Daiwa Capital Markets Hong Kong Limited

大和資本市場香港有限公司

31 March 2013

Report of the directors

The directors submit herewith their annual report together with the audited financial statements for the year ended 31 March 2013.

Principal place of business

Daiwa Capital Markets Hong Kong Limited ("the Company") is a company incorporated and domiciled in Hong Kong and has its registered office and principal place of business at Level 28, One Pacific Place, 88 Queensway, Hong Kong.

Principal activities

The principal activities of the Company are securities and futures dealing, provision of corporate finance advisory services and issuance of listed structured products. The principal activity and other particulars of its subsidiary are set out in note 11 to the financial statements.

The Company is a licensed corporation under the Hong Kong Securities and Futures Ordinance and is a corporate participant on The Stock Exchange of Hong Kong Limited and The Hong Kong Futures Exchange Limited.

Financial statements

The loss of the Group and of the Company for the year ended 31 March 2013 and the state of the Group's and the Company's affairs as at that date are set out in the financial statements on pages 6 to 52.

During the year, no interim or final dividend was declared and paid in respect of the year ended 31 March 2013 (2012: US$Nil). The directors do not recommend the payment of a final dividend for the year ended 31 March 2013.

Share capital

Details of share capital of the Company are set out in note 22(a) to the financial statements.

Directors

The directors of the Company during the year and up to the date of the report are:

Hironori Oka	
Terence Patrick Mackey	
Masami Tada	(appointed on 1 April 2012)
Tsutomu Kobayashi	(appointed on 1 January 2013)
John Gerard Williams	(appointed on 1 January 2013)
Tetsuo Akuzawa	(appointed on 1 April 2013)
Shoichi Saito	(resigned on 19 July 2012)
Nagahisa Miyabe	(resigned on 15 January 2013)
Sumio Otsuka	(resigned on 15 January 2013)

There being no provision in the Company's articles of association for the annual retirement of directors, all the remaining directors continue in office.

At no time during the year was the Company, any of its holding companies or its fellow subsidiaries or subsidiary a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors' interests in contracts

No contract of significance to which the Company, any of its holding companies or its fellow subsidiaries or subsidiary was a party, and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Auditors

KPMG will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By order of the board

Hong Kong,

28 JUN 2013

KPMG

Independent auditor's report to the shareholders of Daiwa Capital Markets Hong Kong Limited

(Incorporated in Hong Kong with limited liability)

Report on the financial statements

We have audited the consolidated financial statements of Daiwa Capital Markets Hong Kong Limited ("the Company") and its subsidiary (together "the Group") set out on pages 6 to 52, which comprise the consolidated and Company balance sheets as at 31 March 2013, the consolidated and Company statements of comprehensive income, the consolidated and Company statements of changes in equity and the consolidated and Company cash flow statements for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the directors also have a responsibility to ensure that the Company's financial statements are in accordance with the records kept under the Hong Kong Securities and Futures (Keeping of Records) Rules and satisfy the requirements of the Hong Kong Securities and Futures (Accounts and Audit) Rules.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and to report to you on the other matters set out in the preceding paragraph, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

KPMG

Independent auditor's report to the shareholders of Daiwa Capital Markets Hong Kong Limited (continued)

(Incorporated in Hong Kong with limited liability)

Report on the financial statements (continued)

Auditor's responsibility (continued)

We conducted our audit in accordance with Hong Kong Standards on Auditing and with reference to Practice Note 820 "The Audit of Licensed Corporations and Associated Entities of Intermediaries" issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement, and whether the Company's financial statements are in accordance with the records kept under the Hong Kong Securities and Futures (Keeping of Records) Rules and satisfy the requirements of the Hong Kong Securities and Futures (Accounts and Audit) Rules.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2013 and of the Company's and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Independent auditor's report to the shareholders of Daiwa Capital Markets Hong Kong Limited (continued)

(Incorporated in Hong Kong with limited liability)

Report on matters under the Hong Kong Securities and Futures (Keeping of Records) Rules and Hong Kong Securities and Futures (Accounts and Audit) Rules of the Hong Kong Securities and Futures Ordinance

In our opinion, the Company's financial statements are in accordance with the records kept under the Hong Kong Securities and Futures (Keeping of Records) Rules and satisfy the requirements of the Hong Kong Securities and Futures (Accounts and Audit) Rules.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

28 JUN 2013

Consolidated statement of comprehensive income for the year ended 31 March 2013

(Expressed in United States dollars)

	Note	*2013*	*2012*
Turnover	3	$ 90,342,433	$ 103,988,842
Other revenue	4	55,438,039	57,098,921
Other net income/(loss)	4	1,518,802	(3,348,187)
Staff costs	5	(74,611,026)	(123,013,617)
Depreciation	10	(9,208,048)	(8,659,370)
Other operating expenses		(108,579,947)	(117,436,018)
Loss from operations		$ (45,099,747)	$ (91,369,429)
Finance costs	6(a)	(3,888,829)	(1,708,934)
Loss before taxation	6	$ (48,988,576)	$ (93,078,363)
Income tax credit	7(a)	-	3,170
Loss for the year		$ (48,988,576)	$ (93,075,193)
Other comprehensive income for the year			
Exchange difference on translation of financial statements of the subsidiary		$ 1,328	$ 8,766
Available-for-sale securities: net movement in the investment revaluation reserve		197,949	165,833
		$ 199,277	$ 174,599
Total comprehensive income for the year		$ (48,789,299)	$ (92,900,594)

The notes on pages 18 to 52 form part of these financial statements.

Statement of comprehensive income for the year ended 31 March 2013

(Expressed in United States dollars)

	Note	*2013*	*2012*
Turnover	3	$ 90,342,433	$ 103,988,842
Other revenue	4	55,438,039	57,098,921
Other net income/(loss)	4	1,518,802	(3,348,187)
Staff costs	5	(74,611,026)	(123,013,617)
Depreciation	10	(9,208,048)	(8,659,370)
Other operating expenses		(108,579,947)	(117,419,041)
Loss from operations		$ (45,099,747)	$ (91,352,452)
Finance costs	6(a)	(3,888,829)	(1,708,934)
Loss before and after taxation for the year	6	$ (48,988,576)	$ (93,061,386)
Other comprehensive income for the year			
Available-for-sale securities: net movement in the investment revaluation reserve		197,949	165,833
Total comprehensive income for the year		$ (48,790,627)	$ (92,895,553)

The notes on pages 18 to 52 form part of these financial statements.

