



德勤·關黃陳方會計師行  
香港金鐘道88號  
太古廣場一座35樓

Deloitte Touche Tohmatsu  
35/F One Pacific Place  
88 Queensway  
Hong Kong

11 April 2007

The Directors  
Emperor Capital Group Limited  
Somerley Limited  
Emperor Capital Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) relating to Emperor Capital Group Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 March 2006 and nine months ended 31 December 2006 (the “Relevant Periods”), for inclusion in the prospectus of the Company dated 11 April 2007 (the “Prospectus”) issued in connection with the listing of the entire issued share capital of the Company’s shares on the Main Board of the Stock Exchange of Hong Kong Limited.

The Company was incorporated as an exempted company with limited liability in Bermuda on 27 June 2006 under the Companies Act 1981 of Bermuda (as amended). Pursuant to a corporate reorganisation, as more fully explained in the paragraph headed “Statutory and General Information – Reorganisation” in Appendix V to the Prospectus (the “Group Reorganisation”), the Company became the holding company of the Group on 2 April 2007.

All companies now comprising the Group have adopted 31 March as their financial year end date. As at the date of this report, the Company had direct interests in the following subsidiaries comprising the Group:

<u>Name of subsidiary</u>	<u>Place and date of incorporation</u>	<u>Issued and fully paid capital</u>	<u>Proportion of nominal value of issued capital held directly by the Company</u> %	<u>Principal activity</u>
Emperor Futures Limited	Hong Kong 12 May 1989	HK\$50,000,000	100	Provision of futures brokerage services
Emperor Gold & Silver Company Limited	Hong Kong 3 March 1994	HK\$7,000,000	100	Holding of membership in the Chinese Gold & Silver Exchange Society

<u>Name of subsidiary</u>	<u>Place and date of incorporation</u>	<u>Issued and fully paid capital</u>	<u>Proportion of nominal value of issued capital held directly by the Company</u> %	<u>Principal activity</u>
Emperor Securities Limited	Hong Kong 6 July 1990	HK\$70,000,000	100	Provision of securities brokerage services and margin financing services
Emperor Securities Nominees Limited	Hong Kong 27 August 1996	HK\$2	100	Provision of securities nominee services
Famous Winner Holdings Limited	Hong Kong 10 September 1999	HK\$2	100	Signing agent for tenancy agreement
Profit Ascent Group Limited	British Virgin Islands 26 July 2006	US\$5	100	Investment holding

No audited financial statements have been prepared for the Company since its date of incorporation as it has not carried on any business, other than the Group Reorganisation and other events stated in Appendix V of the Prospectus.

No audited financial statements have been prepared for Profit Ascent Group Limited since its date of incorporation as it incorporated in a country where there is no statutory audit requirement.

For the purpose of this report, we have, however, reviewed all the relevant transactions of the Company and Profit Ascent Group Limited since their respective dates of incorporation to the date of this report and carried out such procedures as we considered necessary for inclusion in the Financial Information relating to the Group.

We have acted as auditors of other companies comprising the Group for each of the Relevant Periods or since their respective dates of incorporation, where this is a shorter period. Audited financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong for these companies for each of the three years ended 31 March 2006 and nine months ended 31 December 2006.

We have examined the audited financial statements or the management accounts (the “Underlying Financial Statements”) of the companies comprising the Group for the Relevant Periods. Our examination was made in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” as recommended by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The Financial Information of the Group for the Relevant Periods as set out in this report has been prepared from the Underlying Financial Statements on the basis set out in note 1 of Section A, after making such adjustments as we consider appropriate for the purpose of preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of those companies who approve their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 1 of Section A, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company as at 31 December 2006 and of the Group as at 31 March 2004, 31 March 2005, 31 March 2006 and 31 December 2006 and of the combined results and cash flows of the Group for each of the Relevant Periods.

The comparative combined income statement, statement of changes in equity and cash flow statement of the Group for the nine months ended 31 December 2005 together with the notes thereon (the “31 December 2005 Financial Information”) have been extracted from the Group’s combined financial information for the same period which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the 31 December 2005 Financial Information in accordance with the Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the HKICPA. Our review consists principally of making enquiries of the management and applying analytical procedures to the 31 December 2005 Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the 31 December 2005 Financial Information. On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the 31 December 2005 Financial Information.

## A. FINANCIAL INFORMATION

## COMBINED INCOME STATEMENTS

	<i>Notes</i>	Year ended 31 March			Nine months ended 31 December	
		2004 <i>HK\$</i>	2005 <i>HK\$</i>	2006 <i>HK\$</i>	2005 <i>HK\$</i> (unaudited)	2006 <i>HK\$</i>
Revenue	7	72,392,903	68,517,022	95,026,395	60,755,582	94,605,867
Other operating income		2,047,466	4,093,795	1,857,322	1,332,398	1,888,154
(Impairment allowances)/write back for bad and doubtful debts		(8,034,249)	9,870,000	–	–	(33,654)
Staff costs	8	(10,817,818)	(11,015,244)	(10,623,241)	(7,871,677)	(8,099,410)
Other operating and administrative expenses		(32,301,834)	(28,494,827)	(34,951,429)	(23,579,519)	(40,958,454)
Depreciation and amortisation		(3,119,756)	(1,614,900)	(1,530,382)	(1,217,869)	(1,111,383)
Finance costs	9	(1,030,842)	(4,013,142)	(19,151,751)	(9,878,115)	(22,206,019)
Gain on disposal of property and equipment		–	47,639	–	–	–
Gain on disposal of intangible assets		–	–	372,652	237,768	–
Impairment loss on intangible assets		(8,000,000)	–	–	–	–
Profit before taxation	12	11,135,870	37,390,343	30,999,566	19,778,568	24,085,101
Taxation	13	(3,895,400)	(6,821,136)	(5,009,749)	(3,470,829)	(4,925,853)
Profit for the year/period		<u>7,240,470</u>	<u>30,569,207</u>	<u>25,989,817</u>	<u>16,307,739</u>	<u>19,159,248</u>
Dividends	14	<u>6,936</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Earnings per share	15	<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>

## COMBINED BALANCE SHEETS

		THE GROUP			THE COMPANY	
			At 31 March		At 31 December	At 31 December
		2004	2005	2006	2006	2006
		HK\$	HK\$	HK\$	HK\$	HK\$
	Notes					
Non-current assets						
Property and equipment	16	2,338,449	3,158,521	3,049,588	2,331,715	–
Intangible assets	17	3,297,921	2,638,337	1,157,241	867,932	–
Other assets	18	4,755,523	4,560,181	4,308,440	4,758,087	–
Loans and advances	19	–	–	17,000,000	8,000,000	–
Available-for-sale financial assets	20	30,000	26,400	–	–	–
		<u>10,421,893</u>	<u>10,383,439</u>	<u>25,515,269</u>	<u>15,957,734</u>	<u>–</u>
Current assets						
Trade receivables	21	98,059,992	99,150,164	165,042,561	175,800,037	–
Loans and advances	19	113,360,482	104,326,232	80,595,784	48,879,998	–
Other debtors, deposits and prepayments	26	2,530,290	4,142,056	3,790,699	12,281,440	3,733,869
Amount due from a fellow subsidiary	26	91,719,441	290,649,951	168,804,830	189,844,729	–
Tax recoverable		–	281,799	358,212	–	–
Bank balances and cash	22					
– general		27,019,487	18,469,672	34,012,734	69,063,215	–
– trust		<u>51,402,076</u>	<u>87,431,598</u>	<u>97,845,116</u>	<u>101,129,892</u>	<u>–</u>
		<u>384,091,768</u>	<u>604,451,472</u>	<u>550,449,936</u>	<u>596,999,311</u>	<u>3,733,869</u>
Current liabilities						
Trade payables	23	76,272,573	110,128,993	166,510,584	171,147,521	–
Other creditors and accrued charges	26	4,914,784	4,545,536	6,745,397	17,137,606	4,509,000
Tax liabilities		3,439,708	3,494,474	13,324	2,827,233	–
Amount due to a fellow subsidiary	26	–	–	–	–	4,197,708
Subordinated loan from a fellow subsidiary	24	5,000,000	160,000,000	–	–	–
		<u>89,627,065</u>	<u>278,169,003</u>	<u>173,269,305</u>	<u>191,112,360</u>	<u>8,706,708</u>
Net current assets/(liabilities)		<u>294,464,703</u>	<u>326,282,469</u>	<u>377,180,631</u>	<u>405,886,951</u>	<u>(4,972,839)</u>
Total assets less current liabilities		<u>304,886,596</u>	<u>336,665,908</u>	<u>402,695,900</u>	<u>421,844,685</u>	<u>(4,972,839)</u>
Capital and reserves						
Share capital	25	87,000,004	87,000,004	127,000,004	127,000,004	–
Reserves	27	<u>217,886,592</u>	<u>249,632,199</u>	<u>275,609,076</u>	<u>294,768,324</u>	<u>(4,972,839)</u>
Total capital and reserves		304,886,596	336,632,203	402,609,080	421,768,328	(4,972,839)
Non-current liability						
Deferred taxation	13	–	33,705	86,820	76,357	–
		<u>304,886,596</u>	<u>336,665,908</u>	<u>402,695,900</u>	<u>421,844,685</u>	<u>(4,972,839)</u>

