Financial Statements

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2001

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

The Company was incorporated on 29 March 2000 as an exempted company under the Companies Act. Its ultimate holding company is J&A, which is incorporated in the British Virgin Islands.

The Company is an investment holding company. The principal activity of the Group is the provision of financial services, including securities broking, futures and option broking and securities margin financing services.

Pursuant to the Reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's shares on the main board of the Stock Exchange, 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 Reorganisation are set out in the prospectus dated 23 August 2000 issued by the Company.

The shares of the Company were listed on the Stock Exchange on 8 September 2000.

The Group resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements for the year ended 31 March 2001 have been prepared on a merger accounting basis in accordance with Statement of Standard Accounting Practice No. 27 "Accounting for Group Reconstructions" issued by the Hong Kong Society of Accountants.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investments in securities and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The financial statements incorporate the financial statements of the Group made up to the balance sheet date.

Other than those as mentioned in note 1, the results of subsidiaries acquired or disposed of during the year are included in the 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.

Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a business and is written off to reserves immediately on acquisition.

On disposal of a business, the attributable amount of goodwill previously eliminated against reserves is included in the determination of the profit or loss on disposal of the business.

Subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the balance sheet of the Company at cost, as reduced by any decline in value of the subsidiaries that is other than temporary.

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.

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 Stock Exchange and one trading right in the Futures Exchange. They are stated at cost less any impairment loss.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fixed assets

Fixed assets are stated at cost less depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset 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 consolidated income statement in the year 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 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 fixed assets 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 vehicles	30%

Asset held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the asset concerned to the Group. Assets held under finance leases are capitalised at their fair value at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the consolidated income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rental is charged to consolidated income statement on a straight-line basis over the term of the relevant lease.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Taxation

The charge for taxation is based on the results for the year 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 financial statements. The tax effect of the resulting timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the 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. TURNOVER

	2001	2000
	HK$'000	*HK$'000*
Commission and brokerage	**29,486**	61,399
Interest income from:		
Clients	**9,082**	1,578
Authorised institutions	**4,160**	1,092
Other	**507**	128
	43,235	64,197

The turnover and contribution to profit before taxation of the Group, analysed by principal activity and geographical market, were as follows:

	Turnover		**Contribution to profit before taxation**	
Business segment	**2001**	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Provision of securities broking, futures and option broking	**35,948**	64,197	**4,771**	41,238
Securities margin financing	**7,287**	—	**6,815**	—
	43,235	64,197	**11,586**	41,238
Gain on disposal of a share in the Futures Exchange			**—**	6,800
Gain on disposal of shares in the HKEC			**23,534**	—
Other income			**851**	1,265
Profit before taxation			**35,971**	49,303

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