Consolidated balance sheet at 31 March 2013

(Expressed in United States dollars)

	Note	*2013*	*2012*
Non-current assets			
Intangible assets	9	$ 383,377	$ 380,548
Fixed assets	10	25,207,295	31,612,218
Available-for-sale securities	12	2,538,044	2,341,814
Other non-current deposits		5,036,698	2,875,799
		$ 33,165,414	$ 37,210,379
Current assets			
Financial assets at fair value through profit or loss	13	$ 16,573,912	$ 22,606,256
Receivables from reverse repurchase agreements	14	31,342,456	328,989,228
Accounts receivable	15, 24	1,487,518,270	2,200,465,654
Other receivables and prepayments	24	24,930,309	24,087,623
Cash and cash equivalents	17	551,768,772	537,341,604
		$ 2,112,133,719	$ 3,113,490,365
Current liabilities			
Financial liabilities at fair value through profit or loss	18	$ 16,573,086	$ 15,146,214
Amount due to a fellow subsidiary	16	31,305,010	328,479,544
Subordinated loan	19	35,000,000	-
Accounts payable	20, 24	1,488,547,707	2,212,177,161
Current taxation	21(a)	-	16,009
Accruals and other payables	24	80,197,469	122,416,656
		$ 1,651,623,272	$ 2,678,235,584
Net current assets		$ 460,510,447	$ 435,254,781
Total assets less current liabilities		$ 493,675,861	$ 472,465,160

Consolidated balance sheet at 31 March 2013 (continued)

(Expressed in United States dollars)

	Note	*2013*	*2012*
Non-current liability			
Subordinated loan	19	$ 105,000,000	$ 35,000,000
NET ASSETS		$ 388,675,861	$ 437,465,160
CAPITAL AND RESERVE			
Share capital	22(a)	$ 557,860,644	$ 557,860,644
General reserve	23(a)	12,008,165	12,008,165
Investment revaluation reserve	23(b)	478,535	280,586
Translation reserve	23(c)	(2,054)	(3,382)
Accumulated losses		(181,669,429)	(132,680,853)
TOTAL EQUITY		$ 388,675,861	$ 437,465,160

Approved and authorised for issue by the board of directors on 28 JUN 2013

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The notes on pages 18 to 52 form part of these financial statements.

Balance sheet at 31 March 2013

(Expressed in United States dollars)

	Note	*2013*	*2012*
Non-current assets			
Intangible assets	9	$ 383,377	$ 380,548
Fixed assets	10	25,207,295	31,612,218
Investment in a subsidiary	11	2,284,581	2,284,581
Available-for-sale securities	12	2,538,044	2,341,814
Other non-current deposits		5,036,698	2,875,799
		$ 35,449,995	$ 39,494,960
Current assets			
Financial assets at fair value through profit or loss	13	$ 16,573,912	$ 22,606,256
Receivables from reverse repurchase agreements	14	31,342,456	328,989,228
Accounts receivable	15, 24	1,487,518,270	2,200,465,654
Other receivables and prepayments	24	24,930,309	24,087,623
Cash and cash equivalents	17	551,768,772	536,793,227
		$ 2,112,133,719	$ 3,112,941,988
Current liabilities			
Financial liabilities at fair value through profit or loss	18	$ 16,573,086	$ 15,146,214
Amount due to a fellow subsidiary	16	31,305,010	328,479,544
Amount due to a subsidiary	16	2,898,865	2,382,165
Subordinated loan	19	35,000,000	-
Accounts payable	20, 24	1,488,547,707	2,212,177,161
Accruals and other payables	24	80,197,469	122,399,660
		$ 1,654,522,137	$ 2,680,584,744
Net current assets		$ 457,611,582	$ 432,357,244
Total assets less current liabilities		$ 493,061,577	$ 471,852,204

Balance sheet at 31 March 2013 (continued)

(Expressed in United States dollars)

	Note	*2013*	*2012*
Non-current liability			
Subordinated loan	19	$ 105,000,000	$ 35,000,000
NET ASSETS		$ 388,061,577	$ 436,852,204
CAPITAL AND RESERVE			
Share capital	22(a)	$ 557,860,644	$ 557,860,644
General reserve	23(a)	12,008,165	12,008,165
Investment revaluation reserve	23(b)	478,535	280,586
Accumulated losses		(182,285,767)	(133,297,191)
TOTAL EQUITY		$ 388,061,577	$ 436,852,204

Approved and authorised for issue by the board of directors on 28 JUN 2013

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The notes on pages 18 to 52 form part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 March 2013

(Expressed in United States dollars)

	Note	*Share capital*	*General reserve*	*Investment revaluation reserve*	*Translation reserve*	*Accumulated losses*	*Total*
At 1 April 2011		$ 332,860,644	$ 12,008,165	$ 114,753	$ (12,148)	$ (39,605,660)	$ 305,365,754
Shares issued during the year		$ 225,000,000	$ -	$ -	$ -	$ -	$ 225,000,000
Loss for the year		$ -	$ -	$ -	$ -	$ (93,075,193)	$ (93,075,193)
Other comprehensive income		-	-	165,833	8,766	-	174,599
Total comprehensive income for the year		$ -	$ -	$ 165,833	$ 8,766	$ (93,075,193)	$ (92,900,594)
At 31 March 2012		$ 557,860,644	$ 12,008,165	$ 280,586	$ (3,382)	$(132,680,853)	$ 437,465,160
At 1 April 2012		$ 557,860,644	$ 12,008,165	$ 280,586	$ (3,382)	$(132,680,853)	$ 437,465,160
Loss for the year		$ -	$ -	$ -	$ -	$ (48,988,576)	$ (48,988,576)
Other comprehensive income		-	-	197,949	1,328	-	199,277
Total comprehensive income for the year		$ -	$ -	$ 197,949	$ 1,328	$ (48,988,576)	$ (48,789,299)
At 31 March 2013		$ 557,860,644	$ 12,008,165	$ 478,535	$ (2,054)	$(181,669,429)	$ 388,675,861

The notes on pages 18 to 52 form part of these financial statements.

Statement of changes in equity for the year ended 31 March 2013

(Expressed in United States dollars)

	Note	*Share capital*	*General reserve*	*Investment revaluation reserve*	*Accumulated losses*	*Total*
At 1 April 2011		$ 332,860,644	$ 12,008,165	$ 114,753	$ (40,235,805)	$ 304,747,757
Shares issued during the year		$ 225,000,000	$ -	$ -	$ -	$ 225,000,000
Loss for the year		$ -	$ -	$ -	$ (93,061,386)	$ (93,061,386)
Other comprehensive income		-	-	165,833	-	165,833
Total comprehensive income for the year		$ -	$ -	$ 165,833	$ (93,061,386)	$ (92,895,553)
At 31 March 2012		$ 557,860,644	$ 12,008,165	$ 280,586	$ (133,297,191)	$ 436,852,204
At 1 April 2012		$ 557,860,644	$ 12,008,165	$ 280,586	$ (133,297,191)	$ 436,852,204
Loss for the year		$ -	$ -	$ -	$ (48,988,576)	$ (48,988,576)
Other comprehensive income		-	-	197,949	-	197,949
Total comprehensive income for the year		$ -	$ -	$ 197,949	$ (48,988,576)	$ (48,790,627)
At 31 March 2013		$ 557,860,644	$ 12,008,165	$ 478,535	$ (182,285,767)	$ 388,061,577

The notes on pages 18 to 52 form part of these financial statements.