## COMBINED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$	Capital contribution reserve HK\$	Investment revaluation reserve HK\$	Retained profits HK\$	Total HK\$
At 1 April 2003	87,000,004	–	165,280	209,812,518	296,977,802
Losses on fair value changes of available-for-sale financial assets, representing net expense recognised directly in equity	–	–	(25,200)	–	(25,200)
Transfer to profit or loss on sale of available-for-sale financial assets	–	–	(123,540)	–	(123,540)
Profit for the year	–	–	–	7,240,470	7,240,470
Total recognised income and expense for the year	–	–	(148,740)	7,240,470	7,091,730
Dividend paid	–	–	–	(6,936)	(6,936)
Capital contribution from a fellow subsidiary ( <i>Note</i> )	–	824,000	–	–	824,000
At 31 March 2004	87,000,004	824,000	16,540	217,046,052	304,886,596
Losses on fair value changes of available-for-sale financial assets, representing net expense recognised directly in equity	–	–	(3,600)	–	(3,600)
Profit for the year	–	–	–	30,569,207	30,569,207
Total recognised income and expenses for the year	–	–	(3,600)	30,569,207	30,565,607
Capital contribution from a fellow subsidiary ( <i>Note</i> )	–	1,180,000	–	–	1,180,000
At 31 March 2005	87,000,004	2,004,000	12,940	247,615,259	336,632,203
Transfer to profit or loss on sale of available-for-sale financial assets	–	–	(12,940)	–	(12,940)
Profit for the year	–	–	–	25,989,817	25,989,817
Total recognised income and expenses for the year	–	–	(12,940)	25,989,817	25,976,877
Shares issued	40,000,000	–	–	–	40,000,000
At 31 March 2006	127,000,004	2,004,000	–	273,605,076	402,609,080
Profit and total recognized income for the period	–	–	–	19,159,248	19,159,248
At 31 December 2006	<u>127,000,004</u>	<u>2,004,000</u>	<u>–</u>	<u>292,764,324</u>	<u>421,768,328</u>
<b>Unaudited</b>					
At 1 April, 2005	87,000,004	2,004,000	12,940	247,615,259	336,632,203
Profit and total recognized income for the period	–	–	–	16,307,739	16,307,739
At 31 December 2005	<u>87,000,004</u>	<u>2,004,000</u>	<u>12,940</u>	<u>263,922,998</u>	<u>352,939,942</u>

*Note:* It represents the contribution from a fellow subsidiary for waiver of certain amount of management fee for the year ended 31 March 2004 and 31 March 2005.

## COMBINED CASH FLOW STATEMENT

	Year ended 31 March			Nine months ended 31 December	
	2004	2005	2006	2005	2006
	HK\$	HK\$	HK\$	HK\$	HK\$
				(unaudited)	
OPERATING ACTIVITIES					
Profit before taxation	11,135,870	37,390,343	30,999,566	19,778,568	24,085,101
Adjustments for:					
Interest expenses	1,030,842	4,013,142	19,151,751	9,878,115	22,206,019
Depreciation	860,172	955,316	1,144,634	860,099	822,074
Amortisation of intangible assets	2,259,584	659,584	385,748	357,770	289,309
Net realised gain on available-for-sale financial asset	(8,445)	–	(5,616)	(5,616)	–
Gain on disposal of property and equipment	–	(47,639)	–	–	–
Impairment allowances (write back) for bad and doubtful debts	8,034,249	(9,870,000)	–	–	33,654
Impairment loss on intangible assets	8,000,000	–	–	–	–
Gain on disposal of intangible assets	–	–	(372,652)	(237,768)	–
Management fee to a fellow subsidiary (Note 29(d))	824,000	1,180,000	–	–	–
Operating cash flows before movements in working capital	32,136,272	34,280,746	51,303,431	30,631,168	47,436,157
(Increase) decrease in trade receivables	(31,725,045)	1,779,828	(65,892,397)	(11,889,342)	(10,791,130)
(Increase) decrease in other assets	(9,944)	195,342	251,741	178,876	(449,647)
(Increase) decrease in loans and advances	(85,360,482)	16,034,250	6,730,448	(18,036,733)	40,715,786
(Increase) decrease in other debtors, deposits and prepayments	(1,150,009)	(1,611,766)	351,357	(1,002,141)	(8,490,741)
Decrease in trading securities	305,520	–	–	–	–
Decrease (increase) in bank balances and cash – trust accounts	3,327,106	(36,029,522)	(10,413,518)	36,259,954	(3,284,776)
Increase (decrease) in trade payables	15,780,245	33,856,420	56,381,591	(16,376,593)	4,636,937
Increase (decrease) in other creditors and accrued charges	1,575,321	(369,248)	2,199,861	(1,318,150)	10,392,209
Cash (used in) generated from operations	(65,121,016)	48,136,050	40,912,514	18,447,039	80,164,795
Hong Kong Profits Tax refunded	–	558,441	248,839	–	–
Hong Kong Profits Tax paid	(316,330)	(7,572,905)	(8,763,036)	–	(1,764,195)
Interest paid	(1,009,609)	(2,387,389)	(20,798,737)	(9,878,115)	(22,206,019)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(66,446,955)	38,734,197	11,599,580	8,568,924	56,194,581

## COMBINED CASH FLOW STATEMENT (Continued)

	Year ended 31 March			Nine months ended 31 December	
	2004	2005	2006	2005	2006
	HK\$	HK\$	HK\$	HK\$	HK\$
				(unaudited)	
INVESTING ACTIVITIES					
Purchase of property and equipment	(389,774)	(1,984,143)	(1,035,701)	(813,359)	(104,201)
Proceeds from disposal of property and equipment	–	256,394	–	–	–
Proceeds on disposal on intangible assets	–	–	1,468,000	968,000	–
Proceeds from disposal of available-for-sale financial asset	44,985	–	19,076	19,076	–
Decrease (increase) in amount due from a fellow subsidiary	72,848,875	(200,556,263)	123,492,107	123,834,762	(21,039,899)
NET CASH FROM (USED IN) INVESTING ACTIVITIES	72,504,086	(202,284,012)	123,943,482	124,008,479	(21,144,100)
FINANCING ACTIVITIES					
Dividend paid	(6,936)	–	–	–	–
Advance of subordinated loan from a fellow subsidiary	5,000,000	560,000,000	1,040,000,000	550,000,000	550,000,000
Repayment of subordinated loan from a fellow subsidiary	–	(405,000,000)	(1,200,000,000)	(710,000,000)	(550,000,000)
Proceeds from issue of shares	–	–	40,000,000	40,000,000	–
NET CASH FROM (USED IN) FINANCING ACTIVITIES	4,993,064	155,000,000	(120,000,000)	(120,000,000)	–
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	11,050,195	(8,549,815)	15,543,062	12,577,403	35,050,481
CASH AND CASH EQUIVALENTS AS AT THE BEGINNING OF THE YEAR/PERIOD	15,969,292	27,019,487	18,469,672	18,469,672	34,012,734
CASH AND CASH EQUIVALENTS AS AT THE END OF THE YEAR/PERIOD	27,019,487	18,469,672	34,012,734	31,047,075	69,063,215
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS					
Bank balances – general accounts and cash	27,019,487	18,469,672	34,012,734	31,047,075	69,063,215



## NOTES TO THE FINANCIAL INFORMATION

## 1. BASIS OF PREPARATION OF FINANCIAL INFORMATION

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial information of the Group has been prepared using the principles of merger accounting in accordance with Hong Kong Accounting Guideline 5 “Merger Accounting for Common Control Combination”.

