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Daiwa Capital Markets Hong Kong Limited

大和資本市場香港有限公司

31 March 2014

Report of the directors

The directors submit herewith their annual report together with the audited financial statements for the year ended 31 March 2014.

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 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 Company for the year ended 31 March 2014 and the state of the Company's affairs as at that date are set out in the financial statements on pages 6 to 47.

Transfer to reserves

Losses attributable to shareholders, before dividends, of US$18,134,798 (2013: US$48,988,576) have been transferred to reserves. Other movements in reserves are set out in the statement of changes in equity.

During the year, no interim dividend was declared and paid in respect of the year ended 31 March 2014 (2013: US$Nil). The directors do not recommend the payment of a final dividend for the year ended 31 March 2014 (2013: US$Nil).

Fixed assets

Details of movements in fixed assets are set out in note 10 to the financial statements.

Share capital

Details of share capital of the Company are set out in note 22(a) to the financial statements. Shares were issued during the year to broaden the capital base of the Company.

Directors

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

Hironori Oka	
Terence Patrick Mackey	
John Gerard Williams	
Tetsuo Akuzawa	(appointed on 1 April 2013)
Takashi Chiba	(appointed on 1 November 2013 and resigned on 13 May 2014)
Shinji Shibuya	(appointed on 14 May 2014)
Masami Tada	(resigned on 30 June 2013)
Tsutomu Kobayashi	(resigned on 1 November 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, 12 JUN 2014

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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 financial statements of Daiwa Capital Markets Hong Kong Limited ("the Company") set out on pages 6 to 47, which comprise the balance sheet as at 31 March 2014, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation of 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 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 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 financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 80 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), 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.

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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 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 financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the 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 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 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 financial statements give a true and fair view of the state of the Company's affairs as at 31 March 2014 and of its 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.

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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 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.

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Certified Public Accountants

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

12 JUN 2014

Statement of comprehensive income for the year ended 31 March 2014

(Expressed in United States dollars)

	Note	*2014*	*2013*
Turnover	3	$ 104,127,697	$ 90,342,433
Other revenue	4	46,531,995	55,438,039
Other net income	4	2,770,053	1,518,802
Staff costs	5	(59,096,194)	(74,611,026)
Depreciation	10	(9,862,541)	(9,208,048)
Other operating expenses		(98,798,388)	(108,579,947)
Loss from operations		$ (14,327,378)	$ (45,099,747)
Finance costs	6(a)	(3,807,420)	(3,888,829)
Loss before and after taxation for the year	6	$ (18,134,798)	$ (48,988,576)
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale securities:			
- Changes in fair value of available-for-sale securities		554,006	197,949
- Transfer from available-for-sale investment revaluation reserve to profit or loss on disposal of investments		(69,957)	-
Other comprehensive income for the year, net of tax		$ 484,049	$ 197,949
Total comprehensive income for the year		$ (17,650,749)	$ (48,790,627)

The notes on pages 12 to 47 form part of these financial statements.

Balance sheet at 31 March 2014

(Expressed in United States dollars)

	Note		*2014*		*2013*
Non-current assets					
Intangible assets	9	$	383,582	$	383,377
Fixed assets	10		20,224,584		25,207,295
Investment in a subsidiary	11		-		2,284,581
Available-for-sale securities	12		3,017,287		2,538,044
Other non-current deposits			5,095,883		5,036,698
		$	28,721,336	$	35,449,995
Current assets					
Financial assets at fair value through profit or loss	13	$	15,676,914	$	16,573,912
Receivables from reverse repurchase agreements	14		38,946,641		31,342,456
Accounts receivable	15, 24		1,130,382,620		1,487,518,270
Other receivables and prepayments	24		20,087,716		24,930,309
Cash and cash equivalents	17		520,007,700		551,768,772
		$	1,725,101,591	$	2,112,133,719
Current liabilities					
Financial liabilities at fair value through profit or loss	18	$	15,676,094	$	16,573,086
Amount due to a fellow subsidiary	16		38,903,001		31,305,010
Amount due to a subsidiary	16		-		2,898,865
Subordinated loan	19		-		35,000,000
Accounts payable	20, 24		1,130,650,591		1,488,547,707
Accruals and other payables	24		58,182,413		80,197,469
		$	1,243,412,099	$	1,654,522,137
Net current assets		$	481,689,492	$	457,611,582
Total assets less current liabilities		$	510,410,828	$	493,061,577