Consolidated cash flow statement for the year ended 31 March 2013

(Expressed in United States dollars)

	Note	*2013*	*2012*
Operating activities			
Loss before taxation		$ (48,988,576)	$ (93,078,363)
Adjustments for:			
Depreciation		9,208,048	8,659,370
Loss on disposal of fixed assets		437,097	4,143,938
Dividend income		-	(183,760)
Interest income		(6,847,096)	(3,108,676)
Interest expense		3,888,829	1,708,934
Exchange differences		218	(461)
Operating loss before changes in working capital		$ (42,301,480)	$ (81,859,018)
(Increase)/decrease in other non-current deposits		(2,160,899)	505,301
Decrease/(increase) in financial assets at fair value through profit or loss		6,032,344	(21,078,248)
Decrease/(increase) in receivables from reverse repurchase agreements		297,646,772	(328,989,228)
Decrease in amount due from the intermediate holding company		-	1,858
Increase in amounts due from fellow subsidiaries		-	1,504
Decrease/(increase) in accounts receivable		712,947,384	(585,342,396)
Increase in other receivables and prepayments		(1,183,207)	(2,128,821)
Increase in financial liabilities at fair value through profit or loss		1,426,872	15,021,977
(Decrease)/increase in amount due to a fellow subsidiary		(297,174,534)	328,479,544
(Decrease)/increase in accounts payable		(723,629,454)	606,792,689
(Decrease)/increase in accruals and other payables		(41,745,999)	37,886,427
Cash used in operations		$ (90,142,201)	$ (30,708,411)
Tax paid			
- Hong Kong Profits Tax paid		(16,009)	(47,574)
Net cash used in operating activities		$ (90,158,210)	$ (30,755,985)

Consolidated cash flow statement for the year ended 31 March 2013 (continued)

(Expressed in United States dollars)

	Note	*2013*	*2012*
Investing activities			
Dividend received		$ 2,902	$ 203,820
Interest received		7,184,715	2,422,919
Payment for purchase of fixed assets		(4,509,938)	(27,635,836)
Net cash generated from/(used in) investing activities		$ 2,677,679	$ (25,009,097)
Financing activities			
Proceeds from issue of shares		$ -	$ 225,000,000
Proceeds from subordinated loan obtained from the ultimate holding company		105,000,000	-
Interest paid		(3,092,301)	(2,043,833)
Net cash generated from financing activities		$ 101,907,699	$ 222,956,167
Net increase in cash and cash equivalents		$ 14,427,168	$ 167,191,085
Cash and cash equivalents at 1 April 2012/2011	17	502,341,604	335,150,519
Cash and cash equivalents at 31 March	17	$ 516,768,772	$ 502,341,604

The notes on pages 18 to 52 form part of these financial statements.

Cash flow statement
for the year ended 31 March 2013
(Expressed in United States dollars)

	Note	*2013*	*2012*
Operating activities			
Loss before taxation		$ (48,988,576)	$ (93,061,386)
Adjustments for:			
Depreciation		9,208,048	8,659,370
Loss on disposal of fixed assets		437,097	4,143,938
Dividend income		-	(183,760)
Interest income		(6,847,096)	(3,108,676)
Interest expense		3,888,829	1,708,934
Exchange differences		(1,110)	(9,285)
Operating loss before changes in working capital		$ (42,302,808)	$ (81,850,865)
(Increase)/decrease in other non-current deposits		(2,160,899)	486,886
Decrease/(increase) in financial assets at fair value through profit or loss		6,032,344	(21,078,248)
Decrease/(increase) in receivables from reverse repurchase agreements		297,646,772	(328,989,228)
Decrease/(increase) in accounts receivable		712,947,384	(585,342,396)
Increase in other receivables and prepayments		(1,183,207)	(2,540,178)
Increase in financial liabilities at fair value through profit or loss		1,426,872	15,021,977
(Decrease)/increase in amount due to a fellow subsidiary		(297,174,534)	328,479,544
Increase/(decrease) in amount due to a subsidiary		516,700	(1,193,773)
(Decrease)/increase in accounts payable		(723,629,454)	606,792,689
(Decrease)/increase in accruals and other payables		(41,729,003)	50,575,296
Net cash used in operating activities		$ (89,609,833)	$ (19,638,296)

Cash flow statement
for the year ended 31 March 2013 (continued)

(Expressed in United States dollars)

	Note	*2013*	*2012*
Investing activities			
Dividend received		$ 2,902	$ 203,820
Interest received		7,184,715	2,422,919
Payment for purchase of fixed assets		(4,509,938)	(27,635,836)
Net cash generated from/(used in) investing activities		$ 2,677,679	$ (25,009,097)
Financing activities			
Proceeds from issue of shares		$ -	$ 225,000,000
Proceeds from subordinated loan obtained from the ultimate holding company		105,000,000	-
Interest paid		(3,092,301)	(2,043,833)
Net cash generated from financing activities		$ 101,907,699	$ 222,956,167
Net increase in cash and cash equivalents		$ 14,975,545	$ 178,308,774
Cash and cash equivalents at 1 April 2012/2011	17	501,793,227	323,484,453
Cash and cash equivalents at 31 March	17	$ 516,768,772	$ 501,793,227

The notes on pages 18 to 52 form part of these financial statements.

Notes to the financial statements

(Expressed in United States dollars)

1 Principal activities

The principal activities of the Company are securities and futures dealing, provision of corporate finance advisory services and issuance of listed structured products. The principal activity and other particulars of its subsidiary are set out in note 11 on the financial statements.

The Company is a licensed corporation under the Hong Kong Securities and Futures Ordinance and is a corporate participant of The Stock Exchange of Hong Kong Limited and The Hong Kong Futures Exchange Limited.

2 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. None of them has a significant impact on the Group's and the Company's results of operations and financial positions.

The Group and the Company have not adopted any amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2013 (see note 31).

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis except that financial instruments classified as held for trading and as available-for-sale securities are stated at their fair value as explained in the accounting policies set out below.

2 Significant accounting policies (continued)

(b) Basis of preparation of the financial statements (continued)

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Subsidiaries and controlled entities

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(i)), unless the investment is classified as held for sale or included in a disposal group that is classified as held for sale.

(d) Investment in securities

The Group's and the Company's policies for investments in debt and equity securities, other than investment in a subsidiary are as follows:

Investments in securities held for trading are classified as current assets and are initially stated at fair value. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

2 Significant accounting policies (continued)

(d) Investment in securities (continued)

Other investments in securities are classified as available-for-sale securities and are initially recognised at fair value plus transaction costs. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, expect for impairment losses (see note 2(i)) and in the case of monetary items, foreign exchange gains and losses which are recognised directly in profit or loss.

Investments are recognised/derecognised on the date the Group or the Company commits to purchase/sell the investments or they expire.

(e) Investments in derivative financial instruments

The Group's and the Company's policies for investments in derivative financial instruments are as follows:

Trading financial instruments are financial assets or financial liabilities which are acquired or incurred principally for the purpose of trading, or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivative financial instruments that do not qualify for hedge accounting are accounted for as trading instruments.

These financial assets and financial liabilities are carried at fair value. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in the profit or loss includes any dividends on these investments as these are recognised in accordance with the policies set out in note 2(q). Upon disposal or repurchase, the difference between the net sales proceeds or the net payment and the carrying value is included in the profit or loss.

