) During the year, the Group provided insurance services to various related companies which are controlled by the family of Mr. Cheng Kar Shun. The insurance brokerage commission income arising from those transactions amounted to HK\$11,136,000 (2000: HK\$21,623,000) for the year and was charged at a rate with reference to the size and nature of the underlying insurance policy.
- (e) On 19 August 2000, the Company entered into a conditional sale and purchase agreement with QFSL to dispose of its entire interests in New World Risk Management (L) Limited to QFSL for a cash consideration of HK\$25,500,000 (the "Transaction"). The Transaction gave rise to a gain on disposal of HK\$18,132,000. Further details of the Transaction are set out in the Company's circular dated 30 August 2000. The Transaction was completed on 29 September 2000.

On the same date, the Company entered into a subscription agreement with QFSL for QFSL's subscription of 97,624,340 new ordinary shares of the Company at a subscription price of HK\$1.83 per share (the "Subscription"). Further details of the Subscription are set out in the Company's circular dated 30 August 2000. On 28 September 2000, 97,624,340 new ordinary shares of the Company were issued to QFSL for a total cash consideration, before expenses, of HK\$178,653,000 and QFSL became a substantial shareholder of the Company.

34. CONNECTED TRANSACTIONS

- (a) In the prior year, the Company advanced a loan of HK\$3,500,000 to New World Insurance Services Limited ("NW Insurance Services"), a 85% owned subsidiary, to finance the working capital of NW Insurance Services. The loan was unsecured, bore interest at Hong Kong prime rate per annum and was repaid during the year.
- (b) In the prior year, the Company executed in the ordinary and usual course of business a guarantee of HK\$10,000,000 for banking facilities granted to NW Insurance Services for its operations. The guarantee was withdrawn following the disposal of the Company's interests in New World Risk Management (L) Limited and its subsidiaries on 29 September 2000.
- (c) Other connected transactions are set out in note 33 to the financial statements.

35. POST BALANCE SHEET EVENTS

- (a) On 17 April 2001, the Company entered into a renovation agreement with Kentfull Contracting Limited, a 65% owned subsidiary of New World Services Limited, a company controlled by the family of Mr. Cheng Kar Shun, for the renovation of certain of the Group's office premises situated at New World Tower, 16-18 Queen's Road Central, Hong Kong, for a consideration of HK\$6,500,000. The details of this arrangement were disclosed in an announcement dated 17 April 2001 made by the Company.
- (b) On 15 May 2001, 36,400,000 share options, representing approximately 7.45% of the issued share capital of the Company, were granted to certain directors and employees of the Company and its subsidiaries to subscribe for shares in the Company pursuant to the share option scheme of the Company adopted on 17 July 1996. The subscription price of the options granted under the scheme is HK\$0.93 (being not less than 80% of the average of the closing prices of the Company's shares on the Stock Exchange for the five business days from 27 April 2001 to 7 May 2001) and the exercise period is from 16 November 2001 to 16 November 2004. The exercise in full of the outstanding options would, with the present capital structure of the Company, result in the issue of 36,400,000 additional ordinary shares of HK\$0.10 each, and generate cash proceeds to the Company of HK\$33,852,000 before the related share issue expenses.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 5 July 2001.