South China Financial Holdings Limited

Incorporated in Hong Kong with limited liability

Stock Code : 619

Annual Report 2012

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Ng Hung Sang (*Chairman*)
Mr. Richard Howard Gorges (*Vice-chairman*)
Ms. Cheung Choi Ngor (*Vice-chairman*)
Mr. Ng Yuk Yeung Paul (*Vice-chairman*)
Mr. Chan Hing Wah (*Chief Executive Officer*)

Non-executive Director

Mr. Ng Tze Wai

Independent Non-executive Directors

Mrs. Tse Wong Siu Yin Elizabeth
Hon. Raymond Arthur William Sears, Q.C.
Mr. Tung Woon Cheung Eric

AUDIT COMMITTEE

Mr. Tung Woon Cheung Eric (*Committee Chairman*)
Mrs. Tse Wong Siu Yin Elizabeth
Hon. Raymond Arthur William Sears, Q.C.

REMUNERATION & NOMINATION COMMITTEE

Mrs. Tse Wong Siu Yin Elizabeth (*Committee Chairman*)
Hon. Raymond Arthur William Sears, Q.C.
Mr. Tung Woon Cheung Eric

COMPANY SECRETARY

Mr. Tong Kai Wing

REGISTERED OFFICE

28th Floor, Bank of China Tower
1 Garden Road, Central
Hong Kong

AUDITORS

Ernst & Young
Certified Public Accountants

BANKERS

Standard Chartered Bank (Hong Kong) Limited
Bank of Communications Co., Limited
Chong Hing Bank Limited
Bank of China (Hong Kong) Limited
Nanyang Commercial Bank, Limited
Hang Seng Bank Limited
The Bank of East Asia, Limited
Dah Sing Bank, Limited
Industrial and Commercial Bank of China (Asia) Limited
Wing Hang Bank Limited
China Construction Bank (Asia) Limited
DBS Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
China CITIC Bank International Limited
Public Bank (Hong Kong) Limited
Fubon Bank (Hong Kong) Limited
Chiyu Banking Corporation Ltd.
Citibank, N.A.

SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
18th Floor, Fook Lee Commercial Centre
Town Place, 33 Lockhart Road
Wanchai, Hong Kong

STOCK CODE

619

WEBSITE

http://www.sctrade.com

Chairman's Statement and Management Discussion and Analysis

I am pleased to report the activities of South China Financial Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2012.

FINANCIAL SUMMARY

Hang Seng Index rose by 23% from 18,434 at the end of 2011 to 22,656 at the end of 2012. Reflecting this market recovery, the Group recorded a profit of HK$56.6 million in the year ended 31 December 2012.

DIVIDEND

The board of directors of the Company (the "Board") does not recommend the payment of a final dividend for the year ended 31 December 2012 (2011: Nil). No interim dividend was paid during the year ended 31 December 2012 (2011: Nil).

BUSINESS REVIEW

Broking, trading and investment

Average daily securities market turnover decreased by 23% from HK$69.7 billion to HK$53.9 billion. Revenue recorded for the broking business decreased correspondingly from HK$57.3 million to HK$47.8 million. Operating loss of HK$24.2 million was recorded for the segment for the year ended 31 December 2012.

Reflecting the recovery in the equity market, trading and investment recorded a profit of HK$65.0 million for the year as compared with a loss of HK$128.3 million for the last year.

Margin financing and money lending

Our loan and advance portfolio for margin financing and personal loan was HK$208.8 million as at 31 December 2012 as compared with HK$129.0 million as at the end of 2011. Revenue increased by 4% from HK$16.5 million to HK$17.1 million for the year ended 31 December 2012. Contribution from this segment was HK$9.5 million including net reversal of impairment of loans of HK$2.0 million.

Corporate advisory and underwriting

Revenue from our corporate advisory and underwriting business was HK$2.3 million and operating loss was HK$6.4 million for the year ended 31 December 2012.

Wealth management

Revenue and operating loss for this new segment was HK$1.5 million and HK$2.0 million respectively for the year ended 31 December 2012.

Property investment

Including fair value revaluation gain of HK$34.2 million for the investment properties, contribution from this segment was HK$31.9 million for the year ended 31 December 2012.

LIQUIDITY AND FINANCIAL RESOURCES

The Group had obtained short term bank credit facilities which were reviewed on a yearly basis and a long term mortgage loan. The facilities for the share margin finance operations were secured by the securities of our margin clients and the Group. The facilities for the money lending operations were clean loans. The outstanding credit facilities were guaranteed by the Company.

