

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2002

1. GENERAL

The Company is an exempted company incorporated under the Companies Act 1981 of Bermuda (as amended). Its ultimate holding company is J&A, which is incorporated in the British Virgin Islands.

The Company is an investment holding company. The principal activities of the Group are the provision of financial services, including stockbroking, futures and option broking, securities margin financing services and the operation of distribution platforms for online advertising.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of revised and new Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants. The adoption of these revised and new SSAPs has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. These revised accounting policies have not affected the amounts reported for the current or prior periods. In addition, these revised and new SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative disclosures for the prior year have been restated in order to achieve a consistent presentation.

The Group has adopted SSAP 30 "Business Combinations" and has elected not to restate goodwill previously eliminated against reserves. Accordingly, goodwill arising on acquisition prior to 1 April 2001 continues to be held in reserves and will be charged to the income statement at the time of disposal of the relevant business or at such time as further impairment losses are identified. Goodwill arising on acquisitions after 1 April 2001 is capitalised and amortised over its estimated useful life.

3. 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 31 March each year.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on consideration represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisitions prior to 1 April 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1 April 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

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

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

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.

Advertising income is recognised when the service is provided.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets are stated at cost and amortised on a straight-line basis over their estimated useful lives.

Fixed assets

Fixed assets are stated at cost less depreciation and accumulated impairments, if any.

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.

Depreciation is provided to write off the cost of fixed assets over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold improvements	20%
Computer equipment	20%-50%
Furniture and fixtures	20%
Motor vehicles	30%

Assets 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 liabilities to the lessors, net interest charges, are included in the balance sheet as obligations. 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.

3. 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 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 year.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

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 periods from that in which they are recognised in the financial statements. The tax effect of the timing differences, computed using 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefits scheme

The retirement benefit costs charged in the consolidation income statement represent the contributions payable in respect of the current year to the Group's Mandatory Provident Fund Scheme.

4. TURNOVER

	2002 HK\$'000	2001 HK\$'000
Commission and brokerage	22,198	29,486
Interest income from:		
Clients	8,035	9,082
Authorised institutions	1,416	4,160
Other	575	507
Advertising income	161	—
	<u>32,385</u>	<u>43,235</u>

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three operating divisions, namely broking, securities margin financing and operation of distribution platforms. These divisions are the basis on which the Group reports its primary segment information. The principal activities of these divisions are as follows:

Broking — provision of stockbroking, futures and options broking services

Securities margin financing — provision of securities margin financing

Operation of distribution platforms — operation of distribution platforms for online advertising

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Segment information about these businesses is presented below:

Income statement for the year ended 31 March 2002

	Broking	Securities margin financing	Operation of distribution platforms	Other	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE					
Segment turnover	25,171	6,415	161	638	32,385
RESULTS					
Segment (loss) profit	(6,902)	1,633	(99,827)	(421)	(105,517)
Unallocated expenses					(13,211)
Loss before taxation					(118,728)
Taxation					(6)
Loss after taxation					(118,734)

Balance sheet as at 31 March 2002

	Broking	Securities margin financing	Operation of distribution platforms	Other	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS					
Segment assets	89,327	91,627	25,074	4,690	210,718
Unallocated corporate assets					2,103
Consolidated total assets					212,821
LIABILITIES					
Segment liabilities	40,167	1,470	57	95	41,789
Unallocated corporate liabilities					1,528
Consolidated total liabilities					43,317

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Other information for the year ended 31 March 2002

	Broking	Securities margin financing	Operation of distribution platforms	Other	Unallocated expenses	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Additions of property and equipment	1,679	—	852	45	—	2,576
Additions of intangible assets	7,420	—	120,978	—	—	128,398
Depreciation	1,188	—	186	315	—	1,689
Amortisation of intangible assets	535	—	10,081	—	—	10,616
Impairment loss	—	—	86,897	—	—	86,897
Other non-cash expenses	—	—	—	—	12,110	12,110