Fair value measurement principles

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in the profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

2 Significant accounting policies (continued)

(e) Investments in derivative financial instruments (continued)

Fair value measurement principles (continued)

Subsequent measurement of the fair value of financial instruments is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

If there is no publicly available latest traded price nor a quoted market price on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments, or if the market for it is not active, the fair value of the instrument is estimated using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions.

Investments are recognised/derecognised on the date the Group or the Company commits to purchase/sell the investments or they expire.

(f) Repurchase transactions

Securities sold subject to a simultaneous agreement to repurchase these securities at a certain later date at a fixed price (repurchase agreements) are retained in the financial statements and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

Securities purchased subject to a simultaneous agreement to resell these securities at a certain later date at a fixed price (reverse repurchase agreements) are not recognised in the financial statements. The payments for the purchase are reported as receivables and are carried at amortised cost.

Interest incurred on repurchase agreements and reverse repurchase agreements are recognised as interest expense/interest income over the life of each agreement using the effective interest method.

(g) Fixed assets

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(i)). Depreciation is calculated to write off the cost of fixed assets on a straight line basis over their estimated useful lives as follows:

- Leasehold improvements	6 years or over the term of the lease, whichever is shorter
- Furniture, fixtures and office equipment	4 years
- Motor vehicles	4 years
- Computer equipment	4 years

2 Significant accounting policies (continued)

(g) Fixed assets (continued)

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(h) Exchange trading rights

Exchange trading rights represent the rights to trade on the relevant exchanges and are stated at cost less impairment losses (see note 2(i)).

Any conclusion that the useful life of trading rights is indefinite is reviewed annually.

(i) Impairment of assets

(i) Impairment of investments in securities and accounts and other receivables

Investment in securities and accounts and other receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

- For accounts and other receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for accounts and other receivables are reversed if in a subsequent period the amount of the impairment loss decreases.

- For available-for-sale securities, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

  Impairment loss in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

2 Significant accounting policies (continued)

(i) Impairment of assets (continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- exchange trading rights;
- fixed assets; and
- investment in a subsidiary.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for trading rights that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

  An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

  A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2 Significant accounting policies (continued)

(j) Accounts and other receivables

Accounts and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2(i)).

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(l) Accounts and other payables

Accounts and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Employee benefits

Salaries, annual bonuses, contribution to defined contribution plans and cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

2 Significant accounting policies (continued)

(n) Income tax (continued)

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset.

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

2 Significant accounting policies (continued)

(n) Income tax (continued)

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - Different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(o) Operating lease

Leases of assets under which the lessor do not transfer all the risks and benefits of ownership to the Group are classified as operating leases.

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 Significant accounting policies (continued)

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

- Commission and brokerage income is recognised on a trade date basis when the relevant securities transactions are executed.
- Underwriting commission is recognised when the obligation under the underwriting or sub-underwriting agreement has expired.
- Advisory fee income is recognised when the services are rendered.
- Dividend income from listed investments is recognised when the share price of the investments is quoted ex-dividend.
- Interest income is recognised as it accrues using the effective interest rate method.
- Rental income received under operating leases is recognised as other operating income in equal instalments over the periods covered by the lease term.
- Research fee income and management fee income are recognised when the services are rendered.

(r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rate at the dates the fair value was determined. Exchange gains and losses are recognised in profit or loss.

(s) Related parties

(1) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

2 Significant accounting policies (continued)

(s) Related parties (continued)

(2) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (1).

(vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(t) Securities borrowing and lending

Securities borrowing and securities lending transactions are generally entered into on a collateralised basis. The transfer of the securities themselves is not reflected on the balance sheet unless the risks and rewards of ownership are also transferred.

3 Turnover

	The Group and the Company	
	2013	*2012*
Commission and brokerage income	$ 69,214,908	$ 85,162,099
Underwriting and other commission income	17,462,239	15,344,968
Financial advisory fee income and other commission income	3,665,286	3,481,775
	$ 90,342,433	$ 103,988,842

4 Other revenue and other net income/(loss)

	The Group and the Company 2013	2012
Other revenue		
Dividend income on proprietary trading positions	$ -	$ 183,760
Research fees income from group companies	9,486,709	16,553,903
Management fees and services fees income from group companies	38,265,003	36,625,730
Interest income	6,847,096	3,108,676
Rental income from related companies	839,231	626,852
	$ 55,438,039	$ 57,098,921
Other net income/(loss)		
Net trading gain on securities and foreign currency transaction	$ 2,471,658	$ 311,007
Net exchange (loss)/gain	(771,176)	176,079
Loss on disposal of fixed assets	(437,097)	(4,143,938)
Others	255,417	308,665
	$ 1,518,802	$ (3,348,187)

5 Staff costs

	The Group and the Company 2013	2012
Salaries, wages and other benefits	$ 73,247,674	$ 119,615,613
Contributions to defined contribution plan	1,363,352	3,398,004
	$ 74,611,026	$ 123,013,617

6 Loss before taxation

Loss before taxation is arrived at after charging:

(a) *Finance costs*

	The Group and the Company 2013	The Group and the Company 2012
Interest expenses on bank loans	$ 128	$ 3,142
Interest expenses paid to the ultimate holding company	1,824,180	1,144,315
Interest expenses paid to a fellow subsidiary	1,583,390	471,789
	$ 3,407,698	$ 1,619,246
Other financing expenses	481,131	89,688
	$ 3,888,829	$ 1,708,934

(b) *Other items*

	The Group 2013	The Group 2012	The Company 2013	The Company 2012
Commission and brokerage charges	$ 46,357,678	$ 38,266,356	$ 46,357,678	$ 38,266,356
Underwriting expenses	2,617,570	4,058,404	2,617,570	4,058,404
Operating lease charges on properties	15,788,671	18,428,125	15,788,671	18,428,125
Auditors' remuneration	332,993	382,089	332,993	375,595

7 Income tax in the statement of comprehensive income

(a) *Taxation in the statement of comprehensive income represents:*

	The Group 2013	*The Group* 2012	*The Company* 2013	*The Company* 2012
Current tax - Hong Kong Profits Tax				
Provision for the year	$ -	$ (16,009)	$ -	$ -
Deferred tax				
Origination and reversal of temporary difference	-	19,179	-	-
	$ -	$ 3,170	$ -	$ -

The provision for Hong Kong Profits Tax for 2013 is calculated at 16.5% (2012: 16.5%) at the estimated assessable profits for the current and prior years. The Company has not made any provision for Hong Kong Profits Tax as the Company sustained a loss for both the current and prior years.