Balance sheet at 31 March 2014 (continued)

(Expressed in United States dollars)

	Note	*2014*	*2013*
Non-current liability			
Subordinated loan	19	$ -	$ 105,000,000
NET ASSETS		$ 510,410,828	$ 388,061,577
CAPITAL AND RESERVE			
Share capital	22(a)	$ 697,860,644	$ 557,860,644
General reserve	23(a)	12,008,165	12,008,165
Investment revaluation reserve	23(b)	962,584	478,535
Accumulated losses		(200,420,565)	(182,285,767)
TOTAL EQUITY		$ 510,410,828	$ 388,061,577

Approved and authorised for issue by the board of directors on 12 JUN 2014

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The notes on pages 12 to 47 form part of these financial statements.

Statement of changes in equity for the year ended 31 March 2014

(Expressed in United States dollars)

	Note	*Share capital*	*General reserve*	*Investment revaluation reserve*	*Accumulated losses*	*Total*
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
At 1 April 2013		$ 557,860,644	$ 12,008,165	$ 478,535	$ (182,285,767)	$ 388,061,577
Issue of capital	23(a)	$ 140,000,000	$ -	$ -	$ -	$ 140,000,000
Loss for the year		$ -	$ -	$ -	$ (18,134,798)	$ (18,134,798)
Other comprehensive income		-	-	484,049	-	484,049
Total comprehensive income for the year		$ -	$ -	$ 484,049	$ (18,134,798)	$ (17,650,749)
At 31 March 2014		$ 697,860,644	$ 12,008,165	$ 962,584	$ (200,420,565)	$ 510,410,828

The notes on pages 12 to 47 form part of these financial statements.

Cash flow statement
for the year ended 31 March 2014
(Expressed in United States dollars)

	Note	*2014*	*2013*
Operating activities			
Loss before taxation		$ (18,134,798)	$ (48,988,576)
Adjustments for:			
Depreciation		9,862,541	9,208,048
Loss on disposal of fixed assets		479,360	437,097
Reversal of provision of onerous contracts		(479,360)	-
Gain on disposal of a subsidiary		(616,777)	-
Net gain on sale of available-for-sale securities		(67,302)	-
Interest income		(2,189,966)	(6,847,096)
Interest expense		3,807,420	3,888,829
Exchange differences		(1,586)	(1,110)
Operating loss before changes in working capital		$ (7,340,468)	$ (42,302,808)
Increase in other non-current deposits		(59,185)	(2,160,899)
Decrease in financial assets at fair value through profit or loss		896,998	6,032,344
(Increase)/decrease in receivables from reverse repurchase agreements		(7,604,185)	297,646,772
Decrease in accounts receivable		357,135,650	712,947,384
Decrease/(increase) in other receivables and prepayments		4,931,465	(1,183,207)
(Decrease)/increase in financial liabilities at fair value through profit or loss		(896,992)	1,426,872
Increase/(decrease) in amount due to a fellow subsidiary		7,597,991	(297,174,534)
(Decrease)/increase in amount due to a subsidiary		(2,898,865)	516,700
Decrease in accounts payable		(357,897,116)	(723,629,454)
Decrease in accruals and other payables		(20,721,984)	(41,729,003)
Net cash used in operating activities		$ (26,856,691)	$ (89,609,833)

Cash flow statement
for the year ended 31 March 2014 (continued)
(Expressed in United States dollars)

