
FINANCIAL INFORMATION

The following discussion should be read in conjunction with the audited combined financial information of the Group for the three years ended 31 March 2006 and the nine months ended 31 December 2005 and 2006, together with the accompanying notes, set out in the accountants' report in appendix I of this prospectus.

For the purposes of this section, and unless the context otherwise requires, references to "2004", "2005" and "2006" refer to the Group's financial year ended 31 March of such year.

OVERVIEW

The Group is principally engaged in stockbroking business for securities, futures and options as well as financing. The Group's stockbroking business mainly focuses on dealing with securities and options on the Main Board and the GEM. The Group also provides brokerage services for futures and options traded on the Futures Exchange. As a result of the increasing clients' demand, the Group has extended its brokerage services to derivative products including commodities and currency futures traded on exchanges in the US and commodities futures traded on exchanges in Japan. Other than the brokerage business, the Group provides its clients margin and initial public offer financings as well as loans and advances which are secured by stocks listed on the Stock Exchange.

The Group's revenue is predominantly derived from its brokerage business and financing business and therefore comprises four major components: (a) commission and brokerage income on dealing in securities and equity options; (b) commission and brokerage income on dealing in futures and options contracts; (c) interest income from margin and initial public offer financings; and (d) interest income from loans and advances. Details of the breakdown of the revenue by business activities of the Group are set out in note 7 to the accountants' report contained in appendix I to this prospectus.

MAJOR FACTORS AFFECTING THE GROUP'S REVENUE

Due to the business nature of the Group, the Group's business is transaction driven and its revenue is directly related to the number and size of the transactions undertaken by the Group on behalf of its clients. In addition, the Group's business mainly focuses on Hong Kong market. Therefore, the Directors believe that the major factors affecting the Group's revenue include:

- (i) the performance of the stock and futures markets in Hong Kong;
- (ii) the number of players and the intensity of competition in Hong Kong which will significantly affect the Group's ability to secure businesses; and
- (iii) the changes in the law and regulations governing the securities industry in Hong Kong.

FINANCIAL INFORMATION

Performance of the stock and futures markets in Hong Kong

The performance of the stock and futures markets in Hong Kong are dependent on the domestic and international political and economic conditions which are difficult to anticipate.

Trading activities on the Hong Kong stock market recovered remarkably after May 2003. Such a rebound in market turnover was possibly due to the inflow of capital into the Hong Kong stock market, increase in trading activities of Mainland stocks, relaxation of Mainland travel rules and recovery of the World economy. The increase in trading activities benefits the stockbroking industry. Although Hong Kong stocks' rally moderated during the year ended 31 December 2005, they record high in terms of total market capitalisation and annual market turnover.

The HSI then receded to a year-low of 10,968 on 17 May 2004, but rebounded to the year-high of 14,266 on 29 December 2004. On 31 March 2005, the HSI closed at 13,517. The average daily turnover on the Hong Kong market for the twelve months ended 31 March 2005 was HK\$15.6 billion.

The Hong Kong stock market remained buoyant in 2006, despite the uncertainties arising from higher oil prices and interest rates. The rally was supported by a solid 7.3% GDP growth in 2005 and improving economic fundamentals. Revaluation of RMB in July 2005 and the move to a more market-based exchange rate system sustained investors' interest in Mainland shares listed in Hong Kong. The gains of the Hong Kong stock market were in line with the performance of major equity markets abroad.

FINANCIAL INFORMATION

The average daily turnover of the Hong Kong stock market for the twelve months ended 31 March 2006 amounted to HK\$21.5 billion, 38% higher than the preceding corresponding period. The commission and brokerage income from securities and equity options dealing of the Group remained at about the same level throughout the three years ended 31 March 2006. Due to numerous initial public offerings in the financial year ended 31 March 2006, the interest income from margin and initial public offer financings jumped from approximately HK\$9.0 million for the year ended 31 March 2005 to approximately HK\$24.1 million for the year ended 31 March 2006. Such interest income further increased to approximately HK\$29.4 million for the nine months ended 31 December 2006.

	Nine months ended 31 December		Year ended 31 March			
	2006	2005	2006	2005	2004	2003
Key market indicators of the Hong Kong stock and futures markets						
Hang Seng Index	19,965 (+34%)	14,876	15,805 (+17%)	13,517 (+7%)	12,682 (+47%)	8,634
Number of listed companies on the Stock Exchange ¹	1,173 (+3%)	1,135	1,141 (+4%)	1,096 (+5%)	1,048 (+6%)	985
Market capitalisation (\$ billion) ¹	13,338 (+63%)	8,180	9,416 (+43%)	6,571 (+14%)	5,769 (+68%)	3,429
Average daily turnover (\$ billion) ¹	34.8 (+90%)	18.3	21.5 (+38%)	15.6 (+11%)	14.1 (+120%)	6.4
Number of IPOs						
Main Board	44 (-15%)	52	64 (+39%)	46 (+2%)	45 (-12%)	51
GEM	3 (-63%)	8	11 (-27%)	15 (-50%)	30 (-33%)	45
IPO fund raised						
Main Board (\$ billion)	320.4 (+102%)	158.9	170.6 (+111%)	80.9 (+11%)	72.6 (+52%)	47.7
GEM (\$ billion)	1.3 (+117%)	0.6	1.0 (+11%)	0.9 (-76%)	3.8 (-32%)	5.6
Average daily contract volume of futures and options	181,782 (+69%)	107,610	118,028 (+45%)	81,607 (+25%)	65,194 (+38%)	47,259

Note:

¹ Including both the Main Board and the GEM.