As at 31 December 2012, the Group's long term bank borrowings apart from those for share margin finance business and personal loan business amounted to HK$145.2 million (31 December 2011: HK$160.0 million), which, when related to the Group's equity of HK$500.6 million (31 December 2011: HK$317.3 million), represented a gearing ratio of approximately 29.0% (31 December 2011: 50.4%).

The Group had a cash balance of HK$107.0 million at the end of the year. The Group had sufficient working capital to meet its operational needs.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group had no significant exposure to fluctuations in exchange rates and any related hedges as at 31 December 2012.

CAPITAL STRUCTURE

There was no material change in the Group's capital structure as compared to the most recent published interim report.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

The Group had no material acquisitions and disposals of subsidiaries and associates except for the two associates set up as disclosed in note 18 to the financial statements for the year ended 31 December 2012.

CHARGES ON ASSETS

As at 31 December 2012, the Group's investment properties were pledged to a bank for installment and revolving loan facilities.

CONTINGENT LIABILITIES

As at 31 December 2012, the Group had no material contingent liabilities.

INVESTMENTS

For the year ended 31 December 2012, the Group's portfolio of Hong Kong listed securities decreased mainly due to net disposal offset by the revaluation gain during the year.

EMPLOYEES

As at 31 December 2012, the total number of employees of the Group was 170 (31 December 2011: 181). Employee's cost (including directors' emoluments) amounted to approximately HK$53 million for the year (2011: approximately HK$49 million).

Apart from salary payment, other staff benefits include medical subsidies, life insurance, provident fund and subsidized external training. Continuous professional training will continue to be arranged for those staff registered with the Securities and Futures Commission. Performance of the employees is normally reviewed on an annual basis with adjustment compatible to the market. Individual employee may also receive a discretionary bonus at the end of each year based on performance. The Company adopted an employee share option scheme on 31 May 2002 which was terminated on 5 June 2012 and was replaced by a new share option scheme which became effective on 11 June 2012.

PROSPECTS

Under the shadow of extremely slow growth in the global economic recovery resulting from the weak fundamentals of the European, US and Japan economies, the slowing economy of China, Hong Kong GDP growth for 2012 was only 1.4%. Trading and fund raising activities were quiet in most of 2012. Average daily turnover of the stock market decreased by more than 23% comparing with 2011. While the number of newly listed companies decreased by 37%, the total fund raised by IPOs dropped by 65%.

Looking forward, 2013 continues to be very challenging. Market activities are anticipated to pick up slowly. Hong Kong economic growth is forecast to improve slightly, coming in 1.5 to 3.5 per cent in 2013-2014. With the revival of China's economy, the continuing implementation of the quantitative easing in the United States and the improvement of the Eurozone debt crisis, it is expected that funds and investors will take a more bullish view. This will boost up the sentiment for investment and fund-raising.

South China made good use of the relatively quiet time to improve the internal supporting system and staff to make us in a better position ahead of the opportunities for future growth. In 2012, substantial effort was put in broadening product portfolios and improving operational efficiency and service qualities. We are well equipped to fight for revenue growth and bigger market share when the market turns bullish.

The newly developed business initiatives in 2012 are on the right track. We continue to have strong confidence in the prospect of Bullion Trading, Wealth Management and Asset Management.

Business of bullion trading has been showing substantial improvement starting in the fourth quarter of 2012. The new business model makes the difference. The introduction of quoting within a narrower spread at minimal commission charges effectively attracts new clients. The revamped trading system is well received and further facilitates growth. The competitive advantages we created are expected to continue to drive the business growth for bullion trading.

Since the commencement of wealth management business in the second quarter of 2012, we have been broadening the product portfolio as well as strengthening our sales network. By now, the products offered within the Group include: stocks, futures, commodities, bullion, forex, funds and insurance products. We aim to become one of the leaders in the wealth management business.

While we are raising funds for the two segregated portfolios focusing on the options market and the gold market, we strengthen our asset management business by forming an associated company in Shanghai to manage private equity funds. Leveraging on the extensive and strong relationship of our local partner with major enterprises, we are confident to raise sufficient funds to create a profitable operation within a short period of time. This leads South China a good opportunity to establish our foothold in the fund management business in China.