	Note	*2014*	*2013*
Investing activities			
Dividend received		$ -	$ 2,902
Interest received		2,101,094	7,184,715
Payment for purchase of fixed assets		(5,359,190)	(4,509,938)
Proceeds from liquidation of a subsidiary		2,901,358	-
Proceeds from disposal of available-for-sale securities		73,489	-
Net cash (used in)/generated from investing activities		$ (283,249)	$ 2,677,679
Financing activities			
Proceeds from issue of shares		$ 140,000,000	$ -
Proceeds from subordinated loan obtained from the ultimate holding company		-	105,000,000
Repayment of subordinated loan		(140,000,000)	
Interest paid		(4,621,132)	(3,092,301)
Net cash (used in)/generated from financing activities		$ (4,621,132)	$ 101,907,699
Net (decrease)/increase in cash and cash equivalents		$ (31,761,072)	$ 14,975,545
Cash and cash equivalents at 1 April 2013/2012	17	516,768,772	501,793,227
Cash and cash equivalents at 31 March	17	$ 485,007,700	$ 516,768,772

The notes on pages 12 to 47 form part of these financial statements.

Notes to the financial statements

(Expressed in United States dollars unless otherwise indicated)

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 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 (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. A summary of the significant accounting policies adopted by the Company 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 Company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Company for the current and prior accounting periods reflected in these financial statements.

2 Significant accounting policies (continued)

(b) Basis of preparation of the financial statements

No consolidated financial statements are prepared for the current year as the subsidiary has been liquidated during the current year. The comparative figures in the financial statements represent the audited unconsolidated figures of the Company.

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.

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) Change in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Company. Of these, the following developments are relevant to the Company's financial statements:

- Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*
- HKFRS 10, *Consolidated financial statements*
- HKFRS 13, *Fair value measurement*
- Amendments to HKFRS 7 – *Disclosures - Offsetting financial assets and financial liabilities*

The Company has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 31).

2 Significant accounting policies (continued)

(c) Change in accounting policies (continued)

Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the statement of comprehensive income in these financial statements has been modified accordingly.

HKFRS 10, *Consolidated financial statements*

HKFRS 10 replaces the requirements in HKAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and HK-SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Company has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Company in respect of its involvement with other entities as at 1 April 2013.

HKFRS 13, *Fair value measurement*

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. To the extent that the requirements are applicable to the Company, the Company has provided those disclosures in note 26. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Company's assets and liabilities.

Amendments to HKFRS 7 – *Disclosures – Offsetting financial assets and financial liabilities*

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32. The Company has provided those disclosures in note 26(g).

2 Significant accounting policies (continued)

(d) Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Company has power, only substantive rights are considered.

When the Company loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

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, transactions and cash flows 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 statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(j)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Investment in securities

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.

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(j)) 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 Company commits to purchase/sell the investments or they expire.

2 Significant accounting policies (continued)

(f) Investments in derivative financial instruments

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(r). 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.

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 Company commits to purchase/sell the investments or they expire.

2 Significant accounting policies (continued)

(g) 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.

(h) Fixed assets

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(j)). 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

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.

(i) 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(j)).

The Company reviews annually whether the useful life of trading rights is indefinite.

2 Significant accounting policies (continued)

(j) 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.

(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.

2 Significant accounting policies (continued)

(j) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

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.

(k) 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(j)), 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(j)).

2 Significant accounting policies (continued)

(l) 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.

(m) 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.

(n) 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.

(o) 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.

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.

2 Significant accounting policies (continued)

(o) Income tax (continued)

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 Company 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 Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- 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.

2 Significant accounting policies (continued)

(p) Operating lease

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

Where the Company 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.

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company 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.

(r) 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 Company 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.

2 Significant accounting policies (continued)

(r) Revenue recognition (continued)

- 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.

(s) 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.

(t) Related parties

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

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

(ii) has significant influence over the Company; or

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

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

(i) The entity and the Company 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.

2 Significant accounting policies (continued)

(t) Related parties (continued)

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

(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 Company or an entity related to the Company.