FINANCIAL INFORMATION

Number of players and the intensity of competition in Hong Kong

Exchange participants and trading rights holders status (as at 31 December 2006)

	Stock Exchange	Futures Exchange
Exchange participants	469	135
<i>Trading</i>	425	135
<i>Non-trading</i>	44	0
Trading rights holders	49	59
Average no. of trading rights held by exchange participants and trading right holders	1.78	1.16

Source: * HKEC

Key competition indicators

As at	31 December 2006	31 December 2005
Total number of Futures Exchange Participants*	135	137
Total number of a securities dealers & securities margin financiers [#]	641	647
Total number of active cash clients (<i>note</i>) [#]	730,356	650,899
Total number of active margin clients (<i>note</i>) [#]	80,348	72,290

Note: Active clients are clients for whom the licensed corporation is required to prepare and deliver monthly statement of accounts in respect of the relevant reporting month in accordance with Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules (Chapter 571Q of the Laws of Hong Kong).

Source: * HKEC

[#] SFC Quarterly Report - Oct-Dec.2006

As at 31 December 2006, there are 135 Futures Exchange Participants and 641 securities dealers and securities margin financiers in Hong Kong. The Group faces intense competition for its stockbroking, futures and options trading and financing businesses. Besides competition from stockbroking, futures and options trading firms, the Directors consider that there is increasing competition from licensed banks which offer similar services through their stockbroking arms. Such intense competition affects the Group's market share in the securities and futures industry in Hong Kong and hence its results of operations.

FINANCIAL INFORMATION

Changes in the law and regulations governing the securities industry in Hong Kong

The law and regulations governing the securities industry in Hong Kong may change in a way that affect the Group's revenue. For example, new law and regulations may be implemented to change the brokerage commission structure and the amount of liquid capital required for the Group's business which determines the volume and size of transactions that the Group can carry out. These may therefore affect the Group's revenue. In addition, changes in other relevant laws and regulations may affect the listed companies' abilities to implement corporate exercises such as fund raising in the market and the number of initial public offerings which will in turn affect the Group's revenue.

CRITICAL ACCOUNTING POLICIES

The Group's financial information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The preparation of financial statements in conformity with HKFRS requires the Group's management to adopt accounting policies and make estimates and assumptions that affect amounts reported in the Group's financial statements. In applying these accounting policies, the Group's management makes subjective judgements that frequently require estimates about matters that are inherently uncertain. Accordingly, actual results could differ from those estimates. The Group's management bases its estimates on past experience and on various other factors that it believes to be reasonable.

The following paragraphs discuss the critical accounting policies applied in preparing the Group's financial statements:

Depreciation of property and equipment

Depreciation of property and equipment is calculated using the straight-line method at the rate of 20% per annum to allocate cost to their residual values over their estimated useful lives.

Revenue recognition

Revenue arising from financial services is recognised on the following basis:

- Commission income for broking business is recorded as income on a trade date basis.
- Underwriting commission income, sub-underwriting income and placing commission are recognised as income in accordance with the terms of the underlying agreement or deal mandate when relevant significant act has been completed.
- Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

FINANCIAL INFORMATION

Amortisation of trading rights

The trading rights entitle the Group to conduct trade for its clients on the Stock Exchange and the Futures Exchange. The trading rights are amortised on a straight-line basis over their estimated useful lives which are ten years.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND THE COMPANIES ORDINANCE

According to paragraph 27 of Part I of the Third Schedule to the Companies Ordinance, the Company is required to include in this prospectus a statement as to the gross trading income or sales turnover of the Company during each of the three financial years immediately preceding the issue of this prospectus.

According to paragraph 31 of Part II of the Third Schedule to the Companies Ordinance, the Company is required to include in this prospectus a report by its auditors or reporting accountants of the Company with respect to the financial results of the Group for each of the three financial years immediately preceding the issue of this prospectus.

According to Rule 4.04(1) of the Listing Rules, the Company is required to include in this prospectus an accountants' report covering the combined results of the Group in respect of each of the three financial years immediately preceding the issue of this prospectus.

The accountants' report for each of the three years ended 31 March 2006 and the nine months ended 31 December 2006 has been prepared and is set out in appendix I to this prospectus. However, as this prospectus is issued within a short period of time after 31 March 2007, the accountants' report has not included the audited financial results of the Group for the full year ended 31 March 2007 as it would be unduly burdensome for the Company to do so.

In the circumstances, an application was made to the SFC for a certificate of exemption from strict compliance with paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance in relation to the inclusion of the accountants' report for the full year ended 31 March 2007 in this prospectus on the ground that it would be unduly burdensome for the Company to do so and a certificate of exemption has been granted by the SFC under section 342A(1) of the Companies Ordinance.

An application has also been made to the Stock Exchange for a waiver from strict compliance with Rule 4.04(1) of the Listing Rules on the ground that it would be unduly burdensome for the Company to do so within a short period of time after 31 March 2007, and such waiver has been granted by the Stock Exchange subject to the condition that the Listing Date is on or before 30 June 2007.

The Directors have confirmed that they have performed sufficient due diligence on the Group to ensure that, up to the date of issue of this prospectus, there has been no material adverse change in the financial and trading positions or prospects of the Group since 31 December 2006, and there is no event since 31 December 2006 which would materially affect the information shown in the accountants' report contained in appendix I to this prospectus.

