

26. RESERVES *(Continued)*

| | Share premium <i>HK\$'000</i> | Contributed surplus <i>HK\$'000</i> | Accumulated losses <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|-------------------------------------|---|--|--------------------------|
| THE COMPANY | | | | |
| At 1 April 1999 | — | — | — | — |
| Net loss for the year | — | — | (39) | (39) |
| At 31 March 2000 and 1 April 2000 | — | — | (39) | (39) |
| Shares issued at premium | 57,750 | — | — | 57,750 |
| Expenses in connection with the listing of the shares of the Company | (9,131) | — | — | (9,131) |
| Capitalisation | (15,550) | (100) | — | (15,650) |
| Surplus arising on the Reorganisation | — | 89,727 | — | 89,727 |
| Net loss for the year | — | — | (2,020) | (2,020) |
| At 31 March 2001 | 33,069 | 89,627 | (2,059) | 120,637 |

The contributed surplus of the Company arose as a result of the Reorganisation and represents the excess of the then combined net assets of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange therefore.

27. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | 2001 <i>HK\$'000</i> | 2000 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Profit before taxation | 35,971 | 49,303 |
| Interest expenses | 593 | 365 |
| Depreciation | 835 | 492 |
| Gain on disposal of a share in the Futures Exchange | — | (6,800) |
| Gain on disposal of shares in the HKEC | (23,534) | — |
| Decrease (increase) in accounts receivable | 39,089 | (25,709) |
| Increase in amount due from a related company | — | (21,719) |
| Decrease in loan to an officer | — | 746 |
| Increase in other receivable, prepayments and deposits | (723) | (116) |
| Decrease (increase) in bank balances - trust and segregated accounts | 2,012 | (9,598) |
| (Decrease) increase in accounts payable | (30,448) | 28,243 |
| (Decrease) increase in amount due to a Director | (10,014) | 9,983 |
| Increase (decrease) in accrued expenses | 1,022 | (580) |
| NET CASH INFLOW FROM OPERATING ACTIVITIES | 14,803 | 24,610 |

(continued)

28. ACQUISITION OF BUSINESS

During the year, the Group, through a number of the Reorganisation procedures as detailed in the section head “Group reorganisation” in appendix IV of the prospectus dated 23 August 2000 issued by the Company, acquired certain assets and liabilities in relation to the securities margin financing business from KTFC for a cash consideration of approximately HK\$8,796,000 and 20% equity interest of the enlarged group. This transaction has been accounted for by use of the purchase method of accounting.

HK\$'000

Net assets acquired:

| | |
|--|----------|
| Fixed assets | 14 |
| Loans to securities margin clients | 59,785 |
| Amounts due to securities margin clients | (600) |
| Amounts due to related companies | (50,393) |

| | |
|----------|--------|
| | 8,806 |
| Goodwill | 13,950 |

| | |
|---------------------|--------|
| Total consideration | 22,756 |
|---------------------|--------|

Satisfied by:

| | |
|--|--------|
| Cash | 8,796 |
| Allotment of shares in a subsidiary, at fair value | 13,960 |

22,756

During the period from the date of acquisition up to 31 March 2001, the securities margin financing business has contributed approximately HK\$3,324,000 to the net operating cash flows of the Group, utilised approximately HK\$1,000 in respect of servicing of finance and utilised approximately HK\$2,000,000 for investing activities.

29. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

| | Share capital and share premium <i>HK\$'000</i> | Obligations under a finance lease <i>HK\$'000</i> |
|--|--|--|
| At 31 March 2000 and 1 April 2000 | 10,010 | — |
| Inception of a finance lease | — | 1,051 |
| Repayments of obligations under a finance lease | — | (140) |
| Issue of shares in a subsidiary before the Reorganisation | 5,370 | — |
| Issue of shares by placing and public offer | 63,000 | — |
| Expenses in connection with listing of the shares of the Company | (9,131) | — |
| Other movements not involving cash flows: Net surplus arising on the Reorganisation | (15,180) | — |
| At 31 March 2001 | <u>54,069</u> | <u>911</u> |

30. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into a finance lease arrangement in respect of assets with a total capital value at the inception of the lease of HK\$1,051,000.