On 2 April 2007, pursuant to the Group Reorganisation, the Company became the holding company of the Group as entire interest of the Group’s subsidiaries were transferred to the Company by way of swap of shares set out in the Group Reorganisation.

There was no adjustment made to the net assets nor the net profit or loss of any companies now comprising the Group in order to achieve consistency of the Group’s accounting policies. During the Relevant Periods, the companies now comprising the Group were wholly owned and under common control by Emperor International Holdings Limited (“EIHL”).

The combined income statement, statement of changes in equity and cash flow statement of the Group include the results and cash flows of the companies now comprising the Group for the Relevant Periods as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation or establishment, whichever is the shorter period. The combined balance sheet of the Group as at 31 March 2004, 31 March 2005, 31 March 2006 and 31 December 2006 have been prepared to present the state of affairs of the companies now comprising the Group as if the current group structure had been in existence at those dates.

All significant intra-group transactions, cash flows and balances have been eliminated on combination.

The financial information is presented in Hong Kong dollar (“HK\$”), which is the same as the functional currency of the Company.

## 2. EARLY ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In 2004 and 2005, the HKICPA issued a number of new or revised Hong Kong Accounting Standards (“HKAS(s)”), Hong Kong Financial Reporting Standards (“HKFRS(s)”), amendments and Interpretations (“INTS”), (herein collectively referred to as “New HKFRSs”) which are either effective for accounting periods beginning on or after 1 January 2005, 1 December 2005 or 1 January 2006. For the purposes of preparing and presenting financial information of the Relevant Periods, the Group has early adopted all these New HKFRSs throughout the Relevant Periods.

At the date of this report, the HKICPA has issued the following standards, amendment and INTs that are not yet effective. The Company has considered the following standards, amendment and INTs but does not expect they will have a material effect on how the results of operations and financial position of the Company are prepared and presented.

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HKFRS 8	Operating segments <sup>7</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <sup>2</sup>
HK(IFRIC) – INT 9	Reassessment of embedded derivatives <sup>3</sup>
HK(IFRIC) – INT 10	Interim financial reporting and impairment <sup>4</sup>
HK(IFRIC) – INT 11	HKFRS 2 – Group and treasury share transactions <sup>5</sup>
HK(IFRIC) – INT 12	Service Concession Arrangements <sup>6</sup>

## 2. EARLY ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

- <sup>1</sup> Effective for annual periods beginning on or after 1 January 2007.
- <sup>2</sup> Effective for annual periods beginning on or after 1 May 2006.
- <sup>3</sup> Effective for annual periods beginning on or after 1 June 2006.
- <sup>4</sup> Effective for annual periods beginning on or after 1 November 2006.
- <sup>5</sup> Effective for annual periods beginning on or after 1 March 2007.
- <sup>6</sup> Effective for annual periods beginning on or after 1 January 2008.
- <sup>7</sup> Effective for annual periods beginning on or after 1 January 2009.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The Financial Information has been prepared in accordance with the following accounting policies which conform with HKFRSs issued by HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("SEHK") and by the Hong Kong Companies Ordinance.

### Merger accounting for business combinations under common control

The Financial Information incorporates the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the combined financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

All significant intra-group transactions and balances have been eliminated on combination.

### 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.

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Property and equipment**

Property and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the rate of 20% per annum.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Group as lessee*

Rentals payable under operating leases are charged to income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in income statement in the period in which they arise.

For the purposes of presenting the combined financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used.

**Retirement benefit costs**

Payments to the Group's retirement benefits scheme which are defined contribution plans are charged as an expense when employees have rendered service entitling them to the contributions.

**Borrowing costs**

All borrowing costs are recognised as and included in finance costs in the income statement in the period in which they are incurred.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Taxation (Continued)**

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**Intangible assets**

Intangible assets represent the trading rights, with which the holders have the rights to trade on the SEHK and Hong Kong Futures Exchange Limited ("HKFE"). On initial recognition, intangible assets acquired separately are recognised at cost and at fair value respectively. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

**Financial instruments**

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in income statement.

*Financial assets*

The Group's financial assets are classified into one of the two categories, including available-for-sale financial assets and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, loans and advances, other debtors and deposits, amount due from a fellow subsidiary and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Financial instruments (Continued)***Financial assets (Continued)**Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as loans and receivables. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in income statement. Any impairment losses on available-for-sale financial assets are recognised in income statement. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in income statement when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

*Financial liabilities and equity*

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

*Financial liabilities*

Financial liabilities including trade payables, other creditors and accrued charges and subordinated loans are subsequently measured at amortised cost, using the effective interest method.

*Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

*Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in income statement.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in income statement.

**Impairment losses**

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. An 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, but so 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.

**4. KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the process of applying the Group's accounting policies, the management has made various estimates based on past experience, expectations of the future and other information. The key sources of estimation uncertainty that may significantly affect the amounts recognised in the Financial Information are disclosed below.

**Impairment allowance for bad and doubtful debts**

The policy for impairment allowance for bad and doubtful debts on trade and loan receivables of the Group is based on the evaluation of recoverability and outstanding period of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each client. In determining whether impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from individual trade and loan receivables. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly.

**Estimated impairment of trading rights**

Determining whether trading rights are impaired requires an estimation of the value in use of the cash-generating units to which trading rights have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31 December 2006, the carrying amount of trading rights is HK\$867,932. Details of the recoverable amount calculation are disclosed in note 17.

**5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's major financial instruments include statutory and other deposits, trade receivables, loans and advances, amount due from a fellow subsidiary, trade and others payables, amount due to a fellow subsidiary and subordinated loan from a fellow subsidiary. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Market risk***Foreign exchange risk*

Foreign exchange risk is the risk of loss due to adverse movements in foreign exchange rates relating to receivables from and payable to foreign brokers and foreign currency deposits with banks. The management monitors foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arises.

*Interest rate risk*

For the loans and advances and subordinated loan from a fellow subsidiary, they are carried at fixed interest rates and variable interest rates respectively. The Group currently does not have a fair value interest rate hedging policy or cash flow interest rate hedging policy. However, the management closely monitors its exposure to future cash flow as a result of change on market interest rate in particular the effect on future cash flow, and will consider hedging changes in market interest rates should the need arises.

**Credit risk**

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at each balance sheet date in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the combined balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team to compile the credit and risk management policies, to approve credit limits and to determine any debt recovery action on those delinquent receivables. In addition, the management reviews the recoverable amount for each individual account receivables at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the directors of the Company consider that the Group's credit risk is effectively controlled and significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of clients and foreign brokers.

## 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

**Liquidity risk**

As part of ordinary broking activities, the Group is exposed to liquidity risk arising from timing difference between settlement with clearing house or brokers and clients. To address the risk, the treasury team works closely with the settlement division on monitoring the liquidity gap.

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS

**Business segments**

During the Relevant Periods, the Group is principally engaged in three main operating divisions, namely, broking, financing and corporate finance. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

- Broking – Broking of securities, options and futures
- Financing – Provision of margin financing and money lending services
- Placing and underwriting – Provision of placing and underwriting services

All of the activities of the Group are based in Hong Kong and all of the Group's revenue for the Relevant Periods are derived from Hong Kong. Accordingly, no analysis by geographical segments is presented.