Income statement for the year ended 31 March 2001

	Broking	Securities margin financing	Operation of distribution platforms	Other	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE					
Segment turnover	35,948	7,287	—	—	43,235
RESULTS					
Segment profit	12,783	2,615	—	—	15,398
Gain on disposal of shares in the HKEx					23,534
Unallocated expenses					(2,961)
Profit before taxation					35,971
Taxation					(1,855)
Profit after taxation					34,116

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Balance sheet as at 31 March 2001

	Broking HK\$'000	Securities margin financing HK\$'000	Operation of distribution platforms HK\$'000	Other HK\$'000	Consolidated HK\$'000
ASSETS					
Segment assets	89,388	83,837	—	—	173,225
Unallocated corporate assets					3,111
Consolidated total assets					176,336
LIABILITIES					
Segment liabilities	25,779	4,748	—	—	30,527
Unallocated corporate liabilities					2,175
Consolidated total liabilities					32,702

Other information for the year ended 31 March 2001

	Broking HK\$'000	Securities margin financing HK\$'000	Operation of distribution platforms HK\$'000	Other HK\$'000	Unallocated expenses HK\$'000	Consolidated HK\$'000
Additions of property and equipment	1,736	—	—	1,051	—	2,787
Depreciation	835	—	—	—	—	835

Geographical segments

All of the activities of the Group are based in Hong Kong and all of the Group's turnover and (loss) profit before taxation are derived from Hong Kong. In addition, the Group's assets are located in Hong Kong.

6. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on borrowings wholly repayable within five years:		
Bank overdrafts	2	3
Finance leases	114	—
Other borrowings	228	590
	<u>344</u>	<u>593</u>

7. (LOSS) PROFIT BEFORE TAXATION

	2002 HK\$'000	2001 HK\$'000
(Loss) profit before taxation has been arrived at after charging:		
Auditors' remuneration	717	500
Goodwill written off	9	—
Loss from error trades	27	161
Operating lease rentals in respect of rented premises	6,684	5,226
Contributions to retirement benefits scheme	784	187
	<u>784</u>	<u>187</u>

8. DIRECTORS' REMUNERATION

	2002 HK\$'000	2001 HK\$'000
Fees paid to Independent Non-executive Directors	100	58
Other emoluments paid to Executive Directors:		
Salaries and other benefits	1,400	1,517
Contributions to retirement benefits scheme	24	8
Discretionary bonus	—	167
	<u>1,524</u>	<u>1,750</u>

During both years, the remuneration of each of the Directors were less than HK\$1,000,000.

During the year, no emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group. None of the Directors has waived any emoluments during the year.

9. EMPLOYEES' EMOLUMENTS

The five individuals with the highest emoluments in the Group included two (2001: two) directors of the Company for the year, details of whose emoluments are included in note 8. The emoluments of the remaining three (2001: three) individuals were as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries and other benefits	2,206	1,416
Contributions to retirement benefits scheme	36	12
Discretionary bonus	—	75
	<u>2,242</u>	<u>1,503</u>

The emoluments of the remaining highest paid individuals fall within the following bands:

	2002 Number of employees	2001 Number of employees
Nil to HK\$1,000,000	2	3
HK\$1,000,001 to HK\$1,500,000	1	—
	<u>3</u>	<u>3</u>

During the year, no emoluments were paid by the Group to the above-mentioned individuals as an inducement to join the Group or as compensation for loss of office.

10. TAXATION

	2002 HK\$'000	2001 HK\$'000
Hong Kong Profits Tax		
Provision for the year	6	1,859
Overprovision in prior year	—	(4)
	<u>6</u>	<u>1,855</u>

Hong Kong Profits Tax is calculated at 16% on the Group's estimated assessable profits for both years.

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

11. DIVIDENDS

No dividend was paid or declared by the Company during the year ended 31 March 2002.

Certain subsidiaries of the Group declared special dividends with an aggregate amount of HK\$25,000,000 to the then shareholders prior to the reorganisation of the Group for the year ended 31 March 2001.

12. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share is based on the following data:

	2002 HK\$'000	2001 HK\$'000
Net (loss) profit for the year	<u>(73,404)</u>	<u>34,116</u>
	Number of shares '000	'000
Weighted average number of ordinary shares for the purpose of basic and diluted (loss) earnings per share	<u>454,849</u>	<u>375,986</u>

The computation of diluted loss per share for year ended 31 March 2002 does not assume the exercise of the Company's options as their exercise prices were higher than the average market price of the Company's shares for year 2002.

The weighted average number of ordinary shares for the year ended 31 March 2001 for the purposes of basic earnings per share has been adjusted for the bonus issue which was approved by the shareholders on 31 August 2001.

13. FIXED ASSETS

	Leasehold improvements HK\$'000	Computer equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP					
At 1 April 2001	80	1,300	2,914	1,444	5,738
Acquired on acquisition of subsidiaries	387	—	268	—	655
Additions	—	1,508	413	—	1,921
	<u>467</u>	<u>2,808</u>	<u>3,595</u>	<u>1,444</u>	<u>8,314</u>
At 31 March 2002	467	2,808	3,595	1,444	8,314
DEPRECIATION					
At 1 April 2001	36	577	1,582	393	2,588
Provided for the year	103	596	675	315	1,689
	<u>139</u>	<u>1,173</u>	<u>2,257</u>	<u>708</u>	<u>4,277</u>
At 31 March 2002	139	1,173	2,257	708	4,277
NET BOOK VALUES					
At 31 March 2002	<u>328</u>	<u>1,635</u>	<u>1,338</u>	<u>736</u>	<u>4,037</u>
At 31 March 2001	<u>44</u>	<u>723</u>	<u>1,332</u>	<u>1,051</u>	<u>3,150</u>

The Group's computer equipment and motor vehicles with a net book value of HK\$733,000 (2001: nil) and HK\$735,000 (2001: HK\$1,051,000) respectively are held under finance leases.

14. INTANGIBLE ASSETS

	Trading rights HK\$'000	License and right to use a website and trademark HK\$'000	License to use technical knowhow and Webtrade products HK\$'000	Total HK\$'000
THE GROUP				
COST				
At 1 April 2001	50	—	—	50
Acquired on acquisition of subsidiaries	—	120,978	—	120,978
Additions	—	—	7,420	7,420
At 31 March 2002	50	120,978	7,420	128,448
AMORTISATION AND IMPAIRMENT LOSS				
Provided for the year	6	10,081	529	10,616
Impairment loss (<i>Note</i>)	—	86,897	—	86,897
At 31 March 2002	6	96,978	529	97,513
CARRYING VALUES				
At 31 March 2002	44	24,000	6,891	30,935
At 31 March 2001	50	—	—	50

Trading rights represent two trading rights in the SEHK and one trading right in the Hong Kong Futures Exchange Limited (the "HKFE").

Trading rights are amortised over nine years, license and right to use a website and trademark are amortised over ten years, and license to use technical knowhow and Webtrade products are amortised over seven years.

Note: In face of the drastic and dramatic economic downturn and the 911 incident, the advertising market in the internet arena has experienced a difficult time. Under the difficult economic times, there is a general decline in advertisers using the internet. The Directors reassessed the recoverable amount of the license and right to use a website and trademark at the balance sheet date. Having taken into account of the revenues generated from the operation of distribution platforms for online advertising during the year and the prevailing uncertain and sluggish economic condition, the Directors adopted a conservative approach in revising the business plan of the operation of distribution platforms for online advertising and have reservation towards whether the license and right to use a website and trademark will generate significant future economic benefits to the Group. Thus, an impairment loss of HK\$86,897,000 has been identified and recognised in the consolidated income statement.

15. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	89,827	89,827

The following table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Name	Place of incorporation	Class of shares held	Issued and fully paid share capital	Proportion of nominal value of issued share capital held by the Company	Principal activities
Karl Thomson (B.V.I.) Limited	British Virgin Islands	Ordinary	HK\$10	100%	Investment holding
Karl-Thomson Securities Company Limited	Hong Kong	Ordinary	HK\$5,000,000	100%	Securities dealing and broking
Karl-Thomson Commodities Company Limited	Hong Kong	Ordinary	HK\$5,000,000	100%	Futures dealing and broking
Karl Thomson Finance Limited	Hong Kong	Ordinary	HK\$11,000,000	100%	Securities margin financing
Access Way Investments Limited	British Virgin Islands	Ordinary	US\$1	100%	Holding of computer equipment
Karl Thomson Development Limited	Hong Kong	Ordinary	HK\$10,000	100%	Holding of motor vehicles
Karl Thomson Financial Advisory Limited (formerly known as "FinWork Limited")	Hong Kong	Ordinary	HK\$600,000	51%	Financial advisory
KTG Trade Limited	Hong Kong	Ordinary	US\$4,500,000	81%	Internet securities trading but has not yet commenced operation
LuckySurfAsia.com Inc.	British Virgin Islands	Ordinary	US\$875	57%	Investment holding
LuckySurfAsia.com Limited	Hong Kong	Ordinary	HK\$2	57%	Operation of distribution platforms for online advertising

15. INVESTMENTS IN SUBSIDIARIES *(Continued)*

The principal place of operation of the subsidiaries is in Hong Kong.

The Company directly holds the interest in Karl Thomson (B.V.I.) Limited. All other subsidiaries shown above are indirectly held by the Company.

None of the subsidiaries had any debt securities outstanding at end of the year or at any time during the year.

16. OTHER ASSETS

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Deposits with:		
The SEHK	275	275
The HKFE	100	100
The SFC	2,100	2,100
Hong Kong Securities Clearing Company Limited ("HKSCC")	200	200
Reserve Fund Contribution to HKFE Clearing Corporation Limited ("HKFECC")	1,500	1,500
	<u>4,175</u>	<u>4,175</u>

17. ACCOUNTS RECEIVABLE

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Accounts receivable arising from the ordinary course of business of dealing in securities:		
Cash clients	25,366	9,606
HKSCC	4,214	—
Brokers	—	94
Accounts receivable from HKFECC arising from the ordinary course of business of dealing in futures contracts	1,320	1,654
Loans to securities margin clients	85,446	54,344
	<u>116,346</u>	<u>65,698</u>

The settlement terms of accounts receivable from cash clients, HKSCC, brokers and HKFECC are one to four days after the trade date.

Loans to securities margin clients are secured by clients' pledged securities, repayable on demand and bear interest at prevailing market rates. In the opinion of the Directors, no aged analysis is disclosed as the aged analysis does not give additional value.

18. INVESTMENTS IN SECURITIES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Trading securities:		
Equity shares listed in Hong Kong, at market value	13	—

19. PLEDGED FIXED DEPOSITS

The Group had pledged fixed deposits of HK\$7,411,000 (2001: HK\$2,035,000) to banks to secure general banking facilities granted to the Group.

20. ACCOUNTS PAYABLE

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Accounts payable arising from the ordinary course of business of dealing in securities:		
Cash clients	35,415	17,952
HKSCC	—	2,258
Brokers	—	92
Accounts payable to clients arising from the ordinary course of business of dealing in futures contracts	2,817	3,621
Amounts due to securities margin clients	1,325	4,748
	<u>39,557</u>	<u>28,671</u>

The settlement terms of accounts payable to cash clients, HKSCC and brokers are two to four days after the trade date.

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. In the opinion of the Directors, no aged analysis is disclosed as the aged analysis does not give additional value.

Amounts due to securities margin clients are repayable on demand. In the opinion of the Directors, no aged analysis is disclosed as the aged analysis does not give additional value.

21. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
THE GROUP				
Amounts payable under finance leases:				
Within one year	880	382	677	317
In the second to fifth year inclusive	522	637	648	594
	<u>1,402</u>	<u>1,019</u>	<u>1,325</u>	<u>911</u>
Less: Future finance charges	(77)	(108)	—	—
	<u>1,325</u>	<u>911</u>	<u>1,325</u>	<u>911</u>
Present value of obligations				
	<u>1,325</u>	<u>911</u>	<u>1,325</u>	<u>911</u>
Less: Amounts due for payment within one year			(677)	(317)
Amounts due for payment after one year			<u>648</u>	<u>594</u>

It is the Group's policy to lease certain of its equipment under finance leases. The average lease term is three years. Interest rates are charged at commercial rates and fixed at the respective contract rates. All leases are on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

The Company's obligations under finance leases are secured by the lessors' charges over the leased assets.