(b) *Reconciliation between tax credit and accounting loss at applicable tax rates:*

	The Group 2013	*The Group* 2012	*The Company* 2013	*The Company* 2012
Loss before taxation	$(48,988,576)	$(93,078,363)	$(48,988,576)	$(93,061,386)
Notional tax on loss before taxation, calculated at 16.5%	$ (8,083,115)	$(15,357,930)	$ (8,083,115)	$(15,355,129)
Tax effect of non-deductible expenses	622,751	266,900	622,751	266,657
Tax effect of non-taxable income	(476,799)	(357,150)	(476,799)	(375,717)
Tax effect of unused tax losses and other deductible temporary differences not recognised	8,035,004	15,403,525	8,035,004	15,403,525
Others	(97,841)	41,485	(97,841)	60,664
Tax credit	$ -	$ (3,170)	$ -	$ -

8 Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2013	*2012*
Directors' fees	$ -	$ -
Salaries, allowances and benefits in kind	2,599,137	2,362,802
Bonuses	350,187	362,406
Retirement scheme contributions	49,675	65,870

9 Intangible assets

	The Group and the Company		
	Trading rights	*Club debentures*	*Total*
Cost:			
At 1 April 2012	$ 419,448	$ 380,544	$ 799,992
Exchange differences	-	2,829	2,829
At 31 March 2013	$ 419,448	$ 383,373	$ 802,821
Accumulated impairment loss:			
At 1 April 2012 and 31 March 2013	419,444	-	419,444
Net book value:			
At 31 March 2013	$ 4	$ 383,373	$ 383,377

	The Group and the Company		
	Trading rights	*Club debentures*	*Total*
Cost:			
At 1 April 2011	$ 419,448	$ 382,043	$ 801,491
Exchange differences	-	(1,499)	(1,499)
At 31 March 2012	$ 419,448	$ 380,544	$ 799,992
Accumulated impairment loss:			
At 1 April 2011 and 31 March 2012	419,444	-	419,444
Net book value:			
At 31 March 2012	$ 4	$ 380,544	$ 380,548

10 Fixed assets

	The Group				*The Company*			
	Leasehold improvements	*Furniture, fixtures and office equipment*	*Motor vehicles*	*Total*	*Leasehold improvements*	*Furniture, fixtures and office equipment*	*Motor vehicles*	*Total*
Cost:								
At 1 April 2012	$ 10,394,216	$ 39,654,034	$ 315,379	$ 50,363,629	$ 10,394,216	$ 39,654,034	$ 315,379	$ 50,363,629
Additions	-	4,509,938	-	4,509,938	-	4,509,938	-	4,509,938
Disposals	-	(758,414)	-	(758,414)	-	(758,414)	-	(758,414)
Adjustment on cost in respect of prior year	(1,142,022)	(127,694)	-	(1,269,716)	(1,142,022)	(127,694)	-	(1,269,716)
At 31 March 2013	$ 9,252,194	$ 43,277,864	$ 315,379	$ 52,845,437	$ 9,252,194	$ 43,277,864	$ 315,379	$ 52,845,437
Accumulated depreciation:								
At 1 April 2012	$ 596,313	$ 17,839,719	$ 315,379	$ 18,751,411	$ 596,313	$ 17,839,719	$ 315,379	$ 18,751,411
Charge for the year	1,478,588	7,729,460	-	9,208,048	1,478,588	7,729,460	-	9,208,048
Written back on disposals	-	(321,317)	-	(321,317)	-	(321,317)	-	(321,317)
At 31 March 2013	$ 2,074,901	$ 25,247,862	$ 315,379	$ 27,638,142	$ 2,074,901	$ 25,247,862	$ 315,379	$ 27,638,142
Net book value:								
At 31 March 2013	$ 7,177,293	$ 18,030,002	$ -	$ 25,207,295	$ 7,177,293	$ 18,030,002	$ -	$ 25,207,295

10 Fixed assets (continued)

	The Group				*The Company*			
	Leasehold improvements	*Furniture, fixtures and office equipment*	*Motor vehicles*	*Total*	*Leasehold improvements*	*Furniture, fixtures and office equipment*	*Motor vehicles*	*Total*
Cost:								
At 1 April 2011	$ 1,895,261	$ 33,145,054	$ 317,947	$ 35,358,262	$ 1,748,441	$ 32,653,056	$ 317,947	$ 34,719,444
Additions	10,330,458	12,727,219	-	23,057,677	10,330,458	12,727,219	-	23,057,677
Disposals	(1,831,503)	(10,796,398)	(2,568)	(12,630,469)	(1,702,352)	(10,475,552)	(2,568)	(12,180,472)
Transfer from related companies	-	4,578,159	-	4,578,159	17,669	4,749,311	-	4,766,980
At 31 March 2012	$ 10,394,216	$ 39,654,034	$ 315,379	$ 50,363,629	$ 10,394,216	$ 39,654,034	$ 315,379	$ 50,363,629
Accumulated depreciation:								
At 1 April 2011	$ 825,339	$ 17,443,228	$ 310,005	$ 18,578,572	$ 696,188	$ 17,122,382	$ 310,005	$ 18,128,575
Charge for the year	782,264	7,869,165	7,941	8,659,370	782,264	7,869,165	7,941	8,659,370
Written back on disposals	(1,011,290)	(7,472,674)	(2,567)	(8,486,531)	(882,139)	(7,151,828)	(2,567)	(8,036,534)
At 31 March 2012	$ 596,313	$ 17,839,719	$ 315,379	$ 18,751,411	$ 596,313	$ 17,839,719	$ 315,379	$ 18,751,411
Net book value:								
At 31 March 2012	$ 9,797,903	$ 21,814,315	$ -	$ 31,612,218	$ 9,797,903	$ 21,814,315	$ -	$ 31,612,218

11 Investment in a subsidiary

This comprises unlisted shares, at cost.

Details of the subsidiary as at 31 March 2013 are as follows:

Name of company	*Place of incorporation*	*Percentage of ordinary shares held*	*Principal activity*
Daiwa Institute of Research (Hong Kong) Limited ("DIRHK")	Hong Kong	100%	Under liquidation

12 Available-for-sale securities

	The Group and the Company	
	2013	*2012*
Club debentures	$ 2,538,044	$ 2,341,814

13 Financial assets at fair value through profit or loss

	The Group and the Company	
	2013	*2012*
Long positions in listed equity securities	$ 826	$ 7,458,548
Positive fair value of derivatives (note 25)		
- with a fellow subsidiary	16,573,086	15,147,708
	$ 16,573,912	$ 22,606,256

As at 31 March 2013, the market value of securities placed by a fellow subsidiary to the Company for over-the-counter derivatives transactions as collateral amounted to $188,053,338 (2012: $128,069,128).

The above financial assets were classified as held for trading.

14 Receivables from reverse repurchase agreements

	The Group and the Company	
	2013	*2012*
Receivables from reverse repurchase agreements	$ 31,342,456	$ 328,989,228

As of 31 March 2013, the fair value of collateral accepted in respect of the reverse repurchase transactions was $40,642,959 (2012: $443,507,876), the Group and the Company has not recognised this collateral in the balance sheet.

These transactions are conducted under terms that are usual and customary to securities repurchase transactions and borrowing and lending activities.

15 Accounts receivable

The Company maintains segregated accounts with The Hong Kong Futures Exchange Clearing Corporation Limited as a result of its normal business transactions. At 31 March 2013, segregated accounts not otherwise dealt with in these financial statements amounted to $4,272,999 (2012: $366,912).

The carrying amount of accounts receivable approximates their fair values.