FINANCIAL INFORMATION

RESULTS OF OPERATIONS

The following is a summary of the audited combined results of the Group for each of the three years ended 31 March 2006 and the nine months ended 31 December 2005 and 2006 extracted from the accountants' report, the text of which is set out in appendix I to this prospectus. The audited combined results are prepared on the basis of presentation set out in the accountants' report in appendix I to this prospectus. This summary should be read in conjunction with the accountants' report set out in appendix I to this prospectus – see pages 187 to 220 of this prospectus.

	Year ended 31 March			Nine months ended 31 December	
	2004	2005	2006	2005	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Revenue (<i>Note 1</i>)	72,393	68,517	95,026	60,756	94,606
Other operating income	2,047	4,094	1,857	1,332	1,888
(Impairment allowances)/write back for bad and doubtful debts	(8,034)	9,870	–	–	(34)
Staff costs	(10,818)	(11,015)	(10,623)	(7,872)	(8,100)
Other operating and administrative expenses	(32,302)	(28,495)	(34,951)	(23,579)	(40,958)
Depreciation and amortisation	(3,120)	(1,615)	(1,530)	(1,218)	(1,111)
Finance costs	(1,031)	(4,013)	(19,152)	(9,878)	(22,206)
Gain on disposal of property and equipment	–	47	–	–	–
Gain on disposal of intangible assets	–	–	373	238	–
Impairment loss on intangible assets	(8,000)	–	–	–	–
Profit before taxation	11,135	37,390	31,000	19,779	24,085
Taxation	(3,895)	(6,821)	(5,010)	(3,471)	(4,926)
Profit for the year/period	<u>7,240</u>	<u>30,569</u>	<u>25,990</u>	<u>16,308</u>	<u>19,159</u>
Dividend	<u>7</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Earnings per share (<i>Note 2</i>)	<u>2.56 cents</u>	<u>10.82 cents</u>	<u>9.20 cents</u>	<u>5.77 cents</u>	<u>6.78 cents</u>

Notes:

- Revenue mainly comprises commission income earned from brokerage services in respect of securities, equity options, futures and options contracts, and interest income from margin and initial public offer financing activities and loans and advances.
- The calculation of earnings per Share is based on the Group's net profit for the above years/period and on the assumption that 282,635,636 Shares were in issue throughout the years/period under review.

FINANCIAL INFORMATION

Principal Income Statement Components

Revenue

The Group's revenue is predominantly derived from its brokerage business and financing business and therefore comprises four major components: (a) commission and brokerage income on securities and equity options dealing which accounted for approximately 45.23%, 46.05%, 34.00%, 34.45% and 32.76% of the revenue of the Group for the year ended 31 March 2004, 2005 and 2006 and the nine months ended 31 December 2005 and 2006 respectively; (b) commission and brokerage income on dealing in futures and options contracts which accounted for approximately 6.32%, 3.86%, 13.55%, 13.38% and 22.63% of the revenue of the Group for the year ended 31 March 2004, 2005 and 2006 and the nine months ended 31 December 2005 and 2006 respectively; (c) interest income from margin and initial public offer financings which accounted for approximately 13.12%, 13.19%, 25.38%, 23.03% and 31.09% of the revenue of the Group for the year ended 31 March 2004, 2005 and 2006 and the nine months ended 31 December 2005 and 2006 respectively; and (d) interest income from loans and advances which accounted for approximately 29.84%, 26.43%, 20.35%, 21.07% and 6.99% of the revenue of the Group for the year ended 31 March 2004, 2005 and 2006 and the nine months ended 31 December 2005 and 2006 respectively.

Set out below is the breakdown of income by business activities of the Group for each of the three years ended 31 March 2006 and the nine months ended 31 December 2005 and 2006.

	Year ended 31 March			Nine months ended 31 December	
	2004	2005	2006	2005	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Commission and brokerage on securities and equity options dealing	32,742	31,553	32,305	20,933	30,992
Commission and brokerage on dealing in futures and options contracts	4,574	2,645	12,876	8,128	21,409
Placing and underwriting commission	3,767	7,130	5,195	4,290	4,025
Interest income from:					
Margin and initial public offer financings	9,495	9,039	24,120	13,994	29,413
Loans and advances	21,599	18,107	19,340	12,799	6,614
Bank deposits	207	43	1,119	580	2,044
Others	9	–	71	32	109
	<u>72,393</u>	<u>68,517</u>	<u>95,026</u>	<u>60,756</u>	<u>94,606</u>

FINANCIAL INFORMATION

Due to fierce market competition from fellow brokerage firms as well as banks which extend brokerage services to clients, the revenue of the Group decreased by approximately 5.4% from about HK\$72.4 million in 2004 to about HK\$68.5 million in 2005.

On the other hand, the Group's revenue increased significantly by approximately 38.7% from about HK\$68.5 million in 2005 to about HK\$95.0 million in 2006. Such a growth was mainly contributed by (a) the increase in the commission and brokerage income on dealing in futures and options contracts; and (b) the increase in interest income from margin and initial public offer financings. The Group started to extend its brokerage services to cover commodity and currency futures traded overseas in December 2004. This overseas commodity and currency futures business segment expanded significantly in 2006 with the number of client accounts in such segment increased from 13 in 2005 to 125 in 2006 and generated a commission and brokerage income of approximately HK\$10.7 million in 2006 compared to approximately HK\$0.3 million in 2005. Further, there were numerous initial public offerings in 2006 which the Group had also participated in the financing activities for the subscription of a number of such initial public offerings. The increase in number of initial public offerings participated by the Group as well as the corresponding financing amount accounted for the increase in interest income in this business segment and also contributed to the overall increase in the Group's revenue.