*Combined income statement for the year ended 31 March 2004*

	<b>Broking</b> <i>HK\$</i>	<b>Financing</b> <i>HK\$</i>	<b>Placing and underwriting</b> <i>HK\$</i>	<b>Combined</b> <i>HK\$</i>
Revenue	<u>37,531,623</u>	<u>31,094,365</u>	<u>3,766,915</u>	<u>72,392,903</u>
Segment result	<u>7,443,516</u>	<u>23,063,523</u>	<u>100,203</u>	30,607,242
Unallocated other operating income				802,531
Unallocated corporate expenses				<u>(20,273,903)</u>
Profit before taxation				11,135,870
Taxation				<u>(3,895,400)</u>
Profit for the year				<u>7,240,470</u>

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

## Business segments (Continued)

Combined balance sheet as at 31 March 2004

	Broking HK\$	Financing HK\$	Placing and underwriting HK\$	Combined HK\$
ASSETS				
Segment assets	159,853,961	113,360,482	–	273,214,443
Unallocated corporate assets				121,299,218
Combined total assets				394,513,661
LIABILITIES				
Segment liabilities	76,272,573	5,000,000	78,186	81,350,759
Unallocated corporate liabilities				8,276,306
Combined total liabilities				89,627,065

Other information for the year ended 31 March 2004

	Broking HK\$	Financing HK\$	Placing and underwriting HK\$	Combined HK\$
Additions of property and equipment	389,774	–	–	389,774
Impairment allowances for bad and doubtful debts	1,034,249	7,000,000	–	8,034,249
Amortisation of intangible assets	2,259,584	–	–	2,259,584
Depreciation of property and equipment	860,172	–	–	860,172
Impairment loss on intangible assets	8,000,000	–	–	8,000,000

Combined income statement for the year ended 31 March 2005

	Broking HK\$	Financing HK\$	Placing and underwriting HK\$	Combined HK\$
Revenue	34,240,399	27,146,182	7,130,441	68,517,022
Segment result	22,158,480	30,133,040	1,405,122	53,696,642
Unallocated other operating income				3,406,347
Unallocated corporate expenses				(19,712,646)
Profit before taxation				37,390,343
Taxation				(6,821,136)
Profit for the year				30,569,207



## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

## Business segments (Continued)

Combined balance sheet as at 31 March 2005

	Broking HK\$	Financing HK\$	Placing and underwriting HK\$	Combined HK\$
ASSETS				
Segment assets	<u>196,938,801</u>	<u>104,326,232</u>	<u>–</u>	301,265,033
Unallocated corporate assets				<u>313,569,878</u>
Combined total assets				<u>614,834,911</u>
LIABILITIES				
Segment liabilities	<u>110,128,993</u>	<u>160,000,000</u>	<u>35,289</u>	270,164,282
Unallocated corporate liabilities				<u>8,038,426</u>
Combined total liabilities				<u>278,202,708</u>

Other information for the year ended 31 March 2005

	Broking HK\$	Financing HK\$	Placing and underwriting HK\$	Combined HK\$
Additions of property and equipment	1,984,143	–	–	1,984,143
Write back for bad and doubtful debts	2,870,000	7,000,000	–	9,870,000
Amortisation of intangible assets	659,584	–	–	659,584
Depreciation of property and equipment	955,316	–	–	955,316
Gain on disposal of property and equipment	<u>47,639</u>	<u>–</u>	<u>–</u>	<u>47,639</u>

Combined income statement for the year ended 31 March 2006

	Broking HK\$	Financing HK\$	Placing and underwriting HK\$	Combined HK\$
Revenue	<u>46,371,431</u>	<u>43,459,530</u>	<u>5,195,434</u>	<u>95,026,395</u>
Segment result	<u>23,042,950</u>	<u>24,307,778</u>	<u>1,008,759</u>	48,359,487
Unallocated other operating income				923,265
Unallocated corporate expenses				<u>(18,283,186)</u>
Profit before taxation				30,999,566
Taxation				<u>(5,009,749)</u>
Profit for the year				<u>25,989,817</u>

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

## Business segments (Continued)

Combined balance sheet as at 31 March 2006

	Broking HK\$	Financing HK\$	Placing and underwriting HK\$	Combined HK\$
ASSETS				
Segment assets	<u>267,768,354</u>	<u>97,595,784</u>	<u>3,634,592</u>	368,998,730
Unallocated corporate assets				<u>206,966,475</u>
Combined total assets				<u>575,965,205</u>
LIABILITIES				
Segment liabilities	<u>168,411,368</u>	<u>—</u>	<u>140,355</u>	168,551,723
Unallocated corporate liabilities				<u>4,804,402</u>
Combined total liabilities				<u>173,356,125</u>

Other information for the year ended 31 March 2006

	Broking HK\$	Financing HK\$	Placing and underwriting HK\$	Combined HK\$
Additions of property and equipment	1,035,701	—	—	1,035,701
Amortisation of intangible assets	385,748	—	—	385,748
Depreciation of property and equipment	1,144,634	—	—	1,144,634
Gain on disposal of intangible assets	<u>372,652</u>	<u>—</u>	<u>—</u>	<u>372,652</u>

Combined income statement for the nine months ended 31 December 2005 (unaudited)

	Broking HK\$	Financing HK\$	Placing and underwriting HK\$	Combined HK\$
Revenue	<u>29,060,679</u>	<u>27,405,092</u>	<u>4,289,811</u>	<u>60,755,582</u>
Segment result	<u>14,137,899</u>	<u>17,526,977</u>	<u>903,743</u>	32,568,619
Unallocated other operating income				659,668
Unallocated corporate expenses				<u>(13,449,719)</u>
Profit before taxation				19,778,568
Taxation				<u>(3,470,829)</u>
Profit for the period				<u>16,307,739</u>

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

## Business segments (Continued)

Other information for the nine months ended 31 December 2005 (unaudited)

	Broking HK\$	Financing HK\$	Placing and underwriting HK\$	Combined HK\$
Additions of property and equipment	813,359	—	—	813,359
Amortisation of intangible assets	357,770	—	—	357,770
Depreciation of property and equipment	860,099	—	—	860,099
Gain on disposal of intangible assets	237,768	—	—	237,768

Combined income statement for the nine months ended 31 December 2006

	Broking HK\$	Financing HK\$	Placing and underwriting HK\$	Combined HK\$
Revenue	52,401,499	38,179,810	4,024,558	94,605,867
Segment result	24,154,319	15,973,791	1,456,259	41,584,369
Unallocated other operating income				1,050,476
Unallocated corporate expenses				(18,549,744)
Profit before taxation				24,085,101
Taxation				(4,925,853)
Profit for the period				19,159,248

Combined balance sheet as at 31 December 2006

	Broking HK\$	Financing HK\$	Placing and underwriting HK\$	Combined HK\$
ASSETS				
Segment assets	284,887,663	56,879,998	—	341,767,661
Unallocated corporate assets				271,189,384
Combined total assets				612,957,045
LIABILITIES				
Segment liabilities	179,315,901	—	—	179,315,901
Unallocated corporate liabilities				11,872,816
Combined total liabilities				191,188,717

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

## Business segments (Continued)

Other information for the nine months ended 31 December 2006

	Broking HK\$	Financing HK\$	Placing and underwriting HK\$	Combined HK\$
Additions of property and equipment	104,201	—	—	104,201
Amortisation of intangible assets	289,309	—	—	289,309
Depreciation of property and equipment	822,074	—	—	822,074

## 7. REVENUE

	Year ended 31 March			Nine months ended 31 December	
	2004 HK\$	2005 HK\$	2006 HK\$	2005 HK\$ (unaudited)	2006 HK\$
Commission and brokerage on securities and equity options dealing	32,741,764	31,553,129	32,305,174	20,932,796	30,992,040
Commission and brokerage on dealing in futures and options contracts	4,573,909	2,644,322	12,876,229	8,127,883	21,409,459
Placing and underwriting commission	3,766,915	7,130,441	5,195,434	4,289,811	4,024,558
Interest income from:					
Margin and initial public offer financing	9,495,247	9,039,055	24,120,141	13,994,462	29,412,953
Loans and advances	21,599,118	18,107,127	19,339,389	12,798,616	6,613,679
Bank deposits	207,268	42,694	1,119,084	580,489	2,044,277
Others	8,682	254	70,944	31,525	108,901
	<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>

## 8. STAFF COSTS

	Year ended 31 March			Nine months ended 31 December	
	2004 HK\$	2005 HK\$	2006 HK\$	2005 HK\$ (unaudited)	2006 HK\$
Salaries, allowances and commission represent the amounts paid and payable to the directors and employees and comprises:					
Salaries, allowances and commission	10,356,090	10,562,301	10,166,895	7,469,090	7,678,916
Contributions to retirement benefits scheme	461,728	452,943	456,346	402,587	420,494
	<u>10,817,818</u>	<u>11,015,244</u>	<u>10,623,241</u>	<u>7,871,677</u>	<u>8,099,410</u>