All of the accounts receivable are expected to be recovered within one year. Further details on the Group's credit policy are set out in note 26(a).

16 Amounts due to group companies

Amounts due to group companies are unsecured, non-interest bearing and repayable on demand, except for amount due to a fellow subsidiary, which is unsecured, interest-bearing and have fixed terms of repayment.

The carrying amount of amounts due to group companies approximates their fair values.

17 Cash and cash equivalents

	The Group		*The Company*	
	2013	*2012*	*2013*	*2012*
Deposits with banks	$445,170,483	$428,028,355	$445,170,483	$428,028,355
Cash at bank and in hand	106,598,289	109,313,249	106,598,289	108,764,872
Cash and cash equivalents in the balance sheet	$551,768,772	$537,341,604	$551,768,772	$536,793,227
Less: pledged deposit	(35,000,000)	(35,000,000)	(35,000,000)	(35,000,000)
Cash and cash equivalents in the cash flow statement	$516,768,772	$502,341,604	$516,768,772	$501,793,227

17 Cash and cash equivalents (continued)

The Company maintains segregated accounts with authorised institutions as a result of its normal business transactions. At 31 March 2013, segregated accounts not otherwise dealt with in these financial statements amounted to $50,914,140 (2012: $86,467,509). The carrying amount of cash and cash equivalents approximates their fair value.

18 Financial liabilities at fair value through profit or loss

	The Group and the Company 2013	2012
Short positions in listed equity securities	$ -	$ 9,351
Negative fair value of derivatives (note 25)	16,573,086	15,136,863
	$ 16,573,086	$ 15,146,214

The above financial liabilities were classified as held for trading.

19 Subordinated loan

The subordinated loan is due to the ultimate holding company. It is unsecured, interest bearing and repayable as follows:

	The Group and the Company 2013	2012
Repayable within one year	$ 35,000,000	$ -
Repayable after one year but within five years	105,000,000	35,000,000
	$ 140,000,000	$ 35,000,000

Details of the terms of the subordinated loan at 31 March 2013 are as follows:

Principal	*Interest rate*	*Maturity date*
US$35,000,000	LIBOR + 2.2%	1 March 2014
US$105,000,000	LIBOR + 2.2%	20 December 2014

20 Accounts payable

The carrying amount of the accounts payable approximates their fair values.

21 Income tax in the consolidated balance sheet

(a) Current taxation:

Current taxation in the consolidated balance sheet represents provision for Hong Kong Profits Tax for the current year.

(b) Deferred tax liabilities recognised:

The components of deferred tax liabilities recognised in the balance sheet and the movements during the year are as follows:

	The Group	
	Depreciation allowances in excess of related depreciation	
	2013	*2012*
Deferred tax arising from:		
At 1 April	$ -	$ 19,121
Credited/(charged) to profit or loss	-	(19,179)
Exchange difference	-	58
At 31 March	$ -	$ -

(c) Deferred tax assets not recognised

The Group and the Company have not recognised deferred tax assets in respect of tax losses and other deductible temporary differences of $305,446,027 (2012: $256,749,035) as it is not probable that future taxable profits against which the losses can be utilised will be available. The tax losses do not expire under current tax legislation.

22 Share capital

(a)

	The Group and the Company			
	2013		*2012*	
	No. of shares	*Amount*	*No. of shares*	*Amount*
Authorised:				
Ordinary shares of HK$10 each	10,000,000	$ 21,126,414	10,000,000	$ 21,126,414
Ordinary shares of US$10 each	53,673,423	536,734,230	53,673,423	536,734,230
	63,673,423	$ 557,860,644	63,673,423	$ 557,860,644

22 Share capital (continued)

(a) (continued)

	The Group and the Company			
	2013		*2012*	
	No. of shares	*Amount*	*No. of shares*	*Amount*
Issued and fully paid:				
Ordinary shares of HK$10 each				
– At 1 April and 31 March	10,000,000	$ 21,126,414	10,000,000	$ 21,126,414
Ordinary shares of US$10 each				
– At 1 April	53,673,423	$ 536,734,230	31,173,423	$ 311,734,230
– Shares issued	-	-	22,500,000	225,000,000
– At 31 March	53,673,423	$ 536,734,230	53,673,423	$ 536,734,230
	63,673,423	$ 557,860,644	63,673,423	$ 557,860,644

(b) ***Capital management***

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern. As the Group is part of a larger group, the Group's sources of additional capital and policies for distribution of excess capital may also be affected by the larger group's capital management objectives.

The Group defines "capital" as including all components of equity plus loans from group companies with no fixed terms of repayment and subordinated loan, less unaccrued proposed dividends. On this basis the amount of capital employed at 31 March 2013 was $528,675,861 (2012: $472,465,160).

The Group's capital structure is regularly reviewed and managed with due regard to the capital management practices of the larger group to which the Group belongs. Adjustments are made to the capital structure in light of changes in economic conditions affecting the Company or the Group, to the extent that these do not conflict with the directors' fiduciary duties towards the Group or the requirements of the Hong Kong Companies Ordinance.

22 Share capital (continued)

(b) Capital management (continued)

As a licensed corporation registered under the Hong Kong Securities and Futures Ordinance, the Company is also subject to the capital requirements of the Hong Kong Securities and Futures (Financial Resources) Rules ("FRR"). The minimum paid-up share capital requirement is HK$10,000,000 and the minimum liquid capital requirement is the higher of HK$3,000,000 and the variable required liquid capital as defined in the FRR. The Company monitors its compliance with the requirements of the FRR on a daily basis. The Company complied with the requirements of the FRR at all times during the year.

The Company is also an issuer of the Hong Kong listed structured products, it is required to maintain minimum of shareholders' equity of HK$2,000,000,000 according to the Main Board Listing Rules under The Stock Exchange of Hong Kong Limited. The Company complied with this requirement at all times during the year.

23 Reserves

(a) General reserve

The general reserve was established in accordance with the Hong Kong Banking Ordinance when the Company was a restricted license bank.

(b) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative change in the fair value of available-for-sale securities held at balance sheet date and is dealt with in accordance with the accounting policies in note 2(d).

(c) Translation reserve

The translation reserve comprises the exchange differences arising from the translation of the financial statements of the subsidiary into the presentation currency of the Group.

24 Group companies

The following balances with ultimate holding and fellow subsidiary companies are included in the indicated balance sheet captions in addition to those balances with group companies indicated elsewhere in these financial statements:

	The Group and the Company	
	2013	*2012*
Accounts receivable	$ 580,357,518	$ 1,158,670,774
Other receivables and prepayments	11,642,230	13,953,766
Accounts payable	(899,401,507)	(968,677,308)
Accruals and other payables	(4,959,173)	(2,932,605)

25 Derivatives

The major derivative financial instruments traded by the Group and the Company are equity derivative contracts which are over-the-counter and exchange-traded derivative contracts. For financial reporting purposes, all derivative instruments are classified as held for trading.