22. SHARE CAPITAL

	Number of shares '000	HK\$'000
Ordinary shares of HK\$0.10 each		
<i>Authorised:</i>		
At 1 April 2000	1,000	100
Increase during the year	999,000	99,900
	<u>1,000,000</u>	<u>100,000</u>
At 31 March 2001 and at 31 March 2002	1,000,000	100,000
<i>Issued and fully paid:</i>		
At 1 April 2000	1,000	—
Issue of shares on the reorganisation	1,000	100
Credited as fully paid from contributed surplus account	—	100
Issue of shares by capitalisation 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 31 March 2001 and at 1 April 2001	210,000	21,000
Issued in consideration for the acquisition of subsidiaries	20,000	2,000
Issue of bonus shares by capitalisation of share premium account	230,000	23,000
	<u>460,000</u>	<u>46,000</u>
At 31 March 2002	<u>460,000</u>	<u>46,000</u>

23. SHARE OPTIONS

At 31 March 2002, the following options to subscribe for shares were outstanding:

Type of options	Exercise price per share (after adjustment of bonus issue) HK\$	Exercise period	Number of share options (after adjustment of bonus issue)
Options granted under the Option Scheme	1.675	7 June 2001 - 6 June 2004	21,000,000
Options granted to Chestrich	1.900	29 June 2001 - 28 June 2003	44,000,000
			<u>65,000,000</u>

The exercise in full of the outstanding 65,000,000 share options at 31 March 2002 would, under the present capital structure of the Company, result in the issue of 65,000,000 additional ordinary shares for a total cash consideration, before expenses, of approximately HK\$118,775,000.

24. RESERVES

	Share premium HK\$'000	Special reserve HK\$'000	Goodwill reserve HK\$'000	Investment revaluation reserve HK\$'000	Other reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE GROUP							
At 1 April 2000	—	—	—	11,604	—	65,259	76,863
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 reorganisation	—	29,240	—	—	—	—	29,240
Realised on disposal of investment in securities	—	—	—	(11,604)	—	—	(11,604)
Goodwill on acquisition of business	—	—	(13,950)	—	—	—	(13,950)
Net profit for the year	—	—	—	—	—	34,116	34,116
Dividends paid	—	—	—	—	—	(25,000)	(25,000)
At 31 March 2001 and at 1 April 2001	33,069	29,140	(13,950)	—	—	74,375	122,634
Shares issued at premium for the acquisition of subsidiaries	66,520	—	—	—	—	—	66,520
Capitalisation	(23,000)	—	—	—	—	—	(23,000)
Net loss for the year	—	—	—	—	—	(73,404)	(73,404)
Fair value of share options issued for consultancy services provided by Chestrich during the year (Note 28(iii))	—	—	—	—	12,110	—	12,110
At 31 March 2002	76,589	29,140	(13,950)	—	12,110	971	104,860

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 shares of the Company issued for the acquisition at the time of the group reorganisation.

24. RESERVES *(Continued)*

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY				
At 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)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 2001 and at 1 April 2001	33,069	89,627	(2,059)	120,637
Shares issued at premium for the acquisitions of subsidiaries	66,520	—	—	66,520
Capitalisation	(23,000)	—	—	(23,000)
Net loss for the year	—	—	(59,615)	(59,615)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 2002	<u>76,589</u>	<u>89,627</u>	<u>(61,674)</u>	<u>104,542</u>

The contributed surplus of the Company arose as a result of the group 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.