We continue to see healthy development in the traditional brokerage business and the new business initiatives. We are confident in and well prepared for delivering a better performance in 2013.

APPRECIATION

On behalf of the Board, I wish to express my gratitude to our shareholders and clients for their support and all our staff for their hard work and dedicated service.

Ng Hung Sang
Chairman

Hong Kong, 19 March 2013

Directors' Biographical Details

EXECUTIVE DIRECTORS

Mr. Ng Hung Sang, aged 63, is an Executive Director, the Chairman and a member of the Executive Committee of the Company. He is actively involved in the overall corporate policies, strategic planning and business development of the Group. Mr. Ng is also an executive director and the chairman of South China Holdings Limited ("SCH"), South China (China) Limited ("SCC") and South China Land Limited ("SCL"). He holds a Master degree in marketing from Lancaster University in the United Kingdom and is a fellow member of the Chartered Institute of Management Accountants. Mr. Ng was appointed as a Director of the Company on 7 December 1988. Mr. Ng is the father of Mr. Ng Yuk Yeung Paul, an Executive Director of the Company, and a director of certain substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Mr. Richard Howard Gorges, aged 69, is an Executive Director, a Vice-chairman and a member of the Executive Committee of the Company. He is also an executive director and a vice-chairman of SCC, and an executive director of SCH and SCL. He holds a Master degree in law from Cambridge University in the United Kingdom. Mr. Gorges was appointed as a Director of the Company on 7 December 1988. He is a director of certain substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Ms. Cheung Choi Ngor, aged 59, is an Executive Director, a Vice-chairman and a member of the Executive Committee of the Company. She is also an executive director, a vice-chairman and the chief executive officer of SCC, and an executive director of SCH and SCL. She holds a Master degree in business administration from University of Illinois in the United States of America. Ms. Cheung is a member of the National Committee of the Chinese People's Political Consultative Conference. Ms. Cheung was appointed as a Director of the Company on 7 December 1988. She is a director of certain substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Mr. Ng Yuk Yeung Paul, aged 31, is an Executive Director and a Vice-chairman, and a member of the Executive Committee of the Company. He is also an executive director and the chief executive officer of SCL. Mr. Ng graduated in law from Corpus Christi College, University of Cambridge (the "University") in the United Kingdom and is a Scholar of the University. He is a member of the Chartered Institute of Management Accountants and a member of Liaoning Province Committee of the Chinese People's Political Consultative Conference. Mr. Ng was appointed as a Director of the Company on 15 September 2003 and was appointed as a Vice-chairman of the Company on 1 December 2010. He has been engaged in the financial services, tourism and media businesses for more than ten years. Mr. Ng is a son of Mr. Ng Hung Sang, the Chairman of the Company.

Mr. Chan Hing Wah, aged 53, is an Executive Director and the Chief Executive Officer, and a member of the Executive Committee of the Company. He has over 25 years experience in the securities and futures industry. Prior to joining the Company, he has held senior positions of various reputable organizations including deputy chief executive officer of OSK Holdings (Hong Kong) Limited, head of securities services of Fubon Bank, managing director of South China Brokerage Company Limited (former name of the Company), chief executive officer of Hutchison CSFBdirect Limited, chief operating officer of Infocast Limited, director of Worldsec International Limited, chief operating officer of Hong Kong Futures Exchange Limited and director of HKFE Clearing Corporation Limited. Mr. Chan holds a Master's degree in Business Administration from the University of Hong Kong and is a member of the Hong Kong Securities Institute and was the chairman of the Hong Kong Association of Online Brokers. Mr. Chan was appointed as the Chief Executive Officer of the Company on 12 May 2011 and as an Executive Director of the Company on 9 June 2011.