Similarly, the Group's revenue escalated tremendously by approximately 55.6% from about HK\$60.8 million for the nine months ended 31 December 2005 to about HK\$94.6 million for the nine months ended 31 December 2006. Such increase was mainly due to the increase in (a) the commission and brokerage income on securities and equity options dealing; (b) the commission and brokerage income on dealing in futures and options contracts; and (c) the interest income from margin and initial public offer financings. The market indicators set out in the sub-section "Performance of the stock and futures markets in Hong Kong" in this section of this prospectus above show that the Hong Kong stock market continued to rise in the nine months ended 31 December 2006. This leads to an increase in the trading activities of the Group and hence an increase in the commission and brokerage income on securities and equity options dealing of about HK\$10.1 million in the nine months ended 31 December 2006 as compared to the corresponding period in 2005. As mentioned in the paragraph above, the Group expanded its commodity and currency futures business in 2006 and therefore, its commission and brokerage income on dealing in futures and options contracts increased by about HK\$13.3 million in the nine months ended 31 December 2006 as compared to the corresponding period in 2005. Again, the amount of funds raised from initial public offerings in Hong Kong in the nine months ended 31 December 2006 when comparing with the corresponding period in 2005 has kept increasing and so did the financing amount provided by the Group, thus the interest income from margin and initial public offer financings increased by about HK\$15.4 million in the nine months ended 31 December 2006 as compared to the corresponding period in 2005.

Compared with the corresponding period of nine months ended 31 December 2006, the interest income from loans and advances dropped from HK\$12.8 million to HK\$6.7 million for the nine months ended 31 December 2006 due to decrease of loans and advances of approximately HK\$40.7 million during the period.

Other operating income

According to the accounting policy of the Group, income (namely commission and brokerage income, and interest income) generated from its brokerage business are classified as "Revenue", whilst other income derived incidental to its brokerage business (namely, handling fee) are classified as "Other

FINANCIAL INFORMATION

operating income". For the three years ended 31 March 2004, 2005 and 2006 and the nine months ended 31 December 2005 and 2006, the Group has recorded approximately HK\$2.0 million, HK\$4.1 million, HK\$1.9 million, HK\$1.3 million and HK\$1.9 million of other operating income respectively.

During the year ended 31 March 2005, the Group provided an one-off documentary service to a placing agent to assist its marketing activities in a placing exercise and an arranger fee income was received from such placing agent. Since the Group did not provide other such services during the Track Record Period, and in the opinion of the management, this income is non-recurring in nature and not generated from the Group's core business, the arranger fee was classified as other operating income. The other operating income for the nine months ended 31 December 2005 and 2006 was in line with the levels in revenue.

Staff costs

The Group's staff costs represented salaries allowances, commission and contributions to retirement benefits scheme paid and payable to the directors and employees of the Group. Employees are key assets of the Group and staff costs is a major expense item of the Group which accounted for approximately 22.89%, 24.40%, 16.03%, 18.50% and 11.19% of its total operating expenses (excluding impairment allowances for bad and doubtful debts and impairment loss on intangible assets, gain on disposal of property and equipment and gain on disposal of intangible assets due to their non-recurring nature) for each of the three years ended 31 March 2004, 2005 and 2006 and the nine months ended 31 December 2005 and 2006.

Other operating and administrative expenses and depreciation and amortisation

Other operating and administrative expenses comprised primarily commission paid and payable to account executives who are not employees of the Group and which accounted for approximately 34.80%, 33.87%, 32.02%, 32.38% and 35.57% of the total operating expenses (excluding impairment allowances for bad and doubtful debts and impairment loss on intangible asset, gain on disposal of property and equipment and gain on disposal of intangible assets due to their non-recurring nature) of the Group for each of the three years ended 31 March 2004, 2005 and 2006 and the nine months ended 31 December 2005 and 2006.

Other operating and administrative expenses and depreciation and amortisation dropped by approximately 15.00% from approximately HK\$35.4 million in 2004 to approximately HK\$30.1 million in 2005. The drop in other operating and administrative expenses and depreciation and amortisation was mainly due to the drop in amortisation of intangible assets and commission expenses. In 2004, the Group made an impairment loss of HK\$8.0 million to the intangible assets and therefore the amortisation of intangible assets reduced in 2005. Consistent with the drop in commission income in 2005 due to fierce market competition from fellow brokerage firms as well as banks which extend brokerage services to their clients, the commission expenses dropped in 2005.

Other operating and administrative expenses and depreciation and amortisation increased by approximately 21.16% from approximately HK\$30.1 million in 2005 to approximately HK\$36.5 million in 2006. The increase in other operating and administrative expenses and depreciation and amortisation was mainly due to the increase in commission expenses, depreciation of property and equipment and operating lease rentals in respect of equipment and equipment charges. As a result of the expansion of the Group's brokerage services for commodity and currency futures traded overseas in 2006, commission

FINANCIAL INFORMATION

expenses increased in 2006. In 2006, the Group changed its trading system which requires more computer equipment and resulted in higher depreciation of property and equipment and operating lease rentals in respect of equipment.