	The Group and the Company			
	2013		*2012*	
	Assets	*Liabilities*	*Assets*	*Liabilities*
Fair value of derivatives				
Equity derivatives	$ 16,573,086	$ 16,573,086	$ 15,136,863	$ 15,136,863
Foreign exchange derivatives	-	-	10,845	-
	$ 16,573,086	$ 16,573,086	$ 15,147,708	$ 15,136,863

26 Financial instruments

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below:

(a) Credit risk

The Group's credit risk is primarily attributable to accounts receivable from clients, brokers and clearing houses. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of accounts receivable due from clients, credit evaluations are performed on all clients. Receivables arising from unsettled stock broking transactions are due on the settlement date commonly adopted by the relevant market convention, which is usually within few days from the trade date. Because of the short settlement period involved, credit risk relating to such accounts receivable is considered small.

In respect of accounts receivable from brokers and clearing houses, credit risk is considered low as the Group normally enters into transactions with brokers and clearing houses which are registered with regulatory bodies and with sound reputation in the industry.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

26 Financial instruments (continued)

(b) Liquidity risk

The Group and the Company maintains sufficient reserves of cash and adequate committed lines of funding from reputable financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities. These are based on undiscounted cash flows (including interest payments computed using contractual rates or if floating, based on rates current at the balance sheet date), except for the financial liabilities at fair value through profit or loss which are part of the trading portfolio and are short term in nature, the Group's and the Company's financial liabilities at the balance sheet date are analysed by the remaining contractual maturities in the following table:

	The Group							
	2013				*2012*			
	Carrying amount	*Total contractual undiscounted cash flow*	*Within 1 year*	*More than 1 year but less than 2 years*	*Carrying amount*	*Total contractual undiscounted cash flow*	*Within 1 year*	*More than 1 year but less than 2 years*
Amount due to a fellow subsidiary	$ 31,305,010	$ 31,305,010	$ 31,305,010	$ -	$ 328,479,544	$ 328,479,544	$ 328,479,544	$ -
Accounts payable	1,488,547,707	1,488,547,707	1,488,547,707	-	2,212,177,161	2,212,177,161	2,212,177,161	-
Accruals and other payables	80,197,469	80,197,469	71,968,928	8,228,541	122,416,656	122,416,656	116,592,000	5,824,656
Subordinated loan	140,000,000	144,703,417	38,015,833	106,687,584	35,000,000	36,475,833	770,000	35,705,833
	$ 1,740,050,186	$ 1,744,753,603	$ 1,629,837,478	$ 114,916,125	$ 2,698,073,361	$ 2,699,549,194	$ 2,658,018,705	$ 41,530,489

The maturity dates of the subordinated loan were 1 March 2014 and 20 December 2014 respectively.

26 Financial instruments (continued)

(b) Liquidity risk (continued)

	The Company							
	2013				*2012*			
	Carrying amount	*Total contractual undiscounted cash flow*	*Within 1 year*	*More than 1 year but less than 2 years*	*Carrying amount*	*Total contractual undiscounted cash flow*	*Within 1 year*	*More than 1 year but less than 2 years*
Amount due to a fellow subsidiary	$ 31,305,010	$ 31,305,010	$ 31,305,010	$ -	$ 328,479,544	$ 328,479,544	$ 328,479,544	$ -
Amount due to a subsidiary	2,898,865	2,898,865	2,898,865	-	2,382,165	2,382,165	2,382,165	-
Accounts payable	1,488,547,707	1,488,547,707	1,488,547,707	-	2,212,177,161	2,212,177,161	2,212,177,161	-
Accruals and other payables	80,197,469	80,197,469	71,968,928	8,228,541	122,399,660	122,399,660	116,575,004	5,824,656
Subordinated loan	140,000,000	144,703,417	38,015,833	106,687,584	35,000,000	36,475,833	770,000	35,705,833
	$ 1,742,949,051	$ 1,747,652,468	$ 1,632,736,343	$ 114,916,125	$ 2,700,438,530	$ 2,701,914,363	$ 2,660,383,874	$ 41,530,489

The maturity dates of the subordinated loan were 1 March 2014 and 20 December 2014 respectively.

26 Financial instruments (continued)

(c) Interest rate risk

The majority of the Group's and the Company's financial assets and liabilities are non-interest bearing. Interest bearing assets include deposits at bank and reverse repurchase contracts. Interest bearing liabilities include bank loans, short-term loans borrowed from a fellow subsidiary and subordinated loan borrowed from the ultimate holding company. All these assets and liabilities except for subordinated loan mature or reprice in the short term. The terms and interest rates of the subordinated loan are disclosed in note 19. As a result, the Group and the Company is subject to limited exposure to interest rate risk due to fluctuations in the prevailing levels of market interest rates.

The following table details the interest rate profile of the Group's and the Company's interest bearing assets and liabilities at the balance sheet date:

	2013		*2012*	
	Effective interest rate		*Effective interest rate*	
Assets				
Deposits at bank	0.40%	$ 445,170,483	0.59%	$ 428,028,355
Reverse repurchase contracts	0.94%	31,262,871	1.43%	328,503,015
Liabilities				
Short-term loan	0.50%	(31,262,871)	0.69%	(328,021,639)
Subordinated loan	2.69%	(140,000,000)	2.54%	(35,000,000)
Total net interest bearing assets		$ 305,170,483		$ 393,509,731

At 31 March 2013, it is estimated that a general increase/decrease of 0.2% (2012: 0.2%) in interest rates, with all other variables held constant, would decrease/increase the Group's and the Company's loss before tax and accumulated losses by approximately $610,000 (2012: $787,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for the above financial instruments in existence at that date. The impact on the Group's and the Company's loss before tax is estimated as an annualised impact on interest income or expense of such a change in interest rates. The analysis is performed on the same basis for 2012.

26 Financial instruments (continued)

(d) Foreign currency risk

The Group is exposed to foreign currency risk primarily through its agency brokerage transactions that are denominated in currencies other than the functional currency of the operations to which they relate.

At 31 March 2013, the Group and the Company had the following major net assets/(liabilities) denominated in foreign currencies:

		2013		*2012*
Net assets in Indonesian Rupiah	$	142,776	$	133,778
Net assets in Japanese Yen		30,280,529		266,327
Net assets in Euro		726,305		954,757
Net assets in British Pound		821,556		5,654,795
Net assets in Taiwanese Dollar		121,820		88,428
Net assets in Singapore Dollar		207,826		266,344
Net assets in Malaysian Ringgit		133,684		184,903
Net assets in Korean Won		10,488		801,914
Net assets/(liabilities) in Philippine Peso		103,993		(78,206)
Net (liabilities)/assets in Swiss Franc		(205,540)		127,695
Net assets in Australian Dollar		847,302		192,788
Net assets in Yuan Renminbi		118,582		67,214
Net assets in Turkish New Lira		157,003		93,276
Net assets in Thai Baht		424,714		88,056
Net assets in Hong Kong Dollar		54,924,607		14,182,947

The Group ensures that the net exposure to foreign currencies is kept to an acceptable level by buying or selling foreign currencies at spot rates from time to time.

26 Financial instruments (continued)

(d) Foreign currency risk (continued)

At 31 March 2013, the Group and the Company had the following major outstanding commitment to buy or sell foreign currencies.