## 9. FINANCE COSTS

	Year ended 31 March			Nine months ended 31 December	
	2004 HK\$	2005 HK\$	2006 HK\$	2005 HK\$ (unaudited)	2006 HK\$
Interest on:					
Bank overdrafts and loans wholly repayable within five years	1,009,609	2,387,389	13,814,970	7,147,773	18,636,502
Subordinated loan from a fellow subsidiary	21,233	1,625,753	5,336,781	2,730,342	3,227,397
Others	—	—	—	—	342,120
	<u>1,030,842</u>	<u>4,013,142</u>	<u>19,151,751</u>	<u>9,878,115</u>	<u>22,206,019</u>

## 10. DIRECTORS' REMUNERATION

The remuneration paid or payable to each of the directors during the Relevant Periods were as follows:

	Chan Pak Lam, Tom HK\$	Yeung, Daisy HK\$	Yeung Kun Lee, Sunny HK\$	2004 Total HK\$
Fees	—	—	—	—
Other remuneration				
Salaries, allowances and benefits in kind	—	593,014	154,080	747,094
Contributions to retirement benefits scheme	—	16,800	—	16,800
Commission	—	254,537	195,007	449,544
Total remuneration	<u>—</u>	<u>864,351</u>	<u>349,087</u>	<u>1,213,438</u>
	Chan Pak Lam, Tom HK\$	Yeung, Daisy HK\$	Yeung Kun Lee, Sunny HK\$	2005 Total HK\$
Fees	—	—	—	—
Other remuneration				
Salaries, allowances and benefits in kind	29,900	590,632	154,080	774,612
Contributions to retirement benefits scheme	—	16,800	—	16,800
Commission	—	792,322	129,662	921,984
Total remuneration	<u>29,900</u>	<u>1,399,754</u>	<u>283,742</u>	<u>1,713,396</u>

## 10. DIRECTORS' REMUNERATION (Continued)

	<b>Chan Pak Lam, Tom HK\$</b>	<b>Yeung, Daisy HK\$</b>	<b>Yeung Kun Lee, Sunny HK\$</b>	<b>2006 Total HK\$</b>
Fees	—	—	—	—
Other remuneration				
Salaries, allowances and benefits in kind	—	616,400	77,464	693,864
Contributions to retirement benefits scheme	—	16,800	—	16,800
Commission	—	781,684	29,108	810,792
Total remuneration	<u>—</u>	<u>1,414,884</u>	<u>106,572</u>	<u>1,521,456</u>
	<b>Chan Pak Lam, Tom HK\$</b>	<b>Yeung, Daisy HK\$</b>	<b>Yeung Kun Lee, Sunny HK\$</b>	<b>Nine months ended 31 December 2005 Total HK\$ (unaudited)</b>
Fees	—	—	—	—
Other remuneration				
Salaries, allowances and benefits in kind	—	478,400	58,663	537,063
Contributions to retirement benefits scheme	—	12,600	—	12,600
Commission	—	495,690	24,638	520,328
Total remuneration	<u>—</u>	<u>986,690</u>	<u>83,301</u>	<u>1,069,991</u>
	<b>Chan Pak Lam, Tom HK\$</b>	<b>Yeung, Daisy HK\$</b>	<b>Yeung Kun Lee, Sunny HK\$</b>	<b>Nine months ended 31 December 2006 Total HK\$</b>
Fees	—	—	—	—
Other remuneration				
Salaries, allowances and benefits in kind	214,500	414,000	115,560	744,060
Contributions to retirement benefits scheme	17,115	12,600	—	29,715
Commission	—	598,228	47,927	646,155
Total remuneration	<u>231,615</u>	<u>1,024,828</u>	<u>163,487</u>	<u>1,419,930</u>

**10. DIRECTORS' REMUNERATION (Continued)**

During the Relevant Periods and up to 30 September 2006, a director of the Company was employed by EIHL, an intermediate holding company of the Company, and its subsidiaries other than the Group (hereinafter referred to as "EIHL Group") and served both the Group and EIHL Group. During the Relevant Periods and up to 30 September 2006, EIHL Group paid the following amounts to the executive director of the Company for his services provided to the Group (the "Payment") and such amount were recharged through management fee to a fellow subsidiary. Details of the Payment are as follows:

	Year ended 31 March			Nine months ended 31 December	
	2004 HK\$	2005 HK\$	2006 HK\$	2005 HK\$	2006 HK\$
Salaries and other benefits					
Executive director	262,000	635,000	323,000	242,250	122,919

On 11 July 2006, Ms. Yeung, Daisy and Mr. Chan Pak Lam, Tom have been appointed as executive director of the Company. On 6 November 2006, Mr. Yeung Kun Lee, Sunny has been appointed as executive director of the Company.

On 1 November 2006, Mr. Wong Chi Hung has been appointed as executive director of the Company and subsequently resigned on 10 November 2006.

On 1 March 2007, Mr. Cheung Wing Keung, Raymond, Mr. Kwok Chi Sun, Vincent and Mr. Fung Chi Kin have been appointed as independent non-executive directors of the Company.

No remunerations were paid to independent non-executive directors during the Relevant Periods.

**11. EMPLOYEES' REMUNERATION**

The five individuals with the highest emoluments in the Group, included one director of the Company for the year ended 31 March 2004, 31 March 2005, 31 March 2006, nine months ended 31 December 2005 and 31 December 2006, details of whose emolument is included in the disclosures in note 10 above. The emoluments of the remaining individuals for the Relevant Periods were as follows:

	Year ended 31 March			Nine months ended 31 December	
	2004 HK\$	2005 HK\$	2006 HK\$	2005 HK\$ (unaudited)	2006 HK\$
Salaries, allowances and benefits in kind	1,166,533	1,356,223	1,066,025	908,560	914,150
Contributions to retirement benefits scheme	66,626	78,276	65,310	35,916	45,310
Commission	928,200	788,213	889,211	513,094	834,198
	<u>2,161,359</u>	<u>2,222,712</u>	<u>2,020,546</u>	<u>1,457,570</u>	<u>1,793,658</u>

Their remuneration were within the following bands:

	Number of employees				
	Year ended 31 March	2005	2006	Nine months ended 31 December	2006
	2004			2005 (unaudited)	
Nil to HK\$1,000,000	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>

During the Relevant Periods, no remuneration has been paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any remuneration during the Relevant Periods.

## 12. PROFIT BEFORE TAXATION

	Year ended 31 March			Nine months ended 31 December	
	2004	2005	2006	2005	2006
	HK\$	HK\$	HK\$	HK\$	HK\$
				(unaudited)	
Profit before taxation has been arrived at after charging (crediting):					
Commission	16,450,637	15,289,425	21,214,171	13,776,266	25,745,483
Amortisation of intangible assets	2,259,584	659,584	385,748	357,770	289,309
Auditors' remuneration	354,500	493,200	484,000	366,000	380,790
Depreciation of property and equipment	860,172	955,316	1,144,634	860,099	822,074
Operating lease rentals in respect of					
– rented premises	1,970,460	2,116,296	1,706,005	1,288,532	1,313,912
– equipment	1,513,436	1,377,552	2,597,889	1,635,783	1,484,643
Handling fee income	(1,694,103)	(1,653,823)	(1,371,330)	(893,334)	(1,111,744)
Arranger fee income	–	(2,330,820)	–	–	–
	<u>16,450,637</u>	<u>15,289,425</u>	<u>21,214,171</u>	<u>13,776,266</u>	<u>25,745,483</u>

## 13. TAXATION

	Year ended 31 March			Nine months ended 31 December	
	2004	2005	2006	2005	2006
	HK\$	HK\$	HK\$	HK\$	HK\$
				(unaudited)	
Current year:					
Hong Kong Profits Tax					
– provision for the year/period	3,895,400	7,113,669	4,980,610	3,470,829	4,936,316
– overprovision for prior year	–	(326,238)	(23,976)	–	–
Deferred taxation					
– charge (credit) for the year/period	–	33,705	53,115	–	(10,463)
	<u>3,895,400</u>	<u>6,821,136</u>	<u>5,009,749</u>	<u>3,470,829</u>	<u>4,925,853</u>

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profits for the Relevant Periods.