25. RECONCILIATION OF (LOSS) PROFIT BEFORE TAXATION TO NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES

	2002 HK\$'000	2001 HK\$'000
(Loss) profit before taxation	(118,728)	35,971
Interest expenses	344	593
Amortisation of intangible assets	10,616	—
Depreciation	1,689	835
Impairment loss recognised in respect of a license and right to use a website and trademark	86,897	—
Non-cash transaction — consultancy fee paid to Chestrich (note 28(ii))	12,110	—
Goodwill written off	9	—
Gain on disposal of shares in the HKEx	—	(23,534)
(Increase) decrease in accounts receivable	(50,648)	39,089
Increase in investments in securities	(13)	—
Increase in other receivables, prepayments and deposits	(212)	(723)
(Increase) decrease in bank balances — trust and segregated accounts	(4,652)	2,012
Increase (decrease) in accounts payable	10,886	(30,448)
(Decrease) increase in accrued expenses and other payables	(1,611)	1,022
Decrease in amount due to a director	—	(10,014)
Net cash (outflow) inflow from operating activities	<u>(53,313)</u>	<u>14,803</u>

26. ACQUISITION OF SUBSIDIARIES/BUSINESS

The acquisition of subsidiaries/business has been accounted for using the purchase method of accounting. The effect of the acquisition is summarised as follows:

	2002 HK\$'000	2001 HK\$'000
Net assets acquired:		
Fixed assets	655	14
Intangible assets	120,978	—
Loans to securities margin clients	—	59,785
Amounts due to securities margin clients	—	(600)
Amount due to a related company	—	(50,393)
Other receivables, prepayments and deposits	362	—
Bank balances and cash	3,947	—
Accrued expenses and other payables	(2,100)	—
Minority interests	(55,025)	—
	<u>68,817</u>	<u>8,806</u>
Goodwill	9	13,950
Total consideration	<u>68,826</u>	<u>22,756</u>
Satisfied by:		
Cash	306	8,796
Shares allotted	68,520	13,960
	<u>68,826</u>	<u>22,756</u>
Net cash inflow (outflow) arising on acquisition		
Cash consideration	(306)	(8,796)
Bank balances and cash acquired	3,947	—
	<u>3,641</u>	<u>(8,796)</u>

The subsidiaries acquired during the year utilised HK\$3,088,000 for the Group's net operating cash flows, and utilised HK\$241,000 for investing activities. The subsidiaries acquired during the year contributed approximately HK\$161,000 to the turnover of the Group and approximately HK\$59,795,000 to the loss before taxation of the Group.

During the year ended 31 March 2001, the Group acquired certain assets and liabilities in relation to the securities margin financing business from Karl Thomson Finance Company. During the period from the date of acquisition up to 31 March 2001, the securities margin financing business had contributed approximately HK\$3,324,000 to the net operating cash flows of the Group, utilised approximately HK\$1,000 for servicing of finance and utilised approximately HK\$2,000,000 for investing activities.

27. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium HK\$'000	Minority interests HK\$'000	Obligations under finance leases HK\$'000
At 1 April 2000	10,010	—	—
Inception of finance leases	—	—	1,051
Repayments of obligations under finance leases	—	—	(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 and at 1 April 2001	54,069	—	911
Inception of finance leases	—	—	984
Repayments of obligations under finance leases	—	—	(570)
Shares issued at premium for the acquisition of subsidiaries	68,520	—	—
Increase in minority interests upon acquisition of subsidiaries	—	55,025	—
Capital contributions from minority shareholders upon incorporation of subsidiaries	—	8,949	—
Minority interests' share of net loss during the year	—	(45,330)	—
At 31 March 2002	<u>122,589</u>	<u>18,644</u>	<u>1,325</u>

