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**1. GROUP REORGANISATION AND BASIS OF PREPARATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The Company was incorporated on 29 March 2000 as a limited company under the Companies Act 1981 of Bermuda.

The Company acts as an investment holding company. The principal activities of its subsidiaries are the provision of stockbroking, futures and option broking and share margin financing services.

Pursuant to a group reorganisation (the “Group Reorganisation”) to rationalize the structure of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) in preparation for the listing of the Company’s shares on The Stock Exchange of Hong Kong Limited (“SEHK”), the Company became the holding company of the Group on 15 August 2000 by principally issuing shares in exchange for the entire issued share capital of Karl Thomson (B.V.I.) Limited. Details of the Group Reorganisation are set out in the prospectus dated 23 August 2000 issued by the Company.

The shares of the Company have been listed on the Main Board of the SEHK since 8 September 2000.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the condensed consolidated financial statements for the six months ended 30 September 2000 have been prepared on a merger accounting basis except for the results and assets and liabilities of the share margin financing business as if the Company had always been the holding company of the Group. Before the year ended 31 March 2000, share margin financing business was conducted by Karl Thomson Finance Company (“KTFC”). In April 2000, the Group acquired the assets and liabilities in relation to the share margin financing business from KTFC at a consideration comprising cash of approximately HK\$3.4 million and 20% equity interest of the Group. The results and assets and liabilities of the share margin financing business was thus accounted for on an acquisition accounting basis. In the opinion of the directors, the condensed consolidated financial statements, prepared on the above basis, present fairly the results, cash flows and the state of affairs of the Group as a whole.

The condensed consolidated income statement and cash flow statement for the six months ended 30 September 1999 and the condensed consolidated balance sheet as at 31 March 2000 were prepared on a combined basis as if the current group structure had been in existence during these periods.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The condensed consolidated financial statements have been prepared under the historical cost convention as modified for the revaluation of shares in HKEC, and in accordance with Statement of Standard Accounting Practice No. 25 “Interim Financial Reporting”. The accounting policies adopted are in accordance with Hong Kong Statements of Standard Accounting Practice which have been consistently applied by the Group and are set out below.

### *Basis of consolidation*

The condensed consolidated financial statements for the period from 1 April 2000 to 30 September 2000 incorporate the financial statements of the Company and its subsidiaries made up to 30 September 2000.

Other than those as mentioned in note 1, the results of subsidiaries acquired or disposed of during the period are included in the condensed consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances between group companies are eliminated on consolidation.

### *Revenue recognition*

All transactions in securities trading are recorded on a trade date basis.

Commission and brokerage income are recognised when the service is rendered, the amount for which can be reliably estimated and it is probable that it will be received.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

### *Intangible assets*

Intangible assets represent two trading rights in the SEHK and one trading right in the Hong Kong Futures Exchange Limited (“HKFE”). They are stated at cost less any impairment loss, which is dealt with in the condensed consolidated income statement.

### *Property and equipment*

Property and equipment are stated at cost less depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the assets to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the condensed consolidated income statement 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 asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the condensed consolidated income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Depreciation is provided to write off the cost of property and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold improvements	20%
Computer equipment	20%
Furniture and fixtures	20%
Motor vehicle	30%

#### *Investments in securities*

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

All securities other than held-to-maturity debt securities are measured at fair value at subsequent reporting dates.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the period.

#### *Operating leases*

Rentals payable under operating leases are charged to the condensed consolidated income statement on a straight line basis over the term of the relevant lease.

#### *Taxation*

The charge for taxation is based on the results for the period as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the condensed consolidated financial statements. The tax effect of the resulting timing differences, computed under the liability method, is recognised as deferred taxation in the condensed consolidated financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

#### *Foreign currencies*

Transactions in foreign currencies are initially recorded at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the condensed consolidated income statement.

#### *Cash equivalents*

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 advances.

### 3. SEGMENT INFORMATION

By business activity:

	Turnover for the six months ended 30 September		Contribution to profit before taxation for the six months ended 30 September	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Provision of stockbroking, futures and option broking	21,758	25,680	11,168	14,335
Share margin financing	3,915	—	2,507	—
	<u>25,673</u>	<u>25,680</u>	<u>13,675</u>	<u>14,335</u>
Gain on disposal of shares in HKEC			23,534	—
Profit before taxation			<u>37,209</u>	<u>14,335</u>

All of the Group's activities are based in Hong Kong and all of the Group's turnover and profit before taxation are derived from Hong Kong.

### 4. TAXATION

Hong Kong Profits Tax for the six months ended 30 September 2000 is calculated at 16% (1.4.1999 to 30.9.1999: 16%) on the assessable profit.

The Group did not have any significant unprovided deferred taxation for the period or as at the balance sheet dates.

### 5. DIVIDENDS

Prior to the Group Reorganisation, certain subsidiaries of the Group declared special dividends with an aggregate amount of HK\$25 million to the then shareholders.

## 6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the six months ended 30 September 2000 of HK\$35,252,000 and on the weighted average of 166,107,000 shares in issue during the period on the assumption that the Group Reorganisation had been completed on 1 April 2000.

The calculation of basic earnings per share for the six months ended 30 September 1999 was based on the combined profit for the six months ended 30 September 1999 of HK\$10,990,000 and on 157,500,000 shares in issue during the period on the assumption that the Group Reorganisation had been completed on 1 April 1999.

## 7. ACCOUNTS RECEIVABLE

	30 September 2000 HK\$'000	31 March 2000 HK\$'000
Accounts receivable arising from the ordinary course of business of dealing in securities:		
- Cash clients	26,322	39,294
- Hong Kong Securities Clearing Company Limited ("HKSCC")	19,543	232
Accounts receivable from HKFE Clearing Corporation Limited ("HKFECC") arising from the ordinary course of business of dealing in futures contracts	3,277	5,476
Loans to share margin clients	62,342	—
	<u>111,484</u>	<u>45,002</u>

The settlement terms of accounts receivable from cash clients and HKSCC are two days after trade date, and from HKFECC are one day after trade date. The age of these balances is within 90 days.