(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.

(u) 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

	2014	*2013*
Brokerage commission income	$ 81,579,814	$ 69,214,908
Underwriting and selling commission income	18,410,850	17,462,239
Financial advisory fee and other commission income	4,137,033	3,665,286
	$ 104,127,697	$ 90,342,433

4 Other revenue and other net income

Other revenue

		2014		*2013*
Dividend income	$	22,823	$	-
Research fees income from group companies		8,187,358		9,486,709
Management fees and services fees income from group companies		33,180,665		38,265,003
Interest income		2,189,966		6,847,096
Rental income from related companies		2,951,183		839,231
	$	46,531,995	$	55,438,039

Other net income

		2014		*2013*
Net trading gain on securities and foreign currency transaction	$	1,584,934	$	2,471,658
Net exchange gain/(loss)		303,871		(771,176)
Loss on disposal of fixed assets		(479,360)		(437,097)
Gain on disposal of a subsidiary		616,777		-
Net gain on disposal of available-for-sale securities		67,302		-
Others		676,529		255,417
	$	2,770,053	$	1,518,802

5 Staff costs

		2014		*2013*
Salaries, wages and other benefits	$	57,493,374	$	73,247,674
Contributions to defined contribution plan		1,602,820		1,363,352
	$	59,096,194	$	74,611,026

6 Loss before taxation

Loss before taxation is arrived at after charging:

		2014		2013
(a) Finance costs				
Interest expenses on bank loans	$	115	$	128
Interest expenses to the ultimate holding company		3,102,828		1,824,180
Interest expenses to a fellow subsidiary		145,265		1,583,390
	$	3,248,208	$	3,407,698
Other financing expenses		559,212		481,131
	$	3,807,420	$	3,888,829
(b) Other items				
Commission and brokerage charges	$	50,503,957	$	46,357,678
Underwriting expenses		4,235,366		2,617,570
Operating lease charges on properties		14,881,858		15,788,671
Auditors' remuneration		410,747		332,993

7 Income tax in the statement of comprehensive income

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

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.

7 Income tax in the statement of comprehensive income (continued)

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

	2014	*2013*
Loss before taxation	$ (18,134,798)	$ (48,988,576)
Notional tax on loss before taxation, calculated at 16.5%	$ (2,992,242)	$ (8,083,115)
Tax effect of non-deductible expenses	608,378	622,751
Tax effect of non-taxable income	(431,288)	(476,799)
Tax effect of unused tax losses and other deductible temporary differences not recognised	2,807,694	8,035,004
Others	7,458	(97,841)
Tax expense	$ -	$ -

8 Directors' remuneration

Directors' remuneration disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	2014	*2013*
Directors' fees	$ -	$ -
Salaries, allowances and benefits in kind	1,984,416	2,599,137
Bonuses	622,565	350,187
Retirement scheme contributions	77,940	49,675

9 Intangible assets

		Trading rights		*Club debentures*		*Total*
Cost:						
At 1 April 2013	$	419,448	$	383,373	$	802,821
Exchange differences		-		205		205
At 31 March 2014	$	419,448	$	383,578	$	803,026
Accumulated impairment loss:						
At 1 April 2013 and 31 March 2014		419,444		-		419,444
Net book value:						
At 31 March 2014	$	4	$	383,578	$	383,582