Other operating and administrative expenses and depreciation and amortisation increased by about 69.65% from approximately HK\$24.8 million in the nine months ended 31 December 2005 to approximately HK\$42.1 million in the nine months ended 31 December 2006. Such increase was mainly due to the increase in commission expenses which were matched by the corresponding increase in the commission and brokerage income on dealing in securities and equity options as well as futures and options contracts. Furthermore, certain expenses incurred in connection with the listing of Shares issued pursuant to the Reorganisation of approximately HK\$4.9 million was also recognised as other operating and administration expenses.

Finance costs

Finance costs represented interest expenses on bank overdrafts and bank loans as well as the Subordinated Loan from a fellow subsidiary. Finance costs accounted for approximately 2.18%, 8.89%, 28.91%, 23.22% and 30.68% of the total operating expenses (excluding impairment allowances for bad and doubtful debts and impairment loss on intangible assets due to their non-recurring nature) of the Group for each of the three years ended 31 March 2004, 2005 and 2006 and the nine months ended 31 December 2005 and 2006.

Finance costs increased by about 289.31% from approximately HK\$1.0 million in 2004 to approximately HK\$4.0 million in 2005 because more loans and the Subordinated Loans were drawn from banks and Emperor Group respectively during the year ended 31 March 2005.

Finance costs continued to increase significantly from HK\$4.0 million in 2005 to HK\$19.2 million in 2006, as the Group has participated in more financing activities for the subscription of a number of initial public offerings in 2006 and drew bank loans and the Subordinated Loan to support these financing activities. The increase in these loans together with the increase in interest rates charged by these banks caused a substantial increase in finance costs.

Again, since the Group participated in more initial public offer financing activities in the nine months ended 31 December 2006 as compared to the nine months ended 31 December 2005 and drew more bank loans and Subordinated Loan to support these financing activities, the finance costs increased from about HK\$9.9 million for the nine months ended 31 December 2005 to about HK\$22.2 million for the corresponding nine-month period in 2006.

Net profit

The Group's net profit margin jumped significantly from approximately 10.00% for the year ended 31 March 2004 to approximately 44.62% for the year ended 31 March 2005. This was principally due to the reversal of allowance for bad and doubtful debts of approximately HK\$9.9 million in the year ended 31 March 2005 while there was allowance for bad and doubtful debts of approximately HK\$8.0 million and the impairment loss on intangible assets of HK\$8.0 million in the year ended 31 March 2004. Excluding the aforesaid bad debts and impairment loss items, the adjusted net profit margin for the year ended 31 March 2004 was approximately 32.15% which is comparable to that of the year ended 31 March 2005 of approximately 30.21%.

FINANCIAL INFORMATION

The adjusted net profit margin of the Group decreased to 27.35% in 2006. This was because the Group participated more in the initial public offer financing activities in 2006, profit margin of which is lower due to a very thin interest rate spread.

The adjusted net profit margin of the Group for the nine months ended 31 December 2006 was 25.46% which was maintained at about the similar level compared with for those in the nine months ended 31 December 2005 and the year ended 31 March 2006.

Set out below is a table showing the calculation of the adjusted net profit and the adjusted net profit margin for each of the three years end 31 March 2006 and the nine months ended 31 December 2005 and 2006 based on the income statement extracted from the accountants' report contained in appendix I of this prospectus and excluding certain non-recurring items for illustration purpose only.

	Year ended 31 March			Nine months ended 31 December	Nine months ended 31 December
	2004	2005	2006	2005	2006
	HK\$	HK\$	HK\$	HK\$	HK\$
				(unaudited)	
Net profit for the year/period	7,240,470	30,569,207	25,989,817	16,307,739	19,159,248
Add/(Less): Impairment allowances/ (write back) for bad and doubtful debts	8,034,249	(9,870,000)	–	–	33,654
Add: Impairment loss on intangible assets	8,000,000	–	–	–	–
Add: Listing expenses	–	–	–	–	4,894,839
Adjusted net profit for the year/period	<u>23,274,719</u>	<u>20,699,207</u>	<u>25,989,817</u>	<u>16,307,739</u>	<u>24,087,741</u>
Revenue	<u>72,392,903</u>	<u>68,517,022</u>	<u>95,026,395</u>	<u>60,755,582</u>	<u>94,605,867</u>
Adjusted net profit margin	<u>32.15%</u>	<u>30.21%</u>	<u>27.35%</u>	<u>26.84%</u>	<u>25.46%</u>

FINANCIAL INFORMATION

LIQUIDITY AND CAPITAL RESOURCES

The following discussion is based on the Group's combined cash flow statement for the three years ended 31 March 2006 and the nine months ended 31 December 2005 and 2006.

The Group's working capital and other capital requirements were principally satisfied by cash generated from its operations. The Group also drew short-term bank loans and the Subordinated Loan.

The following table summarised the Group's cash flows for the periods indicated:

	Year ended 31 March			Nine months ended 31 December	
	2004	2005	2006	2005	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Cash and cash equivalents at the beginning of the year/period	15,969	27,019	18,470	18,470	34,013
Net cash (used in) from operating activities	(66,447)	38,735	11,600	8,569	56,194
Net cash from (used in) investing activities	72,504	(202,284)	123,943	124,008	(21,144)
Net cash from (used in) financing activities	4,993	155,000	(120,000)	(120,000)	–
Net increase (decrease) in cash and cash equivalents	11,050	(8,549)	15,543	12,577	35,050
Cash and cash equivalents at the end of the year/period	27,019	18,470	34,013	31,047	69,063

Cash flow from operating activities

Cash flow from operating activities reflects profit for the year adjusted for non-cash items such as depreciation, amortisation, impairment allowances or write back for bad and doubtful debts and impairment loss on trading rights, the effects of cashflows arising from increases or decreases in trade receivables, loans and advances, bank balances and cash – trust accounts and trade payables, and tax refunds or payments as well as interest payments.