NON-EXECUTIVE DIRECTOR

Mr. Ng Tze Wai, aged 56, is a Non-executive Director of the Company. He graduated from The Chinese University of Hong Kong with a Bachelor's degree in Business Administration with honours, from the City Polytechnic of Hong Kong (now known as City University of Hong Kong) with a Bachelor's degree in Arts with honours in Accountancy and from The Hong Kong University of Science and Technology with a Master's degree in Business Administration. He is also an associate member of The Chartered Institute of Bankers and a fellow member of the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and an ordinary member of the Hong Kong Securities Institute. He was appointed as a part-time member of Central Policy Unit (January 2009 – December 2010), a member of the Banking and Finance Industry Training Board of Vocational Training Council (since 1 April 2009), a member of the Banking Industry Training Advisory Committee of the Education Bureau (with effect from 1 August 2010 for a period of two years). He is also a member of the Professional Accountants in Business Leadership Panel of HKICPA since 2009. Mr. Ng has had 28 years of banking experience and led a Corporate Banking Department in Hang Seng Bank for about 10 years. Prior to joining the Company, he was the director & chief executive of Allied Banking Corporation (Hong Kong) Limited for about 6 years and was the vice-chairman of The DTC Association. Mr. Ng was appointed as an Executive Director of the Company on 8 November 2010, as the Chief Executive Officer of the Company on 1 December 2010 until 12 May 2011 and as a Vice-chairman of the Company on 12 May 2011 until 17 January 2012. He was re-designated to a Non-executive Director on 17 January 2012.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mrs. Tse Wong Siu Yin Elizabeth, aged 55, is an Independent Non-executive Director, a member of the Audit Committee and the chairman of the Remuneration and Nomination Committee of the Company. She is also an independent non-executive director of SCH and SCC. She is also the chairman of the Hong Kong Flower Retailers Association, the convenor of Youth Skills Competition in Floristry of Vocational Training Council, the technical advisor of the Environmental Services Industry of Employees Retraining Board, a member of the judge panel of Hong Kong Flower Show and she received an award of the Hundred Outstanding Women Entrepreneur in China in 2009. Mrs. Tse holds a Bachelor degree of Science from the University of Western Ontario in Canada. Mrs. Tse was appointed as a Director of the Company on 25 November 1992.

Hon. Raymond Arthur William Sears, Q.C., aged 80, is an Independent Non-executive Director, a member of the Audit Committee and the Remuneration and Nomination Committee of the Company. He is a retired High Court Judge and holds a Master's degree in law from Cambridge University in the United Kingdom. He became a Queen's Counsel in 1975 and was a former vice-chairman of the Judicial Section of the International Bar Association. In the United Kingdom, he had been a leading Counsel in England to the Government and large Authorities on redevelopment and construction projects and to the General Medical Council. In 1986 and 1987, he was a Justice of the Supreme Court of Hong Kong and the Commissioner to the Sultan of Brunei, respectively. From 1994 to 1999, he was a Senior Civil High Court Judge. Mr. Sears was appointed as an Independent Non-executive Director of the Company on 24 March 2000.

Mr. Tung Woon Cheung Eric, aged 42, is an Independent Non-executive Director, the chairman of the Audit Committee and a member of the Remuneration and Nomination Committee of the Company. He is the assistant president and general manager of the finance department of Beijing Enterprises Holdings Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"); an executive director, the chief financial officer and company secretary of Beijing Enterprises Water Group Limited, a company listed on the Main Board of the Stock Exchange; the company secretary of Biosino Bio-technology and Science Incorporation, a company listed on the Growth Enterprise Market of the Stock Exchange. Mr. Tung graduated from York University, Toronto, Canada with a bachelor honours degree in administrative studies. He is a Certified Public Accountant of Hong Kong Institute of Certified Public Accountants and a U.S. Certified Public Accountant of The American Institute of Certified Public Accountants. Mr. Tung was appointed as an Independent Non-executive Director of the Company on 21 September 2004.

Directors' Report

The directors of the Company (the "Directors") submit their report and the audited consolidated financial statements for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries consist of securities, bullion, forex and commodities broking and trading, margin financing, money lending, provision of corporate advisory and underwriting services, wealth management and investment holding.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 23 to 97 of this Annual Report.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2012 (2011: Nil). No interim dividend was paid during the year ended 31 December 2012 (2011: Nil).

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 98 of this Annual Report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the year are set out in notes 13 and 14 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

There were no changes in the Company's authorized share capital during the year. Details of movements in the Company's share capital and share options during the year are set out in notes 32 and 33 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 34 to the financial statements and in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2012, the Company had no reserves available for distribution.