		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

10 Fixed assets

	Leasehold improvements	*Furniture, fixtures and office equipment*	*Motor vehicles*	*Total*
Cost:				
At 1 April 2013	$ 9,252,194	$ 43,277,864	$ 315,379	$ 52,845,437
Additions	918,945	4,440,245	-	5,359,190
Disposals	(626,273)	(886,159)	-	(1,512,432)
At 31 March 2014	$ 9,544,866	$ 46,831,950	$ 315,379	$ 56,692,195
Accumulated depreciation:				
At 1 April 2013	$ 2,074,901	$ 25,247,862	$ 315,379	$ 27,638,142
Charge for the year	1,524,440	8,338,101	-	9,862,541
Written back on disposals	(147,870)	(885,202)	-	(1,033,072)
At 31 March 2014	$ 3,451,471	$ 32,700,761	$ 315,379	$ 36,467,611
Net book value:				
At 31 March 2014	$ 6,093,395	$ 14,131,189	$ -	$ 20,224,584
Cost:				
At 1 April 2012	$ 10,394,216	$ 39,654,034	$ 315,379	$ 50,363,629
Additions	-	4,509,938	-	4,509,938
Disposals	-	(758,414)	-	(758,414)
Adjustment on cost in respect of prior year	(1,142,022)	(127,694)	-	(1,269,716)
At 31 March 2013	$ 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
Charge for the year	1,478,588	7,729,460	-	9,208,048
Written back on disposals	-	(321,317)	-	(321,317)
At 31 March 2013	$ 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

11 Investment in a subsidiary

Prior year balance represented the Company's investment in the unlisted shares of an entity, 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*

*The subsidiary has been liquidated during the current year.

12 Available-for-sale securities

	2014	*2013*
Club debentures	$ 3,017,287	$ 2,538,044

13 Financial assets at fair value through profit or loss

	2014	*2013*
Long positions in listed equity securities	$ 820	$ 826
Positive fair value of derivatives (note 25)		
- with a fellow subsidiary	15,676,094	16,573,086
	$ 15,676,914	$ 16,573,912

As at 31 March 2014, the market value of securities placed by a fellow subsidiary to the Company for over-the-counter derivatives transactions as collateral amounted to $155,300,092 (2013: $188,053,338).

The above financial assets were classified as held for trading.

14 Receivables from reverse repurchase agreements

	2014	2013
Receivables from reverse repurchase agreements	$ 38,946,641	$ 31,342,456

As of 31 March 2014, the fair value of collateral accepted in respect of the reverse repurchase transactions was $45,916,106 (2013: $40,642,959), 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.

The carrying amount of receivables from reverse repurchase agreements approximates their fair values.

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 2014, segregated accounts not otherwise dealt with in these financial statements amounted to $1,081,549 (2013: $4,272,999).

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 Company'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

	2014	*2013*
Deposits with banks	$ 459,019,250	$ 445,170,483
Cash at bank and in hand	60,988,450	106,598,289
Cash and cash equivalents in the balance sheet	$ 520,007,700	$ 551,768,772
Less: pledged deposit	(35,000,000)	(35,000,000)
Cash and cash equivalents in the cash flow statement	$ 485,007,700	$ 516,768,772

The Company maintains segregated accounts with authorised institutions as a result of its normal business transactions. At 31 March 2014, segregated accounts not otherwise dealt with in these financial statements amounted to $46,355,104 (2013: $50,914,140). The carrying amount of cash and cash equivalents approximates their fair value.

18 Financial liabilities at fair value through profit or loss

	2014	*2013*
Negative fair value of derivatives (note 25)	$ 15,676,094	$ 16,573,086

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:

	2014	*2013*
Repayable within one year	$ -	$ 35,000,000
Repayable after one year but within five years	-	105,000,000
	$ -	$ 140,000,000

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

The Company has repaid the subordinated loan during the current year.

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:

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) Deferred tax assets not recognised

The Company has not recognised deferred tax assets in respect of tax losses and other deductible temporary differences of \$322,522,843 (2013: \$305,506,518) 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) Authorised, issued and fully paid:

	2014		*2013*	
	No. of shares	*Amount*	*No. of shares*	*Amount*
Authorised: (note 1)				
Ordinary shares of HK\$10 each (note 2)	-	\$ -	10,000,000	\$ 21,126,414
Ordinary shares of US\$10 each (note 2)	-	-	53,673,423	536,734,230
	-	\$ -	63,673,423	\$ 557,860,644

22 Share capital (continued)

(a) (continued)

	2014		*2013*	
	No. of shares	*Amount*	*No. of shares*	*Amount*
Ordinary shares, 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	53,673,423	$ 536,734,230
Shares issued (note 3)	14,000,000	140,000,000	-	-
At 31 March	67,673,423	$ 676,734,230	53,673,423	$ 536,734,230
	77,673,423	$ 697,860,644	63,673,423	$ 557,860,644

Note 1: Under the new Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3 March 2014, the concept of authorised share capital no longer exists.