**13. TAXATION (Continued)**

The taxation for the year/period can be reconciled to the profit before taxation per the combined income statement as follows:

	Year ended 31 March			Nine months ended 31 December	
	2004 HK\$	2005 HK\$	2006 HK\$	2005 HK\$ (unaudited)	2006 HK\$
Profit before taxation	<u>11,135,870</u>	<u>37,390,343</u>	<u>30,999,566</u>	<u>19,778,568</u>	<u>24,085,101</u>
Taxation at income tax rate of 17.5%	1,948,777	6,543,310	5,424,924	3,461,249	4,214,893
Tax effect of estimated tax losses not recognised	—	—	—	30,250	—
Tax effect of expenses not deductible for tax purpose	1,946,679	611,338	71,725	66,199	924,070
Tax effect of income not taxable for tax purpose	(36,272)	(7,472)	(550,260)	(101,585)	(357,749)
Overprovision in prior year	—	(326,238)	(23,976)	—	—
Other differences	<u>36,216</u>	<u>198</u>	<u>87,336</u>	<u>14,716</u>	<u>144,639</u>
Taxation for the year/period	<u>3,895,400</u>	<u>6,821,136</u>	<u>5,009,749</u>	<u>3,470,829</u>	<u>4,925,853</u>

The following are the major deferred tax liabilities recognised and the movements thereon during the Relevant Periods:

	Accelerated tax depreciation HK\$
At 31 March 2004 and 1 April 2004	—
Charge to income statement	<u>33,705</u>
At 31 March 2005 and 1 April 2005	33,705
Charge to income statement	<u>53,115</u>
At 31 March 2006 and 1 April 2006	86,820
Credited to income statement	<u>(10,463)</u>
At 31 December 2006	<u>76,357</u>

**14. DIVIDENDS**

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.

**15. EARNINGS PER SHARE**

The calculation of the basic earnings per share for the Relevant Periods is based on the profit for the year of HK\$7,240,470, HK\$30,569,207 and HK\$25,989,817 for the years ended 31 March 2004, 31 March 2005 and 31 March 2006 respectively and HK\$16,307,739 and HK\$19,159,248 for the nine months period ended 31 December 2005 and 31 December 2006 respectively attributable to equity holders of the Company and on the basis of 282,635,636 shares to be issued pursuant to the Group Reorganisation.

No diluted earnings per share has been presented for the Relevant Periods as there were no potential ordinary shares at each of balance sheet date.

## 16. PROPERTY AND EQUIPMENT

	Leasehold improvements HK\$	Furniture and fixtures HK\$	Office equipment HK\$	Computer and equipment HK\$	Air- conditioners HK\$	Total HK\$
<b>THE GROUP</b>						
<b>COST</b>						
At 1 April 2003	2,082,237	790,891	2,547,096	6,496,873	–	11,917,097
Additions	37,588	–	49,189	302,997	–	389,774
Reclassification	–	–	(412,000)	–	412,000	–
At 31 March 2004	2,119,825	790,891	2,184,285	6,799,870	412,000	12,306,871
Additions	778,360	102,106	250,292	776,435	76,950	1,984,143
Disposals	–	–	–	(256,394)	–	(256,394)
At 31 March 2005	2,898,185	892,997	2,434,577	7,319,911	488,950	14,034,620
Additions	–	18,150	72,992	944,559	–	1,035,701
At 31 March 2006	2,898,185	911,147	2,507,569	8,264,470	488,950	15,070,321
Additions	–	–	4,300	99,901	–	104,201
At 31 December 2006	2,898,185	911,147	2,511,869	8,364,371	488,950	15,174,522
<b>ACCUMULATED DEPRECIATION</b>						
At 1 April 2003	1,553,918	694,199	1,689,013	5,171,120	–	9,108,250
Provided for the year	133,528	22,743	243,398	460,503	–	860,172
Reclassification	–	–	(330,233)	–	330,233	–
At 31 March 2004	1,687,446	716,942	1,602,178	5,631,623	330,233	9,968,422
Provided for the year	158,648	26,710	243,630	500,763	25,565	955,316
Eliminated on disposals	–	–	–	(47,639)	–	(47,639)
At 31 March 2005	1,846,094	743,652	1,845,808	6,084,747	355,798	10,876,099
Provided for the year	288,581	43,726	267,609	506,328	38,390	1,144,634
At 31 March 2006	2,134,675	787,378	2,113,417	6,591,075	394,188	12,020,733
Provided for the period	197,561	33,003	172,905	389,813	28,792	822,074
At 31 December 2006	2,332,236	820,381	2,286,322	6,980,888	422,980	12,842,807
<b>CARRYING VALUES</b>						
At 31 March 2004	<u>432,379</u>	<u>73,949</u>	<u>582,107</u>	<u>1,168,247</u>	<u>81,767</u>	<u>2,338,449</u>
At 31 March 2005	<u>1,052,091</u>	<u>149,345</u>	<u>588,769</u>	<u>1,235,164</u>	<u>133,152</u>	<u>3,158,521</u>
At 31 March 2006	<u>763,510</u>	<u>123,769</u>	<u>394,152</u>	<u>1,673,395</u>	<u>94,762</u>	<u>3,049,588</u>
At 31 December 2006	<u>565,949</u>	<u>90,766</u>	<u>225,547</u>	<u>1,383,483</u>	<u>65,970</u>	<u>2,331,715</u>

All above items of property and equipment are depreciated on a straight-line basis at the rate of 20% per annum.

## 17. INTANGIBLE ASSETS

	THE GROUP HK\$
COST	
At 1 April 2003, 1 April 2004 and 1 April 2005	22,595,841
Disposal	<u>(9,595,510)</u>
At 31 March 2006 and 31 December 2006	<u>13,000,331</u>
AMORTISATION AND IMPAIRMENT	
At 1 April 2003	9,038,336
Charged for the year	2,259,584
Impairment loss	<u>8,000,000</u>
At 31 March 2004	19,297,920
Charged for the year	<u>659,584</u>
At 31 March 2005	19,957,504
Charged for the year	385,748
Eliminated on disposal	<u>(8,500,162)</u>
At 31 March 2006	11,843,090
Charged for the period	<u>289,309</u>
At 31 December 2006	<u>12,132,399</u>
CARRYING VALUES	
At 31 March 2004	<u>3,297,921</u>
At 31 March 2005	<u>2,638,337</u>
At 31 March 2006	<u>1,157,241</u>
At 31 December 2006	<u>867,932</u>

Trading rights are amortised over 10 years being the period of the trading rights transferable from 6 March 2000, the effective day of the merger of the SEHK, the HKFE and the Hong Kong Securities Clearing Company Limited.

During the year ended 31 March 2004, an impairment loss on trading rights of HK\$8,000,000 was made by taking into account the economic condition and the changes in the business environment of the securities industry in Hong Kong at that time. In the opinion of the director of the Company, the carrying value of the trading rights as at 31 March 2004 represented the net selling price of the assets.

## 18. OTHER ASSETS

	THE GROUP			At
	2004	At 31 March	2006	31 December
	HK\$	2005	HK\$	2006
		HK\$		HK\$
Statutory and other deposits	<u>4,755,523</u>	<u>4,560,181</u>	<u>4,308,440</u>	<u>4,758,087</u>

Statutory and other deposits represent deposits with various exchanges and clearing houses. They are non-interest bearing.

The fair values of these assets at each balance sheet date approximate their carrying amounts.

## 19. LOANS AND ADVANCES

	THE GROUP			At
	2004	At 31 March	2006	31 December
	2005	2006	2006	
	HK\$	HK\$	HK\$	HK\$
Fixed-rate loan receivables	94,535,399	89,652,800	66,965,786	26,250,000
Variable-rate loan receivables	25,825,083	14,673,432	30,629,998	30,629,998
Less: Impairment allowances	(7,000,000)	—	—	—
	<u>113,360,482</u>	<u>104,326,232</u>	<u>97,595,784</u>	<u>56,879,998</u>
Carrying amount analysed for reporting purposes:				
Current assets (receivable within 12 months from the balance sheet date)				
– Fixed-rate loan receivables	87,535,399	89,652,800	49,965,786	18,250,000
– Variable-rate loan receivables	25,825,083	14,673,432	30,629,998	30,629,998
	<u>113,360,482</u>	<u>104,326,232</u>	<u>80,595,784</u>	<u>48,879,998</u>
Non-current assets (receivable after 12 months from the balance sheet date)				
– Fixed-rate loan receivables	—	—	17,000,000	8,000,000
	<u>113,360,482</u>	<u>104,326,232</u>	<u>97,595,784</u>	<u>56,879,998</u>

Loans and advances are secured by pledged marketable securities with an aggregate carrying value of approximately HK\$776,493,000, HK\$877,755,000, HK\$698,681,000 and HK\$1,388,128,000 at 31 March 2004, 31 March 2005, 31 March 2006 and 31 December 2006 respectively.