DIRECTORS

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

Executive Directors:

Ng Hung Sang (*Chairman*)
Richard Howard Gorges (*Vice-chairman*)
Cheung Choi Ngor (*Vice-chairman*)
Ng Yuk Yeung Paul (*Vice-chairman*)
Chan Hing Wah (*Chief Executive Officer*)

Non-executive Director:

Ng Tze Wai

Independent Non-executive Directors:

Tse Wong Siu Yin Elizabeth
Raymond Arthur William Sears, Q.C.
Tung Woon Cheung Eric

In accordance with Article 116 of the articles of association of the Company, Mr. Ng Hung Sang, Ms. Cheung Choi Ngor and Mr. Tung Woon Cheung Eric will retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") from each of the Independent Non-executive Directors namely, Mrs. Tse Wong Siu Yin Elizabeth, Hon. Raymond Arthur William Sears, Q.C. and Mr. Tung Woon Cheung Eric for the year ended 31 December 2012 and as at the date of this report, the Company continues to consider the Independent Non-executive Directors to be independent.

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out on pages 7 and 8 of this Annual Report.

DIRECTORS' SERVICE CONTRACTS

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).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2012, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV 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 Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules, were as follows:

(a) The Company

Long Positions in shares

Name of Director	Capacity	Number of ordinary shares	Total number of ordinary shares	Approximate percentage of shareholding
Ng Hung Sang ("Mr. Ng")	Beneficial owner	185,554,400	2,969,463,624	59.05%
	Interests of spouse	233,000,000		
	Interest of controlled corporations	2,550,909,224 *(Note a)*		
Richard Howard Gorges ("Mr. Gorges")	Beneficial owner	12,174,000	12,174,000	0.24%
Cheung Choi Ngor ("Ms. Cheung")	Beneficial owner	10,000,000	10,000,000	0.20%
Raymond Arthur William Sears, Q.C.	Interest of spouse	200,000	200,000	0.00%

(b) Associated corporation

Long Positions in shares

South China Financial Credits Limited ("SCFC") *(Note b)*

Name of Director	Capacity	Number of ordinary shares	Approximate percentage of shareholding
Ng Yuk Yeung Paul	Beneficial owner	250,000	0.59%

Notes:

(a) The 2,550,909,224 shares of the Company held by Mr. Ng through controlled corporations referred to above include 474,606,720 shares held by Bannock Investment Limited ("Bannock"), 501,292,800 shares held by Earntrade Investments Limited ("Earntrade"), 792,100,504 shares held by Fung Shing Group Limited ("Fung Shing"), 743,728,000 shares held by Parkfield Holdings Limited ("Parkfield"), 33,331,200 shares held by Ronastar Investments Limited ("Ronastar") and 5,850,000 shares held by Tek Lee Finance and Investment Corporation Limited ("Tek Lee"). Fung Shing, Parkfield and Ronastar are wholly-owned by Mr. Ng. Bannock is a wholly-owned subsidiary of Earntrade which is owned as to 60% by Mr. Ng, 20% by Mr. Gorges and 20% by Ms. Cheung, Tek Lee is an indirect subsidiary of South China Holdings Limited, which is controlled by Mr. Ng as to 73.72%.

(b) SCFC is a 98.81% owned subsidiary of the Company.

Save as disclosed above, as at 31 December 2012, none of the Directors or chief executives of the Company had registered any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register which was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEMES

The Directors and employees of the Company and its subsidiaries are entitled to participate in the share option schemes of the Company. Particulars of the share option schemes of the Company are set out in note 33 to the financial statements.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section "Share Option Schemes", at no time during the year was the Company, or any of its holding companies, fellow subsidiaries or subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or chief executives or any of their spouses or children under the age of 18, was granted any right to subscribe for the equity or debt securities of the Company or any other body corporate nor had exercised any such right.

RETIREMENT BENEFIT PLAN

Details of the retirement benefit plan of the Group are set out in note 2.4 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of transactions during the year between the Group and other companies in which certain Directors of the Company have beneficial interests are set out in note 40 to the financial statements.

Save as disclosed above, no contract of significance in relation to the business of the Group to which the Company, or any of its holding companies, or any of its subsidiaries or fellow 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.

MANAGEMENT CONTRACTS

No contract for the management and administration of the whole or any substantial part of the business of the Company was entered into or subsisted during the year.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2012, the following persons, other than the Directors and chief executives of the Company, had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of Part XV of SFO.