Note 2: In accordance with section 135 of the new Hong Kong Companies Ordinance (Cap. 622), the Company's shares no longer have a par or nominal value with effect from 3 March 2014. There is no impact on the number of shares in issue or the relative entitlement of any of the members as a result of this transition.

Note 3: For the year ended 31 March 2014, the Company's creation of 14,000,000 ordinary shares of US$10 each was approved by ordinary resolutions of shareholders on 18 December 2013. These new ordinary shares rank pari passu in all respects with the existing shares in the capital of the Company. 14,000,000 ordinary shares were issued to existing shareholders at par for cash on 20 December 2013.

22 Share capital (continued)

(b) Capital management

The Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern. As the Company is part of a larger group, the Company'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 Company 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 2014 was $510,410,828 (2013: $528,061,577).

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

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(e).

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:

	2014	*2013*
Accounts receivable	$ 513,933,996	$ 580,357,518
Other receivables and prepayments	5,519,093	11,642,230
Accounts payable	(608,829,628)	(899,401,507)
Accruals and other payables	(1,185,736)	(4,959,173)

25 Derivatives

The major derivative financial instruments traded by 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.

	2014		*2013*	
	Assets	*Liabilities*	*Assets*	*Liabilities*
Fair value of derivatives				
Equity derivatives	$ 15,676,094	$ 15,676,094	$ 16,573,086	$ 16,573,086

26 Financial instruments

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

(a) Credit risk

The Company'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 Company 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 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 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 Company's financial liabilities at the balance sheet date are analysed by the remaining contractual maturities in the following table:

	2014				*2013*			
	Carrying amount	*Total contractual undiscounted cash flow*	*Within 1 year*	*More than 1 year but less than 5 years*	*Carrying amount*	*Total contractual undiscounted cash flow*	*Within 1 year*	*More than 1 year but less than 5 years*
Amount due to a fellow subsidiary	$ 38,903,001	$ 38,903,001	$ 38,903,001	$ -	$ 31,305,010	$ 31,305,010	$ 31,305,010	$ -
Amount due to a subsidiary	-	-	-	-	2,898,865	2,898,865	2,898,865	-
Accounts payable	1,130,650,591	1,130,650,591	1,130,650,591	-	1,488,547,707	1,488,547,707	1,488,547,707	-
Accruals and other payables	58,182,413	58,182,413	55,843,731	2,338,682	80,197,469	80,197,469	71,968,928	8,228,541
Subordinated loan	-	-	-	-	140,000,000	144,703,417	38,015,833	106,687,584
	$ 1,227,736,005	$ 1,227,736,005	$ 1,225,397,323	$ 2,338,682	$ 1,742,949,051	$ 1,747,652,468	$ 1,632,736,343	$ 114,916,125

26 Financial instruments (continued)

(c) Interest rate risk

The majority of 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 short-term loans borrowed from a fellow subsidiary and subordinated loan borrowed from the ultimate holding company. All these assets and liabilities mature in short term. As a result, 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 Company's interest bearing assets and liabilities at the balance sheet date:

	2014		*2013*	
	Effective interest rate		*Effective interest rate*	
Assets				
Deposits at bank	0.45%	$ 459,019,250	0.40%	$ 445,170,483
Reverse repurchase contracts	0.81%	38,946,641	0.94%	31,342,456
Liabilities				
Short-term loan	0.38%	(38,903,001)	0.50%	(31,305,010)
Subordinated loan		-	2.69%	(140,000,000)
Total net interest bearing assets		$ 459,062,890		$ 305,207,929

At 31 March 2014, it is estimated that a general increase/decrease of 0.2% (2013: 0.2%) in interest rates, with all other variables held constant, would decrease/increase the Company's loss before tax and accumulated losses by approximately $918,000 (2013: $610,000).