Net cash used in operating activities in 2004 was approximately HK\$66.4 million. The Group generated approximately HK\$32.1 million net cash inflow from operating activities before movements in working capital, tax and interest payments. There was an aggregate net cash outflow of approximately HK\$97.3 million which was mainly a result of an increase in trade receivables of approximately HK\$31.7 million, an increase in loans and advances of HK\$85.4 million and an increase in trade payables of approximately HK\$15.8 million. Trading activities on the Hong Kong stock market recovered remarkably after May 2003. The better performing stock market in 2004 caused increases in trade receivables of the Group in 2004. Loans and advances increased in 2004 because more loans and advances were granted.

Net cash generated from operating activities in 2005 was approximately HK\$38.7 million. The Group generated approximately HK\$34.3 million net cash from operating activities before movements in working capital, tax and interest payments. There was an aggregate net cash inflow of approximately HK\$13.9 million which was mainly attributable to a decrease in loans and advances of approximately HK\$16.0 million, an increase in bank balances and cash – trust accounts of approximately HK\$36.0

FINANCIAL INFORMATION

million and an increase in trade payables of approximately HK\$33.9 million. The market indicators set out in the sub-section “Performance of the stock and futures markets in Hong Kong” in this section of this prospectus above show that the Hong Kong stock market in 2005 was even more booming than 2004. Such booming market brought increases in the bank balances and cash – trust accounts and trade payables of the Group in 2005. Besides, the drop in loans and advances was simply due to repayments of loans. The Group also paid tax of approximately HK\$7.6 million and interest expenses of approximately HK\$2.4 million in 2005.

Net cash generated from operating activities in 2006 was approximately HK\$11.6 million. The Group generated approximately HK\$51.3 million net cash from operating activities before movements in working capital, tax and interest payments. There was an aggregate net cash outflow of approximately HK\$10.4 million in 2006 which was mainly a result of an increase in trade receivables of approximately HK\$65.9 million, a decrease in loans and advances of approximately HK\$6.7 million and an increase in trade payables of approximately HK\$56.4 million. The market indicators set out in the sub-section headed “Performance of the stock and futures markets in Hong Kong” in this section of this prospectus above show that the Hong Kong stock market made further progress in 2006. It therefore triggered increases in the trade receivables and trade payables of the Group in 2006. The increase in trade receivables was also caused by the increase in margin and initial public offer financing business undertaken by the Group and the expansion of its brokerage services to cover commodity and currency futures traded overseas as mentioned in the section of “Principal income statements components – Revenue” above. The Group’s loans and advances had a net decrease of approximately HK\$6.7 million because five term loans with an aggregate amount of HK\$71.0 million were repaid while further advances of about HK\$64.3 million were drawn by the existing borrowers. The Group also paid tax of approximately HK\$8.8 million and interest expenses of HK\$20.8 million. In 2005, the Group only paid approximately HK\$2.4 million for the interest expenses. As explained in the section of “Principal income statements components – Finance costs” above, the significant increase in interest expenses was due to the increase in bank loans and the Subordinated Loan together with the increase in interest rates charged by the banks for the purpose of funding the increase in the initial public offer financing business undertaken by the Group.

Net cash generated from operating activities in the nine months ended 31 December 2005 was approximately HK\$8.6 million. The Group generated approximately HK\$30.6 million net cash from operating activities before movements in working capital, tax and interest payments. There was an aggregate of cash outflow of approximately HK\$12.2 million which was mainly a result of an increase in trade receivables of approximately HK\$11.9 million, an increase in loans and advances of approximately HK\$18.0 million, increase in other debtors, deposits and prepayments of approximately HK\$1.0 million and decrease in other creditors and accrued charges of approximately \$1.3 million. As the Hong Kong stock market continued to rise, there were more trading activities of the Group in nine month ended 31 December 2005 and in turn it caused increase in the trade receivables. The increase in loans and advances of approximately HK\$18.0 million represented drawdown of the loans and advances in the nine months ended 31 December 2005.

Net cash generated from operating activities in the nine months ended 31 December 2006 was approximately HK\$56.2 million. The Group generated approximately HK\$47.4 million net cash from operating activities before movements in working capital, tax and interest payments. There was an aggregate net cash inflow of approximately HK\$32.7 million which was mainly a result of an increase in trade receivables of approximately HK\$10.8 million, a decrease in loans and advances of approximately

FINANCIAL INFORMATION

HK\$40.7 million, increase in other debtors, deposits and prepayments of approximately \$8.5 million, an increase in trade payables of approximately HK\$4.6 million and an decrease in other creditors and accrued charges of approximately \$10.4 million. The Hong Kong stock market remained buoyant as the HSI reached 20,002 in December 2006. Therefore, there were more trading activities of the Group in nine month ended 31 December 2006 and it caused increase in the trade receivables and trade payables of the Group in the nine months ended 31 December 2006. The decrease in loans and advances of approximately HK\$40.7 million represented repayments of the term loans in the nine months ended 31 December 2006. The increase in other debtors, deposits and prepayments was mainly due to an increase of approximately \$3.7 million in prepayment of listing expenses and initial public offer commission and brokerage receivable of approximately \$0.7 million. The increase in other creditors and accrued charges was primarily due to an increase in temporary receipts of approximately \$3.8 million and \$4.5 million of accrued listing expenses. The temporary receipts were the commissions withheld from account executives. The Group also incurred tax expenses of approximately HK\$1.8 million and interest expenses of approximately HK\$22.2 million.