Long Position in shares

Name of shareholder	**Capacity**	**Number of ordinary shares**	**Approximate percentage of shareholding**
Earntrade	Beneficial owner and interest of controlled corporation	975,899,520 *(Note a)*	19.41%
Bannock	Beneficial owner	474,606,720 *(Note a)*	9.44%
Parkfield	Beneficial owner	743,728,000	14.79%
Fung Shing	Beneficial owner	792,100,504	15.75%
Ng Lai King Pamela ("Ms. Ng")	Beneficial owner and interest of spouse	2,969,463,624 *(Note b)*	59.05%

Notes:

(a) *Bannock is a wholly-owned subsidiary of Earntrade. The 975,899,520 shares in the Company held by Earntrade include 474,606,720 shares held by Bannock directly.*

(b) *Ms. Ng is the beneficial owner of 233,000,000 shares and is the spouse of Mr. Ng, the Chairman and an Executive Director of the Company. By virtue of the SFO, Ms. Ng is deemed to be interested in the 185,554,400 shares and 2,550,909,224 shares held by Mr. Ng beneficially and through controlled corporations respectively as disclosed under the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or any Associated Corporation" above.*

Save as disclosed above, as at 31 December 2012, no person, other than the Directors or chief executives whose interests are set out in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or any Associated Corporation", had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the amount of public float as required under the Listing Rules as at the date of this report.

CORPORATE GOVERNANCE CODE

Details of the compliance by the Company with the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) are set out on pages 15 to 20 of this Annual Report.

MODEL CODE FOR SECURITIES TRANSACTIONS

Details of the compliance with the Model Code are set out on page 16 of this Annual Report.

CONNECTED TRANSACTIONS

There were no transactions to be disclosed as connected transactions in accordance with the requirements of the Listing Rules during the year ended 31 December 2012.

AUDIT COMMITTEE

The Company has established an Audit Committee with written terms of reference in compliance with the Listing Rules. The Audit Committee comprises three independent non-executive directors, namely Mr. Tung Woon Cheung Eric (the committee chairman), Mrs. Tse Wong Siu Yin Elizabeth and Hon. Raymond Arthur William Sears, Q.C.

The Group's annual results for the year ended 31 December 2012 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2012, the aggregate turnover attributable to the Group's five largest customers accounted for less than 30% of the total turnover for the year. The Group is a provider of financial services and hence it is of no value to disclose details of the Group's suppliers.

None of the Directors or any their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had an interest in the five largest suppliers or customers of the Group noted above.

AUDITORS

Messrs. Ernst & Young will retire and, being eligible, will offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

Ng Hung Sang
Chairman

Hong Kong, 19 March 2013

Corporate Governance Report

The Company is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasize accountability and transparency to the shareholders. Periodic review will be made to the corporate governance practices to comply with the regulatory requirements.

CORPORATE GOVERNANCE CODE

The Company complied with all the code provisions as set out in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) (collectively, the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2012.

BOARD COMPOSITION AND BOARD PRACTICES

As at 31 December 2012, the Board consisted of 9 Directors, including five Executive Directors, who are the Chairman, Mr. Ng Hung Sang, three Vice-chairmen and the Chief Executive Officer, Mr. Chan Hing Wah, one Non-executive Director and three Independent Non-executive Directors. One-third of the Board is Independent Non-executive Directors. Directors' biographies and relevant relationships amongst them are set out in the Directors' Biographical Details on pages 7 to 8 of this Annual Report.

The Board composition is regularly reviewed to ensure that it has a balance of skills and experience appropriate for the requirement of the business of the Group. A balanced composition of Executive Directors and Non-executive Directors is maintained to ensure independence and effective management. The Company has satisfied the relevant provision of the Listing Rules in having at least one of the Independent Non-executive Directors with appropriate accounting qualifications and expertise.

The appointment of Directors is recommended by the Remuneration and Nomination Committee and approved by the Board based on a formal written procedure and policy for the appointment of new directors. When selecting potential candidates for directors, their skills, experience, expertise, devotion of time and conflicts of interests are the key factors.

All Directors (including Non-executive Directors) of the Company are subject to retirement by rotation at least once every three years in accordance with the Company's articles of association.

The Board is collectively responsible for the formulation of the Group's strategy, overseeing the management of the business and affairs of the Group.

Daily operation and management of the business of the Group, inter alia, the implementation of strategies are delegated to the Executive Committee, comprising all Executive Directors. They report periodically to the Board their work and business decisions.

The roles of Chairman and Chief Executive Officer are separate and are clearly defined. Such roles are performed by different individuals with a view to reinforcing independence and accountability. Key and important decisions are fully discussed at board meetings.