	The Group and the Company			
	2013		*2012*	
	Buy	*Sell*	*Buy*	*Sell*
Commitment to buy/(sell) Philippine Peso	$ 916,701	$ (915,415)	$ 293,116	$ (292,567)
Commitment to buy/(sell) Thai Baht	-	-	302,025	(301,293)
Commitment to buy/(sell) Indonesian Rupiah	-	-	396,731	(396,932)
Commitment to buy/(sell) Japanese Yen	29,280	(29,385,814)	156,944	(180,024)
Commitment to buy/(sell) Hong Kong Dollar	14,232,181	(69,159,953)	623,355	(657,105)
Commitment to buy/(sell) Australian Dollar	28,567	(729,153)	-	-

As shown in the above analysis, the net foreign exchange exposure is not significant to the Group and the Company. The management does not expect there will be significant impact to the loss after tax and accumulated losses in respect of reasonably possible change in the exchange rates at the balance sheet date.

(e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as trading securities.

It is estimated that a general increase/decrease of 5% (2012: 5%) in the market price of equity instruments, with all other variables held constant, there is no significant impact on the Group's and the Company's loss before tax and accumulated losses (2012: $372,460).

The sensitivity analysis above has been determined assuming that the change in equity price had occurred at the balance sheet date and had been applied to the exposure to equity price risk for the above financial instruments in existence at that date. The analysis is performed on the same basis for 2012.

The Company held short positions in derivative financial instruments of $16,573,086 (2012: $15,136,863) (note 25). It also held long positions in derivative financial instruments of $16,573,086 (2012: $15,136,863) (note 25) by entering into back-to-back transactions with its fellow subsidiary on these corresponding short positions. Therefore, the equity price risk on these derivative financial instruments is considered to be insignificant.

26 Financial instruments (continued)

(f) Fair values

Financial instruments carried at fair value

Fair value estimates are generally subjective in nature, and are made at a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1 - Fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2 - Fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3 - Fair values measured using valuation techniques in which any significant input is not based on observable market data

The table below analyses financial instruments, measured at fair value at the balance sheet date, by the level in the fair value hierarchy into which the fair value treatment is categorised:

	The Group and the Company 2013			
	Level 1	*Level 2*	*Level 3*	*Total*
Assets				
Available-for-sale				
- Club debentures	$ -	$ 2,538,044	$ -	$ 2,538,044
Financial assets at fair value through profit or loss	826	16,573,086	-	16,573,912
	$ 826	$ 19,111,130	$ -	$ 19,111,956
Liabilities				
Financial liabilities at fair value through profit or loss	$ -	$ 16,573,086	$ -	$ 16,573,086

26 Financial instruments (continued)

(f) Fair values (continued)

Financial instruments carried at fair value (continued)

	The Group and the Company			
	2012			
	Level 1	*Level 2*	*Level 3*	*Total*
Assets				
Available-for-sale				
- Club debentures	$ -	$ 2,341,814	$ -	$ 2,341,814
Financial assets at fair value through profit or loss	7,458,548	15,147,708	-	22,606,256
	$ 7,458,548	$ 17,489,522	$ -	$ 24,948,070
Liabilities				
Financial liabilities at fair value through profit or loss	$ 9,351	$ 15,136,863	$ -	$ 15,146,214

During the year, there were no transfer between instruments in Level 1 and Level 2.

27 Material related party transactions

In addition to the transactions and balances disclosed elsewhere in these consolidated financial statements, the Group and the Company entered into the following material related party transactions.

	The Group and the Company 2013	2012
Brokerage commission earned from fellow subsidiaries	$ 4,511,599	$ 9,643,715
Underwriting and selling commission earned from fellow subsidiaries	5,288,636	2,565,368
Rental income earned from fellow subsidiaries	839,231	626,852
Research fee income earned from fellow subsidiaries	9,486,709	16,553,903
Management fees income and services fees earned from fellow subsidiaries	38,265,003	36,625,730
Brokerage commission paid to fellow subsidiaries	(18,158,703)	(10,297,119)
Interest expenses paid to		
- a fellow subsidiary	(1,583,390)	(471,790)
- the ultimate holding company	(1,824,180)	(1,144,315)
Research fee paid to a fellow subsidiary	(2,444)	(1,452,495)

28 Credit facilities

The Group has aggregate credit facilities provided by authorised institutions and group companies amounting to $294,688,000 (2012: $305,321,000) and $1,243,237,000 (2012: $2,041,087,000) respectively. Among these credit facilities, $195,632,406 (2012: $195,544,232) provided by authorised institutions and $1,063,236,441 (2012: $1,861,087,459) provided by a group company were shared with a fellow subsidiary in Hong Kong. The Group and the Company has not utilised credit facilities provided by authorised institutions (2012: $Nil) while $171,262,871 (2012: $363,021,639) of the credit facility provided by the group companies was utilised by the Group and the Company as at 31 March 2013.

29 Commitments

At 31 March 2013, the Group and the Company had the following commitments in the ordinary course of business:

(a) Forward and swap transactions in the foreign exchange market are disclosed in note 26(d).

(b) The total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	The Group and the Company	
From fellow subsidiaries:	*2013*	*2012*
Within one year	$ 608,783	$ 547,169
After one year but within five years	284,474	364,779
More than five years	-	-
	$ 893,257	$ 911,948
From others:		
Within one year	$ 1,053,931	$ -
After one year but within five years	8,278,654	-
More than five years	1,962,876	-
	$ 11,295,461	$ -
	$ 12,188,718	$ 911,948

29 Commitments (continued)

(c) The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group and the Company 2013	2012
Within one year	$ 14,345,613	$ 14,910,837
After one year but within five years	46,813,102	47,574,686
More than five years	9,620,231	21,154,697
	$ 70,778,946	$ 83,640,220

(d) Committed facilities under reverse repurchase agreements entered into with counterparties are as follows:

	The Group and the Company 2013	2012
Within one year	$ 234,337,302	$ -

At 31 March 2013, the counterparties have not utilised any of the facilities.

30 Parent and ultimate holding company

The directors consider the immediate parent and ultimate holding company at 31 March 2013 to be Daiwa Capital Markets Asia Holding, B.V., which is incorporated in Netherlands, and Daiwa Securities Group Inc., which is incorporated in Japan respectively. Daiwa Securities Group Inc. produces financial statements available for public use.

31 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2013

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 March 2013 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group and the Company:

	Effective for accounting periods beginning on or after
Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
HKFRS 13, *Fair value measurement*	1 January 2013
Revised HKAS 19, *Employee benefits*	1 January 2013
Annual Improvement to HKFRSs 2009-2011 Cycle	1 January 2013
Amendments to HKFRS 7, *Financial instruments: Disclosures – Disclosures - Offsetting financial assets and financial liabilities*	1 January 2013
Amendments to HKAS 32, *Financial instruments: Presentation – Offsetting financial assets and financial liabilities*	1 January 2014
HKFRS 9, *Financial instruments*	1 January 2015

The Group and the Company are in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's and the Company's results of operations and financial position.