Cash flow from investing activities

The principal item affecting the net cash from or used in investing activities of the Group was the increase or decrease in amount due from a fellow subsidiary. Being a group member of EIHL, surplus fund of the Group was transferred to other group members of EIHL for their use if required. The amount due from a fellow subsidiary represented such surplus fund transferred. It is non-interest bearing, unsecured and repayable on demand.

Since the Group had to finance its net cash used in operating activities of HK\$66.4 million in 2004, less surplus fund was transferred to other group members of EIHL, resulting in a decrease in the amount due from a fellow subsidiary by HK\$72.8 million in 2004. The net cash from investing activities was HK\$72.5 million in 2004.

The Group had surplus fund in 2005 given there were net cash from operating activities and financing activities of HK\$38.7 million and HK\$155.0 million respectively. Therefore, the amount due from a fellow subsidiary increased by HK\$200.6 million in 2005. Net cash used in investing activities amounted to HK\$202.3 within in 2005.

The Group did not have surplus fund in 2006 given a net cash of HK\$120.0 million was used in financing activities. Therefore, the amount due from a fellow subsidiary decreased by HK\$123.5 million in 2006. Net cash generated from investing activities amounted to HK\$123.9 million in 2006.

The Group had net cash surplus of HK\$124.0 million in the nine months ended 31 December 2005 which was mainly attributable to the decrease in amount due from a fellow subsidiary by HK\$123.8 million for that period.

Similar to 2005, the Group had surplus fund in the nine months ended 31 December 2006 given there were net cash from operating activities of HK\$56.2 million. Therefore, the amount due from a fellow subsidiary increased by HK\$21.0 million in the nine months ended 31 December 2006. Net cash used in investing activities amounted to HK\$21.1 million for that period.

FINANCIAL INFORMATION

Cash flow from financing activities

The principal item affecting the net cash from or used in financing activities of the Group was the advance or repayment of the Subordinated Loan. The Subordinated Loan was to provide extra funding for initial public offer financing business undertaken by the Group.

In 2004, a Subordinated Loan of HK\$5 million was advanced and hence there was a net cash from financing activities of HK\$5 million.

In 2005, the net cash generated from financing activities was HK\$155 million which was a result of advances of the Subordinated Loan of HK\$560 million and repayments of the Subordinated Loan of HK\$405 million. As more initial public offer financing activities were conducted around the financial year end of 2005, there is an increase in the Subordinated Loan.

In 2006, the net cash used in financing activities was HK\$120 million which was due to a combination effect of the advances of the Subordinated Loan of HK\$1,040 million was offset by the repayment of the Subordinated Loan of HK\$1,200 million, and the proceeds from the issue of shares of Emperor Futures. As no initial public offer financing activities were conducted at the financial year end date of 2006, there was no Subordinated Loan as at 31 March 2006. Due to the expansion of the Group's brokerage services to cover commodity and currency futures traded overseas as mentioned in the section of "Principal income statements components – Revenue" above, a larger capital base is required and so shares of Emperor Futures were issued to raise a capital of HK\$40 million in 2006.

During the nine months ended 31 December 2005, the net cash used in financing activities was HK\$120 million which was the net result of the drawdown of and repayment of the Subordinated Loan of \$550 million and \$710 million respectively and the issue of shares of Emperor Futures as mentioned above.

During the nine months ended 31 December 2006, there was no net cash effect on financing activities due to the fact that advance of the Subordinated Loan of \$550 million was offset by repayment of the same during the period.

Working capital

The Directors are of the opinion that, taking into account its internal resources, the banking facilities and the estimated net proceeds of the Share Offer, the Group will have sufficient working capital for its present requirements for at least the next 12 months from the date of this prospectus.

FINANCIAL INFORMATION

Statement of net assets

As at 31 December 2006 and 28 February 2007, the Group had net assets of approximately HK\$421.8 million and HK\$429.8 million, details of the components are set out as follows:

	As at 28 February 2007 HK\$ (million) (Unaudited)	As at 31 December 2006 HK\$ (million)
Non-current assets		
Property and equipment	2.2	2.3
Intangible assets	0.8	0.8
Other assets	4.9	4.8
Loan receivables	6.0	8.0
	<u>13.9</u>	<u>15.9</u>
Current assets		
Trade receivables	2,348.3	175.8
Loans and advances	48.7	48.9
Other debtors, deposits and prepayments	10.7	12.3
Amount due from a fellow subsidiary	59.0	189.8
Bank balances and cash		
– general	27.5	69.1
– trust	127.0	101.1
	<u>2,621.2</u>	<u>597.0</u>
Current liabilities		
Bank loans	(1,978.8)	–
Trade payables	(213.2)	(171.2)
Other creditors and accrued charges	(12.9)	(17.1)
Tax liabilities	(0.4)	(2.8)
	<u>(2,205.3)</u>	<u>(191.1)</u>
Net current assets	<u>415.9</u>	<u>405.9</u>
Net assets	<u>429.8</u>	<u>421.8</u>

As at 31 December 2006 and 28 February 2007, the Group had total banking facilities of approximately HK\$380.0 million, comprising payment settlement limits of approximately HK\$40.0 million, overdraft of approximately HK\$20.0 million and revolving loans of approximately HK\$320.0 million. No banking facilities from the banks had been utilised as at 31 December 2006.