All Directors have been fully consulted about any matters proposed for inclusion in the agenda of regular meetings. The Chairman has delegated the responsibility for drawing up the agenda for each board meeting to the Company Secretary. With the assistance of the Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at board meetings and have received adequate and reliable information in a timely manner.

The Board held four meetings in 2012:

	Attendance
Executive Director	
Ng Hung Sang (*Chairman*)	4/4
Richard Howard Gorges (*Vice-chairman*)	4/4
Cheung Choi Ngor (*Vice-chairman*)	4/4
Ng Yuk Yeung Paul (*Vice-chairman*)	3/4
Chan Hing Wah (*Chief Executive Officer*)	4/4
Non-executive Director	
Ng Tze Wai	4/4
Independent Non-executive Directors	
Tse Wong Siu Yin Elizabeth	4/4
Raymond Arthur William Sears, Q.C.	4/4
Tung Woon Cheung Eric	4/4

Notice of at least fourteen days are given to Directors for regular meetings, while Board papers are sent to Directors not less than three days before the intended date of a board or board committee meeting. With respect to other meetings, Directors are given as much notice as is reasonable and practicable in the circumstances. Directors can attend meetings in person or through other means of electronic communication in accordance with the articles of association of the Company. The Company Secretary ensures that the procedures and all applicable rules and regulations are complied with. Minutes of board meetings and meetings of board committees are kept by the Company Secretary and are available for inspection at any time on reasonable notice by any Director.

Directors have full access to information on the Group and are able to obtain independent professional advice whenever they deem necessary. Memorandums are issued to Directors from time to time to update them with legal and regulatory changes and matters of relevance to Directors in the discharge of their duties.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code") as its code of conduct regarding the directors' securities transaction. In addition, the Board has established similar guidelines for relevant employees who are likely in possession of unpublished price sensitive information in relation to the Group or its securities.

All Directors of the Company have confirmed, following specific enquiry by the Company, their compliance with the required standard set out in the Model Code regarding securities transactions by Directors throughout the year ended 31 December 2012.

INTERNAL CONTROL

Recognizing that a well-designed and effective system of internal control is crucial to safeguard the assets of the Company and the shareholders' investment and to ensure the reliability of financial reporting as well as compliance with the relevant requirement of the Listing Rules, a team, comprising qualified accountants, has been organized to carry out the internal audit function of the Company ("IA Team").

Based on the assessment of risk exposure, the IA Team formulates audit plans quarterly and ensures that the audit programs cover key internal control areas of key operating subsidiaries on a rotational basis for the review by the Audit Committee at a regular interval. The scopes and timing of audit review is usually determined according to risk assessment.

Special reviews may also be performed on areas of concern identified by management or the Audit Committee from time to time. Communication channel has been established between the IA Team and the Audit Committee members.

The IA Team monitors the internal control procedures and systems of the Group, reports findings and makes recommendations, if any, to Audit Committee on a regular interval. During the year, compliance on account opening procedures in accordance with the Account Opening guidelines as stated in the Credit Policies and Procedures Manual of the Group and the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission, client order recording procedures in accordance with the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission and retail branch operations were reviewed and addressed in the internal control reports which were presented by the IA Team to the Audit Committee and the Board for review.

RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Directors acknowledge their responsibility for preparing the financial statements of the Group and ensure that the preparation of the financial statements of the Group is in accordance with statutory requirements and applicable accounting standards.

The statement of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditors' Report on pages 21 and 22 of this Annual Report.

AUDITORS' REMUNERATION

For the year ended 31 December 2012, the Auditors of the Company received approximately HK$980,000 for audit service and HK$9,500 for non-audit services provided to the Group.

CONTINUOUS PROFESSIONAL DEVELOPMENT FOR DIRECTORS

Directors must keep abreast of their collective responsibilities. Each newly appointed Director receives an induction package covering the Group's businesses and the statutory and regulatory obligations of a director of a listed company.

Apart from updates on regulatory changes and governance developments provided by the Company, Directors are encouraged to participate in professional training and seminars to develop and refresh their knowledge and skills. A training record has been devised to record the training Directors have undertaken.

A briefing session was organized for Directors at the board meeting of 27 March 2012 to update the Directors on the new amendments to the CG Code and the associated Listing Rules.