The ranges of effective interest rate (which are equal to contractual interest rates) on the Group's loan receivables are as follows:

	THE GROUP			At 31 December
	2004	At 31 March	2006	2006
		2005		
Effective interest rate:				
Fixed-rate loan receivables	1.8% per month to 2.5% per month	1% per month to 2.5% per month	1% per month to 2.5% per month	1% per month to 2.5% per month
Variable-rate loan receivables	Prime rate + 3% per annum	Prime rate + 3% per annum	Prime rate + 3% per annum	Prime rate + 3% per annum

For the variable-rate loan receivables, interest rate is repriced when the Prime rate is changed.

The fair values of the Group's loan receivables at each balance sheet date, determined based on the present value of the estimated future cash flows discounted using the prevailing market rates at each of the balance sheet date approximate to the corresponding carrying amount of the receivables.

## 20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	THE GROUP			
	2004 HK\$	At 31 March 2005 HK\$	2006 HK\$	At 31 December 2006 HK\$
Listed investment				
– Equity securities listed in Hong Kong	30,000	26,400	–	–
Unlisted securities				
– Equity securities in the Chinese				
Gold and Silver Exchange Society	1,300,000	1,300,000	1,300,000	1,300,000
Less: Impairment for unlisted securities	(1,300,000)	(1,300,000)	(1,300,000)	(1,300,000)
Total	<u>30,000</u>	<u>26,400</u>	<u>–</u>	<u>–</u>

The fair values of the listed investments are determined based on the quoted market bid prices available on the relevant exchanges.

The unlisted investments are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

## 21. TRADE RECEIVABLES

	THE GROUP			
	2004 HK\$	At 31 March 2005 HK\$	2006 HK\$	At 31 December 2006 HK\$
Trading receivables from the business of dealing in futures contracts:				
Clearing houses and brokers	3,723,055	3,563,788	13,795,980	31,376,539
Trade receivables arising from the business of dealing in securities:				
Clearing houses, brokers and clients	30,972,662	21,124,794	61,556,773	47,224,034
Secured margin loans	66,538,524	74,765,831	89,994,057	97,537,367
Less: Impairment allowance on trade receivables	(3,174,249)	(304,249)	(304,249)	(337,903)
	<u>98,059,992</u>	<u>99,150,164</u>	<u>165,042,561</u>	<u>175,800,037</u>

The settlement terms of trade receivables arising from the business of dealing in securities are two days after trade date, and trade receivables arising from the business of dealing in futures contracts are one day after trade date.

Except for the loans to margin clients as mentioned below, all the trade receivables arising from the business of dealing in securities and futures contracts aged within 30 days.

Loans to margin clients are secured by clients' pledged securities, repayable on demand and bear variable interest at commercial rates. No aged analysis is disclosed as in the opinion of the directors of the Company, the aged analysis does not give additional value in view of the nature of business of share margin financing.

Included in secured margin loans, there is an amount receivable from a fellow subsidiary of HK\$556,936, HK\$1,409,047, HK\$85,410 and nil at 31 March 2004, 31 March 2005, 31 March 2006 and 31 December 2006 respectively. The balances are secured by pledged securities and repayable on demand, and bear variable interest at commercial rates which are similar to the rates offered to other margin clients.

**21. TRADE RECEIVABLES (Continued)**

As at 31 March 2004, 31 March 2005, 31 March 2006 and 31 December 2006, the total market value of securities pledged as collateral in respect of the loans to margin clients approximately HK\$881,977,000, HK\$1,094,094,000, HK\$1,023,952,000 and HK\$1,974,039,000 respectively.

The fair values of the balances included in the accounts at each balance sheet date approximate the corresponding carrying amounts.

**22. BANK BALANCES AND CASH**

	THE GROUP			
	2004	At 31 March 2005	2006	At 31 December 2006
	HK\$	HK\$	HK\$	HK\$
Bank balances				
– general accounts and cash	27,019,487	18,469,672	34,012,734	69,063,215
– trust accounts ( <i>Note</i> )	51,402,076	87,431,598	97,845,116	101,129,892
	<u>78,421,563</u>	<u>105,901,270</u>	<u>131,857,850</u>	<u>170,193,107</u>

*Note:* From the Group's ordinary business, it receives and holds money deposited by clients and other institutions in the course of the conduct of the regulated activities. These clients' monies are maintained in one or more trust bank accounts. The Group has recognised the corresponding account payables to respective clients and other institutions. However, the Group does not have a currently enforceable right to offset those payables with the deposits placed.

The general accounts and cash comprise cash held by the Group and bank deposits bear interest at commercial rate. The fair values of these assets at the balance sheet date approximate their carrying amounts.

**23. TRADE PAYABLES**

	THE GROUP			
	2004	At 31 March 2005	2006	At 31 December 2006
	HK\$	HK\$	HK\$	HK\$
Trade payables from the business of dealing in futures contracts:				
Margin clients	5,496,358	6,730,355	19,463,180	50,639,852
Trade payables from the business of dealing in securities:				
Clearing house and brokers	60,622	17,500,354	–	–
Margin and cash clients	70,715,593	85,898,284	147,047,404	120,507,669
	<u>76,272,573</u>	<u>110,128,993</u>	<u>166,510,584</u>	<u>171,147,521</u>

Trade payables to margin clients arising from the business of dealing in futures contracts are margin deposits received from clients for their trading of these contracts. The excesses of the outstanding amounts over the required margin deposits stipulated are non-interest bearing and repayable to clients on demand. No aged analysis is disclosed as in the opinion of directors, the aged analysis does not give additional value in view of the nature of these businesses.

The settlement terms of trade payables arising from the business of dealing in securities are two days after trade date.

Trade payables to clearing house and brokers are non-interest bearing and repayable on demand subsequent to settlement date. Trade payables to certain margin and cash clients bear variable interest at commercial rates, and repayable on demand subsequent to settlement date. No aged analysis is disclosed as in the opinion of directors of the Company, the aged analysis does not give additional value in view of the nature of business of dealing in securities and share margin financing.

The trade payables amounting to HK\$51,402,076, HK\$87,431,598, HK\$97,845,116 and HK\$101,129,892 at 31 March 2004, 31 March 2005, 31 March 2006 and 31 December 2006 respectively were payable to clients and other institutions in respect of the trust and segregated bank balances received and held for clients and other institutions in the course of the conduct of regulated activities. However, the Group does not have a currently enforceable right to offset these payables with the deposits placed.

**23. TRADE PAYABLES (Continued)**

Included in trade payables to margin clients arising from the business of dealing in securities, there is an amount payable to a fellow subsidiary of HK\$84,205, HK\$18,894, HK\$155,336 and nil at 31 March 2004, 31 March 2005, 31 March 2006 and 31 December 2006 respectively.

The fair values of the trade payables at each balance sheet date approximate to the corresponding carrying amounts.

**24. SUBORDINATED LOAN FROM A FELLOW SUBSIDIARY**

The subordinated loan which is revolving in nature and will be expired on 29 February 2008, had been approved by Securities and Futures Commission. It was unsecured and borne interest at Prime rate and it was granted by the subsidiary of EIHL.

The fair value of the balance included in the account at each balance sheet date approximates the corresponding carrying amount.

On 31 March 2007, the subordinated loan agreement with the subsidiary of EIHL was terminated.

**25. SHARE CAPITAL**

The Company was incorporated in Bermuda on 27 June 2006 with an authorized share capital of HK\$100,000 divided into 10,000,000 shares of HK\$0.01 each. 10,000,000 shares of HK\$0.01 was issued nil paid to the subscriber on 11 July 2006. Further details on the Company's share capital are set out in the paragraph headed "Statutory and General Information – Changes in the share capital of the Company" in Appendix V to the Prospectus. As the Company was incorporated on 27 June 2006 and incurred a loss since its incorporation, it had no reserve available for distribution.