FINANCIAL INFORMATION

As at 31 December 2006, the Group had net current assets of approximately HK\$405.9 million comprising current assets of approximately HK\$597.0 million and current liabilities of approximately HK\$191.1 million. The current assets as at 31 December 2006 were made up of trade receivables of HK\$175.8 million, loans and advances of HK\$48.9 million, other debtors, deposits and prepayments of HK\$12.3 million, amount due from a fellow subsidiary of HK\$189.8 million and bank balances and cash of HK\$170.2 million. The current liabilities as at 31 December 2006 comprised HK\$171.2 million in trade payables, HK\$17.1 million in other creditors and accrued charges and HK\$2.8 million in taxation.

As at 28 February 2007, the Group had maintained the net current assets at similar level of approximately HK\$415.9 million comprising current assets of approximately HK\$2,621.2 million and current liabilities of approximately HK\$2,205.3 million. The current assets as at 28 February 2007 were made up of trade receivables of HK\$2,348.3 million, loans and advances of HK\$48.7 million, other debtors, deposits and prepayments of HK\$10.7 million, amount due from a fellow subsidiary of HK\$59.0 million and bank balances and cash of HK\$154.5 million. The current liabilities as at 28 February 2007 comprised HK\$1,978.8 million in bank loans and HK\$213.2 million in trade payables, HK\$12.9 million in other creditors and accrued charges and HK\$0.4 million in taxation.

As at 28 February 2007, there were outstanding initial public offer loans and therefore the trade receivable, trade payables and bank loan were at a exceptionally high levels.

The amount due from a fellow subsidiary of the Group has been fully repaid as at the Latest Practicable Date. According to the FRR, any amount due from fellow subsidiaries of the Group is not counted as liquid assets for the purpose of calculating the liquid capital of Emperor Securities and Emperor Futures. Emperor Securities and Emperor Futures have at all time followed the FRR in calculating their liquid capital and they both have met the liquid capital requirements under the FRR.

Dividend

During the year ended 31 March 2004, an interim dividend of HK\$3,468 per share amounting to HK\$6,936 was paid to the then shareholders of Famous Winner Holdings Limited.

No dividends have been paid or declared by the Company and its subsidiaries during the years ended 31 March 2005 and 31 March 2006 and nine months period ended 31 December 2005 and 31 December 2006.

On 2 April 2007, Emperor Securities and Emperor Futures declared and paid special dividends of HK\$178.5 million and HK\$38.5 million respectively to their then shareholders who are wholly owned by EIHL.

The declaration of future dividends will be subject to the discretion of the Directors and will depend on, among others, the Group's earnings, financial condition, cash requirements and availability, and other factors as the Directors may deem relevant. Accordingly, potential investors should note that the above dividend payments should not be regarded as an indication of future dividend policy.

INDEBTEDNESS

Borrowings

As at the close of business on 28 February 2007, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining information contained in this indebtedness statement, the Group had utilized the secured revolving loans for initial public offer financing of approximately HK\$1,978.8 million.

FINANCIAL INFORMATION

Contingent liabilities

As at 28 February 2007, the Group had no material contingent liabilities.

Disclaimer

Save as aforesaid and as otherwise mentioned in the paragraph headed “Borrowings” above and apart from intra-group liabilities and normal trade payables, the Group did not have any mortgages, charges, debentures loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding at the close of business on 28 February 2007.

The Directors have confirmed that there has been no material change in the indebtedness of the Group since 28 February 2007, except that the revolving loans of initial public offer financing has been fully settled as at the Latest Practicable Date.

DISTRIBUTABLE RESERVES

The Company was incorporated on 27 June 2006. At 31 December 2006, the Company had accumulated losses of approximately HK\$4,973,000 and there was no reserve available for distribution to the Shareholders.

DISCLOSURE UNDER RULE 13.13 TO RULE 13.19 OF THE LISTING RULES

The Directors have confirmed that as at the Latest Practicable Date, there are no circumstances which would give rise to a disclosure requirement under Rule 13.13 to Rule 13.19 of the Listing Rules. There is no related party balances that would give rise to a disclosure requirement under Rule 13.13 to Rule 13.19 of the Listing Rules.

TAX

The Group’s profits arising in or derived from Hong Kong are subject to Hong Kong profits tax. Provision for Hong Kong profits tax has been calculated at the applicable rates of 17.5% for each of the three years ended 31 March 2006 and the nine months ended 31 December 2005 and 2006, on the estimated assessable profits of the Group’s companies operating in Hong Kong.

The effective tax rate for the year ended 31 March 2004 was 35.0% which was higher than 17.5% because there were expenses not deductible for tax purposes. The effective tax rates for the year ended 31 March 2005 and 2006 and the nine months ended 31 December 2005 and 2006 were 18.2%, 16.2%, 17.5% and 20.5% respectively.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position or the prospects of the Group since 31 December 2006, the date to which the latest audited financial statements of the Group were made up.