31. COMMITMENTS

Capital commitments

| | THE GROUP | | THE COMPANY | |
|---|-----------------|-----------------|-----------------|-----------------|
| | 2001 | 2000 | 2001 | 2000 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Commitments for the formation of a joint venture company authorised but not contributed for | <u>31,590</u> | <u>—</u> | <u>—</u> | <u>—</u> |

(continued)

31. COMMITMENTS *(Continued)***Operating lease commitments**

At 31 March 2001, the Group and the Company had the following commitments payable within the following twelve months under non-cancellable operating leases in respect of rented premises:

| | THE GROUP | | THE COMPANY | |
|---------------------------------------|------------------|-----------------|--------------------|-----------------|
| | 2001 | 2000 | 2001 | 2000 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Operating leases which expire: | | | | |
| Within one year | 600 | 431 | — | — |
| In the second to fifth year inclusive | 4,277 | 2,224 | 420 | — |
| | 4,877 | 2,655 | 420 | — |

32. CONTINGENT LIABILITIES

The Company has given a guarantee of HK\$30,000,000 to a bank in respect of general facilities granted to a subsidiary. At 31 March 2001, the subsidiary did not utilise such general facilities.

33. RELATED PARTY TRANSACTIONS

Apart from the amounts due from a related company and to a Director as disclosed in notes 18 and 22 to the financial statements, during the year the Group had the following transactions with certain related parties:

- (i) The Group received commission income from securities dealings of approximately HK\$94,000 (2000: HK\$3,000), HK\$15,000 (2000: nil), and HK\$239,000 (2000: HK\$247,000) from the Directors, Messrs. Lam Kwok Hing and Mr. Nam Kwok Lun and their associates respectively. The commissions were charged at rates similar to those rates offered to other clients.
- (ii) The Group, through a number of the Reorganisation procedures as detailed in the Prospectus, acquired certain assets and liabilities of KTFC with a net book value of approximately HK\$8,806,000 from a Director, Mr. Nam Kwok Lun at a consideration comprising cash of approximately HK\$8.8 million and 20% equity interest of the enlarged group.
- (iii) During the year, Mr. Lam Kwok Hing had provided a personal guarantee to a bank to secure a banking facility of HK\$50,000,000 granted to the Group, for which no charge is made.
- (iv) During the year ended 31 March 2000, the Group performed certain administrative services for KTFC, for which a management fee of HK\$300,000 was charged, being a reimbursement of the estimated expenses incurred for KTFC.

34. POST BALANCE SHEET EVENTS

- (i) On 13 March 2001, the Group and GL Trade SA entered into a memorandum of understanding in relation to the formation of a joint venture company with a capital of US\$5,000,000 (equivalent to approximately HK\$39,000,000) to engage in the development of a complete online financial trading platform. The Group will take up 81% of the shareholdings in the joint venture company.

The joint venture agreement was subsequently signed on 29 June 2001.

- (ii) On 18 May 2001, the Group entered into a conditional sale and purchase agreement with a third party pursuant to which the Group agreed to acquire and the third party agreed to dispose of his interest in the entire issued share capital of LuckySurf International Limited for a total consideration of HK\$60,000,000. The consideration will be satisfied by the Company issuing and allotting to the third party 20,000,000 shares of HK\$0.1 each of the Company at HK\$3.0 each. The only major asset of LuckySurf International Limited is the holding of 500 issued shares in LuckySurfAsia.com Inc., representing approximately 57.1% of the issued share capital of LuckySurfAsia.com Inc.. The acquisition was completed on 22 June 2001.
- (iii) On 4 June 2001, the Company pursuant to the Option Scheme, granted options to Messrs. Lam Kwok Hing and Nam Kowk Lun each to subscribe for up to 5,250,000 shares of the Company at an exercise price of HK\$3.35 per share, which is subject to adjustment after the issue of Bonus Shares, at any time within three years from 7 June 2001.
- (iv) On 29 June 2001, the Company granted an option to Chestrich Investment Limited, an independent third party, to subscribe for up to 22,000,000 shares of the Company at an exercise price of HK\$3.8 per share, which is subject to adjustment after the issue of Bonus Shares, at any time within two years from that date. The option was granted to Chestrich Investment Limited as consideration for the consultancy services to be rendered to the Group.
- (v) On 20 July 2001, the Directors propose the issue of Bonus Shares to the shareholders whose names appear on the Company's register of members on 31 August 2001. The Bonus Shares which will be credited as fully paid will rank pari passu with the then existing issued shares in all other respects.