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 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 2013.

26 Financial instruments (continued)

(d) Foreign currency risk

The Company 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 2014, the Company had the following major net assets/(liabilities) denominated in foreign currencies:

	2014	*2013*
Net assets in Japanese Yen	$ 10,042,887	$ 30,280,529
Net assets in Hong Kong Dollar	45,726,770	54,924,607

The Company 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.

At 31 March 2014, the Company had the following major outstanding commitment to buy or sell foreign currencies.

	2014		*2013*	
	Buy	*Sell*	*Buy*	*Sell*
Commitment to buy/(sell) Japanese Yen	9,716,192	(19,432,384)	29,280	(29,385,814)
Commitment to buy/(sell) Hong Kong Dollar	-	(45,014,752)	14,232,181	(69,159,953)

As shown in the above analysis, the net foreign exchange exposure is not significant to 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 Company held short positions in derivative financial instruments of $15,676,094 (2013: $16,573,086) (note 25). It also held long positions in derivative financial instruments of $15,676,094 (2013: $16,573,086) (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 value measurement

Financial instruments measured at fair value

Fair value hierarchy

The following table presents the fair value of the Company's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at 31 March 2014	*Fair value measurements as at 31 March 2014 categorised into*		
		Level 1	*Level 2*	*Level 3*
Recurring fair value measurement				
Assets				
Available-for-sale				
– Club debentures	$ 3,017,287	$ -	$ 3,017,287	$ -
Financial assets at fair value through profit or loss	15,676,914	820	15,676,094	-
	$ 18,694,201	$ 820	$ 18,693,381	$ -
Liabilities				
Financial liabilities at fair value through profit or loss	$ (15,676,094)	$ -	$ (15,676,094)	$ -

26 Financial instruments (continued)

(f) Fair value measurement (continued)

Financial instruments measured at fair value (continued)

Fair value hierarchy (continued)

	Fair value at 31 March 2013	*Fair value measurements as at 31 March 2013 categorised into*		
		Level 1	*Level 2*	*Level 3*
Recurring fair value measurement				
Assets				
Available-for-sale – Club debentures	$ 2,538,044	$ -	$ 2,538,044	$ -
Financial assets at fair value through profit or loss	16,573,912	826	16,573,086	-
	$ 19,111,956	$ 826	$ 19,111,130	$ -
Liabilities				
Financial liabilities at fair value through profit or loss	$ (16,573,086)	$ -	$ (16,573,086)	$ -

During the year ended 31 March 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2013: Nil). The Company's policy is to recognise transfers between levels of fair value hierarchy as they occur.

Valuation techniques and inputs used in Level 2 fair value measurements

For financial instruments that are not traded in the active markets, the Company determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models and various market widely recognised option pricing models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, equity prices, foreign currency exchange rates, index prices, and historical or implied volatilities. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, that would have been determined by market participants acting at arm's length.

The fair value of available-for-sale financial assets is determined based on quotes from brokers or alternative pricing sources supported by observable inputs, either directly or indirectly.

26 Financial instruments (continued)

(g) Offsetting financial assets and financial liabilities

The Company has entered into transactions subject to an enforceable master netting arrangement or similar agreement with a counterparty. The gross amounts of recognised accounts receivable from and accounts payable to these counterparties and the net balance as shown on the balance sheet are disclosed as follows:

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

	Gross amount of recognised accounts receivable	*Gross amount of recognised accounts payable set off in the balance sheet*	*Net amount of accounts receivable presented in the balance sheet*	*Related amount not set off in the balance sheet*	*Net amount*
As at 31 March 2014					
Accounts receivable	$1,177,624,348	$ (47,241,728)	$1,130,382,620	$ (2,615,538)	$1,127,767,082
As at 31 March 2013					
Accounts receivable	$1,571,887,084	$ (84,368,814)	$1,487,518,270	$ (2,657,064)	$1,484,861,206

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

	Gross amount of recognised accounts payable	*Gross amount of recognised accounts receivable set off in the balance sheet*	*Net amount of accounts payable presented in the balance sheet*	*Related amount not set off in the balance sheet*	*Net amount*
As at 31 March 2014					
Accounts payable	$1,177,892,319	$ (47,241,728)	$1,130,650,591	$ (2,615,538)	$1,128,035,053
As at 31 March 2013					
Accounts payable	$1,572,916,521	$ (84,368,814)	$1,488,547,707	$ (2,657,064)	$1,485,890,643

27 Material related party transactions

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

		2014		*2013*
Brokerage commission earned from fellow subsidiaries	$	4,539,766	$	4,511,599
Underwriting and selling commission earned from fellow subsidiaries		3,018,385		5,288,636
Rental income earned from fellow subsidiaries		2,951,183		839,231
Research fee income earned from fellow subsidiaries		8,187,358		9,486,709
Management fees income and services fees earned from fellow subsidiaries		33,180,665		38,265,003
Brokerage commission paid to fellow subsidiaries		31,508,224		(18,158,703)
Interest expenses paid to				
- a fellow subsidiary		(145,265)		(1,583,390)
- the ultimate holding company		(3,102,828)		(1,824,180)

28 Credit facilities

The Company has aggregate credit facilities provided by authorised institutions and group companies amounting to $288,378,000 (2013: $294,688,000) and $1,011,621,000 (2013: $1,243,237,000) respectively. Among these credit facilities, $195,736,000 (2013: $195,632,000) provided by authorised institutions and $971,619,000 (2013: $1,063,236,000) provided by a group company were shared with a fellow subsidiary in Hong Kong. The Company has not utilised credit facilities provided by authorised institutions (2013: $Nil) while $38,864,000 (2013: $171,263,000) of the credit facility provided by the group companies was utilised by the Company as at 31 March 2014.

29 Commitments

At 31 March 2014, 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:

From fellow subsidiaries:	*2014*	*2013*
Within one year	$ 642,078	$ 608,783
After one year but within five years	1,599,944	284,474
	$ 2,242,022	$ 893,257
From others:		
Within one year	$ 1,807,690	$ 1,053,931
After one year but within five years	8,439,234	8,278,654
More than five years	-	1,962,876
	$ 10,246,924	$ 11,295,461
	$ 12,488,946	$ 12,188,718

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

	2014	*2013*
Within one year	$ 13,095,940	$ 14,345,613
After one year but within five years	44,540,430	46,813,102
More than five years	-	9,620,231
	$ 57,636,370	$ 70,778,946

29 Commitments (continued)

At 31 March 2014, the Company had the following commitments in the ordinary course of business: (continued)

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

	2014	*2013*
Within one year	$ 316,650,697	$ 234,337,302

At 31 March 2014, 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 2014 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 2014

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and a new standard which are not yet effective for the year ended 31 March 2014 and which have not been adopted in these financial statements. These include the following which may be relevant to the Company:

	Effective for accounting periods beginning on or after
Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*	1 January 2014
Amendments to HKAS 36, *Impairment of assets – Recoverable amount disclosures for non-financial assets*	1 January 2014
Amendments to HKAS 39, *Novation of derivatives and continuation of hedge accounting*	1 January 2014
HKFRS 9, *Financial instruments*	To be determined

31 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2014 (continued)

The Company is 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 financial statements.

In addition, the requirement of Part 9, "Accounts and Audit", of the new Hong Kong Companies Ordinance (Cap. 622) come into operation from the Company's first financial year commencing after 3 March 2014 (i.e. the Company's financial year which began on 1 April 2014) in accordance with section 358 of that Ordinance. The Company is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the financial statements in the period of initial application of Part 9. So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the financial statements.