Loans to share margin clients are secured by clients' pledged securities, repayable on demand and bear interest at Hong Kong prime lending rate plus 3% per annum. No aging analysis is disclosed as in the opinion of directors, the aging analysis does not give additional value.

## 8. PLEDGED FIXED DEPOSIT

As at 31 March 2000, a fixed deposit of HK\$4,822,000 was pledged by the Group to a bank to secure general banking facilities granted to the Group. During the six months ended 30 September 2000, the pledge of this fixed deposit was released.

## 9. BANK BALANCES AND CASH

	30 September 2000 <i>HK\$'000</i>	31 March 2000 <i>HK\$'000</i>
Bank balances:		
- General accounts	68,475	39,190
- Trust accounts	16,641	15,819
- Segregated accounts	1,611	5,461
	<u>86,727</u>	<u>60,470</u>

## 10. ACCOUNTS PAYABLE

	30 September 2000 <i>HK\$'000</i>	31 March 2000 <i>HK\$'000</i>
Accounts payable arising from the ordinary course of business of dealing in securities:		
- Cash clients	25,042	42,116
- HKSCC	20,643	6,467
Accounts payable to clients arising from the ordinary course of business of dealing in futures contracts	4,797	9,936
Amounts due to share margin clients	<u>907</u>	<u>—</u>
	<u>51,389</u>	<u>58,519</u>

The settlement terms of accounts payable to cash clients and HKSCC are two days after trade date. The age of these balances is within 30 days.

Accounts payable to clients arising from the ordinary course of business of dealing in futures contracts are margin deposits received from clients for their tradings of futures contracts on the HKFE. The excesses of the outstanding amounts over the required margin deposits stipulated by the HKFE are repayable to clients on demand. No aging analysis is disclosed as in the opinion of directors, the aging analysis does not give additional value.

Amounts due to share margin clients are repayable on demand. No aging analysis is disclosed as in the opinion of directors, the aging analysis does not give additional value.

## 11. SHARE CAPITAL

	Number of shares '000	HK\$'000
Ordinary shares of HK\$0.1 each		
Authorised:		
At 1 April 2000	1,000	100
Increase during the period	999,000	99,900
	<u>1,000,000</u>	<u>100,000</u>
At 30 September 2000	<u>1,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1 April 2000	1,000	100
Issue of share on Group Reorganisation	1,000	100
Issue of shares by capitalization of share premium account	155,500	15,550
Placing and public offer of shares	52,500	5,250
	<u>210,000</u>	<u>21,000</u>
At 30 September 2000	<u>210,000</u>	<u>21,000</u>

The Company was incorporated in Bermuda on 29 March 2000 with an authorized share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.1 each, all of which were allotted and issued nil paid to the subscriber on 30 March 2000.

Pursuant to the written resolution passed by the sole shareholder on 15 August 2000:

- (a) the authorized share capital of the Company was increased from HK\$100,000 to HK\$200,000 by the creation of additional 1,000,000 of HK\$0.1 each;
- (b) the Company allotted and issued 1,000,000 new ordinary shares of HK\$0.1 each for the acquisition of the entire issued share capital of Karl Thomson (B.V.I.) Limited pursuant to the Group Reorganisation as stated in note 1; and
- (c) an amount of HK\$100,000 standing to the credit to the contribution surplus account of the Company was applied in paying up in full at par the 1,000,000 shares allotted and issued nil paid on 30 March 2000.

Pursuant to the written resolution passed by the sole shareholder on 16 August 2000:

- (a) the authorized share capital of the Company was increased from HK\$200,000 to HK\$100,000,000 by the creation of additional 998,000,000 of HK\$0.1 each; and
- (b) conditional on the share premium account of the Company being credited as a result of the placing and public offer of the Company's shares on 23 August 2000, the directors were authorized to capitalize HK\$15,550,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 155,500,000 shares for allotment and issued to the holder whose name appeared on the register of members of the Company at the close of business on 16 August 2000 in proportion to their then share holdings in the Company.

On 1 September 2000, by means of placing and public offer, the Company issued a total of 52,500,000 new ordinary shares of HK\$0.1 each at a price of HK\$1.2 per share.

All the shares which were issued during the period rank pari passu with the then existing shares in all respects.

The share capital as at 31 March 2000 represented the aggregate amount of the nominal values of the combined issued share capital of the companies now comprising the Group prior to the Group Reorganisation.

## 12. RESERVES

	<b>30 September</b>	<b>31 March</b>
	<b>2000</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Investments revaluation reserve	—	<b>11,604</b>
Share premium	<b>33,069</b>	—
Special reserve	<b>15,190</b>	—
Retained profits	<b>75,512</b>	<b>65,259</b>
	<u><b>123,771</b></u>	<u><b>76,863</b></u>

The special reserve of the Group represents the difference between the nominal value of shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the Group Reorganisation less goodwill arising on consolidation.

## 13. OPERATING LEASE COMMITMENTS

At 30 September 2000, the Group had the following commitments payable within the following twelve months under non-cancellable operating leases in respect of rented premises:

	<b>30 September</b>	<b>31 March</b>
	<b>2000</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating leases which expire:		
Within one year	<b>1,200</b>	<b>431</b>
In the second to fifth year inclusive	<b>3,301</b>	<b>2,224</b>
	<u><b>4,501</b></u>	<u><b>2,655</b></u>

## INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2000 (1999: Nil).