On 29 September 2005, Emperor Futures Limited issued 40,000,000 ordinary shares of HK\$1 each for a total consideration of HK\$40,000,000.

For the purpose of this report, the share capital of the Group as at 31 March 2004, 31 March 2005, 31 March 2006 and 31 December 2006 represented the aggregate issued share capital of Emperor Securities Limited, Emperor Securities Nominees Limited, Emperor Futures Limited, Emperor Gold & Silver Company Limited and Famous Winner Holding Limited at each balance sheet date.

On 24 October 2006, Profit Ascent Group Limited issued 1 ordinary share nil paid to the subscriber.

**26. OTHER FINANCIAL ASSETS AND LIABILITIES****THE GROUP****Other debtors, deposits and prepayments**

The amounts include a rental deposit paid to a fellow subsidiary of HK\$682,209 at 31 March 2004 and 31 March 2005, nil at 31 March 2006 and HK\$389,257 at 31 December 2006 respectively.

The fair values of the balances included in the accounts at each balance sheet date approximate the corresponding carrying amounts.

**Amount due from a fellow subsidiary**

The amount is of non-trade nature, non-interest bearing, unsecured and will be settled before listing of the Company's share on the SEHK. The fair value of the balance at each balance sheet date approximates the carrying amount.

**Other creditors and accrued charges**

The fair values of the balances at each balance sheet date approximate the corresponding carrying amounts.

**THE COMPANY****Amount due to a fellow subsidiary**

The amount is of non-trade nature, non-interest bearing, unsecured and repayable on demand. The fair value of the balance at balance sheet date approximates the carrying amount.

**27. RESERVES**

Reserves of the Company represented its deficit at 31 December 2006.

**28. RETIREMENT BENEFITS SCHEME**

The Group participates in both a defined contribution scheme which is registered under the Hong Kong Occupational Retirement Scheme Ordinance (the "ORSO" Scheme) and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Hong Kong Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of independent trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

**28. RETIREMENT BENEFITS SCHEME (Continued)**

The retirement benefit cost charged to the income statement represents contributions payable to the funds by the Group at rates specified in the rules of the schemes. Where there are employees who leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

At 31 March 2004, 31 March 2005, 31 March 2006 and 31 December 2006, forfeited contributions of HK\$63,117, HK\$38,589, HK\$11,415 and nil respectively, which arose upon employees leaving the ORSO Scheme, are available to reduce the contributions payable in future years.

**29. RELATED PARTY TRANSACTIONS**

At each balance sheet date of the Relevant Periods, the balances of the Group and the Company with related parties are set out in the balance sheets and respective notes.

During the Relevant Periods, the Group had the following significant transactions with related parties:

		THE GROUP			Nine months ended 31 December	
		Year ended 31 March			2005	
		2004	2005	2006	2005	2006
		HK\$	HK\$	HK\$	HK\$	HK\$
(i)	Loan interest to a fellow subsidiary ( <i>note a</i> )	21,233	1,625,753	5,336,781	2,730,342	3,227,397
(ii)	Arrangement fee paid to a fellow subsidiary ( <i>note b</i> )	1,200,000	–	–	–	–
(iii)	Sundry income from a related company in respect of share of operating lease rentals ( <i>note b</i> )	58,560	76,451	320,894	299,890	–
(iv)	Commission paid to fellow subsidiaries ( <i>note c</i> )	566,090	–	–	–	–
(v)	Commission paid to the associates of directors ( <i>note c</i> )	72,000	–	39,250	39,250	–
(vi)	Management fee to a fellow subsidiary ( <i>note d</i> )					
	– computer services	522,000	870,000	419,000	314,250	320,635
	– administrative services and staff cost	824,000	1,180,000	970,000	727,500	602,466
		1,346,000	2,050,000	1,389,000	1,041,750	923,101
(vii)	Operating lease rentals expenses to a fellow subsidiary ( <i>note e</i> )	1,200,000	1,200,000	1,195,225	900,000	918,903
(viii)	Placing and underwriting commission income from a related company ( <i>note e</i> )	–	2,106,495	–	–	–
(ix)	Commission and brokerage income from ( <i>note c</i> )					
	– fellow subsidiaries	1,369,017	487,188	733,169	723,611	111,620
	– directors and their associates	1,038,642	1,894,833	1,398,076	786,331	968,890
(x)	Client interest income from ( <i>note f</i> )					
	– fellow subsidiaries	180,686	103,653	63,690	61,066	5,404
	– directors and their associates	314,502	250,049	560,840	347,223	1,700,911

The director of the Company are of the opinion that items (i) to (iv) above will be discontinued after the listing of the Company's share on the Stock Exchange while items (v) to (x) will continue after the listing of the Company's shares on the Stock Exchange.



**29. RELATED PARTY TRANSACTIONS (Continued)****Compensation of key management personnel**

The compensation of key management personnel was disclosed in note 10.

*Notes:*

- (a) The income was calculated at Prime rate on the outstanding balances.
- (b) The income was calculated in accordance with the terms mutually agreed between the Group and relevant parties.
- (c) The commission income and expense were calculated at commercial rates which are similar to the rates offered to third party.
- (d) The expenses were charged on a cost recovery basis. Amount of HK\$824,000 and HK\$1,180,000 for the year ended 31 March 2004 and 31 March 2005 respectively represented the amount of fee waived by the fellow subsidiary and capitalized as reserve.
- (e) The transactions were carried out with related companies on terms similar to those applicable to transactions with unrelated parties.
- (f) The client interest income was calculated at variable interest at commercial rates which are comparable to the rates offered to third party.

**30. OPERATING LEASE COMMITMENTS**

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

	THE GROUP							
	2004		At 31 March 2005		2006		At 31 December 2006	
	Rental premises HK\$	Hired equipment HK\$	Rental premises HK\$	Hired equipment HK\$	Rental premises HK\$	Hired equipment HK\$	Rental premises HK\$	Hired equipment HK\$
Within one year	621,360	436,913	307,840	243,358	120,320	66,600	2,278,092	66,600
In the second to fourth years inclusive	128,960	3,400	108,000	211,500	—	144,900	1,958,192	94,950
	<u>750,320</u>	<u>440,313</u>	<u>415,840</u>	<u>454,858</u>	<u>120,320</u>	<u>211,500</u>	<u>4,236,284</u>	<u>161,550</u>

For office premises and office equipment, leases are mainly negotiated and rentals are fixed for an average term of two to three years.

**31. SUBSEQUENT EVENTS**

The following events took place subsequent to 31 December 2006:

- (a) Emperor Securities Limited and Emperor Futures Limited declare dividends to their then shareholders of HK\$178.5 million and HK\$38.5 million respectively.
- (b) On 2 April 2007, Profit Ascent Group Limited ("Profit Ascent") (i) allotted and issued four shares, credited as fully paid, to Emperor Financial Services (Hong Kong) Limited and (ii) credited as fully paid at par 1 share issued nil-paid by Profit Ascent to Emperor Financial Services (Hong Kong) Limited on 24 October 2006 in consideration of the transfer from Emperor Financial Services (Hong Kong) Limited of its 100% equity interest in Emperor Securities Limited, Emperor Securities Nominees Limited, Emperor Futures Limited, Emperor Gold & Silver Company Limited and Famous Winner Holdings Limited to Profit Ascent.

- (c) On 2 April 2007, the Company (i) allotted and issued 272,635,636 Shares, credited as fully paid, to EIHL at the request of Emperor Financial Services (Hong Kong) Limited and Joybridge Services Limited, an immediate holding company of Emperor Financial Services (Hong Kong) Limited, and a wholly owned subsidiary of EIHL; and (ii) credited as fully paid at par the 10,000,000 Shares issued nil-paid by the Company to EIHL referred to Note 25, in consideration of the transfer by EIHL to the Company of its interest in Profit Ascent.
- (d) On 31 March 2007, the subordinated loan agreement entered into between Emperor Securities Limited and Distinct Rich Limited, a wholly owned subsidiary of EIHL was terminated.

**B. DIRECTORS' REMUNERATION**

Save as disclosed in this report, no other remuneration has been paid or is payable to directors of the Company by the Group during the Relevant Periods.

**C. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements of any of the companies in the Group have been prepared in respect of any period subsequent to 31 December 2006.

Yours faithfully,

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong