CONVOY 康宏

your finance navigator

QUALITY SERVICE
WITH PASSION
優質服務 用心連繫

ANNUAL REPORT 2012 年報

CONVOY FINANCIAL SERVICES HOLDINGS LIMITED 康宏理財控股有限公司

(incorporated in the Cayman Islands with limited liability) (於開曼群島註冊成立的有限公司)

Stock Code 股份代號：1019

CONTENTS

CORPORATE INFORMATION

Executive directors

Mr. Wong Lee Man *(Chairman)*
Ms. Fong Sut Sam
Mr. Mak Kwong Yiu

Independent non-executive directors

Mrs. Fu Kwong Wing Ting, Francine
Dr. Wu Ka Chee, Davy
Mr. Ma Yiu Ho, Peter

Registered office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Headquarters and principal place of business

5th, 7th, 39th and 40th Floors, @CONVOY
169 Electric Road
Hong Kong

Our Company's website address

www.convoy.com.hk

Members of audit committee

Mr. Ma Yiu Ho, Peter *(Chairman of the audit committee)*
Mrs. Fu Kwong Wing Ting, Francine
Dr. Wu Ka Chee, Davy

Members of remuneration committee

Mrs. Fu Kwong Wing Ting, Francine
(Chairman of the remuneration committee)
Dr. Wu Ka Chee, Davy
Mr. Wong Lee Man

Members of nomination committee

Mrs. Fu Kwong Wing Ting, Francine
(Chairman of the nomination committee)
Dr. Wu Ka Chee, Davy
Mr. Wong Lee Man

Members of corporate governance committee

Dr. Wu Ka Chee, Davy
(Chairman of the corporate governance committee)
Mrs. Fu Kwong Wing Ting, Francine
Ms. Fong Sut Sam
Mr. Wong Lee Man

Company secretary

Mr. Chow Kim Hang

Authorised representatives

Mr. Mak Kwong Yiu
Mr. Chow Kim Hang

Principal share registrar and transfer office

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

Hong Kong branch share registrar and transfer office

Tricor Investor Services Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Principal bankers

Standard Chartered Bank (Hong Kong) Limited
Industrial and Commercial Bank of China (Asia) Limited

Principal auditors

Ernst & Young
Certified Public Accountants

SOLID FOUNDATION ESTABLISHED WITHIN 20 YEARS

Established in 1993, Convoy Financial Group is a 'Diversified Financial Navigator' in Hong Kong. Its subsidiary Convoy Financial Services Holdings Limited was listed on the Main Board of the Hong Kong Stock Exchange in July 2010 (stock code: 1019), which served as yet another milestone to recognize Convoy's status in the industry. Our mission pivots around mutual trust and respect, consideration, farsighted vision, giving back to society, and to help our customers realize wealth independence through suitable financial planning.

Wong Lee Man
Chairman

The Group has stepped into 2013 to celebrate its 20th anniversary. In this year of special significance, the Group has made remarkable achievements in business expansion. In mid-February, we received the official notice from the China Insurance Regulatory Commission (CIRC) that Convoy has successfully obtained the National Insurance Agent License through CEPA (Mainland and Hong Kong Closer Economic Partnership Arrangement), and become the first Hong Kong enterprise being issued such license in China. This has been the most important step for Convoy in entering the China market. In the days ahead, the Group is expected to continue to achieve excellent results in business expansion.

Breakthroughs in developing overseas market

Following the commencement of operation of the offices in Beijing, Macau and Shenzhen in full scale, the Group has set up offices in Chengdu, Guangzhou, Sichuan, Jiangxi and Nanjing in 2012. 康宏財富投資管理（北京）有限公司 has also established a branch office in Shenzhen early this year while Convoy Insurance Service (Jiangsu) Company Limited has been officially established in Nanjing after the breakthrough of attaining the National Insurance Agent License. The company expands the insurance and fund sales in the PRC in full effort and further consolidates the servicing positioning of Convoy in Mainland China. We will pursue greater efforts to seek cooperation with various leading financial management brand suppliers in the PRC market and provide comprehensive and integrated financial management services to clients in Mainland China by establishing a diversified supply platform of insurance, trust and other financial management products.

Apart from Mainland China, the Group remains open for development opportunities in other overseas markets, and continue to explore different overseas markets in Asia. We aim to provide the largest independent financial management services platform for the Southeast Asian region and serve our clients with comprehensive and quality financial management services.

Effective business development diversification strategies

Looking back into 2012, the performance of local operations remained stable, details of which are discussed in the business review of Ms. Fong Sut Sam, Chief Executive Officer. A particular point to highlight is that Convoy has adhered to a professional attitude in delivering financial management solutions without prejudice to customers for 20 years since its establishment. In recent years, the Group has exerted its efforts to offer customers diversified products and services, and the effectiveness of this marketing strategy and development approach has been well reflected in the results of last year.

In fact, with nowadays' advanced information technology, customers' expectation on the financial services industry is no longer a simple one-way service as before, and our product research and development team has therefore made continuous efforts in developing new product lines in the past few years. At present, there are not only traditional ILAS products offered at Convoy's product platform, as we have successively launched various insurance products in recent years, such as annuities, RMB insurance, universal life, critical illness plan and medical plan. With regard to the financial investment services, we took the initiative to open up the MPF market last year to provide employers and employees in Hong Kong with MPF intermediary services, and successfully established a secure foothold in the market by offering the public free MPF information in form of periodic newsletter. Meanwhile, we have made certain achievements by strengthening our investment immigration services to provide foreign immigrants intending to invest in Hong Kong with one-stop application and investment services.

Maintaining a stable cost structure in the long term

Like many SMEs, Convoy has been under the pressure of rising rents in recent years while it was stepping up its efforts in development. As the rental increment by property owner far exceeded our budgets, the Group decided to relocate its headquarter last year in order to maintain a stable cost structure in the long term. We also encountered different types of pressure and difficulties when we were looking for new office building. Fortunately, with the endeavors of our colleagues, we have finally selected 169 Electric Road, North Point as the new premises of our headquarter, and successfully obtained the naming right to rename the building as @CONVOY (康宏匯 in Chinese). This name has a meaning of convergence which symbolizes the convergence of talents and wealth in the financial services industry.

In addition to moving into a district with lower rents, the Group also acquired new office premises for its own use in the previous year. This is the first time of the Group to acquire properties for its own use since its establishment as the management considered that the ownership of self-use properties can effectively help us to withstand the pressure of rising rents in the long run. At present, the leases of Convoy's offices in Li Po Chun Chambers and Cityplaza 3 will expire in early 2014 and 2015 respectively. Therefore, acquiring office premises may also help the effective reallocation of resources in the future.

Increased investment demand under inflationary pressures

In face of the external economic instability, investors have invested their money in defensive instruments or instruments with stable returns in the past two years, reflecting a weak investment sentiment. However, as the United States stepped away from its fiscal cliff, the investment sentiment in the market has been boosted, and the stock and fund markets turned active since the beginning of the year. On the other hand, property prices in Hong Kong remained at a high level. As influenced by the constraints of the linked exchange rate system, Hong Kong can only continue to maintain a low interest rate policy, which exerts a continued upward pressure on property prices. Despite the two rounds of measures implemented by the government to cool off the red-hot property market in the first half of the year, the effectiveness of which has been in doubt. Given a lower risk premium of the property market, capitals have been gradually shifted to other investment products, resulting in a stronger investment sentiment which is favourable to the business development of the Group.

Poised to take on competition and looking forward to the establishment of the Insurance Authority to enhance industry standards

The management noted that there have been an increased number of new competitors in the independent financial advisory ("IFA") industry in recent years, resulted in an intensified competition in terms of both market shares and human resources. However, leveraging on its solid foundation, sound financial position and strong supporting team, the Group still has the largest advisory team in Hong Kong, and maintains its leading position in the Hong Kong market. We are not worried about competition, instead, we welcome quality IFA companies to enter the market and make concerted efforts in enhancing the quality of the industry and strengthen consumers' confidence in the market.

For industrial regulations, the Group supported the government's introduction of a bill on establishment of an independent Insurance Authority into the Legislative Council during the year. We believe that the establishment of the Insurance Authority would help improving the overall professional standards, formulate uniform standards of practice for the industry, enhance transparency, optimise the current operating strength of the industry, and strengthen the confidence of the public in the industry. The Group has worked intensively on the compliance of regulations by taking the initiative to provide protective terms to our customers and putting their interests as our top priority. For example, the regulator has proposed to implement the commission disclosure mechanism in mid-April, and the Group has scheduled the full implementation of the same on 1 April 2013.

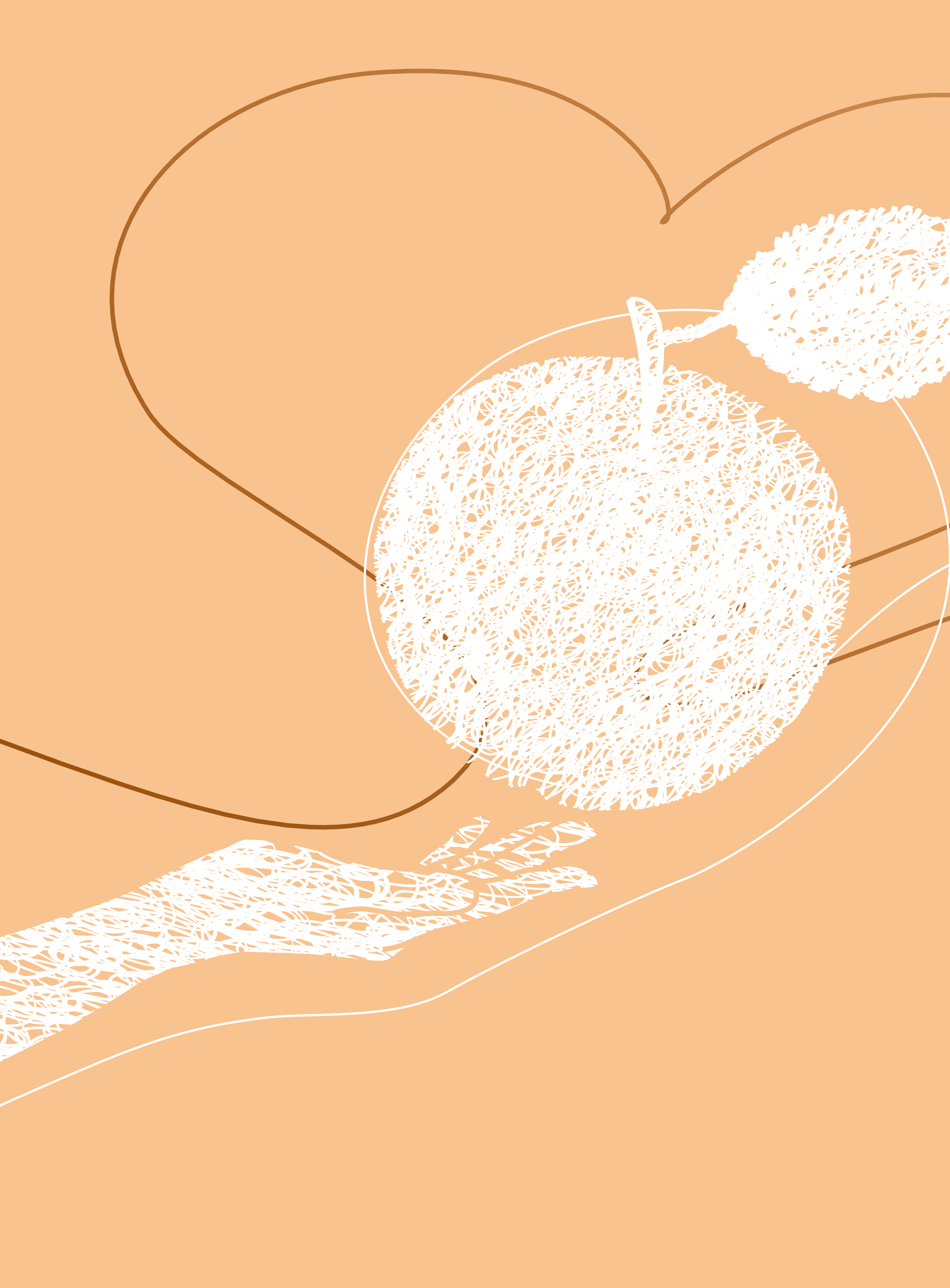
The beginning of another 20 years of development

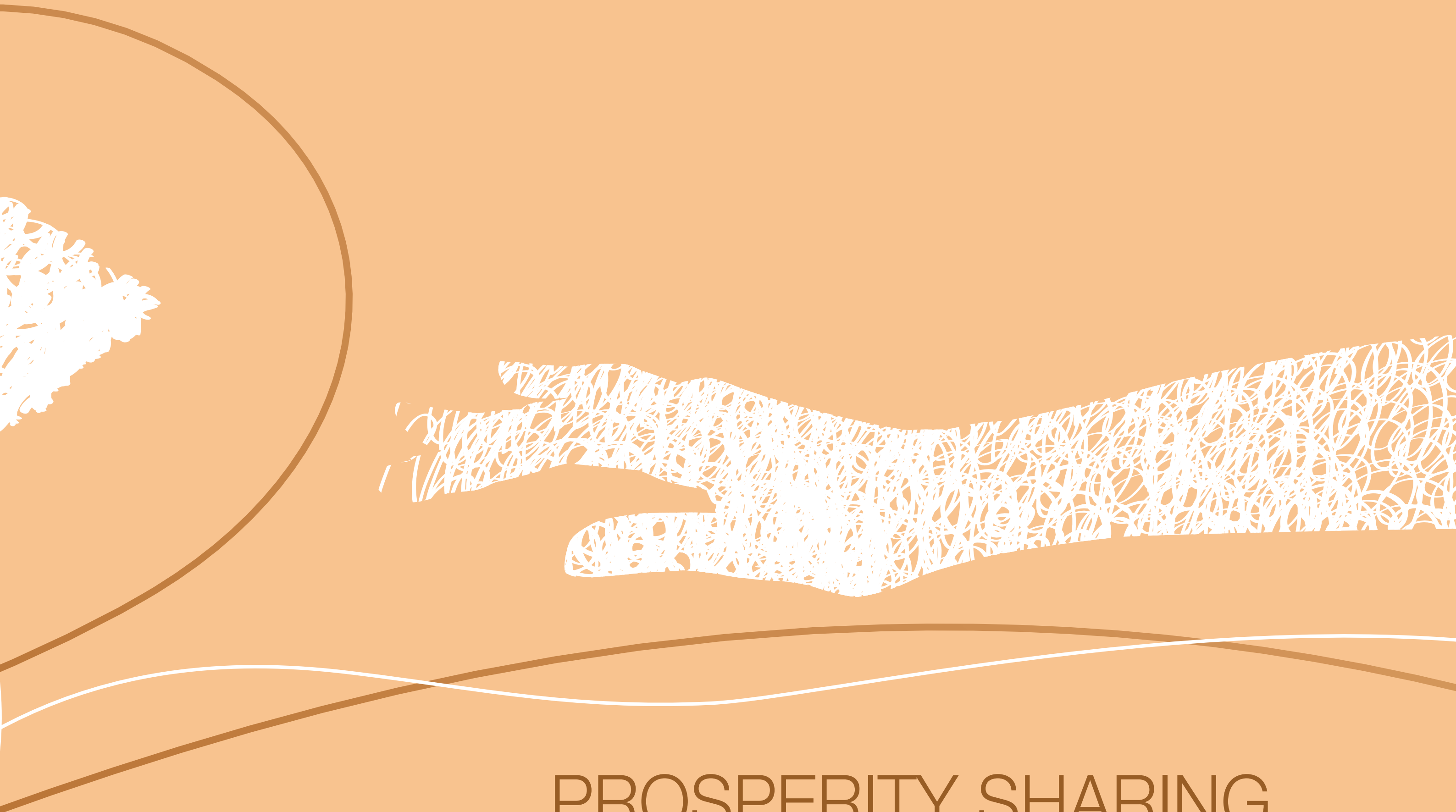
Despite its 20 years of establishment, the Group is still a young industry player when compared to many local enterprises. Yet, the 20 years of experience has become a solid cornerstone for Convoy to go forward. As compared to the early stage of its establishment, Convoy has now made substantial changes and improvements in its scale, staffing and services. Our business has transformed from sales of insurance, at the early stage, to independent financial advisory. We are also a pioneer in the industry to offer a variety of fund products. Today, our platform has the most comprehensive product offerings and the largest number of collaborative product issuers in Hong Kong. The products offered via our product platform are not limited to investment as we offer two different types of products, namely investment and insurance products. Looking ahead, Convoy will enter another 20 years of development. Although the economy is still affected by uncertainties, we remain optimistic towards the future prospects of the Group. We are in absolute confidence that the diversified business portfolio and strong balance sheet of the Group, together with our core values – creativity, dedication, trust, courage, pioneer and fun, would enable us to meet future challenges given all the favourable conditions.

Last but not least, on behalf of the Board, I would like to thank all of our shareholders, business partners and customers as well as over 3,000 dedicated colleagues stationed in Hong Kong and Mainland China for their enduring support in the past 20 years.

Wong Lee Man
Chairman

Hong Kong, 22 March 2013





PROSPERITY SHARING

Since the establishment of Convoy, we have been innovating and surpassing constantly in the endeavour for greater accomplishments; yesterday's achievements are the motivating force behind tomorrow's breakthroughs. Meanwhile, the Group attaches considerable importance to social responsibility. In recognition of our contributions to the community, we have been honored with the Hong Kong Council of Social Service's prestigious Caring Company Logo for the 10th year in 2012 in a row.

Ms. Fong Sut Sam
Chief Executive Officer

Business Review and Prospects – Chief Executive Officer

In 2012, Hong Kong continued to be affected by external factors. The weak investment sentiment in general has not improved until the second half of the year. The Group also issued profit warnings for twice in the financial year, indicating a significant decline in the Group's profit. In addition to the impact of external factors, the increase in operating expenses due to the regional business expansion of the Group in the PRC and the increase in commission expenses due to the implementation of a new incentive scheme of the Group were also the main reasons for the decline in the Group's profit.

On behalf of the Board, I hereby announce that for the year ended 31 December 2012, the Group recorded a revenue of HK$703.7 million in the financial year, representing an increase of 7.8% when compared with last year. Profit attributable to owners of the Company dropped 96.9% to approximately HK$1.6 million (2011: HK$53.0 million), and net profit margin decreased from approximately 8.1% for the twelve months ended 31 December 2011 to approximately 0.2%. Basic earnings per share were HK0.4 cents (2011: HK13.3 cents).

However, as we have the largest independent financial advisory ("IFA") team in Hong Kong, we have maintained a positive attitude towards adversity, continuously developed new product lines, as well as strengthened our efforts in the recruitment and training of consultants, and the improvement of service system, thereby reinforcing our foundation to get prepared for the ever-changing market conditions. Last year, we have achieved encouraging results in our expansion into the Mainland territory, yet our Hong Kong operations remained the core of the Group's operations.

ILAS

Owing to the unstable economic condition of the European and United States markets and the slowdown in global economic growth, the investment sentiment and confidence of customers was significantly affected in the first half of the year. However, the fiscal cliff threat in the United States was initially solved in the second half of the year, resulting in a better investment climate. Furthermore, with the Group's established leading position in the ILAS market, diversified product sales platform, strong team of professional financial consultants, and unparalleled brand equity, which are all recognized by the customers, the external impact on such operations remained limited. The overall sales of ILAS remained stable as compared with last year, while the proportion of total revenue derived from it declined to 89.9%.

Non-investment-linked insurance and general insurance business

The decline in the proportion of revenue contribution from the above ILAS business was attributable to our intensive development of non-investment-linked insurance business in recent years. With our continuous development of new products and issuers, the consultant team's familiarity with related products has also been improved significantly, and their engagement in selling this type of products is thus enhanced as compared to the past. The Group has also recorded a significant growth in revenue derived from the sales of the two types of insurance products above, and the proportion of revenue contribution from these sales increased from 1.8% in 2011 to approximately 7.8% in 2012, evidencing the Group's success in the implementation of its diversified sales strategy.

We have continuously added new product issuers to our insurance service platform. Up to now, we have 19 life insurance companies and 7 issuers providing customers with general insurance products. In the future, the Group will adhere to the approach of diversified development. More safe recommendations and choices in the insurance business, such as critical illness protection, savings, annuities and universal life insurance, will be offered to provide more comprehensive and diversified product choices to suit different needs of our customers.

Sound development potential of i-CONVOY.com

In the second half of last year, the Group launched i-Convoy, an online insurance shopping platform, to bring new insurance purchasing experience to our customers. Customers may obtain different product issuers' instant quotations for the insurance products that suit their needs by simply registering their personal information. As such, customers may carry out instant comparison and choose the most suitable products.

Upon the launch of i-Convoy.com, we have received positive market response and recorded an exponential growth in the number of customers. Among which, the travel insurance, medical insurance and motor insurance have been the most popular. The Group considered that this platform still has much room for growth and can expand the Group's customer base with its considerable development potential. Therefore, the Group will actively expand its product offerings and optimize the transaction system in the future, so as to enable our customers to enjoy more convenient and efficient insurance purchasing services.

Seizing the opportunities to develop MPF business

Since the government's launch of MPF "ECA" (commonly known as "MPF Semi-Portability") in November 2012, the Group has successfully entered the individual MPF market by seizing the opportunities and capitalizing on its advantages. As at the end of 2012, 97% of the licensed MPF consultants of the Group completed the required "ECA Training for MPF Intermediaries" programme before the deadline set by the MPFA. To adapt to the implementation of the new regulations, the Group launched the "Convoy MPF Index", the first MPF index in Hong Kong. It is the first MPF performance index in the local retail market available for public inspection for free, which is updated and released monthly on a regular basis. Since its launch in the market, the index not only has been popular among the public, but has also been widely adopted by the media as an indicator for the market analysis of MPF performance.

In the first two months after the implementation of the new regulations, the number of interests transfer applications of employees received by the Group continued to increase, thus proving customers' confidence in our MPF service. Benefitting from our active development of the MPF market, the Group has made significant improvements in respect of its business in the employers' market. Last year, the number of cases in which we have successfully changed the MPF product issuer for an employer increased by 47%. Looking ahead, as the policy address indicated that the MPFA is actively studying the implementation of MPF Full Portability in three years, the Group will definitely capitalize on this invaluable opportunity and make all efforts to expand into this market.

Optimizing the commission system to award front-line consultants

Talents are always the most valuable asset of the Group. Currently, the number of consultants of the Group has reached 1,674 (as at 28 February 2013), forming the largest IFA team in Hong Kong. In the face of uncertain economic factors and the headhunting competition within the industry, on top of strengthening its staff training and development, the Group has fully optimized the commission system for all of our financial consultants last year, so as to award the financial consultant team based on their sales performance, further reinforcing the Group's advantages in the human resources market to attract more talents to join us. Apart from raising the commission income and ratio of commission sharing, Convoy has also launched different types of incentive programs for front-line financial consultants, such as Hokkaido Overseas Convention Award Scheme and Company Share Award Scheme.

Awards and certificates in recognition of our professional qualifications

Financial advisory is an industry that values professionalism, integrity and reliability. Therefore, the Group has pursued great efforts to support its consultants to obtain relevant professional qualifications and participate in different professional competitions. In addition to providing subsidies, we have also organized various types of professional training programmes on a regular basis. Convoy Financial Services Limited has been crowned "Best Company for Financial Planning Excellence in Hong Kong (IFA)" by the IFPHK for the sixth consecutive year. Last year, a total of 36 Convoy elites were among the finalists of the "Independent Financial Advisor Sector Award", making it a year in which the Group has the highest number of individual awardees than ever. Besides, the Group has also outperformed its industry counterparts in terms of the number of awardees. The Group believes that taking part in professional competitions not only can obtain professional qualifications and gain public recognition, but also can enhance the consultants' as well as the Company's professional standards, offering our customers the most outstanding professional financial management services.

Concern about the development of social enterprises and commitment to environmental protection

In 2012, the Group has been granted the "Caring Company" logo by the Hong Kong Council of Social Service for the tenth consecutive year and the "Corporate Citizen" award logo by the Hong Kong Productivity Council, recognizing the Group's dedicated efforts in cultivating good corporate social responsibility and its devotion to the charity to contribute to the society. Last year, the Group has rendered strong support to local social enterprises, and produced a special series of programme "Social Enterprises with Love". In the programme, the hosts visited 13 local social enterprises to raise the public awareness of the value of local social enterprises and, at the same time, promote the message of running a business that embraces the philosophy of helping the others and oneself with innovative ideas. After the broadcast of the programme, we have received positive feedback from the market, and some of the social enterprises being interviewed have attracted social attention due to free publicity, thereby indirectly enhancing their development potential.

In addition, the Group is aware of the importance of environmental protection to the community. Last year, the Group has spent tremendous effort to internally and externally spread the important message of environmental protection. The management of the Group personally takes the lead in joining Green Monday to promote the benefits of Meatless Monday to both environment and health. Meanwhile, the Group has launched the "Green Move" Campaign, a recycling campaign, during the relocation of our headquarter. Our staff also voluntarily formed a team of "Green Move" recycling ambassadors to regularly visit each floor of our office on a monthly basis and call on other colleagues to support waste paper recycling, so as to promote green messages and reduce the damages to the environment. The renovation of the new headquarter also adopted the theme of nature and environmental protection with an open design. It offers a "paperless working" environment in full swing to encourage our staff to reduce the use of paper in their daily work, aiming to extend the philosophy of environmental protection to all members of the Company.

Relocating the headquarter to enhance service quality in full scale

For the coming year, it will be the 20th anniversary of the establishment of the Group while the Group has recently relocated its headquarter to @CONVOY. The new working environment marked a new page of the Group's development history. The new headquarter offers the consultants and supporting staff a four-storey office space with a total floor area of 41,000 sq. feet. The number of conference rooms has increased as compared to the old headquarter, enabling consultants to meet our customers and conduct job interviews.

Furthermore, to celebrate our 20th anniversary, the Group will roll out a series of promotion projects and campaigns in the second quarter. In addition to a brand new advertisement, the Group will also sponsor TV programmes to reinforce the Group's brand effect and leading position in the IFA sector.

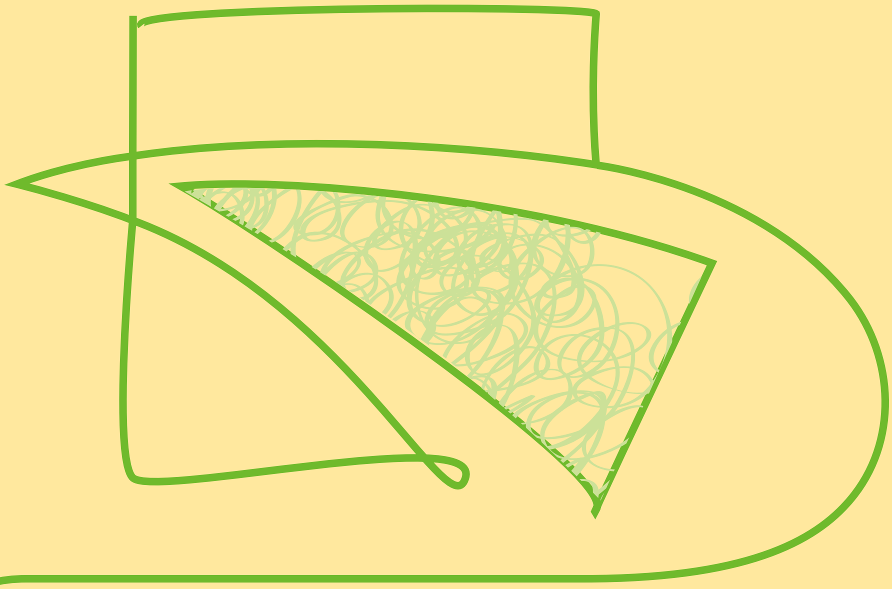
This year, the Group mainly focuses on quality and aims to further enhance our service quality. Teams of front-line consultants and supporting staff will aim at enhancing service standard through information system upgrades, advanced consultant training and large-scale customer surveys, so as to outperform their industry peers and provide our customers with quality and professional financial advisory services.

Lastly on behalf of the management, I would like to express our gratitude to our shareholders, our product issuers, our team of consultants, and all our colleagues for their continuous support to the Group in the past years.

Fong Sut Sam
Chief Executive Officer

Hong Kong, 22 March 2013

Corporate News



February 2012

Seven Convoy consultants have been selected as "Convoy Spokespersons", representing the Company to attend media interviews and periodically issue articles on well-known publications, so as to educate the public about the concepts of proper financial management.

May 2012

The Group held a cocktail reception for its business partners to show its appreciation for their long-term support. Over a hundred elites from the financial service sector attended the reception.

June 2012

Launched a new online insurance platform, i-Convoy.com, to provide the customers with a 24-hour online general insurance products purchasing service.

September 2012

Released the results of the "Survey on Financial Management Attitudes of Singles". Most of the interviewees took "Property Ownership" as the most want-to-achieve life goal.

October 2012

Launched the "Convoy MPF Index", the first MPF performance index in Hong Kong. The index is updated regularly on a monthly basis and being used by the public as reference and comparison of MPF performances.

December 2012

Convoy Investment Management (Beijing) Company Limited has just set up a new office in Guangzhou, actively expanding its IFA services in the South China Region.

Awards

香港無煙領先企業大獎

Certificate of Merit

presented to

Convoy Financial Group

Ms Lisa LAU, MH, JP

Chairman of Hong Kong Council on Smoking and Health

14.3.2012

COSH

香港吸煙與健康委員會

HONG KONG COUNCIL ON SMOKING AND HEALTH

March 2012

Honored "Hong Kong Smoke-free Leading Company Awards" by the Hong Kong Council on Smoking and Health.

April 2012

Granted the "Caring Company" logo by the Hong Kong Council of Social Service for the 10th consecutive year.

April 2012

Mr. Edwin Cheung, Associate Director of Convoy Financial Services Limited and the Convoy spokesperson won the Gold Award (Category B) in Advisor of the Year Awards 2012 organized by Benchmark Magazine.

October 2012

For the 6th consecutive year being crowned “Best Company for Financial Planning Excellence in Hong Kong (IFA)” by the IFPHK and South China Morning Post. Meanwhile, 36 Convoy elites were among the finalists of the “Independent Financial Advisor Sector Award”, making 2012 a year in which the Group has the highest number of individual awardees than ever.

October 2012

Granted four awards in the first Financial Education Awards held by the IFPHK, including a mark of “Accredited Professional Financial Planning – Independent Financial Advisory”, “Award for Top Employer in Financial Planning – Independent Financial Advisory (Gold)”, “Award for Most Popular Financial Education Program” and “Award for Best Financial Education Program – Gold”.

January 2013

Honored “Corporate Citizen” award logo by the Hong Kong Productivity Council.

Corporate Social Responsibilities

January 2012

Convoy elites joined the "Green Power Hike" organized by Green Power in support of the environmental education of Hong Kong, and won the championship and the first runner-up in the Hong Kong Federation of Insurers Cup.

January 2012

Convoy Volunteer Team took part in the "Senior Home Visit (「襪襪送」探訪長者活動)" organized by the Home of the Elderly Charitable Foundation, giving out the warmest festive gift packs before the Chinese New Year.

March 2012

Ms. Fong Sut Sam, Chief Executive Officer, and two teams of Convoy elites took part in the first "Strike Out Cancer" Charity Bowling Competition organized by the Hong Kong Anti-Cancer Society, and won the championship and the first runner-up in the Business Charity Division.

April 2012

Convoy Volunteer Team took part in "The 2012 International Million Trees Project – Trees Planting Day Event on World Earth Day (Hong Kong Region)" in support of the environmental protection for the 2nd consecutive year.

April 2012

Four Convoy financial consultants participated in the "27th Marathon Des Sables (第27屆撒哈拉沙漠馬拉松)" competition in the name of a team "United Hearts of Convoy (康宏沙漠一心)", raising funds for the U-Hearts "University Students Financial Aid Scheme (大學生資助計劃)".

June 2012

Convoy Volunteer Team co-organized with the Senior Citizen Home Safety Association to pay visits and deliver the warmest blessings to the elderly before the Dragon Boat Festival.

July 2012

Convoy produced a TV series “Social Enterprise with Love” to raise the public awareness of local social enterprises.

September 2012

Convoy Volunteer Team celebrated the Mid-Autumn Festival with over a hundred senior residents living alone in Kwai Shing West Estate.

October 2012

Convoy participated in the “Dress Pink Day” for the first time to raise funds for the Cancer Fund.

October 2012

Convoy supported the “Heart-to-Heart Charity Walk 2012” organized by Children’s Heart Foundation.

October 2012

Convoy Volunteer Team organized a voluntary trip to visit students in the remote areas in Cangwu County, Guangxi, offering them the hope of life.

October 2012

Convoy Volunteer Team co-organized a financial management education programme for junior secondary students of the "Mentorship Scheme (師友計劃)" with the Baptist Oi Kwan Social Service, in the hope of enhancing their knowledge of financial management.

November 2012

45 Convoy elites participated in the "Oxfam Trailwalker" to raise funds for the poverty projects of Oxfam.

November 2012

During the relocation of our headquarter, the Group launched the "Green Move" Campaign and implemented three key measures, including recycling waste paper, donating office furniture and promoting paperless working, in the hope of helping the community to go green.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

Key financial information/financial ratios	For the year ended 31 December 2012 HK$'000	2011 HK$'000	% Change Increase/(decrease)
Revenue	703,726	652,875	7.8%
Net profit attributable to owners of the Company	1,629	53,003	(96.9)%
Net profit margin attributable to owners of the Company	0.2%	8.1%	(7.9)%
Dividend per ordinary share:			
– Proposed final dividend	–	7.0 cents	(100)%
– Interim dividend declared during the year	3.0 cents	2.0 cents	50%
	3.0 cents	9.0 cents	(66.7)%

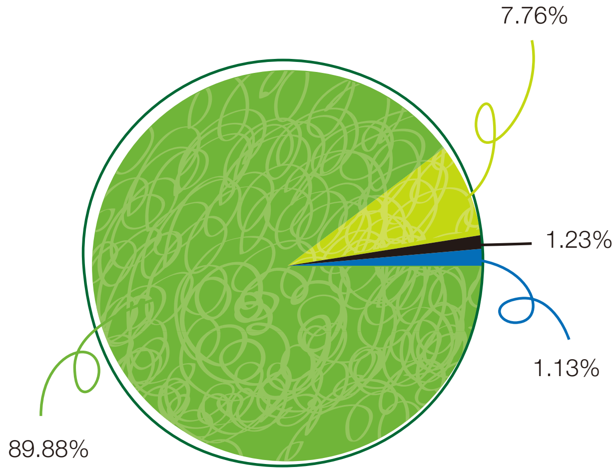
Financial Performance

The profit attributable to owners of the Company was approximately HK$1.6 million for the year ended 31 December 2012, representing a decrease of approximately 96.9% compared with that for the year ended 31 December 2011. The net profit margin attributable to owners of the Company decreased from approximately 8.1% for the year ended 31 December 2011 to approximately 0.2% for the year ended 31 December 2012, primarily attributable to: (i) the increase in operating expenses due to the regional business expansion of the Group in the Mainland China of approximately HK$68.8 million, in which approximately HK$25.0 million represented one-off initial set up expenses; (ii) the one-off expense of the relocation of the Company's Hong Kong office premises of approximately HK$12.2 million; and (iii) the increase in commission expenses due to new incentive scheme to consultants of approximately HK$7.0 million.

Our revenue for the year ended 31 December 2012 was approximately HK$703.7 million, representing an increase of approximately 7.8% compared with that for the year ended 31 December 2011. The increase was resulted from the effective and proactive execution of our business diversification and regional expansion strategies that we have put into place since our Listing, which contributed to record results in non-linked insurance business and encouraging results on the Mainland China. Approximately HK$683,668,000 (2011: HK$652,570,000) of the Group's revenue from external customers were generated in Hong Kong for the year ended 31 December 2012, while approximately HK$20,058,000 (2011: HK$305,000) of the Group's revenue from external customers were generated in Mainland China and Macau, through our regional expansion strategy. An analysis of the Group's revenue is as follows:

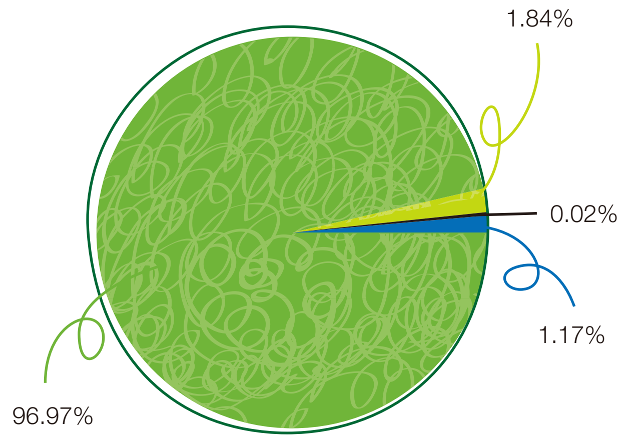
	For the year ended 31 December 2012					For the year ended 31 December 2011				
	Hong Kong operations HK$'000	Mainland China operations HK$'000	Macau operations HK$'000	Total HK$'000	%	Hong Kong operations HK$'000	Mainland China operations HK$'000	Macau operations HK$'000	Total HK$'000	%
Investment brokerage commission income	630,098	–	2,403	632,501	89.9	632,885	37	146	633,068	97.0
Insurance brokerage commission income	45,620	8,978	–	54,598	7.8	12,028	–	–	12,028	1.8
Pension scheme brokerage commission income	7,950	–	–	7,950	1.1	7,657	–	–	7,657	1.2
Advisory income	–	8,677	–	8,677	1.2	–	122	–	122	0.0
	683,668	17,655	2,403	703,726	100.0	652,570	159	146	652,875	100.0

Revenue Mix Analysis:



2012

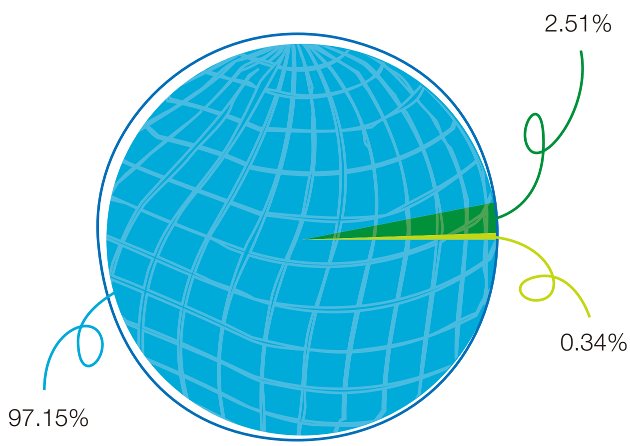
- Investment brokerage commission income
- Insurance brokerage commission income
- Pension scheme brokerage commission income
- Advisory income



2011

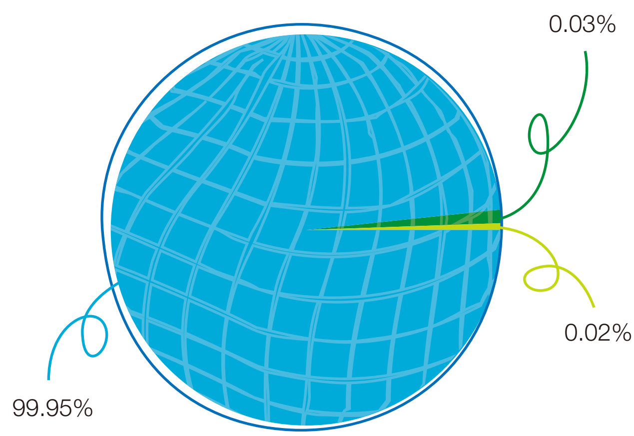
- Investment brokerage commission income
- Insurance brokerage commission income
- Pension scheme brokerage commission income
- Advisory income

Revenue by Geographical Region:



2012

- Hong Kong
- Mainland China
- Macau



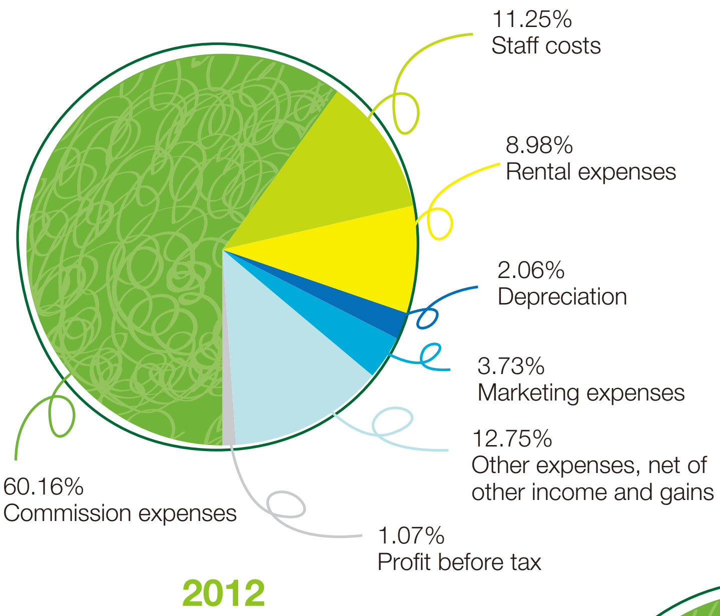
2011

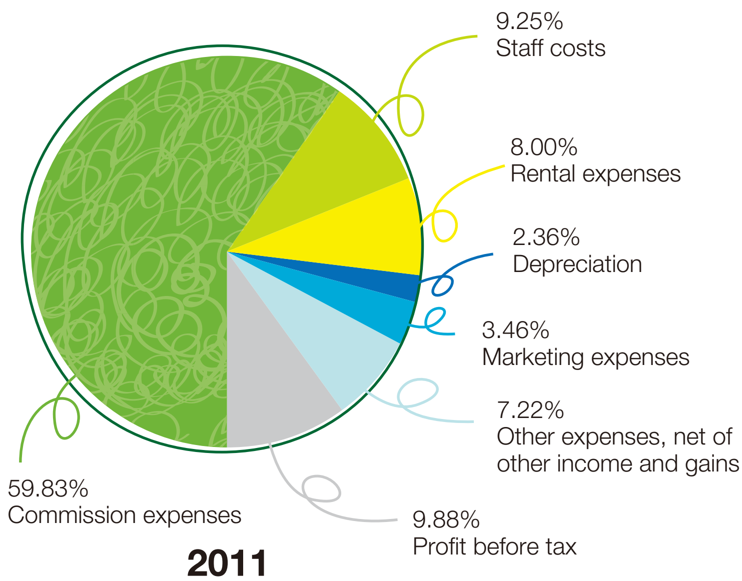
- Hong Kong
- Mainland China
- Macau

Total operating expenses for the year ended 31 December 2012 was HK$698.3 million (2011: HK$590.5 million). An analysis of these expenses is as follows:

	For the year ended 31 December 2012					For the year ended 31 December 2011				
	Hong Kong operations HK$'000	Mainland China operations HK$'000	Macau operations HK$'000	Total HK$'000	Margin %	Hong Kong operations HK$'000	Mainland China operations HK$'000	Macau operations HK$'000	Total HK$'000	Margin %
Commission expenses	413,035	8,940	1,358	423,333	60.2	390,393	151	64	390,608	59.8
Staff costs	51,478	27,146	580	79,204	11.3	52,792	7,389	188	60,369	9.2
Rental expenses	53,005	9,916	283	63,204	9.0	48,427	3,740	98	52,265	8.0
Depreciation	11,358	3,069	84	14,511	2.1	14,362	984	41	15,387	2.4
Commission clawback	6,668	–	26	6,694	1.0	6,332	–	–	6,332	1.0
Marketing expenses	25,755	493	–	26,248	3.7	21,850	729	–	22,579	3.5
Other expenses	48,043	36,755	283	85,081	12.1	37,938	4,576	467	42,981	6.6
	609,342	86,319	2,614	698,275	99.4	572,094	17,569	858	590,521	90.5

Cost to Revenue Analysis:





The below section will describe the Group's financial performance in Hong Kong, Mainland China and Macau for the year ended 31 December 2012 and its prospects.

Hong Kong Operations

Convoy's Hong Kong operations continued to be the largest contributor of revenue and profits to the Group with revenue and profit attributable to owners of the Company of approximately HK$683.7 million (2011: HK$652.6 million) and HK$61.8 million (2011: HK$67.7 million), respectively.

Revenue

Revenue from our Hong Kong operations for the year ended 31 December 2012 was approximately HK$683.7 million, an increase of approximately 4.8% from that for the year ended 31 December 2011.

Revenue derived from ILAS continued to be the major contributor to the Group's total revenue generated from Hong Kong. For the year ended 31 December 2012, the Group recorded a slightly decrease in revenue derived from ILAS as compared with the corresponding period last year. This was largely attributable to the European sovereign debt crisis, the fiscal cliff threat in the United States and the slowdown of the Mainland China and other Asian economies, which heavily weakened customers' investment sentiment and led to the decrease in the number of customers purchasing new policies of ILAS in 2012. Our ILAS business was affected inevitably to some extent. However, by virtue of our strong team of consultancy force and well-established brand name and operation platform, the adverse impacts arising from global economic downturn on our Group's operations were still limited. Although the ILAS market was weak in 2012 and dropped by approximately 14.7%, we can still maintain similar ILAS revenue with decrease of only 0.4% as compared with 2011 and therefore outperforming the market.

Pursuant to the Group's long term strategy of diversification of revenue, we have spent great effort to develop non-linked insurance and general insurance. These businesses have achieved satisfactory development and growth in the period under review.

Compared with the year ended 31 December 2011, revenue derived from non-linked and general insurance products increased by approximately 279.3%, the growth rate was outperforming other businesses. With our dedicated effort, the proportion of revenue derived from other insurance products increased from 1.8% for the year ended 31 December 2011 to approximately 6.7% for the year ended 31 December 2012. This also evidenced that our business diversification strategy is succeeding. This can also help to maintain our revenue growth while ILAS market drops. The Group will continue to pursue its strategy to diversify its businesses and client portfolio so as to achieve healthy and stable growth in revenue.

Revenue derived from MPF schemes increased by approximately 3.8% and its proportion of revenue maintained at approximately 1.2% for the year ended 31 December 2012 and 31 December 2011, respectively. Following the successful launch of the MPF's ECA in November 2012, it is expected that new business opportunities in relation to MPF and the relevant financial planning business would continue to grow for years because the market would react to this change gradually and definitely increase the public awareness of the importance of financial planning. Thus, the Group would commit on the investment and development in this respect.

Operating expenses

Total operating expenses recorded by our Hong Kong operations was approximately HK$609.3 million for the year ended 31 December 2012, representing an increase of approximately 6.5% from that for the year ended 31 December 2011.

Commission expenses were approximately HK$413.0 million for the year ended 31 December 2012, representing an increase of approximately 5.8% from that for the year ended 31 December 2011, outpacing the increase in our revenue for the same period. The increase was primarily attributable to the implementation of a new incentive scheme to consultants for the purpose of developing stronger and larger organisation of the Group, which contributed to the increase in commission expenses of approximately HK$7.0 million.

Staff costs were approximately HK$51.5 million (2011: HK$52.8 million) for the year ended 31 December 2012. The decrease was resulted from the success in restructuring the remuneration package to consultants which induced the reduction in the number of salary-based trainees.

Marketing expenses increased by approximately 17.9% outpaced the growth of revenue mainly due to increased input to explore more business promotion campaigns in bid to procure our growth in business.

Other expenses were approximately HK$48.0 million for the year ended 31 December 2012, representing an increase of approximately 26.6% compared with that for the year ended 31 December 2011. The increase was mainly resulted from the one-off expense of the relocation of Hong Kong office premises during the year ended 31 December 2012 of approximately HK$12.2 million.

In the past few years, the market rental rate has been continuously surged which has put a great pressure on our operation cost. In bid to control rental cost which is one of our major operating cost to a reasonable level, we have adopted various space planning strategies to enhance the usage efficiency and lower the unit cost of space. We believe these strategies can help us have healthier cost structure for our on-going development in future.

Mainland China Operations

Pursuant to our regional expansion strategy and business plan, our Mainland China operations kicked off from the second half of 2011 onwards, through the opening of our first wealth management centre in Beijing, 康宏財富投資管理(北京)有限公司("康宏北京") in August 2011 and the acquisition of an insurance brokerage company, 深圳康宏保險經紀有限公司("深圳康宏") in September 2011. During the year ended 31 December 2012, the Group has further expanded its geographic footprint in Mainland China through: (i) the opening of a branch office in Chengdu in May 2012, 深圳康宏保險經紀有限公司成都分公司("康宏成都"), which was a telemarketing centre and general insurance sales office to provide insurance brokerage services on life insurance and general insurance products; (ii) the opening of a branch office in Guangzhou in July 2012, 康宏財富投資管理(北京)有限公司廣州分公司("康宏廣州"), which aimed at providing investment advisory; (iii) the acquisition of 江西泛誠保險代理有限公司("江西泛誠"), which was engaged in the provision of insurance agency services in Jiangxi; and (iv) the acquisition of 北京碧升保險代理有限公司("北京碧升") in November 2012, which was engaged in the provision of insurance agency services and holds an insurance agent license issued by China Insurance Regulatory Commission that permits it to provide insurance agency services in Beijing.

With the above strategic moves, the revenue from Mainland China operation has achieved approximately HK$17,655,000 (2011: HK$159,000) during the year under review.

In the mean time, the setup of this nationwide network and platform has incurred a certain amount of cost. Cost-to-revenue ratio is relatively high due to the initial setup and short post-acquisition period for the majority companies and business units. Such ratio would be expected to improve significantly while revenue growth would outpace the cost to a great extend as the operating platform being established.

Total operating expenses recorded by Mainland China operations for the year ended 31 December 2012 was approximately HK$86.3 million (2011: HK$17.6 million). The significant increase in operating expenses was mainly attributable to: (i) the first time inclusion of the operating expenses of 康宏成都 and 康宏廣州; (ii) the first time inclusion of the post-acquisition expenses of 江西泛誠 and 北京碧升; and (iii) the first time full year impact of 康宏北京 and 深圳康宏.

Staff costs were approximately HK$27.1 million for the year ended 31 December 2012, representing an increase of approximately HK$19.8 million from that for the year ended 31 December 2011. This was mainly attributable to the significant increase in the number of staff from approximately 58 supporting staff as at 31 December 2011 to approximately 212 supporting staff as at 31 December 2012, to support our Mainland China development, due to the completion of the said acquisitions.

Rental expense was approximately HK$9.9 million for the year ended 31 December 2012, representing an increase of approximately HK$6.2 million from that for the year ended 31 December 2011. This was mainly resulted from the addition of office premises in Sichuan, Jiangxi and Guangdong.

Depreciation was approximately HK$3.1 million for the year ended 31 December 2012, which mainly represented depreciation for leasehold improvements of office premises in Mainland China.

The significant increase in other expenses was mainly due to certain one-off initial costs expensed for setting up our nationwide network and platform in China of approximately HK$25.0 million.

Macau Operations

During the year ended 31 December 2012, our Macau operations have generated investment brokerage commission income of approximately HK$2,403,000 (2011: HK$146,000) and incurred loss of approximately HK$211,000 (2011: loss of approximately HK$713,000). The decrease in loss was mainly resulted from our Group's dedicated effort in driving financial planning business in Macau.

Total operating expenses recorded by our Macau operations were HK$2,614,000, representing an increase of HK$1,755,000 from that for the year ended 31 December 2011. This was due to the first time full year inclusion of operating expenses since the Macau operations commenced in the second half of 2011. The Group considered that these expenses were essential and reasonable in the initial development stage of our operations in Macau, which was following the Group's business development planning in Macau.

Financial position

The total non-current assets of the Group increased by approximately 83.8% to approximately HK$139,324,000 at 31 December 2012 (31 December 2011: HK$75,813,000). The increase was primarily due to addition of goodwill of approximately HK$42,049,000 attributable to acquisitions of 江西泛誠 and 北京碧升 during the year ended 31 December 2012; the net increase in property, plant and equipment of approximately HK$9,437,000 attributable to renovation of our new office premises in Hong Kong and Mainland China; and the increase in deposits paid for purchase of properties in Hong Kong and Mainland China of approximately HK$24,304,000. The properties in Hong Kong and Mainland China were intended to be used as one of the Group's office premises and staff quarters, respectively.

Prospects

Our Group will continue to pursue our vision of establishing the largest IFA in Asia in bid to capture the tremendous business opportunities for wealth management and financial planning services in Asia. There has been a very strong wealth creation momentum in Asia for years. Though such momentum may slow down a bit in the midst of economic uncertainty in Europe and the U.S., market consensus still believes that Asia would be the leader in wealth creation in the globe for the coming decade.

Hong Kong operations

The Group expects to maintain its leading position in the IFA industry in Hong Kong and continue to pursue its organic growth by expansion of consultancy force, enhancement of productivity and service quality and broadening product range.

To further strengthen this leading position, the Group has planned to expand its scope of business in financial services in bid to attain as an all-rounded IFA who can provide different kinds of financial services to the clients from Hong Kong as well as Mainland China. In the mean time, the Group believes money lending and proprietary investment business would provide immediate economic benefits to the shareholders and be two core elements for an all-rounded IFA. Money lending can complete the services to clients by providing liquidity. Proprietary investment can strengthen the Group's capability and system in investment decision process which would eventually assist the Group in asset management business which helps the clients makes better investment return.

Although our ILAS business was slightly hit by the uncertain global economic climate and dropped by approximately 0.4% as compared with 2011, our ILAS business performance was still outperforming the market performance. Also, there shows signs of recovery in the fourth quarter 2012, in response to the implementation of the quantitative easing policies in the key financial markets, which improved market sentiments. Besides, assisted by Convoy's extensive network on the Mainland China, there was an increasing demand for wealth management and financial planning services from Mainland China customers. Revenue from Mainland China customers represented approximately 18.6% of ILAS's new business (2011: 9.9%). We expect that the increasing trend will continue as our China business growth and brand development in China. We will take full advantage of these opportunities by further leveraging our competitive strengths – strong team of consultancy force, well-established brand name and operation platform so as to acquire new customers to support growth in ILAS business.

Owing to the cyclical nature of ILAS business and its stringent regulatory environment and the increasing market demand for non-linked business, the Group will continue to diversify its business proactively to non-linked insurance business which would be more counter-cyclical than ILAS and therefore can ensure stable growth under various economic conditions. For non-linked insurance business, we will continue to offer non-linked insurance incentives and launch cross-selling projects to boost up sales. With our dedicated efforts and the increasing customers' awareness on life protection and retirement saving needs, we expect that the growth momentum in non-linked insurance business will continue in 2013.

ECA was launched successfully in November 2012. Though the market response is slow, the awareness of MPF participants would rocket once critical mass achieve for plan switching. This market is invaluable for IFA in view of its sticky nature in an open platform of IFA in long run. We are determined to develop this business to get more quality client base.

With good growth in non-linked insurance and invaluable opportunities in MPF business, the Group expects its business would grow stronger with higher stability in the future.

Money lending business will create another business opportunities to the Group through providing liquidity to clients which increase our competitiveness in the market and business risks will be better managed while we as their financial consultants have better picture for the existing clients. The profitability would be higher as with our existing extensive networks.

Investment and trading decision capability is one of the core values of a successful IFA to help clients enhance returns. Proprietary investment business would be developed to strengthen the investment capability and decision making process. Moreover, this development would help our surplus capital create more value to our shareholders.

Mainland China operations

The Group has entered into IFA industry in Mainland China since January 2011 with business focus on insurance intermediary and wealth management. Mainland China is a very important market in our vision to be a largest quality IFA in Asia. The pace of development by acquisitions and new establishments has been managed in accordance with our overall China business development plan.

Initial investment in the setup of the business in Mainland China has been almost finished. We successfully achieved our presence and commence our operation in Beijing, Shenzhen, Guangzhou, Chengdu, Nanchang and Nanjing. In accordance with our business development plan, the significant and major investment for setting up Mainland China business would be made in the first two years, i.e. 2011 and 2012, and the consolidation and profit-realization period would be in the second two years, i.e. 2013 and 2014.

Basically, our strategic steps for China business development have been almost completed, such as (i) the acquisitions of 北京碧升 and 江西泛誠, the leading insurance intermediaries in Beijing and Jiangxi; (ii) the setup of sizable operation (more than 300 consultants) in Shenzhen and Guangzhou by organic growth; (iii) the setup of telemarketing centre and general insurance processing centre in Chengdu; (iv) the acquisition of the Nationwide Insurance Agent License through CEPA ("Mainland and Hong Kong Closer Economic Partnership Arrangement"), and the Nationwide Insurance Broker License; (v) the setup of investment adviser company; (vi) the setup (expected to be completed in the first half of 2013) of asset management company in Qianhai; and (vii) the launch of www.I-CONVOY.cn, an online trading platform for financial products in Mainland China.

For our wealth management and insurance business development in Mainland China, we have strategically (i) setup geographical coverage in Mainland China; (ii) obtained necessary regulatory licenses; (iii) tapped into the business opportunities in Qianhai; and (iv) setup online and offline distribution channels. Our critical development framework of IFA business in Mainland China has been established. Such framework would provide a strong foundation for us to realize profit as soon as possible. In addition, other IFA business lines would have a fast track for development in future under this framework.

In the course of our business development, CONVOY brand is gradually being recognized by more and more China residents. Such development would eventually create more and more synergy values for Mainland China as well as Hong Kong business. The Group would continue to invest in strengthening various nationwide operation platforms, enhancing the brand awareness and nurturing management and sales talent for the interests of long-term development. We would integrate the platform in Hong Kong with Mainland China in bid to establish one of the strongest regional platform to serve the customers in the midst of continuous growing overseas investment needs. Such integration would differentiate us from other major competitors which are principally domestic background without much overseas experience and uplift our competitiveness in the market to a great extent.

Though global economic uncertainties will persist in 2013, it is expected that the Mainland China economy, with their sounder fundamentals, will see faster growth in 2013. The favourable policies under CEPA and the Qianhai initiatives will accelerate the growth in Mainland China economy and thereby benefiting Hong Kong. With huge wealth accumulated in the past decades in the Chinese households, demand for insurance and wealth management would be definitely strong. To satisfy such demand, we would uphold the essence of our success in Hong Kong to provide professional and quality financial services.

The Group believes there is a huge room to grow in Mainland China and we have equipped with good conditions to capture such growth potential with our successful experience and good branding in Hong Kong and meaningful presence in Mainland China. Addition of such distribution network to the Group would create a huge synergy and increase the value of the Group to a great extent.

Macau operations

The Group has established business operations in Macau in 2011 and been pleased to have satisfactory result, with improvement in financial performance in 2012.

Tourism in Macau continued to flourish and gaming services industry also posted strong growth. With the continuous prosperity in entertainment and gaming industry, Macau has created a certain size of middle class who would like to gain more protection with insurance and capital enhancement with wealth management.

The operations will continue to expand at moderate pace to gradually capture the benefits from the economic growth in Macau and the continuous increase in the number of travellers. In addition, this operation would have an important role to serve customers of the Group who frequently travel between Mainland China, Hong Kong and Macau which would indirectly support our business growth in Hong Kong and Mainland China.

In 2013, Convoy celebrates its 20th anniversary. We will further strengthen our core competencies and continue to pursue our vision of building the largest quality IFA group in Asia.

Liquidity and Financial Resources

The Group mainly relies upon the shareholders' fund and cash generated from its business operations to finance its operations and expansion. The net proceeds of approximately HK$103.0 million raised from the Listing in 2010 has enlarged the capital base of the Group and strengthened the Group's financial position thereby facilitating the expansion of the Group's onward development in the IFA business.

As at 31 December 2012, the Group had cash and cash equivalents of approximately HK$159.0 million (31 December 2011: HK$219.2 million) and had not incurred any borrowings. The Group's total current assets decreased from approximately HK$288.6 million as at 31 December 2011 to approximately HK$256.0 million as at 31 December 2012, while total current liabilities increased from approximately HK$135.4 million as at 31 December 2011 to approximately HK$206.2 million as at 31 December 2012. As a result, the current ratio was decreased from approximately 2.1 as at 31 December 2011 to approximately 1.2 as at 31 December 2012.

As at 31 December 2012, the Group had cash and cash equivalents of approximately HK$159.0 million and had no external borrowings. The Group has sufficient working capital to meet the funding requirements for business development opportunities in the near future. The Group's liquidity, on a long term basis, will be funded by operating cash inflow. Should there be any substantial business expansion in the future, equity and debt financing would be considered for the best interests of the shareholders whichever is appropriate. The Group will continue to seek for development opportunities, with a view to balance the risks and opportunities in maximising shareholders' value.

On 16 February 2011, the Company entered into a warrant placing agreement in connection with the warrant placing, pursuant to which the placing agent conditionally agreed to place, on a best effort basis, up to 50,000,000 warrants conferring rights to subscribe for 50,000,000 warrant shares at the exercise price of HK$1.6 per warrant to HK$2.0 per warrant to not less than six warrant placees who and their respective ultimate beneficial owners are independent third parties. The warrants were placed at a warrant placing price of HK$0.02 each. Further details of the placing are set out in the Company's announcement dated 16 February 2011. During the year ended 31 December 2012, no warrants were exercised and all the warrants were expired on 23 February 2012.

On 25 February 2013, the Company entered into another warrant placing agreement in connection with the warrant placing, pursuant to which the placing agents agreed to place, on a best effort basis, up to 80,000,000 warrants conferring rights to subscribe for 80,000,000 warrant shares at the exercise price of HK$1.41 to not less than six warrant placees who and their respective ultimate beneficial owners are independent third parties. It is expected the net proceeds of approximately HK$0.6 million will be raised by the warrant placing and the same will be utilized by the Group as general working capital of the Group. Assuming full exercise of the subscription rights attaching to the warrants, it is expected that a further approximately HK$112.8 million will be raised. The net proceeds of approximately HK$112.7 million will be used for general working capital of the Group. Further details of the placing are set out in the Company's announcement dated 25 February 2013.

Human Resources and Remuneration Policies

As at 31 December 2012, the Group employed 325 (31 December 2011: 172) supporting staff and 10 (31 December 2011: 95) salary-based trainees, of whom 119 (31 December 2011: 205) were employed in our Hong Kong business, 212 (31 December 2011: 58) by our businesses in Mainland China and 4 (31 December 2011: 4) by our business in Macau. The total remuneration of the employees (including the Directors' remuneration) was approximately HK$79.2 million for the year ended 31 December 2012 (2011: approximately HK$60.4 million).

The Group offered competitive market remuneration packages for employees and granted bonuses with reference to employees' performance during the reporting periods according to the general rules of the Group's remuneration policy.

The emoluments of the Directors are in accordance with the remuneration policy of our Group that it is our Group's remuneration objective to, in consultation with the remuneration committee of our Company, remunerate Directors fairly but not excessively for their efforts, time and contributions made to the Group and the remuneration of Directors would be determined with reference to various factors such as duties and level of responsibilities of each Director, the available information in respect of companies of comparable business or scale, the performance of each Director and the Group's performance for the financial year concerned and the prevailing market conditions.

In addition, the Company's share award scheme (the "Award Scheme"), was adopted pursuant to a resolution passed on 25 January 2011 for the primary purpose of recognising the contributions by certain selected participants and giving incentives thereto in order to retain them for the continual operation and development of the Group and attracting suitable personnel for further development of the Group. A trustee, as an independent third party, was appointed by the Company for the administration of the Scheme. The trustee shall purchase the Company's shares from the market out of cash contributed by the Company and shall hold in trust for the relevant selected participants with the provisions of the Scheme. Details of the Award Scheme are disclosed in the section headed "SHARE AWARD SCHEME" of this annual report and in note 27 to the financial statements.

Risk Management

The Group adopts very stringent risk management policies and monitoring systems to mitigate the risks associated with interest rate, credit, liquidity and foreign currency in all its major operations.

Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest – bearing financial assets. Cash at banks earns interest at floating rates based on daily bank deposit rates.

The Group reviews interest rate risk regularly and monitors closely the fluctuation of interest rates and will make proper adjustments if necessary.

Credit risk

The Group conducts business only with recognised and creditworthy third parties. Receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Even though there is no significant credit risk exposure, the Group seeks to maintain strict control over its outstanding receivables to minimise credit risk during the current period. Overdue balances are reviewed regularly by senior management.

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains its level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

Foreign currency risk

The Group mainly operates in Hong Kong and Mainland China with most of the Group's monetary assets, liabilities and transactions principally denominated in Hong Kong dollars and Renminbi, respectively. Majority of the commission revenue and expenditure incurred by the operating units of the Group were denominated in the units' functional currency and as a result, the Group does not anticipate significant transactional currency exposure. The Group has not used any derivative to hedge its exposure to foreign currency risk.

Material Acquisition of Subsidiaries

In line with the Group's regional expansion strategy, the Group has completed the acquisition of a 100% interest in 江西泛誠 in August 2012 and the acquisition of an 76% interest in 北京碧升 in November 2012. Details of material acquisition of subsidiaries are set out in note 29 to the financial statements.

Significant Investment Held

The Group did not have any significant investments held as at 31 December 2012.

Future Plans Relating to Material Investment Or Capital Asset

As at the date of this annual report, in addition to the capital expenditure incurred on the renovation of the Group's new office premises and the execution of agreements in respect of acquisition of subsidiaries as disclosed in the section headed "MATERIAL ACQUISITION OF SUBSIDIARIES", on 12 November 2012, Genius Choice Holdings Limited, the purchaser and an indirect wholly-owned subsidiary of the Company, has entered into an formal sale and purchase agreement with Vital Success Development Limited, the vendor and an independent third party to the Group, for the sale and purchase of the whole floor of 10/F, Rykadan Capital Tower, 135 Hoi Bun Road, Hong Kong (the "Property") at a consideration of HK$86,947,200. The Group intends to use the Property as one of the Group's office premises.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 31 December 2012.

Capital Expenditures

The Group's capital expenditures primarily consisted of expenditures on leasehold improvements, acquisition of computer equipment and systems, office equipment and motor vehicle. For the year ended 31 December 2012 and 2011, the Group incurred capital expenditures in the amounts of approximately HK$21.1 million and HK$14.8 million, respectively.

Other than the above, the Group also paid deposits for acquisition of computer equipment and systems amounted to approximately HK$2.1 million and HK$1.9 million for the year ended 31 December 2012 and 2011, mainly related to the development of on-line application system.

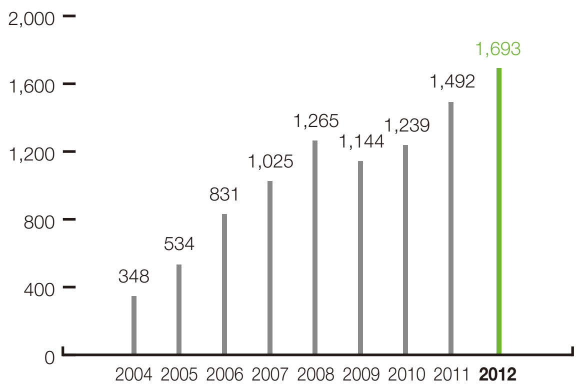
Commitments

The Group's contractual commitments are disclosed in notes 32 and 33 to the financial statements.

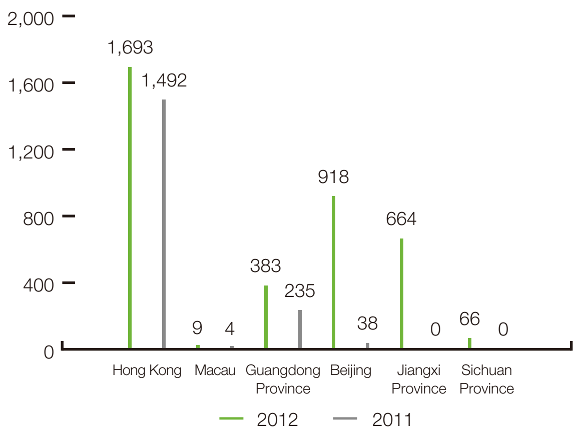
Operation Review

Change in the number of consultants and trainees:

Hong Kong –
No. of consultants & trainees

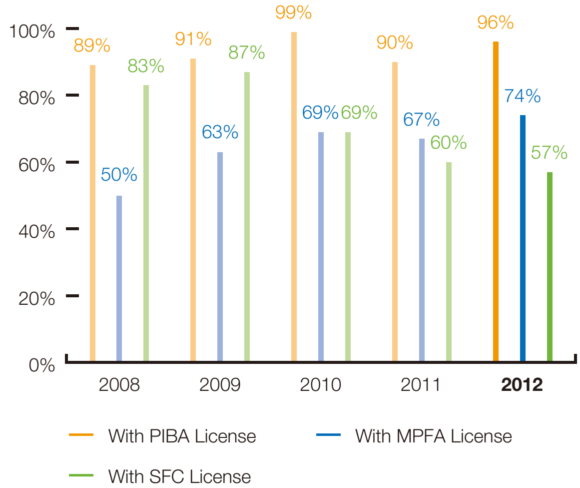


Hong Kong and other regions –
No. of consultants & trainees



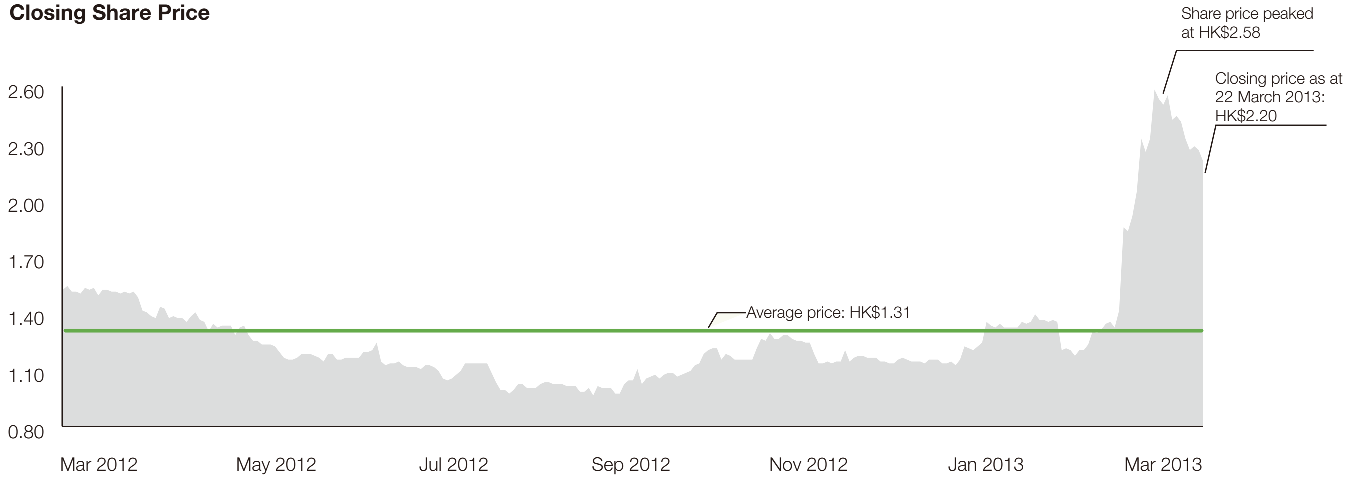
Licensing profile of consultants and trainees:

Hong Kong –
License records of consultants and trainees

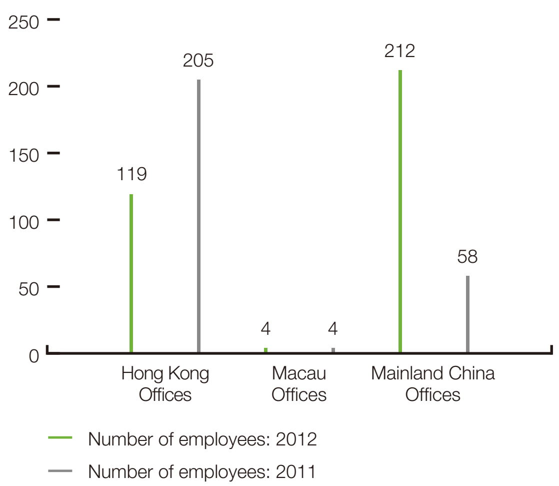


Performance of share price (stock code: 1019):

Closing Share Price



Number of employees:



Location of office premises:

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Wong Lee Man,

aged 44, was appointed as an executive Director and chairman of our Company on 12 March 2010. Mr. Wong is the director of 7 subsidiaries of the Company. He is also the chairman of CFG. Mr. Wong joined the Group in November 1998 and led the Group transforming into a IFA company, which is a pioneer in personal financial planning business. He served in different functions in the Group, including consultancy force, operations and regional expansions. He is now responsible for the overall management and strategic development of the Group.

Over 20 years experience in financial service industry, Mr. Wong has gained all-round experience and has established a strong network through working with both international and local financial companies in Hong Kong. Moreover, Mr. Wong is the Founding Member and Honorary Secretary of the Independent Financial Advisors Association Limited in Hong Kong.

Ms. Fong Sut Sam,

aged 44, was appointed as an executive Director on 12 March 2010. Ms. Fong is the director of 6 subsidiaries of the Company. She has also been the chief executive officer and an executive director of CFS and a director of CFG. She manages the overall strategic development and the operation of the Group. Ms. Fong joined our Group in November 1998 and has led various functions, including the consultancy force, corporate communications, sales and marketing, training and operation. Her exceptional achievements in the financial industry and contribution to the community earned her the title of "Benchmark Most Extraordinary Women in Finance 2009" from the Benchmark magazine. Ms. Fong graduated from the South Bank University in London in June 1992 with a Bachelor of Science degree. In December 2002, she graduated with a Master's Degree in Business Administration from the Chinese University of Hong Kong and was placed on the Dean's List.

Since 2010, Ms. Fong has been appointed as the panel member of 2 Appeal Boards (Amusement Game Centres Ordinance and Betting Duty Ordinance) of Home Affairs Bureau by Chief Executive of the Government of the Hong Kong Special Administrative Region and as the member of Marketing Management Committee of Hong Kong Management Association. In 2011, she was appointed as advisory board member of the CUHK Center for Entrepreneurship. In 2012, she was appointed as a panel member of the Municipal Services Appeals Board by Chief Executive of the Government of the Hong Kong Special Administrative Region.

Mr. Mak Kwong Yiu,

aged 38, was appointed as an executive Director on 16 March 2010. Mr. Mak is the director of 13 subsidiaries of the Company. He joined our Group in May 2002 as the chief financial officer and is responsible for the accounting and finance functions of our Group. Mr. Mak graduated from the Hong Kong University of Science and Technology with a Bachelor of Business Administration degree in Finance in November 1996 and a Master of Business Administration degree in November 2004. He earned the Chartered Financial Analyst designation in September 2000. He has been a Certified Public Accountant in the United States since May 2002 and a member of the Hong Kong Institute of Certified Public Accountants since May 2003. Mr. Mak is currently an executive director of Computech Holdings Limited, whose shares are listed on the Growth Enterprise Market of the Stock Exchange.

Independent Non-Executive Directors

Mrs. Fu Kwong Wing Ting, Francine,

aged 44, was appointed as an independent non-executive Director on 16 March 2010. Mrs. Fu attained her master degree from Oxford University in the United Kingdom in Politics, Philosophy and Economics in June 1994 and has been holding the CERTIFIED FINANCIAL PLANNERCM designation since October 2001. Mrs. Fu is the managing principal and owner of a business consulting firm, Coram Advisory Services (HK) Limited, set up in 2008 to provide advisory service to business based in Hong Kong. Before setting up her own practice, she was the Chief Marketing Officer of AXA China Region Insurance Company Limited, one of the top three long term insurers in Hong Kong, from January 2006 to June 2008. She has been in the financial services industry for over 15 years with various leading financial services companies and the immediate past President of the IFPHK. She has previously been an Award Council Member of the Hong Kong Award for Young People, a member of the Advisory Committee on Applied Mathematics for the Hong Kong Polytechnic University, a full member of the committee on Investment-Linked Assurance and Pooled Retirement Funds, an alternate member of the same committee, a member of the Investor Education Advisory Committee of the Hong Kong Securities and Futures Commission, a member of the Award Council of the Hong Kong Award for Young People and a member of the Banking and Finance Industry Training Board of the Vocational Training Council of Hong Kong. Mrs. Fu is currently a board member of Li Po Chun United World College (Hong Kong), Limited (since 1991), United World Colleges Hong Kong Committee Limited (since 2008), Maryknoll Convent School Foundation Council (since 2011), the Insurance Industry Training Advisory Committee (since 2011), the Non-local Higher and Professional Education Appeal Board (since 2010), Solicitors Disciplinary Tribunal Panel (since 2010), the Accreditation of Academic and Vocational Qualifications Ordinance Appeal Board (since 2011), Housing Appeal Panel (since 2012) and Municipal Services Appeal Board (since 2012).

Dr. Wu Ka Chee, Davy,

aged 44, was appointed as an independent non-executive Director on 16 March 2010. Dr. Wu has been a senior lecturer of the Department of Accountancy and Law at the Hong Kong Baptist University since September 2009. He attained a doctorate degree in law in December 2003, a postgraduate certificate in law in June 1994 and a bachelor degree in law in November 1993, all from The University of Hong Kong. He is a co-author of the Guide to Corporate Governance for Subvented Organisations, which was published by the Hong Kong Government in May 2010. He is a member of the Advisory Group on Modernisation of Corporate Insolvency Law on appointment by the Financial Services and Treasury Bureau of the Hong Kong Government. In September 2012, he was appointed by the Hong Kong Institute of Certified Public Accountants as a director of a diploma programme for training insolvency practitioners.

Mr. Ma Yiu Ho, Peter,

aged 48, was appointed as an independent non-executive Director on 16 March 2010. Mr. Ma is currently the Financial Controller and Company Secretary of Chyau Fwu Properties Limited, a company principally engaged in property development and hospitality. He has been a member of the Hong Kong Institute of Certified Public Accountants since February 1990 and a fellow member of the Association of Chartered Certified Accountants (UK) since April 1994. Mr. Ma obtained a Master of Business Administration Degree from the Hong Kong University of Science and Technology in November 1995. He is also an associate member of the Hong Kong Institute of Directors. He has over 20 years' experience in the finance and accounting field and worked as the Financial Controller and Company Secretary of The Hong Kong Parkview Group Ltd.; the Financial Controller, Qualified Accountant and Authorised Representative of VODone Limited, shares of these companies are listed on the Main Board of the Stock Exchange; Chief Financial Officer of Superior Fastening Technology Limited, a Singapore listed company. Mr. Ma also worked for Standard Chartered Equitor Trustee HK Limited and Hong Kong Government's Audit Department.

CORPORATE GOVERNANCE REPORT

The Board hereby presents this Corporate Governance Report in the Company's annual report for the year ended 31 December 2012.

The Board is committed to maintaining good corporate governance standard and procedures to safeguard the interests of the Company's shareholders and to enhance accountability and transparency.

Corporate Governance Practices

The Directors of the Company recognise the importance of good corporate governance in the management of the Group. During the three months ended 31 March 2012, the Company complied with the code provisions of the Code on Corporate Governance Practices as set out in the then Appendix 14 to the Listing Rules. During the nine months from 1 April 2012 to 31 December 2012, the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

Model Code for Securities Transactions by Directors

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, all Directors have complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions by the Directors adopted by the Company throughout the year ended 31 December 2012.

Board of Directors

Composition

The Board currently comprises three executive Directors and three independent non-executive Directors. The list of Directors is set out in the section headed "Directors' Report" of this annual report.

The Board includes a balanced composition of executive and non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

The non-executive Directors are of sufficient calibre and number for their views to carry weight. The functions of non-executive Directors include, but not limited to:

- bringing an independent judgement at Board meetings;
- taking the lead where potential conflicts of interests arise;
- serving on Board committees if invited; and
- scrutinising the Company's performance in achieving agreed corporate goals and objectives, and monitoring performance reporting.

The Board members have no financial, business, family or other material/relevant relationships with each other.

The Board has a balance of skills and experience appropriate for the requirements of the business of the Company. The Directors' biographical information is set out in the section headed "Biographical details of directors and senior management" of this annual report.

Composition of the Board, including names of independent non-executive Directors of the Company, is disclosed in all corporate communications to shareholders.

The Company has maintained on its website and on the Stock Exchange's website an updated list of its directors identifying their role and function and whether they are independent non-executive Directors.

Role and Function

The Board is responsible for overall strategic formulation and performance monitoring of the Group. It delegates day-to-day operations of the Company to the senior management within the control and authority framework set by the Board. In addition, the Board has also delegated various responsibilities to the audit committee, the remuneration committee, the nomination committee and the corporate governance committee. Further details of these committees are set out in this annual report.

Board Meetings

The Board is going to meet at least four times a year. Additional meetings would be arranged, if and when required. The Directors can attend meetings in person or through other means of electronic communication in accordance with the Articles.

The company secretary of the Company (the "Company Secretary") assists the Chairman in drawing the agenda of each meeting and each Director may request inclusion of matters in the agenda. Generally, at least 14 days' notice of a regular Board meeting is given and the Company aims at giving reasonable notice for all other Board meetings. The Company also aims at sending the agenda and the accompanying board papers, which are prepared in such form and quality as will enable the Board to make an informed decision on matters placed before it, to all Directors at least 3 days before the intended date of a Board meeting.

All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures are complied with and all applicable rules and regulations are followed.

The Company Secretary is responsible for taking minutes of Board and Board committee meetings, drafts and final versions of which would be sent to Directors for comments and records respectively, in both cases within a reasonable time after each meeting. Minutes are recorded in sufficient detail regarding the matters considered by the Board and decisions reached, including any concerns raised by Directors or dissenting views (if any) expressed. Minutes of the Board and the Board committees meetings are kept by the Company Secretary and are open for inspection by any Director/ committee member.

If a substantial shareholder or a Director has a conflict of interest in a matter (including material transaction with connected persons) which the Board has determined to be material, a Board meeting will be held instead of by way of circulation.

Attendance Records

During the financial year ended 31 December 2012, the Directors have made active contribution to the affairs of the Group and 5 Board meetings were held to consider, among other things, various projects contemplated by the Group and to review and approve the final results for the year ended 31 December 2011 and the interim results for the six months ended 30 June 2012 of the Group.

Details of Directors' attendance records in 2012 are as follows:

Meetings attended/Eligible to attend	
Executive Directors	
Mr. Wong Lee Man	5/5
Ms. Fong Sut Sam	5/5
Mr. Mak Kwong Yiu	5/5
Independent non-executive Directors	
Mr. Ma Yiu Ho, Peter	5/5
Mrs. Fu Kwong Wing Ting, Francine	5/5
Dr. Wu Ka Chee, Davy	5/5

Access to Information

The Directors may seek independent professional advice in appropriate circumstances, at the Company's expenses. The Company will, upon request, provide separate independent professional advice to Directors to assist the relevant Directors to discharge their duties to the Company.

The Board is supplied with relevant information by the senior management pertaining to matters to be brought before the Board for decision as well as reports relating to operational and financial performance of the Group before each Board meeting. Where any Director requires more information than is volunteered by the management, each Director has the right to separately and independently access to the Company's senior management to make further enquiries if necessary.

Appointments and Re-Election of Directors

Appointment of new Directors is a matter for consideration by the nomination committee. The nomination committee will review the profiles of the candidates and make recommendations to the Board on the appointment, re-nomination and retirement of Directors.

According to the Articles, any Director so appointed by the Board shall hold office, in the case of filling a casual vacancy, only until the next following general meeting of the Company or, in the case of an addition to their number, until the next following annual general meeting of the Company who shall then be eligible for re-election at such general meeting. Every Director (including non-executive Director) is appointed for a specific term and is subject to retirement by rotation at least once every three years.

Induction and Continuing Professional Development of Directors

Each newly appointed director is provided with necessary induction and information to ensure that he has a proper understanding of the Company's operations and businesses as well as his responsibilities under the relevant statutes, laws, rules and regulations.

Every newly appointed Director will be given an introduction of regulatory requirements. The Directors are continually updated on the latest development of the Listing Rules and other applicable statutory requirements to ensure compliance and upkeep of good corporate governance practice.

Under code provision A.6.5, Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

During the year ended 31 December 2012, all Directors, namely Mr. Wong Lee Man, Ms. Fong Sut Sam, Mr. Mak Kwong Yiu, Mr. Ma Yiu Ho, Peter, Mrs. Fu Kwong Wing Ting, Francine and Dr. Wu Ka Chee, Davy have participated in continuous professional development by attending training courses organised by professional firms/institutions.

Independent Non-Executive Directors

Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed three independent non-executive Directors. One of the independent non-executive Directors has appropriate professional qualifications or accounting or related financial management expertise.

The Company has received from each of its independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that all of the independent non-executive Directors are independent. Each of the independent non-executive Directors has entered into a service contract with the Company for a term of three years commencing from the Listing Date.

Directors' and Officers' Liability

Appropriate insurance cover on directors' and officers' liabilities has been in force to protect the Directors and officers of the Group from their risk exposure arising from the businesses of the Group.

Chairman and Chief Executive Officer

The Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should not be performed by the same individual. To ensure a balance of power and authority, the roles of chairman and the chief executive officer are separate and are not performed by the same individual to reinforce their independence and accountability. Mr. Wong Lee Man assumes the role of the chairman and Ms. Fong Sut Sam serves as the chief executive officer of the Company. The chairman provides leadership for the Board and overall strategic formulation for the Group. The chief executive officer has overall chief executive responsibility for the Group's business development and day-to-day management generally. The division of responsibilities between the chairman and the chief executive officer is clearly established and set out in writing.

With the support of executive Directors and the Company Secretary, the chairman seeks to ensure that all Directors are properly briefed on issues arising at the Board meetings and receive adequate and reliable information in a timely manner.

Board Committees

The Board has established the following committees to oversee particular aspects of the Company's affairs and to assist in the execution of the Board's responsibilities. All committees have their own terms of reference. All resolutions passed by the committees will be reported to the Board at the next Board meeting.

Audit Committee

The Company established an audit committee (the "Audit Committee") on 23 June 2010 with written terms of reference in compliance with Rules 3.21, 3.22 and 3.23 of the Listing Rules. The primary duties of the Audit Committee are mainly to make recommendation to the Board on the appointment and removal of external auditor; review the financial statements and material advice in respect of financial reporting; and oversee internal control procedures of the Company. The full terms of reference are available on the Company's website and the Stock Exchange's website. The Audit Committee consists of three members, namely Mrs. Fu Kwong Wing Ting, Francine, Dr. Wu Ka Chee, Davy and Mr. Ma Yiu Ho, Peter. Mr. Ma Yiu Ho, Peter is the chairman of the Audit Committee.

The members of the Audit Committee during the year and their attendance were as follows:

Meetings attended/Eligible to attend	
Mr. Ma Yiu Ho, Peter *(Chairman of the Audit Committee)*	3/3
Ms. Fu Kwong Wing Ting, Francine	3/3
Dr. Wu Ka Chee, Davy	3/3

During the year, 3 meetings of the Audit Committee were held for, amongst other things:

- Reviewing the final results of the Group for the year ended 31 December 2011 and interim results of the Group for the six months ended 30 June 2012;
- Reviewing the Group's financial information;
- Reviewing the continuing connected transactions as set forth on pages 53 to 54 of this annual report;
- Reviewing the effectiveness of the Group's internal control system; and
- Reviewing of the status of all business.

During the year, the Board had no disagreement with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditor.

Nomination Committee

The Company established a nomination committee (the "Nomination Committee") on 23 June 2010. Written terms of reference in compliance with paragraph A.4.4 of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules have been adopted. The primary function of the Nomination Committee is to make recommendations to the Board regarding candidates to fill vacancies on the Board. The full terms of reference are available on the Company's website and the Stock Exchange's website. The Nomination Committee consists of three members, namely Mrs. Fu Kwong Wing Ting, Francine, Dr. Wu Ka Chee, Davy and Ms. Fong Sut Sam. Mrs. Fu Kwong Wing Ting, Francine is the chairman of the Nomination Committee.

The members of the Nomination Committee during the year and their attendance were as follows:

Meetings attended/Eligible to attend	
Mrs. Fu Kwong Wing Ting, Francine *(Chairman of the Nomination Committee)*	3/3
Dr. Wu Ka Chee, Davy	3/3
Ms. Fong Sut Sam	3/3

During the year, 3 meetings of the Nomination Committee were held for, amongst other things:

- Reviewing the structure, size and composition of the Board;
- Assessing the independence of the independent non-executive Directors; and
- Making recommendation to the Board on matters relating to the appointment of Directors.

With effect from 11 January 2013, Ms. Fong Sut Sam ("Ms. Fong"), being an existing executive Director of the Company, resigned as a member of the nomination committee of the Company due to re-division of function. Mr. Wong Lee Man ("Mr. Wong"), being an existing chairman and executive Director of the Company, was appointed as a member of the nomination committee in place of Ms. Fong.

Remuneration Committee

The Company established a remuneration committee (the "Remuneration Committee") on 23 June 2010 with written terms of reference in compliance with paragraph B.1.1 of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of our Group; review performance based remuneration; and ensure none of our Directors determine their own remuneration. The full terms of reference are available on the Company's website and the Stock Exchange's website. The Remuneration Committee consists of three members, namely Mrs. Fu Kwong Wing Ting, Francine, Dr. Wu Ka Chee, Davy and Mr. Wong Lee Man. Mrs. Fu Kwong Wing Ting, Francine is the chairman of the Remuneration Committee.

The members of the Remuneration Committee during the year and their attendance were as follows:

Meetings attended/Eligible to attend	
Mrs. Fu Kwong Wing Ting, Francine *(Chairman of the Remuneration Committee)*	3/3
Dr. Wu Ka Chee, Davy	3/3
Mr. Wong Lee Man	3/3

During the year, 3 meetings of the Remuneration Committee were held for, amongst other things:

- Reviewing the remuneration and terms of service contracts of the executive Directors;
- Determining the bonuses of the executive Directors for the year 2012; and
- Making recommendations to the Board on the directors' fee of the independent non-executive Directors for the year 2012.

Details of the Company's remuneration policies are set out in the Management Discussion and Analysis on page 34 and Directors' emoluments are disclosed in note 7 to the financial statements.

Corporate Governance Committee

The Company established a compliance committee (the "Compliance Committee") on 23 June 2010. The primary function of the Compliance Committee is to make recommendations to the Board regarding regulatory and compliance matters relating to our Group. The Compliance Committee consists of four members, namely Mrs. Fu Kwong Wing Ting, Francine, Dr. Wu Ka Chee, Davy, Ms. Fong Sut Sam and Mr. Mak Kwong Yiu. Dr. Wu Ka Chee, Davy is the chairman of the Compliance Committee.

With effect from 1 January 2012, the Board has established a corporate governance committee (the "Corporate Governance Committee") in place of the existing Compliance Committee.

The Corporate Governance Committee is established for the purpose of developing and reviewing the Group's policies and practices on corporate governance and making recommendations to the Board; and reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements. The full terms of reference are available on the Company's website and the Stock Exchange's website.

The Board has appointed Dr. Wu Ka Chee, Davy, Mrs. Fu Kwong Wing Ting, Francine, Ms. Fong Sut Sam and Mr. Mak Kwong Yiu as members of the Corporate Governance Committee. Dr. Wu Ka Chee, Davy has been appointed as the chairman of the Corporate Governance Committee.

The members of the Corporate Governance Committee during the year and their attendance were as follows:

Meetings attended/Eligible to attend	
Dr. Wu Ka Chee, Davy *(Chairman of the Corporate Governance Committee)*	2/2
Mrs. Fu Kwong Wing Ting, Francine	2/2
Ms. Fong Sut Sam	2/2
Mr. Mak Kwong Yiu	2/2

During the year, 2 meetings of the Corporate Governance Committee were held for, amongst other things:

- Discussing on and reviewing of regulatory and compliance matters relating to the Group.

With effect from 11 January 2013, Mr. Mak Kwong Yiu ("Mr. Mak"), being an existing executive Director of the Company, resigned as a member of the Corporate Governance Committee of the Company due to re-division of function. Mr. Wong was appointed as a member of the Corporate Governance Committee in place of Mr. Mak.

Directors' Responsibility for the Financial Statements

The Directors understand and acknowledge their responsibility for making sure that the financial statements for each financial year are prepared to reflect the true and fair view of the state of affairs, results and cash flows of the Group and in compliance with relevant law and disclosure provisions of the Listing rules. In preparing the financial statements for the year ended 31 December 2012, the Directors have selected appropriate accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable, and have prepared the financial statements on a going concern basis. The Directors also ensure that the financial statements of the Group are published in a timely manner.

The statement of the auditor of the Company, Ernst & Young, about its reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 55 to 56 of this annual report.

Auditor's Remuneration

During the year, the remuneration paid and payable to the Company's auditor, Ernst & Young, are approximately HK$1,100,000 for audit services and HK$180,000 for non-audit services.

Company Secretary

Mr. Chow Kim Hang ("Mr. Chow"), was appointed as the company secretary and the authorized representative of the Company on 16 March 2010. Mr. Chow is a Solicitor of Ma Tang & Co., Solicitors, a corporate and commercial law firm in Hong Kong. He is a practicing solicitor in Hong Kong and a member of The Law Society of Hong Kong. His primary contact person at the Company is Mr. Mak Kwong Yiu, chief financial officer of the Company.

During the year ended 31 December 2012, Mr. Chow has taken no less than 15 hours of relevant professional trainings to update his skills and knowledge.

Internal Control

The Board is responsible for maintaining a sound and effective internal control system in order to safeguard the interests of the shareholders and the assets of the Company against unauthorised use or disposition, ensuring maintenance of proper books and records for the provision of reliable financial information, and ensuring compliance with the relevant rules and regulations.

The Group has engaged a firm of certified public accountants, namely Messrs. Dominic K.F. Chan & Co. to perform an internal control review of the Group's internal control system.

The Directors acknowledge their responsibility for reviewing the Group's internal control systems and would communicate regularly with the Audit Committee and the certified public accountants. The Board was satisfied to the effectiveness of the Company in managing risks based on the internal audit report and the findings performed by the certified public accountants.

Communication with Shareholders

The Company considers effective communication with shareholders is essential to enable them to have a clear assessment of the Group's performance as well as accountability of the board of directors. Major means of communication with shareholders of the Company include the followings:

Information Disclosure on Company's Website

The Company maintains a corporate website at www.convoy.com.hk where important information of the Group's activities and corporate matters, such as annual reports, interim reports to shareholders, announcements and corporate governance practices are available for review by shareholders.

When announcements are made through the Stock Exchange, the same information will be made available on the Company's website.

During 2012, the Company has issued announcements which can be viewed on the Company's website.

General Meetings With Shareholders

The annual general meeting (the "AGM") provides a useful forum for shareholders to exchange views with the Board. The Company's Directors (including independent non-executive Directors) are available at the AGM to answer questions from shareholders about the business and performance of the Company. In addition, the Company's external auditor is also invited to attend the AGM to answer questions about the conduct of the audit, and the preparation and contents of the auditor's report. Separate resolutions are proposed at general meetings for each substantial issue. An explanation of the detailed procedures of conducting poll was provided to shareholders at the AGM, to ensure that shareholders are familiar with such procedures.

The Company's last AGM was held on Wednesday, 13 June 2012 at Room Auditorium A and B, 1/F, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong. All the Company's Directors, namely Mr. Wong Lee Man, Ms. Fong Sut Sam, Mr. Mak Kwong Yiu, Mr. Ma Yiu Ho, Peter, Mrs. Fu Kwong Wing Ting, Francine and Dr. Wu Ka Chee, Davy were present at the said AGM which was the only held general meeting during the year. All the resolutions proposed at that meeting were approved by shareholders by poll voting. The poll results are posted on the websites of the Stock Exchange and the Company respectively on the same day as the poll.

The next AGM will be held on Monday, 10 June 2013, the notice of which will be sent to shareholders at least 20 clear business days before the said meeting.

Investor Relations

Information of the Group is delivered to the shareholders and investors through a number of channels, which includes annual report, interim report and announcements. The latest information of the Group together with the published documents are also available on the Company's website at http://www.convoy.com.hk.

The Company recognizes its responsibility to explain its activities to those with a legitimate interest and to respond to their questions. The Company's chairman, chief executive officer and chief financial officer also made presentations and held meetings with investors and analysts to keep them abreast of the Company's development, subject to compliance with the applicable laws and regulations.

In addition, questions received from the general public and individual shareholders are answered promptly.

Shareholders' Rights

Convening of Extraordinary General Meeting on Requisition by Shareholders

To safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue. Besides, pursuant to the Articles of Association, shareholder(s) holding not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for Directing Shareholders' Enquiries to the Board

Shareholders may send written enquiries to the Company for putting forward any enquiries or proposals to the Board of the Company. Contact details are as follows:

Address:	39/F, @CONVOY, 169 Electric Road, North Point, Hong Kong
Fax:	+852 8343 0447
Email:	IR_Info@convoy.com.hk

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Procedures for Putting Forward Proposals at General Meeting by Shareholders

Pursuant to Article 85 of the Company's Amended and Restated Memorandum of Association and Articles of Association, no person other than a retiring director shall be eligible for election to the office of Director at any general meeting unless (a) such person is recommended by the Directors for election; or (b) such person is nominated by notice in writing by a shareholder (other than the person to be proposed) entitled to attend and vote at the meeting. The notice of nomination shall be accompanied by a notice signed by that person indicating his willingness to be elected to the office of Director and shall be lodged at the head office from time to time or at the registration office within the seven day period commencing from the day after the dispatch of the notice of the meeting (or such other period, being a period of not less than seven days, commencing no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and ending no later than seven days prior to the date of such meeting, as may be determined by the Directors from time to time.)

Constitutional Documents

At the 2012 AGM, amendments to the Articles of Association of the Company were approved by the shareholders of the Company. An updated version of the Amended and Restated Memorandum of Association and Articles of Association of the Company is available on the websites of the Company and the Stock Exchange.

DIRECTORS' REPORT

The Board is pleased to present their annual report and the audited financial statements of the Company and the Group for the year ended 31 December 2012.

Corporate Reorganisation

The Company is a limited liability company incorporated in the Cayman Islands on 12 March 2010. The address of the Company's registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

Pursuant to the Reorganisation to rationalise the structure of the Group in preparation for the Listing, the Company became the direct/indirect holding company of the subsidiaries comprising the Group on 21 June 2010. Details of the Reorganisation were set out in the section headed "Corporate Reorganisation" in Appendix V to the Prospectus issued by the Company.

The Company's Shares have been listed on the Stock Exchange since 13 July 2010.

Principal Activities

The principal activity of the Company is investment holding. The Group is principally engaged in the IFA business. The activities of its principal subsidiaries are set out in note 15 to the financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2012 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 55 to 111.

An interim dividend of HK3.0 cents per share amounting to HK$12,000,000 were paid to the shareholders during the year. The Directors do not recommend the payment of a final dividend for the year ended 31 December 2012.

Closure of Register of Members

For the purpose of ascertaining shareholders who are entitled to attend and vote at the annual general meeting to be held on Monday, 10 June 2013 (or any adjournment thereof), the register of members of the Company will be closed from Wednesday, 5 June 2013 to Monday, 10 June 2013 (both days inclusive). In order to qualify for the right to attend and vote at the meeting (or any adjournment thereof), all transfer documents accompanied by the relevant share certificates should be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Tuesday, 4 June 2013.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 28 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves of the Company

At 31 December 2012, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK$134.4 million (2011: HK$134.8 million). The amount of HK$134.4 million (2011: HK$134.8 million) includes the Company's share premium account which may be distributable provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Charitable Donations

During the year, the Group made charitable donations amounting to HK$390,000 (2011: HK$486,000).

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group are set out in note 13 to the financial statements.

Share Capital

Details of movements in the Company's share capital during the year are set out in note 26 to the financial statements.

Major Products Issuers and Suppliers

In the year under review, revenue from the Group's five largest product issuers accounted for 88.1% (2011: 92.9%) of the total revenue for the year and revenue from the largest product issuer included therein amounted to 57.1% (2011: 56.8%).

Commission expenses attributable to the 5 highest paid consultants of the Group accounted for less than 30% of the Group's total commission expenses for the year under review.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's entire issued share capital) had any beneficial interest in the Group's five largest product issuers.

Summary Financial Information

A summary of the published results, assets and liabilities of the Group for the last five financial years, as extracted from the consolidated financial statements and the Prospectus, is set out on page 112. This summary does not form part of the audited financial statements.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, Sale or Redemption of Listed Securities

During the year ended 31 December 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Share Option Scheme

The share option scheme (the "Share Option Scheme") of the Company was conditionally approved by written resolutions of the sole shareholder of the Company dated 23 June 2010 and shall be valid and effective for a period of 10 years to 22 June 2020.

According to the Share Option Scheme, the Board may at its absolute discretion, offer to grant option to any Employee, Business Associate and the trustee (whether family, discretionary or otherwise) whose beneficiaries or objects include any Employee or Business Associate of the Group (collectively, the "Participants").

For the purpose of this section, Employee means (i) any full-time employee and director (including executive director, non-executive director and independent non-executive director or proposed executive director, non-executive director and independent non-executive director) of any member of the Group; and (ii) any part-time employee with weekly working hours of 10 hours or above of the Group; and Business Associate means (a) any adviser, consultant or agent (in the areas of legal, technical, financial or corporate managerial) to the Group; (b) any provider of goods and/or services to the Group; or (c) any other person who, at the sole discretion of the Board, has contributed or may contribute to the Group (the assessment criterion of which are (i) such person's contribution to the development and performance of the Group; (ii) the quality of work performed by such person for the Group; (iii) the initiative and commitment of such person in performing his or her duties; and (iv) the length of service or contribution of such person to the Group).

The purpose of the Share Option Scheme is to encourage the Participants to perform their best in achieving the goals of the Group and at the same time allow the Participants to enjoy the results of the Company attained through their efforts and contributions and to provide the Participants with incentives and help the Company in retaining its existing Employees and recruiting additional Employees.

The subscription price in respect of any particular option shall be such price as determined by the Board in its absolute discretion at the time of the grant of the options but in any case the subscription price shall not be less than the higher of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a trading day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 trading days immediately preceding the date of grant; or (iii) the nominal value of a Share. Each of the grantee is required to pay HK$1.00 as consideration for the grant of share options in accordance with the Share Option Scheme and the offer of share options must be accepted within 21 days from the date of the offer.

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and any other schemes must not, in aggregate, exceed 40,000,000 Shares, which represented 10% of the total issued share capital of the Company as at the date of the annual report.

No Participant shall be granted an option if the total number of Shares issued and to be issued upon exercise of the options granted and to be granted (including both exercised and outstanding options) in 12-month period up to and including the date of grant to such Participant would exceed 1% of the Shares for the time being in issue unless the proposed grant has been approved by the shareholders of the Company in general meeting with the proposed grantee and his associates (as defined in the Listing Rules) abstaining from voting.

An option may be exercised in accordance with the terms and conditions of the Share Option Scheme at any time during such period as the Board may in its absolute discretion determine, save that such period shall not be more than 10 years from the date of grant of the option and the Board may provide restrictions on the exercise of an option during the period an option may be exercised. There is no requirement that an option must be held for any minimum period before it can be exercised but the Board are empowered to impose at its discretion any such minimum period at the time of grant of any option.

During the year ended 31 December 2012, no share options were granted, exercised or cancelled by the Company under the Share Option Scheme.

Share Award Scheme

The Company's share award scheme (the "Award Scheme"), was adopted pursuant to a resolution passed on 25 January 2011 for the primary purpose of recognising the contributions by certain selected participants and giving incentives thereto in order to retain them for the continual operation and development of the Group and attracting suitable personnel for further development of the Group.

Details of the Award Scheme are disclosed in note 27 to the financial statements.

Directors

The Directors during the year and up to the date of this report were:

Executive Directors
Mr. Wong Lee Man
Ms. Fong Sut Sam
Mr. Mak Kwong Yiu

Independent Non-Executive Directors
Mrs. Fu Kwong Wing Ting, Francine
Dr. Wu Ka Chee, Davy
Mr. Ma Yiu Ho, Peter

Biographical details of the above Directors are set out in the section headed "BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT" on pages 40 to 41 of this report.

In accordance with article 84 of the Company's articles of association, Mr. Mak Kwong Yiu and Dr. Wu Ka Chee, Davy will retire from office of Directors by rotation and, being eligible, will offer themselves for re-election as Directors of the Company at the forthcoming annual general meeting of the Company.

Appointment of Independent Non-Executive Directors

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

Directors' Service Contracts

Each of the Directors has entered into a service contract with the Company for a term of three years commencing from the Listing Date and to continue thereafter until terminated by a three months' notice in writing served by either party on the other without payment of compensation.

Each of the executive Directors shall also be entitled to a bonus for each financial year of the Company which is at the discretion of the Board and determined by reference to performance of each Director concerned and the Group's performance for the financial year concerned and based on the recommendation from the remuneration committee of our Company.

Save as disclosed above, none of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Remuneration of the Directors

Details of the remuneration of the Directors are set out in note 7 to the financial statements.

Directors' Interests in Contracts of Significance

No contract of significance, to which the Company, its holding companies, fellow subsidiaries or subsidiaries 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.

Contract of Significance

There is no contract of significance between the Company or any of its subsidiaries, and a controlling shareholder or any of its subsidiaries.

Management Contract

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manager or administer the whole or any substantial part of any business of the Company.

Interests in Competitors

So far as the Directors were aware, none of the Directors or their associates had any interest in a business that competes or may compete with the business of the Group.

Interests and/or Short Positions of the Directors and Chief Executives in the Share Capital of the Company and Its Associated Corporations

As at 31 December 2012, the Directors, chief executives and their associates had the following interests or short positions in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Listing Rules:

(i) Directors' interests in the shares of associated corporations:

Name of associated corporation	Name of Director	Capacity	Long/short position	No. of ordinary shares in Convoy Inc. held	Approximate percentage of the issued share capital in Convoy Inc.
Convoy Inc.	Mr. Wong Lee Man	Beneficial owner	Long position	15,031	21.02%
	Ms. Fong Sut Sam	Beneficial owner	Long position	14,989	20.97%
	Mr. Mak Kwong Yiu	Beneficial owner	Long position	4,122	5.76%

Other than as disclosed above, none of the Company's Directors, chief executive nor their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) as at 31 December 2012.

Interests and/or Short Positions of Substantial Shareholders in the Share Capital of the Company

Save as disclosed in the section headed "Interests and/or Short Positions of the Directors and Chief Executives in the Share Capital of the Company and its Associated Corporations", as at 31 December 2012, the following corporations had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of shareholder	Capacity	Long/short position	Number of Shares held	Approximate percentage of the issued share capital
Convoy Inc. (Note 1)	Interests of a controlled corporation	Long position	300,000,000	75%
Perfect Team Group Limited ("Perfect Team") (Note 1)	Interests of a controlled corporation	Long position	300,000,000	75%
CFG	Beneficial owner	Long position	300,000,000	75%

Note:

1. The 300,000,000 Shares are held by CFG which is owned as to approximately 43.79% by Convoy Inc. and 56.21% by Perfect Team. As a result of such relationship as described in this paragraph, Convoy Inc. and Perfect Team are deemed to be interested in 300,000,000 Shares held by CFG. CFG is beneficially interested in 300,000,000 Shares.

Save as disclosed above, and as at 31 December 2012, the Directors of the Company were not aware of any persons (who were not directors or chief executives of the Company) who had an interest or short position in the share capital of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

Arrangements to Purchase Shares or Debentures

Save as disclosed in the "INTERESTS AND/OR SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVES IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS" above and in the share option scheme disclosed on page 50 to the annual report, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements 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.

Continuing Connected Transactions

The Group has entered into certain agreements and arrangements with its connected persons in the ordinary and usual course of business of the Group during the reporting period. Details of these transactions are set out below.

Non-Exempt Continuing Connected Transaction

Service Fees Paid to Connected Persons

CFS has entered into contract for services (the "Shin Family Service Contracts") with three associates (as defined under the Listing Rules) of Mr. Shin Kin Man (the "Shin Family"). Mr. Shin Kin Man is the executive director of CFS and one of the controlling shareholders. Under the Shin Family Service Contracts, CFS agreed to pay commission to the Shin Family for their acting as consultants of CFS to provide the insurance and MPF schemes brokerage services in Hong Kong pursuant to the terms and conditions of the Shin Family Service Contracts. Such commissions to be paid to the Shin Family represent normal commissions applicable to all other consultants, and would not include payment of any kind to which all other consultants would not be entitled. The Shin Family Service Contracts have been expired on 31 December 2012 for a period of three years from 1 January 2010 to 31 December 2012, with the annual cap amounts to HK$7,500,000, HK$7,900,000 and HK$8,300,000 for the financial years ended 31 December 2010, 2011 and 2012.

The execution of the Shin Family Service Contracts constitutes a continuing connected transaction of the Company under Rule 14A.14 of the Listing Rules. Details of the transaction were disclosed in the Company's Prospectus.

During the year, the commission expenses paid to the Shin Family amounted to approximately HK$5,231,000 (2011: HK$5,531,000).

The independent non-executive Directors of the Company have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

The auditor has reported to the Directors that (i) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's Board of Directors; (ii) for transactions involving the provision of services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company; (iii) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (iv) with respect to the aggregate amount of the continuing connected transactions, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the maximum aggregate annual value disclosed in the Prospectus dated 29 June 2010 made by the Company in respect of the disclosed continuing connected transactions.

Subsequent to the reporting period on 11 March 2013, CFS entered into new service contracts with the Shin Family (the "New Shin Family Service Contracts") with a view to renew the terms and conditions of the Shin Family Service Contracts for a term of three years commencing from 1 January 2013 and ending on 31 December 2015 (both days inclusive), with the annual cap amounts to HK$8,300,000, HK$8,750,000 and HK$9,200,000 for the financial years ending 31 December 2013, 2014 and 2015.

Audit Committee

The Company established an audit committee on 23 June 2010 (the "Audit Committee) with written terms of reference in compliance with the Listing Rules. The Audit Committee of the Company comprises of three independent non-executive Directors of the Company, namely Mr. Ma Yiu Ho, Peter (the chairman of the Audit Committee), Mrs. Fu Kwong Wing Ting, Francine and Dr. Wu Ka Chee, Davy.

The Audit Committee has reviewed together with the management of the Company the accounting principles, accounting standards and methods adopted by the Company, discussed the matters concerning internal control, auditing and financial reporting matters and has reviewed the consolidated financial statements of the Group for the year ended 31 December 2012.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, at least 25% of the Company's issued share capital were held by members of the public as at the date of this report as required under the Listing Rules.

Events after the Reporting Period

Details of significant events occurring after the reporting period are set out in note 38 to the financial statements.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Wong Lee Man
Chairman

Hong Kong, 22 March 2013

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安 永

To the shareholders of Convoy Financial Services Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Convoy Financial Services Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 57 to 111, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 disclosure requirements of 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing 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.

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 auditors' 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 auditors consider internal control relevant to the entity's preparation of 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 December 2012, 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 disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
22 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
REVENUE	5	**703,726**	652,875
Other income and gains, net	5	**2,100**	2,186
Commission expenses		**(423,333)**	(390,608)
Staff costs	6	**(79,204)**	(60,369)
Depreciation	13	**(14,511)**	(15,387)
Commission clawback		**(6,694)**	(6,332)
Other expenses		**(174,533)**	(117,825)
PROFIT BEFORE TAX	6	**7,551**	64,540
Income tax expense	9	**(14,387)**	(15,056)
PROFIT/(LOSS) FOR THE YEAR		**(6,836)**	49,484
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**49**	78
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**(6,787)**	49,562
Profit/(loss) for the year attributable to:			
Owners of the Company	10	**1,629**	53,003
Non-controlling interests		**(8,465)**	(3,519)
		(6,836)	49,484
Total comprehensive income/(loss) attributable to:			
Owners of the Company		**1,634**	52,895
Non-controlling interests		**(8,421)**	(3,333)
		(6,787)	49,562
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	12		
Basic (HK cents)		**0.4**	13.3
Diluted (HK cents)		**0.4**	13.2

Details of the dividends payable for the year are disclosed in note 11 to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**35,511**	26,074
Prepayments, deposits and other receivables	19	**46,712**	40,579
Goodwill	14	**47,430**	5,381
Available-for-sale investment	16	**4,976**	–
Restricted cash	21	**1,550**	–
Deferred tax assets	17	**3,145**	3,779
Total non-current assets		**139,324**	75,813
CURRENT ASSETS			
Accounts receivable	18	**54,110**	53,349
Prepayments, deposits and other receivables	19	**36,986**	14,821
Equity investments at fair value through profit or loss	20	**2,099**	183
Due from a fellow subsidiary	34(c)	**643**	643
Tax recoverable		**2,570**	–
Restricted cash	21	**510**	394
Cash and cash equivalents	22	**159,043**	219,248
Total current assets		**255,961**	288,638
CURRENT LIABILITIES			
Accounts payable	23	**130,421**	98,429
Other payables and accruals	24	**68,982**	30,161
Tax payable		**28**	217
Commission clawback	25	**6,739**	6,588
Total current liabilities		**206,170**	135,395
NET CURRENT ASSETS		**49,791**	153,243
Net assets		**189,115**	229,056
EQUITY			
Equity attributable to owners of the Company			
Issued capital	26	**40,000**	40,000
Reserves		**143,046**	189,310
		183,046	229,310
Non-controlling interests		**6,069**	(254)
Total equity		**189,115**	229,056

Wong Lee Man
Director

Fong Sut Sam
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

		Attributable to owners of the Company												
	Notes	Issued capital HK$'000	Share premium account HK$'000	Capital reserve HK$'000 (note 28 (a))	Merger reserve HK$'000 (note 28 (a))	Shares held for share award scheme HK$'000 (note 27)	Warrant reserve HK$'000 (note 26)	Exchange fluctuation reserve HK$'000	Reserve funds HK$'000 (note 28 (a))	Other reserves HK$'000 (note 28 (a))	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2011		40,000	133,396	(64,379)	–	–	–	75	43	–	82,586	191,721	–	191,721
Profit/(loss) for the year		–	–	–	–	–	–	–	–	–	53,003	53,003	(3,519)	49,484
Other comprehensive income/(loss) for the year:														
Exchange differences on translation of foreign operations		–	–	–	–	–	–	(108)	–	–	–	(108)	186	78
Total comprehensive income/(loss) for the year		–	–	–	–	–	–	(108)	–	–	53,003	52,895	(3,333)	49,562
Net proceeds from issue of warrants	26	–	–	–	–	–	965	–	–	–	–	965	–	965
Shares purchased for share award scheme	27	–	–	–	–	(3,500)	–	–	–	–	–	(3,500)	–	(3,500)
Equity-settled share-based payment	27	–	–	–	–	3,705	–	–	–	–	–	3,705	–	3,705
Transfer from shares held for share award scheme	27	–	–	–	–	(205)	–	–	–	–	205	–	–	–
Acquisition of subsidiaries under common control	34(b)	–	–	–	(1,056)	–	–	–	–	–	–	(1,056)	–	(1,056)
Acquisition of a subsidiary	29	–	–	–	–	–	–	–	–	–	–	–	(413)	(413)
Gain on deemed disposal of interests in subsidiaries	28(a)	–	–	–	–	–	–	–	–	65	–	65	(65)	–
Capital contribution by non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	–	3,557	3,557
Waiver of an amount due to the immediate holding company	28(a)	–	–	–	–	–	–	–	–	515	–	515	–	515
Transfer to retained profits		–	–	–	–	–	–	–	3	–	(3)	–	–	–
2010 final dividend	11	–	–	–	–	–	–	–	–	–	(8,000)	(8,000)	–	(8,000)
2011 interim dividend	11	–	–	–	–	–	–	–	–	–	(8,000)	(8,000)	–	(8,000)
At 31 December 2011		40,000	133,396*	(64,379)*	(1,056)*	–	965*	(33)*	46*	580*	119,791*	229,310	(254)	229,056

Year ended 31 December 2012

		Attributable to owners of the Company												
	Notes	Issued capital HK$'000	Share premium account HK$'000	Capital reserve HK$'000 (note 28 (a))	Merger reserve HK$'000 (note 28 (a))	Shares held for share award scheme HK$'000 (note 27)	Warrant reserve HK$'000 (note 26)	Exchange fluctuation reserve HK$'000	Reserve funds HK$'000 (note 28 (a))	Other reserves HK$'000 (note 28 (a))	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2012		40,000	133,396	(64,379)	(1,056)	-	965	(33)	46	580	119,791	229,310	(254)	229,056
Profit/(loss) for the year		-	-	-	-	-	-	-	-	-	1,629	1,629	(8,465)	(6,836)
Other comprehensive income for the year:														
Exchange differences on translation of foreign operations		-	-	-	-	-	-	5	-	-	-	5	44	49
Total comprehensive income/(loss) for the year		-	-	-	-	-	-	5	-	-	1,629	1,634	(8,421)	(6,787)
Transfer from warrant reserve	26	-	-	-	-	-	(965)	-	-	-	965	-	-	-
Shares purchased for share award scheme	27	-	-	-	-	(3,250)	-	-	-	-	-	(3,250)	-	(3,250)
Deemed acquisition of non-controlling interests	28(a)	-	-	-	-	-	-	-	-	(4,648)	-	(4,648)	3,656	(992)
Acquisition of a subsidiary	29	-	-	-	-	-	-	-	-	-	-	-	11,088	11,088
Transfer to reserve funds		-	-	-	-	-	-	-	95	-	(95)	-	-	-
2011 final dividend	11	-	-	-	-	-	-	-	-	-	(28,000)	(28,000)	-	(28,000)
2012 interim dividend	11	-	-	-	-	-	-	-	-	-	(12,000)	(12,000)	-	(12,000)
At 31 December 2012		40,000	133,396*	(64,379)*	(1,056)*	(3,250)*	-	(28)*	141*	(4,068)*	82,290*	183,046	6,069	189,115

* These reserve accounts comprise the consolidated reserves of HK$143,046,000 (2011: HK$189,310,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**7,551**	64,540
Adjustments for:			
Bank interest income	5	**(725)**	(1,149)
Other interest income	5	**(248)**	–
Fair value losses/(gains) on equity investments at fair value through profit or loss	5	**(264)**	47
Gain on disposal of items of property, plant and equipment	5	**(261)**	–
Write-off of items of property, plant and equipment	6	**75**	–
Depreciation	13	**14,511**	15,387
Impairment of loans and other receivables, net	6	**16,129**	467
Write-off of other receivables	6	**37**	39
Equity-settled share-based payment	27	**–**	3,705
Commission clawback		**6,694**	6,332
		43,499	89,368
Decrease in accounts receivable		**421**	2,912
Increase in prepayments, deposits and other receivables		**(34,287)**	(6,578)
Increase in equity investments at fair value through profit or loss		**(1,652)**	–
Increase in an amount due from a fellow subsidiary		**–**	(643)
Increase/(decrease) in accounts payable		**30,887**	(1,293)
Increase/(decrease) in other payables and accruals		**14,563**	(5,992)
Increase in an amount due to the immediate holding company		**–**	378
Decrease in commission clawback		**(6,543)**	(5,859)
Cash generated from operations		**46,888**	72,293
Other interest income received		**248**	–
Hong Kong profits tax paid		**(16,282)**	(23,276)
Mainland China taxes paid		**(230)**	(52)
Net cash flows from operating activities		**30,624**	48,965
CASH FLOWS FROM INVESTING ACTIVITIES			
Bank interest received		**725**	1,149
Acquisition of subsidiaries	29	**6,775**	(3,678)
Acquisition of subsidiaries under common control	34(b)(ii)	**–**	(1,056)
Acquisition of an additional interest in a subsidiary	34(b)(i)	**(992)**	–
Increase in loans and other receivables	19(b)	**–**	(21,307)
Deposits paid for purchases of items of property, plant and equipment		**(27,201)**	(1,889)
Purchases of items of property, plant and equipment		**(21,059)**	(14,798)
Proceeds from disposal of items of property, plant and equipment		**310**	–
Purchase of an available-for-sale investment		**(4,976)**	–
Increase in restricted cash	21	**(1,353)**	(394)
Net cash flows used in investing activities		**(47,771)**	(41,973)

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from placement of warrants	26	–	965
Shares purchased for share award scheme	27	(3,250)	(3,500)
Capital contribution from non-controlling shareholders		–	3,557
Dividends paid		(40,000)	(16,000)
Net cash flows used in financing activities		(43,250)	(14,978)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(60,397)	(7,986)
Cash and cash equivalents at beginning of year		219,248	227,215
Effect of foreign exchange rate changes, net		192	19
CASH AND CASH EQUIVALENTS AT END OF YEAR		159,043	219,248
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	153,054	120,696
Non-pledged time deposits with original maturity of less than three months when acquired	22	5,989	98,552
		159,043	219,248

STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	15	**66,435**	66,435
CURRENT ASSETS			
Due from subsidiaries	15	**225,901**	109,649
Prepayments	19	**180**	180
Cash and cash equivalents	22	**8,315**	118,579
Total current assets		**234,396**	228,408
CURRENT LIABILITIES			
Due to subsidiaries	15	**129,070**	117,336
Accruals	24	**635**	1,765
Total current liabilities		**129,705**	119,101
NET CURRENT ASSETS		**104,691**	109,307
Net assets		**171,126**	175,742
EQUITY			
Issued capital	26	**40,000**	40,000
Reserves	28(b)	**131,126**	135,742
Total equity		**171,126**	175,742

Wong Lee Man
Director

Fong Sut Sam
Director

1.1 Corporate Information

Convoy Financial Services Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands on 12 March 2010. The address of the Company's registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

During the year, the Group was principally engaged in independent financial advisory ("IFA") business.

In the opinion of the Directors, the immediate holding company of the Company is Convoy Financial Group Limited ("CFG"), and the ultimate holding company of the Company is Convoy Inc., both of which are incorporated in the British Virgin Islands.

2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for equity investments at fair value through profit or loss, which have been measured at fair value. These financial statements are presented in Hong Kong dollars.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2.2 Changes in Accounting Policy and Disclosures

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

2.3 Issued but not yet Effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the current year's financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) *– Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application, but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the Group's results of operations and financial position.

2.4 Summary of Significant Accounting Policies

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets, goodwill and deferred tax assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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 the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and 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 of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is a joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group 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 (a); and
- (vii) a person identified in (a)(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).

2.4 Summary of Significant Accounting Policies (continued)

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	Over the lease term
Furniture, fixtures and equipment	20%
Computer equipment	30%
Motor vehicles	30%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes recognised in profit or loss. These net fair value changes do not include any dividends earned on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify them. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation and the loss arising from impairment is recognised in profit or loss.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated Group's continuing involvement in the asset. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

2.4 Summary of Significant Accounting Policies (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transactions costs.

Shares held under the share award scheme

Where shares of the Company are purchased from the market for a restricted share award scheme, the consideration paid, including any directly attributable incremental costs, is presented as "Shares held under the share award scheme" and deducted from equity.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

2.4 Summary of Significant Accounting Policies (continued)

Deferred revenue

Deferred revenue represents service fees received in advance from the rendering of the corresponding services. Revenue is recognised and deferred revenue is released to profit or loss when the corresponding services have been rendered.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of each reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the jurisdiction in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 Summary of Significant Accounting Policies (continued)

Income tax (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) investment brokerage commission income, on an accrual basis when brokerage services are rendered and in accordance with the terms of the underlying agreements with the product issuers;

(b) insurance and pension scheme brokerage commission income, on an accrual basis based on the commissioning of the respective insurance policies and pension schemes;

(c) advisory income and service income, on an accrual basis when services have been rendered;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Share-based payments

The Company operates a restricted share award scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) and consultants of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined based on the quoted market price of the equity instruments at the date at which they are granted, further details of which are given in note 27 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period reflects the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest.

2.4 Summary of Significant Accounting Policies (continued)

Share-based payments (continued)

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Other employee benefits

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes operated by the respective local municipal governments. These subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Social security scheme

The employees of the Group's subsidiary which operates in Macau are required to participate in a central social security scheme operated by the Macao SAR Government. The subsidiary is required to contribute a fixed amount of its payroll costs to the central social security scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central social security scheme.

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the end of the reporting period is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the end of each reporting period for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Dividends

Final dividends proposed by the Directors after the end of the reporting period are not recognised as a liability at the end of the reporting period. When these dividends have been approved by the shareholders and declared in a general meeting, they are recognised as a liability.

Interim dividends were simultaneously proposed and declared, because the Company's memorandum and articles of association grant the Directors the authority to declare interim dividends. Consequently, interim dividends were recognised immediately as a liability when they are proposed and declared.

2.4 Summary of Significant Accounting Policies (continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Income tax provisions

Determining income tax provisions involves judgements on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are made accordingly. The tax treatment of such transactions is assessed periodically to take into account all the changes in the tax legislations and practices.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of loans and receivables

The Group assesses at the end of the reporting period whether there is any objective evidence that a loan and receivable is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

The Group maintains an allowance for estimated impairment of receivables arising from the inability of its debtors to make the required payments. The Group makes its estimates based on the ageing of its receivable balances, debtors' creditworthiness, past repayment history and historical write-off experience. If the financial condition of its debtors was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance.

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

Useful lives and residual values of property, plant and equipment

In determining the useful life and residual value of an item of property, plant and equipment, the Group has to consider various factors, such as expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Addition to or reduction in depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at the end of the reporting period based on changes in circumstances.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Estimation of commission clawback

The Group reviews the carrying amount of commission clawback at the end of the reporting period and estimates the expected cash outflows related to commission clawback. The estimation requires the Group to make estimates of the expected future occurrence of commission clawback by the product issuers and the expenditure required to settle the obligations. Details of the commission clawback are set out in note 25 to the financial statements.

4. Segment Information

All the Group's revenue and operating profit are generated from the provision of IFA services. Revenue represents the aggregate of investment brokerage commission income, insurance brokerage commission income, pension scheme brokerage commission income and advisory income. Information reported to the Group's chief operating decision maker, for the purpose of resources allocation and assessment performance, is focused on the operating results of the Group as a whole as the Group's resources are integrated and no discrete financial information is available. Accordingly, no segment analysis is presented.

Geographical information

(a) Revenue from external customers

	2012	2011
	HK$'000	HK$'000
Hong Kong	**683,668**	652,570
Mainland China	**17,655**	159
Macau	**2,403**	146
	703,726	652,875

The revenue information above is based on the locations of the operations.

4. Segment Information (continued)

Geographical information (continued)

(b) Non-current assets

	2012 HK$'000	2011 HK$'000
Hong Kong	43,900	27,190
Mainland China	71,952	9,966
Others	157	224
	116,009	37,380

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about product issuers

Revenue from major product issuers, which respectively amounted to 10% or more of the Group's revenue, is set out below:

	2012 HK$'000	2011 HK$'000
Product issuer A	401,513	370,580
Product issuer B	73,111	118,974
Product issuer C	74,483	79,230

5. Revenue, Other Income and Gains, Net

Revenue, which is also the Group's turnover, represents the aggregate of investment brokerage commission income, insurance brokerage commission income, pension scheme brokerage commission income and advisory income earned during the year.

An analysis of revenue, other income and gains, net is as follows:

	2012 HK$'000	2011 HK$'000
Revenue		
Investment brokerage commission income	632,501	633,068
Insurance brokerage commission income	54,598	12,028
Pension scheme brokerage commission income	7,950	7,657
Advisory income	8,677	122
	703,726	652,875
Other income and gains, net		
Bank interest income	725	1,149
Other interest income	248	–
Service income from a fellow subsidiary	–	392
Gain on disposal of items of property, plant and equipment	261	–
Fair value gains/(losses) on equity investments at fair value through profit or loss	264	(47)
Foreign exchange differences, net	323	174
Others	279	518
	2,100	2,186

6. Profit Before Tax

The Group's profit before tax is arrived at after charging:

	Notes	2012 HK$'000	2011 HK$'000
Minimum lease payments under operating leases:			
Land and buildings		**51,901**	42,344
Equipment		**–**	100
		51,901	42,444
Employee benefit expense (including Directors' remuneration (note 7)):			
Salaries, allowances, bonuses and benefits in kind		**73,707**	57,657
Equity-settled share-based payment		**–**	373
Pension scheme contributions		**5,497**	2,339
		79,204	60,369
Equity-settled share-based payment:			
Employees (included in employee benefit expense)		**–**	373
Consultants (included in other expenses)		**–**	3,332
		–	3,705
Auditors' remuneration		**1,112**	1,263
Impairment of loans and other receivables, net	19	**16,129**	467
Write-off of items of property, plant and equipment	13	**75**	–
Write-off of other receivables		**37**	39

7. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group 2012 HK$'000	2011 HK$'000
Fees	**435**	410
Other emoluments:		
Salaries, allowances and benefits in kind	**5,999**	5,635
Discretionary bonuses	**1,002**	1,613
Pension scheme contributions	**445**	36
	7,446	7,284
	7,881	7,694

Included in the Directors' remuneration were rental benefits for accommodation provided to Directors of HK$582,000 (2011: HK$648,000) during the year.

7. Directors' Remuneration (continued)

(a) Independent non-executive Directors

The fees paid and payable to independent non-executive Directors during the year were as follows:

	2012 HK$'000	2011 HK$'000
Mrs. Fu Kwong Wing Ting, Francine	159	150
Dr. Wu Ka Chee, Davy	138	130
Mr. Ma Yiu Ho, Peter	138	130
	435	410

There were no other emoluments payable to the independent non-executive Directors during the year (2011: Nil).

(b) Executive Directors

	Fees HK$'000	Salaries, allowances, and benefits in kind HK$'000	Discretionary bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2012					
Mr. Wong Lee Man	–	1,825	315	136	2,276
Ms. Fong Sut Sam	–	2,296	382	172	2,850
Mr. Mak Kwong Yiu	–	1,878	305	137	2,320
	–	5,999	1,002	445	7,446
2011					
Mr. Wong Lee Man	–	1,723	500	12	2,235
Ms. Fong Sut Sam	–	2,183	611	12	2,806
Mr. Mak Kwong Yiu	–	1,729	502	12	2,243
	–	5,635	1,613	36	7,284

There was no arrangement under which a Director waived or agreed to waive any remuneration during the year (2011: Nil).

8. Five Highest Paid Employees

The five highest paid employees during the year included three Directors (2011: three), details of whose remuneration are disclosed in note 7 above. Details of the remuneration of the remaining two (2011: two) non-Director, highest paid employees for the year are as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Salaries, allowances and bonuses	3,743	3,332
Pension scheme contributions	202	24
Equity-settled share-based payment	–	58
	3,945	3,414

The number of non-Director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2012	2011
HK$1,000,001 to HK$1,500,000	–	1
HK$1,500,001 to HK$2,000,000	1	–
HK$2,000,001 to HK$2,500,000	1	1
	2	2

9. Income Tax

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in Mainland China.

	2012	2011
	HK$'000	HK$'000
Group:		
Current – Hong Kong		
Charge for the year	13,562	16,133
Overprovision in prior years	(24)	–
Current – Mainland China	215	93
Deferred (note 17)	634	(1,170)
Total tax charge for the year	14,387	15,056

9. Income Tax (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for Hong Kong in which the Group's major operating subsidiaries are domiciled to the tax expense at the Group's effective tax rate is as follows:

	Group			
	2012		2011	
	HK$'000	**%**	HK$'000	%
Profit before tax	**7,551**		64,540	
Tax at the Hong Kong statutory tax rate	**1,246**	**16.5**	10,649	16.5
Higher tax rate for specific provinces in Mainland China	**(2,941)**		(553)	
Lower tax rate in Macau	**13**		33	
Adjustments in respect of current tax of previous periods	**(24)**		–	
Income not subject to tax	**(103)**		(303)	
Expenses not deductible for tax	**8,104**		3,465	
Tax losses not recognised	**8,649**		1,720	
Others	**(557)**		45	
Tax charge at the Group's effective rate	**14,387**	**190.5**	15,056	23.3

10. Profit Attributable to Owners of the Company

The consolidated profit attributable to owners of the Company for the year ended 31 December 2012 includes a loss of HK$4,366,000, excluding the 2011 final dividend income from its subsidiary of HK$43,000,000 (2011: HK$9,323,000, excluding the 2010 final dividend income from its subsidiary of HK$26,550,000), which has been dealt with in the financial statements of the Company (note 28(b)).

11. Dividends

	2012	2011
	HK$'000	HK$'000
Dividends paid during the year:		
2011 final dividend – HK7.0 cents (2010 final dividend: HK2.0 cents) per ordinary share	**28,000**	8,000
2012 interim dividend – HK3.0 cents (2011 interim dividend: HK2.0 cents) per ordinary share	**12,000**	8,000
	40,000	16,000
Proposed 2012 final – Nil (2011: HK7.0 cents) per ordinary share	**–**	28,000

The Directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2012.

12. Earnings Per Share Attributable to Owners of the Company

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to owners of the Company, and the weighted average number of ordinary shares of 400,000,000 (2011: 400,000,000) in issue during the year.

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2012 in respect of a dilution as the warrants of the Company had no dilutive effect on the basic earnings per share amount presented.

For the year ended 31 December 2011, the calculation of the diluted earnings per share amount was based on the profit for the year attributable to owners of the Company. The weighted average number of ordinary shares used in the calculation was the number of ordinary shares in issue during the year ended 31 December 2011, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to had been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of the basic and diluted earnings per share amounts are based on:

	2012 **HK$'000**	2011 HK$'000
Earnings		
Profit for the year attributable to owners of the Company used in the basic earnings per share calculation	**1,629**	53,003

	Number of shares **2012**	 2011
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**400,000,000**	400,000,000
Effect of dilution – weighted average number of ordinary shares:		
Warrants	**–**	1,903,379
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	**400,000,000**	401,903,379

13. Property, Plant and Equipment

Group

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Computer equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2012					
At 31 December 2011 and at 1 January 2012:					
Cost	36,594	17,536	49,061	4,059	107,250
Accumulated depreciation	(24,901)	(13,005)	(39,531)	(3,739)	(81,176)
Net carrying amount	11,693	4,531	9,530	320	26,074
At 1 January 2012, net of accumulated depreciation	11,693	4,531	9,530	320	26,074
Additions	16,119	1,794	3,146	–	21,059
Disposal	–	–	–	(49)	(49)
Write-off (note 6)	–	(47)	(28)	–	(75)
Acquisition of subsidiaries (note 29)	1,563	850	198	374	2,985
Depreciation provided during the year	(7,064)	(1,948)	(4,963)	(536)	(14,511)
Exchange realignment	19	5	4	–	28
At 31 December 2012, net of accumulated depreciation	22,330	5,185	7,887	109	35,511
At 31 December 2012:					
Cost	36,659	20,392	52,580	4,740	114,371
Accumulated depreciation	(14,329)	(15,207)	(44,693)	(4,631)	(78,860)
Net carrying amount	22,330	5,185	7,887	109	35,511

13. Property, Plant and Equipment (continued)

Group

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Computer equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2011					
At 1 January 2011:					
Cost	26,408	15,475	43,468	4,059	89,410
Accumulated depreciation	(17,156)	(10,963)	(34,537)	(3,033)	(65,689)
Net carrying amount	9,252	4,512	8,931	1,026	23,721
At 1 January 2011, net of accumulated depreciation	9,252	4,512	8,931	1,026	23,721
Additions	10,186	1,805	5,568	–	17,559
Acquisition of a subsidiary (note 29)	–	158	8	–	166
Depreciation provided during the year	(7,745)	(1,947)	(4,989)	(706)	(15,387)
Exchange realignment	–	3	12	–	15
At 31 December 2011, net of accumulated depreciation	11,693	4,531	9,530	320	26,074
At 31 December 2011:					
Cost	36,594	17,536	49,061	4,059	107,250
Accumulated depreciation	(24,901)	(13,005)	(39,531)	(3,739)	(81,176)
Net carrying amount	11,693	4,531	9,530	320	26,074

14. Goodwill

Group

	2012 HK$'000	2011 HK$'000
Cost at 1 January	**5,381**	–
Acquisition of subsidiaries (note 29)	**42,049**	5,381
Cost and net carrying amount at 31 December	**47,430**	5,381

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the cash-generating unit of provision of insurance and brokerage services operations for impairment testing.

The recoverable amount of the cash-generating unit has been determined based on a value in use calculation using cash flow projections (the "Cash Flow Projections") based on financial budgets covering a five-year period (2011: a ten-year period) approved by senior management. The discount rate applied to the Cash Flow Projections is 10.7% (2011: 14%).

Assumptions were used in the value in use calculation of the cash-generating unit for 31 December 2012 and 31 December 2011. The following describes each key assumption on which management has based its Cash Flow Projections to undertake impairment testing of goodwill:

Budgeted commission rate – The basis used to determine the value assigned to the budgeted commission rate is the average commission rate charged to product issuers in the period immediately before the budget year.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

Price inflation – The basis used to determine the value assigned to operating expenses price inflation is the price index in the period immediately before the budget year for Mainland China where the operating expenses are incurred.

The values assigned to the key assumptions are consistent with external information sources.

15. Investments in Subsidiaries

	Company 2012 HK$'000	2011 HK$'000
Unlisted shares, at cost	**66,435**	66,435

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of HK$225,901,000 (2011: HK$109,649,000) and HK$129,070,000 (2011: HK$117,336,000), respectively, are unsecured, interest-free and repayable on demand.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ paid-up share capital	Percentage of equity attributable to the Company 2012	2011	Principal activities
Directly owned					
Convoy China Limited	British Virgin Islands/ Hong Kong	HK$8	**100**	100	Investment holding
Convoy (BVI) Limited	British Virgin Islands/ Hong Kong	HK$10,000	**100**	100	Investment holding
Convoy Financial Holdings Limited	Hong Kong	HK$1	**100**	100	Management of business development
Prosper Ocean Investments Limited	British Virgin Islands/ Hong Kong	HK$8	**100**	100	Investment holding
Convoy Beijing Holdings Limited	Hong Kong	HK$1	**100**	100	Inactive
CFSH (Macau) Limited	Hong Kong	HK$100	**100**	100	Investment holding

15. Investments in Subsidiaries (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ paid-up share capital	Percentage of equity attributable to the Company 2012	2011	Principal activities
Indirectly owned					
Convoy Financial Services Limited	Hong Kong	HK$1,000,000	100	100	Provision of insurance and MPF scheme brokerage services
Convoy Insurance Brokers (Macau) Limited*	Macau	MOP100,000	100	100	Provision of insurance brokerage services
CCIA Holdings Limited ("CCIAHL") (note (a))	British Virgin Islands/ Hong Kong	HK$106,447	91.4	72.5	Investment holding
CIB Holdings Limited	Hong Kong	HK$1	100	100	Provision of referral services
Great Performer Limited	British Virgin Islands/ Hong Kong	HK$8	100	100	Inactive
Convoy China Insurance Agency Co., Limited (note (a))	Hong Kong	HK$2	91.4	72.5	Investment holding
Convoy China Financial Services Holdings Limited (note (a))	Hong Kong	HK$10	91.4	72.5	Investment holding
康宏財富投資管理(北京)有限公司 (note (a))**@	People's Republic of China ("PRC")/ Mainland China	RMB10,000,000	91.4	72.5	Provision of investment advisory and corporate marketing services
深圳盛海信息咨詢有限公司**@	PRC/ Mainland China	RMB500,000	100	100	Provision of administrative services

15. Investments in Subsidiaries (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ paid-up share capital	Percentage of equity attributable to the Company 2012	2011	Principal activities
Indirectly owned (continued)					
深圳康宏保险經紀有限公司 ("深圳康宏") (note (b))***^^@	PRC/ Mainland China	RMB20,000,000	**100**	80	Provision of insurance brokerage services
江西泛誠保險代理有限公司 ("江西泛誠") (note (c))***@	PRC/ Mainland China	RMB5,000,000	**100**	–	Provision of insurance agency services
北京碧升保險代理有限公司 ("北京碧升") (note (c))#^@	PRC/ Mainland China	RMB50,000,000	**69.5**	–	Provision of insurance agency services
Kwong Da Enterprises Limited	British Virgin Islands/ Hong Kong	HK$8	**100**	–	Inactive
Genius Choice Holdings Limited	Hong Kong	HK$1	**100**	–	Property investment

* Share capital of MOP10,000 is held in trust by two directors of the subsidiary.

** Registered as wholly-foreign-owned enterprises under PRC law.

*** Registered as domestic enterprises under PRC law.

Registered as a non-wholly-foreign-owned enterprise under PRC law.

^ Share capital of RMB38,000,000 (2011: Nil) is held in trust by a senior management of the subsidiary.

^^ Share capital of RMB4,000,000 (2011: Nil) is held in trust by a fellow subsidiary of the Company.

@ Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

Notes:

(a) During the year, CCIAHL alloted 9,382 additional shares to the Group, thereby increased the Group's interests in CCIAHL and its subsidiaries from 72.5% to 91.4%.

(b) During the year, the Group acquired the remaining 20% interest in 深圳康宏 which became a wholly-owned subsidiary of the Group thereafter. Details of the transaction are set out in note 34(b)(i) to the financial statements.

(c) During the year, the Group acquired certain equity interests in 江西泛誠 and 北京碧升. Details of the transactions are set out in note 29 to the financial statements.

16. Available-for-sale Investment

	Group 2012 HK$'000	2011 HK$'000
Unlisted investment fund, at cost	**4,976**	–

Available-for-sale investment as at 31 December 2012 represented the Group's investment in unlisted fund and which is neither classified as held for trading nor designated at fair value through profit or loss and has no fixed maturity date or coupon rate. The investment is stated at cost less impairment because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that the fair value cannot be measured reliably. The Group does not intend to dispose of the investment in the near future.

17. Deferred Tax

The movements in deferred tax assets during the year are as follows:

Group

	Depreciation in excess of related depreciation allowance HK$'000	**Commission clawback** HK$'000	**Provision for other receivables** HK$'000	**Total** HK$'000
Deferred tax assets at 1 January 2011	309	1,009	1,291	2,609
Deferred tax credited to profit or loss during the year (note 9)	1,071	78	21	1,170
Deferred tax assets at 31 December 2011 and at 1 January 2012	1,380	1,087	1,312	3,779
Deferred tax credited/(debited) to profit or loss during the year (note 9)	(1,240)	21	585	(634)
Deferred tax assets at 31 December 2012	140	1,108	1,897	3,145

17. Deferred Tax (continued)

For presentation purposes, the deferred tax assets that relate to the same taxable entity and the same taxation authority have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2012 HK$'000	2011 HK$'000
Net deferred tax assets recognised in the consolidated statement of financial position	3,145	3,779

The Group has estimated tax losses arising in Mainland China of HK$34,594,000 (2011: HK$6,880,000) that will expire in five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses due to unpredictability of taxable income streams.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

18. Accounts Receivable

	Group	
	2012 HK$'000	2011 HK$'000
Accounts receivable	54,110	53,349

Accounts receivable represent brokerage commission receivables which are generally settled within 45 days upon the execution of the insurance policies and/or receipt of statements from product issuers.

The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its accounts receivable balances. Accounts receivable are non-interest-bearing.

Accounts receivable as at the end of the reporting period, based on the date of recognition of revenue and net of provisions, are aged within one month and neither past due nor impaired.

The Group's accounts receivables relate to a number of reputable product issuers for whom there has been no recent history of default.

19. Prepayments, Deposits and Other Receivables

	Notes	Group 2012 HK$'000	2011 HK$'000
Deposits paid for purchases of items of plant and equipment		8,577	5,680
Deposits paid for purchases of properties	(a)	24,304	–
Rental and utility deposits		21,525	14,036
Loans receivable from Target Companies	(b)	9,820	14,185
Other receivables from Target Companies	(b)	–	7,122
Other receivables	(c)	32,439	18,109
Prepaid expenses		5,078	6,002
Deferred expenses		7,818	–
		109,561	65,134
Impairment for loans and other receivables	(b), (d)	(25,863)	(9,734)
		83,698	55,400
Prepayments, deposits and other receivables analysed into:			
Non-current assets		46,712	40,579
Current assets		36,986	14,821
		83,698	55,400

	Company 2012 HK$'000	2011 HK$'000
Prepayments	180	180

Notes:

(a) Included in the deposits for purchase of properties is an amount of HK$15,587,000 paid for staff quarters in Mainland China which are currently under construction and expected to be completed during the year ending 31 December 2013. The purchases of the staff quarters were executed by the Group through a trust arrangement with a business partner as at 31 December 2012.

(b) During the year ended 31 December 2011, the Group had been negotiation with certain independent third parties to acquire certain companies established in the PRC (the "Target Companies") which were primarily engaged in provision of insurance brokerage services in Mainland China. The negotiation was in the final stage and/or under the approval process of the relevant PRC authorities at the prior year end.

As at 31 December 2011, the Group made advances of HK$14,185,000, in aggregate, to the Target Companies and of HK$7,122,000 to beneficial shareholders (the "Beneficial Shareholders") of one of the Target Companies, 江西泛誠, for the purpose of their working capital. Except for the receivable of HK$7,122,000 from the Beneficial Shareholders which was secured by the entire equity interest of 江西泛誠 and could be used to settle the purchase consideration thereof, the loans advanced to the Target Companies were unsecured and interest-free.

As further disclosed in note 29 to the financial statements, the Group completed the acquisition of 江西泛誠 and the related receivable of HK$7,122,000 from the Beneficial Shareholders was applied to settle the purchase consideration during the current year.

19. Prepayments, Deposits and Other Receivables (continued)

Notes: (continued)

(b) (continued)
In the prior year, the loans receivable of HK$14,185,000 from the Target Companies were classified as non-current assets. During the year, the Group had made further advances of HK$4,756,000 to the Target Companies for the purpose of their working capital and thereby, increasing the total advances to HK$18,941,000, out of which, HK$9,121,000 was due from 江西泛誠. Other than 江西泛誠, the contemplated acquisition of the remaining Target Companies fell through eventually and the outstanding advances of HK$9,820,000 due therefrom were fully impaired during the year.

(c) Other receivables are unsecured and repayable within one year or have no fixed terms of repayment. Apart from an other receivable of HK$12,400,000 (2011:Nil) which bears interest at a rate of 2% per month, the remaining balances as at 31 December 2012 and 2011 are non-interest-bearing.

(d) The movements in the provision for impairment of loans and other receivables are as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
At 1 January	**9,734**	9,267
Impairment losses recognised (note 6)	**16,129**	881
Impairment losses reversed (note 6)	**–**	(414)
At 31 December	**25,863**	9,734

Included in the above provision for impairment of loans and other receivables is a provision for individually impaired loans and other receivables of HK$25,863,000 (2011: HK$9,734,000) with a carrying amount before provision of HK$25,863,000 (2011: HK$11,588,000). This provision was determined after taking into account the age of the respective receivable balances, the creditworthiness of the debtors, their repayment history and their historical write-off experience. Only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of loans and other receivables that are not considered to be impaired is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Neither past due nor impaired	**12,648**	3,046
Less than 1 month past due	**1,710**	865
1 month to 2 months past due	**265**	362
2 months to 3 months past due	**316**	301
Over 3 months past due	**1,457**	1,947
	16,396	6,521

Receivables that were neither past due nor impaired relate to a large number of debtors for whom there has been no recent history of default.

Receivables that were past due but not impaired relate to a number of independent debtors that have a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

20. Equity Investments at Fair Value Through Profit or Loss

	Group	
	2012	2011
	HK$'000	HK$'000
Listed equity investments, at fair value:		
Hong Kong	**2,099**	183

The above equity investments at 31 December 2012 and 2011 were classified as held for trading and were, upon initial recognition, designated by the Group as financial assets as at fair value through profit or loss.

21. Restricted Cash

At the end of the reporting period, the Group had cash of approximately HK$2,060,000 (2011: HK$394,000) which was restricted as to use. At 31 December 2012, the restricted cash of HK$1,550,000 was placed in a bank in the PRC to comply the requirements of the PRC authority for insurance brokerage operation in Mainland China. The restricted cash is not expected to be released within the next 12 months from the end of the reporting period and accordingly, the entire restricted cash was classified under non-current assets. The remaining balance represented the client monies arising from insurance brokerage business that is segregated in licensed banks. The Group is not allowed to use the client's monies to settle its own obligations and accordingly, the Group has classified the client monies as restricted cash under the current assets.

At 31 December 2011, the restricted cash of the Group was placed in an escrow account in relation to a contemplated acquisition of one of the Target Companies, as further detailed in note 19(b) to the financial statements. The contemplated acquisition fell through and the restricted cash was released during the year.

22. Cash and Cash Equivalents

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**153,054**	120,696	**2,326**	20,027
Time deposits	**5,989**	98,552	**5,989**	98,552
Cash and cash equivalents	**159,043**	219,248	**8,315**	118,579

At the end of the reporting period, the cash and back balances of the Group denominated in Renminbi ("RMB") amounted to HK$38,692,000 (2011: HK$29,508,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

23. Accounts Payable

Accounts payable represent commission payables for the provision of insurance and MPF schemes brokerage services which are generally settled within 30 days to 120 days upon receipt of payments from product issuers by the Group.

An aged analysis of accounts payable as at the end of each reporting period is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Within 1 month	**49,148**	45,231
1 to 2 months	**34,618**	22,791
2 to 3 months	**16,980**	9,765
Over 3 months	**29,675**	20,642
	130,421	98,429

Accounts payable are non-interest-bearing. Included in the accounts payable were commission payables to the spouse, a brother and a cousin of a director of the Group's operating subsidiary who are consultants of the Group, totalling HK$1,152,000 (2011: HK$1,553,000), which are payable on similar terms to other consultants of the Group.

24. Other Payables and Accruals

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other payables	**28,564**	8,453	**–**	–
Accruals	**31,732**	21,708	**635**	1,765
Deferred revenue	**8,686**	–	**–**	–
	68,982	30,161	**635**	1,765

Included in the other payables and accruals was an amount due to a non-controlling shareholder of HK$8,255,000 (2011: Nil), details of which are disclosed in note 34(c) to the financial statements. All other payables are non-interest-bearing and have an average term of three months.

25. Commission Clawback

The Group is entitled to receive investment brokerage commission income from various product issuers for business referral and introduction. The commission is calculated based on pre-determined percentages of the regular contributions by the Group's customers to these product issuers. Pursuant to the terms of the agreements entered into between the Group and these product issuers, the commission paid by the product issuers to the Group is subject to a commission clawback by the product issuers on a pro-rata basis over an indemnified period. The indemnified period is generally from 6 months to 24 months. In the event that a customer terminates the regular contribution within the indemnified period, the product issuers will clawback the relevant commission. The amount of the commission clawback represents expected cash outflows which are estimated with reference to the sales volume, past experience of the levels of clawback, and the Directors' best estimates of the expenditure required to settle the obligations. The estimation basis is reviewed on an ongoing basis and revised by the Directors where appropriate.

26. Share Capital

Shares

	2012 HK$'000	2011 HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	100,000	100,000
Issued and fully paid:		
400,000,000 ordinary shares of HK$0.10 each	40,000	40,000

Warrants

On 16 February 2011, the Company entered into a warrant placing agreement in connection with the warrant placing, pursuant to which the placing agents conditionally agreed to place, on a best effort basis, up to 50,000,000 warrants conferring rights to subscribe for 50,000,000 warrants shares at the exercise prices of HK$1.6 per warrant to HK$2.0 per warrant to not less than six warrant placees who, together with their respective ultimate owners, are independent third parties. The warrants are to be placed at a warrant placing price of HK$0.02 each. Further details of the placing are contained in the Company's announcement dated 16 February 2011.

No warrants were exercised before expiry on 23 February 2012.

During the year ended 31 December 2011, the proceeds from warrants placing of HK$965,000, net of warrant placing expense of HK$35,000, were recorded as a component of shareholders' equity in warrant reserve.

27. Share Award Scheme

On 25 January 2011, the Company adopted a share award scheme (the "Award Scheme") under which shares of the Company (the "Awarded Shares") may be awarded to selected participants, including employees, consultants and business associates of the Group (the "Selected Participants") in accordance with the provisions of the Award Scheme and an irrevocable trust (the "Trust") was also established by the Company for the purpose of the Award Scheme. The Award Scheme became effective on the adoption date and, unless otherwise terminated or amended, will remain in force for 10 years from that date. Further details of the Award Scheme are also set out in an announcement of the Company dated 25 January 2011.

The aggregate number of Awarded Shares currently permitted to be awarded under the Award Scheme throughout the duration of the Award Scheme is limited to 10% of the issued share capital of the Company as at 25 January 2011, i.e., 40,000,000 shares.

Pursuant to the rules governing the operation of the Award Scheme (the "Scheme Rules"), the Board of Directors of the Company (the "Board") shall select the Selected Participants and determine the number of Awarded Shares to be awarded. The Board shall cause to pay the trustee of the Trust (the "Trustee") the purchase price and the related expenses from the Company's resources for the shares of the Company to be purchased by the Trustee. The Trustee is an independent third party appointed by the Board for the administration of the Award Scheme. The Trustee shall purchase from the market such number of shares of the Company awarded as specified by the Board and shall hold such shares until they are vested in accordance with the Scheme Rules.

When a Selected Participant has satisfied all vesting conditions, which might include service and/or performance conditions, specified by the Board at the time of making the award and become entitled to the shares of the Company forming the subject of the award, the Trustee shall transfer the relevant vested Awarded Shares to that employee at no cost.

27. Share Award Scheme (continued)

The Trustee shall not exercise the voting rights in respect of any shares of the Company held under the Trust, including, inter alia, the Awarded Shares and further shares of the Company acquired out of the income derived therefrom.

The fair value of the Awarded Shares awarded was based on the market value of the Shares on the grant date.

During the year ended 31 December 2011, the Trustee acquired under the Award Scheme 1,790,000 ordinary shares of the Company through purchases on the open market at a total cost (including related transaction costs) of HK$3,500,000 which was credited to shares held for share award scheme account of the Company as an equity component of the Company.

On 1 August 2011, 1,790,000 Awarded Shares were awarded, fully vested at the grant date, to certain employees and consultants of the Group, which were transferred to the employees and consultants at nil consideration. The fair value of the Awarded Shares awarded was based on the market value of the Company's shares at the grant date and the Group recognised an equity-settled share-based payment expense of HK$3,705,000 for the year ended 31 December 2011 with a corresponding debit to the shares held for share award scheme account of the Company with the same amount.

During the year ended 31 December 2012, the Trustee acquired under the Award Scheme 1,518,000 ordinary shares of the Company through purchases on the open market at a total cost (including related transaction costs) of HK$3,250,000 which was credited to shares held for share award scheme account of the Company as an equity component of the Company. No Awarded Shares were granted to employees nor consultants during the year.

No Awarded Shares were outstanding as at 31 December 2012 (2011: Nil).

28. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 59 to 60 of the financial statements.

Capital reserve

The Group's capital reserve represents (i) the issued paid-up capital of a subsidiary of the Company; and (ii) the excess of the nominal value of the shares of a subsidiary acquired pursuant to the Reorganisation, over the investment cost of the Company's shares issued in exchange therefor.

Merger reserve

Merger reserve relates to business combination under common control and represents the difference in the fair value of the consideration paid and the share capital of the subsidiaries acquired in the prior year.

Reserve funds

Pursuant to the relevant laws and regulations applicable to Mainland China, the Group's subsidiaries established in Mainland China are required to transfer part of their net profit after tax to the reserve funds, which are non-distributable and restricted as to use.

Other reserves

Other reserves represents (i) the gain on deemed disposal of interests in subsidiaries amounting to HK$65,000 (2011: HK$65,000); (ii) the net loss on deemed acquisition of additional interests in subsidiaries amounting to HK$4,648,000 (2011: Nil); and (iii) the waiver of an amount due to CFG payable of HK$515,000 (2011: HK$515,500).

28. Reserves (continued)

(b) Company

	Notes	Share premium HK$'000	Shares held for share award scheme HK$'000	Warrant reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2011		133,396	–	–	(51)	133,345
Profit for the year and total comprehensive income for the year		–	–	–	17,227	17,227
Shares purchased for share award scheme	27	–	(3,500)	–	–	(3,500)
Equity-settled share-based payment	27	–	3,705	–	–	3,705
Transfer from shares held for share award scheme		–	(205)	–	205	–
2010 final dividend	11	–	–	–	(8,000)	(8,000)
2011 interim dividend	11	–	–	–	(8,000)	(8,000)
Net proceeds from issue of warrants	26	–	–	965	–	965
At 31 December 2011 and 1 January 2012		133,396	–	965	1,381	135,742
Profit for the year and total comprehensive income for the year		–	–	–	38,634	38,634
Shares purchased for share award scheme	27	–	(3,250)	–	–	(3,250)
2011 final dividend	11	–	–	–	(28,000)	(28,000)
2012 interim dividend	11	–	–	–	(12,000)	(12,000)
Transfer from warrant reserve	26	–	–	(965)	965	–
At 31 December 2012		133,396	(3,250)	–	980	131,126

29. Business Combination

In alignment with the Group's regional expansion strategy and to expand the Group's market share in the independent financial advisory business in Mainland China, the Group has completed the following acquisitions during the year:

(a) On 24 August 2012, the Group acquired a 100% interest in 江西泛誠 from independent third parties (the "江西泛誠 Vendors") for an aggregate consideration of RMB7.9 million (equivalent to approximately HK$9,771,000). 江西泛誠 is an enterprise established in the PRC which is engaged in the provision of insurance agency services and holds an insurance agent licence issued by China Insurance Regulatory Commission that permits it to provide insurance agency services in Jiangxi. The purchase consideration was settled by offsetting the advances made to the 江西泛誠 Vendors by the Group in the prior year.

(b) On 8 April 2011, the Group and the existing PRC shareholders (the "北京碧升 Vendors") of 北京碧升 entered into a first capital increase agreement (the "First Capital Increase Agreement"), pursuant to which, the Group agreed to inject RMB14 million (equivalent to approximately HK$17,117,800) into 北京碧升 in return for a 70% interest therein, subject to certain terms and conditions, including, among others, approval from relevant government authorities.

北京碧升 is an enterprise established in the PRC which is engaged in the provision of insurance agency services and holds an insurance agent licence issued by China Insurance Regulatory Commission that permits it to provide insurance agency services in Beijing.

On 18 October 2012, the Group, the 北京碧升 Vendors and 北京碧升 entered into various supplemental agreements (the "Supplemental Capital Increase Agreements") to supplement and amend certain terms and conditions to the First Capital Increase Agreement, including, among others, the capital injection amount. Pursuant to the Supplemental Capital Increase Agreements, the Group and one of the 北京碧升 Vendors agreed to inject RMB38 million (equivalent to approximately HK$47,120,000) and RMB6 million (equivalent to approximately HK$7,440,000), respectively, into 北京碧升. Upon completion, the Group will own 76% ownership interest (effective interest of 69.46%) in 北京碧升.

In order to expedite the Group's expansion plan and based on advice of the Group's PRC lawyers, on 18 October 2012, the Group entered into a trust agreement with a senior management of the Group's PRC operation whereby the senior management agrees to hold the 76% ownership interest of 北京碧升 on the Group's behalf upon approval from the PRC authorities. The capital injection was completed in early November 2012 and the PRC authorities approved the new ownership structure of 北京碧升 on 21 November 2012, which is also considered by the Group as the date obtaining control over 北京碧升.

The Group has elected to measure the non-controlling interests in 北京碧升 at the non-controlling interests' proportionate share of 北京碧升's identifiable net liabilities.

29. Business Combination (continued)

The carrying values of the identifiable assets and liabilities of 江西泛誠 and 北京碧升 (collectively, the "Acquired Businesses") as at the respective dates of acquisition immediately before the acquisition were as follows:

	Notes	HK$'000
Property, plant and equipment	13	2,985
Accounts receivable		1,178
Prepayments, deposits and other receivables		5,849
Cash and bank balances		56,375
Restricted cash		310
Account payables		(1,105)
Other payables and accruals		(24,250)
Total identifiable net assets at fair value		41,342
Non-controlling interests		(11,088)
Goodwill on acquisition	14	42,049
Total consideration		72,303
Satisfied by:		
Cash		49,600
Loans advanced to the Acquired Businesses		22,703
Total consideration		72,303

At the end of the reporting period, the allocation of the cost of acquisition of the above Acquired Businesses to the identifiable assets and liabilities is pending the completion of the appraisal of certain intangible assets acquired, which is expected to be completed during the year ending 31 December 2013. Accordingly, the above goodwill arising on the acquisition is a provisional amount and may change upon the completion of the appraisal.

An analysis of the cash flows in respect of the acquisitions of the Acquired Businesses is as follows:

	HK$'000
Cash consideration	(49,600)
Cash and bank balances acquired	56,375
Net inflow of cash and cash equivalents included in cash flows from investing activities	6,775

29. Business Combination (continued)

Since the acquisition, the Acquired Businesses contributed HK$5,367,000 to the Group's revenue and caused a loss of HK$5,564,000 to the consolidated loss for the year ended 31 December 2012.

Had the acquisition taken place at the beginning of the year, the revenue of the Group and the loss of the Group for the year would have been HK$735,420,000 and HK$24,997,000, respectively.

In prior year, the Group acquired an 80% interest in 深圳康宏 from 首華証券咨詢(深圳)有限公司 ("首華証券"), an independent third party. 深圳康宏 is an enterprise established in the PRC which holds an insurance agent licence issued by China Insurance Regulatory Commission that permits it to provide nationwide insurance brokerage services in Mainland China. The acquisition was made as part of the Group's strategy to expand its market share in the insurance agency industry in Mainland China. The purchase consideration for the acquisition was in the form of cash, with RMB3,149,000 (equivalent to approximately HK$3,729,000) paid at the acquisition date. The Group elected to measure the non-controlling interest in 深圳康宏 at the non-controlling interest's proportionate share of 深圳康宏's identifiable net liabilities.

The fair values of the identifiable assets and liabilities of 深圳康宏 as at the date of acquisition which approximated the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	HK$'000
Property, plant and equipment	13	166
Cash and bank balances		51
Prepayments, deposits and other receivables		468
Tax payable		(27)
Other payables and accruals		(2,723)
Total identifiable net liabilities at fair value		(2,065)
Non-controlling interest		413
Goodwill on acquisition	14	5,381
Satisfied by cash		3,729

The fair value of other receivables as at the date of acquisition amounted to HK$72,000. The gross contractual amounts of other receivables were HK$280,000 of which other receivables of HK$208,000 are expected to be uncollectible.

29. Business Combination (continued)

An analysis of the cash flows in respect of the acquisition of 深圳康宏 is as follows:

	HK$'000
Cash consideration	(3,729)
Cash and bank balances acquired	51
Net outflow of cash and cash equivalents included in cash flows from investing activities	(3,678)

Since the acquisition, 深圳康宏 contributed HK$37,000 to the Group's revenue and caused a loss of HK$1,320,000 to the consolidated profit for the year ended 31 December 2011.

Had the acquisition taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year ended 31 December 2011 would have been HK$652,965,000 and HK$46,250,000, respectively.

30. Contingent Liabilities

At the end of each reporting period, neither the Group nor the Company had any significant contingent liabilities.

31. Note to the Consolidated Statement of Cash Flows

Major non-cash transaction

As at 31 December 2011, the Group made advances of HK$7,109,000 to 江西泛誠 and HK$7,122,000 to the Beneficial Shareholders for the purpose of their working capital. During the year, the above advances were applied to settle the purchase consideration for acquisition of a 100% interest in 江西泛誠. Details of the transaction are set out in note 29 to the financial statements.

32. Operating Lease Commitment

The Group leases its office properties, staff quarters, and certain equipment under operating lease arrangements. Leases for properties, staff quarters, and equipment are negotiated for terms ranging from one to six years.

At 31 December 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2012 HK$'000	2011 HK$'000
Within one year	52,890	49,059
In the second to fifth years, inclusive	88,700	43,440
	141,590	92,499

33. Commitments

In addition to the operating lease commitments detailed in note 32 above, the Group had the following commitments at the end of the reporting period:

	2012 HK$'000	2011 HK$'000
Capital commitment:		
Contracted, but not provided for:		
Property, plant and equipment	92,843	–
Others:		
Contracted, but not provided for:		
Acquisitions of subsidiaries	10,712	190,086
Acquisition of an available-for-sale investment	7,469	–
	18,181	190,086

34. Related and Connected Party Transactions

(a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2012 HK$'000	2011 HK$'000
Commission expenses to:			
Spouse of a director of the Group's operating subsidiary	(i)	1,607	1,393
Brother of a director of the Group's operating subsidiary	(i)	595	870
Cousin of a director of the Group's operating subsidiary	(i)	3,029	3,268
Administrative service fee charged to a fellow subsidiary	(ii)	–	392
Commission and brokerage fee from securities dealings paid to a fellow subsidiary	(iii)	49	–

Notes:

(i) The commission expenses were paid to the related parties who are also the Group's consultants and were determined based on the volume of brokerage transactions executed by them for the accounts of the Group. The commissions offered are substantially in line with those offered to other consultants of the Group.

(ii) The administrative service fee was charged to Convoy Collateral Limited, a fellow subsidiary of the Company, based on terms agreed between the two parties.

(iii) The commission and brokerage fees were paid to a fellow subsidiary for securities brokerage services rendered. The terms and conditions associated with the dealing of securities were made according to the terms and conditions offered to external customers of the fellow subsidiary.

34. Related and Connected Party Transactions (continued)

(b) Other transactions with related parties:

(i) During the year, on 20 August 2012, the Group acquired the remaining 20% interest in 深圳康宏 (the "Trust Interest") at RMB800,000 (equivalent to approximately HK$992,000) from 康宏財富投資顧問(北京)有限公司 which is a fellow subsidiary of the Company (the "Fellow Subsidiary"). As at 31 December 2012, the Trust Interest was held by the Fellow Subsidiary in trust on behalf of the Group.

(ii) During the year ended 31 December 2011, the Group acquired the entire equity interest in Prosper Ocean Investments Limited together with its subsidiary, 深圳盛海信息咨詢有限公司 (collectively the "POI Group"), from CFG at a consideration of HK$1,056,000. The consideration was determined with reference to the consolidated net asset value of the POI Group as at 31 January 2011.

(iii) In the prior year, an amount of HK$515,000 payable by the POI Group was waived by CFG pursuant to a resolution of the directors of CFG dated 31 January 2011. The amount waived was credited to the other reserve of the Group.

(c) Other balances with related parties:

The balances with a fellow subsidiary and non-controlling shareholder are unsecured, interest-free and repayable on demand.

(d) Compensation of key management personnel of the Group:

	2012 HK$'000	2011 HK$'000
Salaries, allowances, bonuses and benefits in kind	7,436	7,658
Pension scheme contributions	445	36
Total compensation paid to key management personnel	7,881	7,694

Further details of Directors' emoluments are included in note 7 to the financial statements.

The related party transactions in respect of item (a)(i) above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

The related party transactions in respect of item (b) above also constitute connected transactions as defined in Chapter 14A of the Listing Rules.

35. Financial Instruments by Category

The carrying amounts of the categories of financial instruments as at the end of the reporting period are as follows:

Group

Financial assets

	Financial assets at fair value through profit or loss – held for trading		Loans and receivables		Available-for-sale investment		Total	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Available-for-sale investment	–	–	–	–	4,976	–	4,976	–
Accounts receivable	–	–	54,110	53,349	–	–	54,110	53,349
Financial assets included in prepayments, deposits and other receivables	–	–	37,921	43,718	–	–	37,921	43,718
Equity investments at fair value through profit or loss	2,099	183	–	–	–	–	2,099	183
Due from a fellow subsidiary	–	–	643	643	–	–	643	643
Restricted cash	–	–	2,060	394	–	–	2,060	394
Cash and cash equivalents	–	–	159,043	219,248	–	–	159,043	219,248
	2,099	183	253,777	317,352	4,976	–	260,852	317,535

Financial liabilities

	Financial liabilities at amortised cost	
	2012 HK$'000	2011 HK$'000
Accounts payable	130,421	98,429
Financial liabilities included in other payables and accruals	56,018	29,910
Commission clawback	6,739	6,588
	193,178	134,927

35. Financial Instruments by Category (continued)

Company

Financial assets

	Loans and receivables	
	2012	2011
	HK$'000	HK$'000
Due from subsidiaries	**225,901**	109,649
Cash and cash equivalents	**8,315**	118,579
	234,216	228,228

Financial liabilities

	Financial liabilities at amortised cost	
	2012	2011
	HK$'000	HK$'000
Due to subsidiaries	**129,070**	117,336
Accruals	**635**	1,765
	129,705	119,101

36. Fair Value and Fair Value Hierarchy

At the end of the reporting period, the carrying amounts of the Group's and Company's financial assets and financial liabilities approximate to their fair values.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of accounts receivable, current financial assets included in prepayments, deposits and other receivables, balances with subsidiaries and a fellow subsidiary, restricted cash, cash and cash equivalents, accounts payable, financial liabilities included in other payables and accruals and commission clawback approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the non-current financial assets included in prepayments, deposits and other receivables have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

36. Fair Value and Fair Value Hierarchy (continued)

The fair values of the listed equity investments are based on quoted market prices.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Asset measured at fair value:

Group

	Level 1	
	2012	2011
	HK$'000	HK$'000
Equity investments at fair value through profit or loss (note 20)	**2,099**	183

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2011: Nil).

The Group did not have any financial liabilities measured at fair value as at the end of each reporting period.

The Company did not have any financial instruments measured at fair value as at the end of each reporting period.

37. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and cash equivalents. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as loans receivable, accounts receivable, deposits and other receivables, restricted cash, accounts and other payables and accruals, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest-bearing financial assets. Cash at banks earns interest at floating rates based on daily bank deposit rates.

Foreign currency risk

The Group mainly operates in Hong Kong and Mainland China with most of the Group's monetary assets, liabilities and transactions principally denominated in Hong Kong dollars and Renminbi, respectively. Majority of the commission revenue and expenditure incurred by the operating units of the Group was denominated in the units' functional currencies and as a result, the Group does not anticipate significant transactional currency exposures. The Group has not used any derivative to hedge its exposure to foreign currency risk.

37. Financial Risk Management Objectives and Policies (continued)

Credit risk

The Group conducts business only with recognised and creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's financial assets, which comprise loans receivable, accounts receivable, deposits and other receivables, restricted cash and cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

During the year ended 31 December 2012, 57% (2011: 57%) and 88% (2011: 93%) of the Group's revenue were derived from the Group's largest product issuer and the five largest product issuers, respectively. At the end of the reporting period, the Group had certain concentrations of credit risk as 73% (2011: 61%) and 94% (2011: 92%) of the Group's accounts receivable were due from the Group's largest product issuer and the five largest product issuers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from accounts receivable and other receivables are disclosed in notes 18 and 19 to the financial statements.

Liquidity risk

In order to manage liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

		2012		
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	Total HK$'000
Accounts payable	–	29,672	100,749	130,421
Financial liabilities included in other payables and accruals	8,255	47,763	–	56,018
Commission clawback	6,739	–	–	6,739
	14,994	77,435	100,749	193,178

		2011		
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	Total HK$'000
Accounts payable	–	69,990	28,439	98,429
Financial liabilities included in other payables and accruals	–	29,910	–	29,910
Commission clawback	6,588	–	–	6,588
	6,588	99,900	28,439	134,927

37. Financial Risk Management Objectives and Policies (continued)

Liquidity risk (continued)
Company

	2012		
	On demand HK$'000	Less than 3 months HK$'000	Total HK$'000
Due to subsidiaries	129,070	–	129,070
Accruals	–	635	635
	129,070	635	129,705

	2011		
	On demand HK$'000	Less than 3 months HK$'000	Total HK$'000
Due to subsidiaries	117,336	–	117,336
Accruals	–	1,765	1,765
	117,336	1,765	119,101

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain a healthy capital ratio in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements except for a subsidiary registered under the Insurance Companies Ordinance of Hong Kong which is subject to the relevant minimum capital requirement. During the year, that subsidiary complied with the externally imposed capital requirement at all times by maintaining both minimum paid-up share capital and minimum net assets of HK$100,000. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 31 December 2011.

Capital of the Group comprises all components of shareholders' equity.

38. Event After the Reporting Period

On 25 February 2013, the Company entered into another warrant placing agreement in connection with the warrant placing, pursuant to which the placing agent agreed to place, on a best effort basis, up to 80,000,000 warrants conferring rights to subscribe for 80,000,000 warrant shares at the exercise price of HK$1.41 to not less than six warrant placees who, together with their respective ultimate beneficial owners are independent third parties. It is expected the net proceeds of approximately HK$0.6 million will be raised by the warrant placing and the same amount will be utilised by the Group as general working capital of the Group. Assuming full exercise of the subscription rights attaching to the warrants, it is expected that a further amount of approximately HK$112.8 million will be raised. The net proceeds of approximately HK$112.7 million will be utilised for general working capital of the Group. Further details of the placing are set out in the Company's announcement dated 25 February 2013.

39. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 22 March 2013.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results for the last five years and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the respective published audited financial statements and the prospectus of the Company dated 29 June 2010, and restated/reclassified as appropriate, is set out below.

Results

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(Restated)	(Restated)	(Restated)
REVENUE	**703,726**	652,875	572,481	455,942	554,283
Other income and gains, net	**2,100**	2,186	2,816	209	214
Commission expenses	**(423,333)**	(390,608)	(330,146)	(253,538)	(322,915)
Staff costs	**(79,204)**	(60,369)	(49,743)	(46,067)	(64,323)
Depreciation	**(14,511)**	(15,387)	(15,856)	(16,761)	(16,500)
Commission clawback	**(6,694)**	(6,332)	(6,035)	(4,651)	(7,286)
Other expenses	**(174,533)**	(117,825)	(94,772)	(87,879)	(105,765)
PROFIT BEFORE TAX	**7,551**	64,540	78,745	47,255	37,708
Income tax expense	**(14,387)**	(15,056)	(14,110)	(9,002)	(6,116)
PROFIT/(LOSS) FOR THE YEAR	**(6,836)**	49,484	64,635	38,253	31,592
OTHER COMPREHENSIVE INCOME					
Exchange differences on translation of foreign operations	**49**	78	16	–	–
TOTAL COMPREHENSIVE INCOME/ (LOSS) FOR THE YEAR	**(6,787)**	49,562	64,651	38,253	31,592

Assets, Liabilities and Non-controlling Interests

	As at 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(Restated)	(Restated)	(Restated)
TOTAL ASSETS	**395,285**	364,451	337,064	163,011	175,962
TOTAL LIABILITIES	**(206,170)**	(135,395)	(145,343)	(116,758)	(95,966)
NON-CONTROLLING INTERESTS	**6,069**	(254)	–	–	–

DEFINITIONS

In this annual report, unless the context otherwise requires, the following expressions have the following meanings:

"Articles"	means the articles of association of the Company
"Board" or "Board of Directors"	means the board of Directors of the Company as at the date of this annual report
"CFG"	means Convoy Financial Group Limited (康宏金融集團有限公司), a company incorporated in the British Virgin Islands with limited liability
"CFS"	means Convoy Financial Services Limited (康宏理財服務有限公司) (formerly known as Wardley Shipping Limited (和利船務有限公司), Equitable Insurance Management Limited (公正保險管理有限公司), Convoy Insurance Brokers Limited (康威保險經紀行有限公司) and Convoy NPL Financial Services Limited (康宏理財服務有限公司), a company incorporated in Hong Kong with limited liability on 12 March 1992, an indirect wholly-owned subsidiary of our Company and a registered member of PIBA and corporate intermediary of MPFA
"Company" or "our Company"	means Convoy Financial Services Holdings Limited (康宏理財控股有限公司), a company incorporated in the Cayman Islands on 12 March 2010 with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1019)
"Consultant(s)"	means individual(s) registered with PIBA as technical representative(s) and accredited to CFS, and engaged by CFS to provide services to customers and potential customers in negotiating contracts of insurance and, in some cases, MPF schemes
"Director(s)"	means the director(s) of our Company
"ECA"	means the Employee Choice Arrangement of MPF
"Group", "Our Group", "we", "us" or "Convoy"	means the Company and its subsidiaries
"HK$" or "HK dollars"	means Hong Kong dollars, the lawful currency of Hong Kong
"HK cents"	means Hong Kong cents, the lawful currency of Hong Kong
"Hong Kong"	means Hong Kong Special Administrative Region of PRC
"IA"	means the public officer appointed as the Insurance Authority pursuant to the Insurance Companies Ordinance
"IFPHK"	means Institute of Financial Planners of Hong Kong
"ILAS"	means the acronym for Investment-linked Assurance Scheme, an insurance policy of the "linked long term" class as defined in First Schedule, Part 2 of the ICO
"Insurance Companies Ordinance" or "ICO"	means the Insurance Companies Ordinance (Chapter 41 of the Laws of Hong Kong), as amended and supplemented from time to time
"Listing"	means the listing of our Shares on the Main Board
"Listing Date"	means 13 July 2010

"Listing Rules"	means the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
"Macau"	means Macau Special Administrative Region of PRC
"Main Board"	means the main board of the Stock Exchange
"MPF"	means Mandatory Provident Fund
"MPFA"	means Mandatory Provident Fund Schemes Authority
"OCI"	means the Office of the Commissioner of Insurance of the Government of Hong Kong
"Renminbi" or "RMB"	means Renminbi, the lawful currency of the PRC
"Reorganisation"	means the reorganisation of group of companies now comprising our Group in preparing for the Listing completed on 21 June 2010, details of which are set forth under the paragraph headed "History and development" in the section headed "Corporate history, development and Reorganisation" and under the paragraph headed "Corporate Reorganisation" in Appendix V to the Prospectus
"PIBA"	means Professional Insurance Brokers Association, a body of insurance brokers which is approved by the IA under the Insurance Companies Ordinance
"PRC"	means the People's Republic of China
"Prosper Ocean"	means Prosper Ocean Investments Limited, a company incorporated in the British Virgin Islands with limited liability
"Prospectus"	means the prospectus issued by the Company dated 29 June 2010
"SFC"	means the Securities and Futures Commission of Hong Kong
"Share(s)"	means ordinary share(s) with a nominal value of HK$0.10 each in the share capital of our Company
"SMEs"	means small and medium sized enterprises
"Stock Exchange"	means The Stock Exchange of Hong Kong Limited
"%"	means per cent.

the English translation of the Chinese names or words in this annual report, where indicated, are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.

CONVOY 康宏

your finance navigator