28. MAJOR NON-CASH TRANSACTIONS

- (i) The Group acquired the entire issued share capital of LuckySurf International Limited by issuing 20,000,000 new ordinary shares of HK\$0.10 each of the Company. The total fair value of the shares issued by the Company on the date of acquisition was HK\$68,520,000.
- (ii) The Group entered into a consultancy agreement with Chestrich under which Chestrich would provide internet advisory, management and business development services to the Group for a term of two years from 29 June 2001. In consideration of the consultancy services provided by Chestrich, the Company granted to Chestrich an option to purchase 22,000,000 (after adjusting of the effect of bonus issue, the number of shares has been changed to 44,000,000) ordinary shares of HK\$0.10 each of the Company at an exercise price of HK\$3.80 per share (after adjusting of the effect of the bonus issue, the exercise price has been changed to HK\$1.90 per share) at any time within two years from 29 June 2001. The fair value of the options granted to Chestrich, which was computed using the Black-Scholes option pricing model, is approximately HK\$32,294,000 of which approximately HK\$12,110,000 has been charged to the income statement over the term of the consultancy agreement.
- (iii) The Group issued bonus shares of 230,000,000 ordinary shares of HK\$0.10 each of the Company by capitalisation of share premium account.
- (iv) The Group entered into finance leases in respect of assets with a total capital value at the inception of the lease of HK\$984,000 (2001: HK\$1,051,000).

29. OPERATING LEASE COMMITMENTS

At the balance sheet, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	3,478	4,877	245	420
In the second to fifth year inclusive	870	2,548	—	245
	<u>4,348</u>	<u>7,425</u>	<u>245</u>	<u>665</u>

Operating lease payments represent rentals payable by the Group for its office premises. Leases are mainly negotiated for an average term of two years and rentals are fixed for an average of two years.

30. CONTINGENT LIABILITIES

THE GROUP

Pursuant to the shareholders agreement entered into between the Group and GL Trade SA (the "Shareholders' Agreement"), the Group shall transfer up to a maximum of 3,000 customers to KTG Trade Limited. During the year, the Group provided a list of existing customers' account numbers to GL Trade SA and KTG Trade Limited and received HK\$28,080,000. Under the Shareholders' Agreement, the Group will meet its obligation of transferring 3,000 customers to KTG Trade Limited only if the transferred customers meet the trading volume as set out in the Shareholders' Agreement at the end of twelve months from the date of KTG Trade Limited being fully operational. In the event that the number of customers transferred is less than 3,000, the Group shall pay to KTG Trade Limited US\$1,200 for each number of account of the shortfall. If the Group fails to pay by the end of thirteenth months from the date of KTG Trade being fully operational (the "Payment Date"), GL Trade SA shall have the option to purchase a maximum 35% equity interest in KTG Trade Limited from the Group at US\$1,000 for every one per cent of the share capital of KTG Trade Limited as at the date of incorporation of KTG Trade Limited. The option shall be exercised within three months from the Payment Date.

THE COMPANY

The Company has given guarantees of HK\$80,000,000 (HK\$30,000,000) to banks in respect of general facilities granted to subsidiaries. At 31 March 2002, the subsidiaries did not utilise such general facilities.

31. CAPITAL COMMITMENTS

Since the last annual reporting date, the Group has settled its commitments of HK\$31,590,000 for the formation of a joint venture company.

As at 31 March 2002, the Group was committed to capital expenditures of HK\$286,000 (2001: nil) for the acquisition of computer equipment.

The Company did not have any significant capital commitment at the balance sheet date.

32. RELATED PARTY TRANSACTIONS

- (i) During the year, the Group received commission income from securities dealings of approximately HK\$73,000 (2001:HK\$94,000), HK\$76,000 (2001:HK\$15,000) and HK\$205,000 (2001:HK\$239,000) from the Directors, Messrs. Lam Kwok Hing and Nam Kwok Lun and their associates respectively. The commissions were charged at rates similar to those rates offered to other clients.
- (ii) During the year, the Group received interest income from securities margin financing of approximately HK\$26,000 (2000: nil), HK\$14,000 (2001: nil) and HK\$7,000 (2001: nil) from the Directors, Messrs. Lam Kwok Hing and Nam Kwok Lun and their associates respectively. The interest was charged at commercial rates which were similar to those rates offered to other clients.

33. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the Group terminated the consultancy agreement entered with Chestrich as mentioned in note 28(ii) above and the options granted to Chestrich was cancelled without paying or receiving any compensation.