During the year 2012, the Directors participated in the following trainings:

Directors	Type of trainings		
	Attending Seminars	Attending Briefings	Reading Materials and Updates
Executive Directors			
Ng Hung Sang		✓	✓
Richard Howard Gorges		✓	✓
Cheung Choi Ngor		✓	✓
Ng Yuk Yeung Paul		✓	✓
Chan Hing Wah		✓	✓
Non-Executive Director			
Ng Tze Wai		✓	✓
Independent Non-Executive Directors			
Tse Wong Siu Yin Elizabeth	✓	✓	✓
Raymond Arthur William Sears, Q.C.		✓	✓
Tung Woon Cheung Eric	✓	✓	✓

AUDIT COMMITTEE

The Audit Committee consists of all Independent Non-executive Directors, namely Mr. Tung Woon Cheung Eric (the committee chairman), Mrs. Tse Wong Siu Yin Elizabeth and Hon. Raymond Arthur William Sears, Q.C.

The principal duties of the Audit Committee in accordance with its terms of reference, which are substantially the same as those under the CG Code, include the review of the Group's financial reporting system and internal control procedures, review of financial information of the Group and review of the relationship with the Auditors of the Group. The Audit Committee has also been delegated by the Board to be responsible for performing the corporate governance duties under the CG Code.

The Audit Committee held three meetings in 2012 in which representatives of the management were present to review the interim and final results, the interim report and annual report and other financial, internal control and corporate governance matters. The Group's Auditors were present in two of the meetings.

	Attendance
Tung Woon Cheung Eric	3/3
Tse Wong Siu Yin Elizabeth	3/3
Raymond Arthur William Sears, Q.C.	3/3

The Audit Committee reviewed the Group's annual results for the year ended 31 December 2012, the internal control system and the corporate governance policy.

REMUNERATION AND NOMINATION COMMITTEE

The Remuneration and Nomination Committee was set up on 27 March 2012 to replace the original Remuneration Committee for performing both remuneration and nomination functions under the CG Code. It consists of all the Independent Non-executive Directors, namely Mrs. Tse Wong Siu Yin Elizabeth (the committee chairman), Hon. Raymond Arthur William Sears, Q.C. and Mr. Tung Woon Cheung Eric.

The principal duties of the Remuneration and Nomination Committee in accordance with its terms of reference, which are substantially the same as those under the CG Code, include the review on the structure and composition of the Board, identification of suitably qualified Board candidates, and review of the remuneration of Directors and senior management and make recommendations to the Board on the remuneration policy and structure.

The Remuneration and Nomination Committee met once in 2012 and the attendance record is set out below:

	Attendance
Tse Wong Siu Yin Elizabeth	1/1
Raymond Arthur William Sears, Q.C.	1/1
Tung Woon Cheung Eric	1/1

The Remuneration and Nomination reviewed the policies for the remuneration of Executive Directors, including basic salaries, discretionary performance bonus and other emoluments, based on skills, knowledge, involvement in the Company's affairs and performance of the individual Executive Director with reference to the Company's performance and profitability, as well as industry practice. Directors' fees for all Directors are subject to shareholders' approval at general meeting. Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties including attendance at board meetings and committee meetings.

The Remuneration and Nomination Committee reviewed the structure, size and composition of the Board, adopted a formal written procedure and policy for the appointment of new directors, assessed the independence of Independent Non-executive Directors and made recommendations to the Board on the appointment and re-appointment of Directors.

SHAREHOLDERS' RIGHTS

Information is communicated to the shareholders mainly through the Company's corporate communications (such as interim and annual reports, announcements and circulars), annual general meetings and other general meetings, as well as disclosures on the website of the Company.

Interim reports, annual reports and circulars are sent to the shareholders in a timely manner and are available on the website of the Company. The Company's website provides shareholders with the corporate information of the Group.

Shareholders are provided with contact details of the Company to enable them to make enquiries with respect to the company's affairs. Shareholders can also send their enquiries to the Company through these channels or contact Union Registrars Limited, the share registrar of the Company, in case of enquiries about shareholdings.

The annual general meeting of the Company ("AGM") allows the Directors to meet and communicate with shareholders. The Company ensures that shareholders' views are communicated to the Board. The chairman of the AGM proposes separate resolutions for each issue to be considered. Members of the Audit Committee and the Remuneration and Nomination Committee and the external auditor also attend the AGM to answer questions from shareholders. AGM proceedings are reviewed from time to time to ensure that the Company follows good corporate governance practices. The notice of AGM is distributed to all shareholders at least 20 clear business days prior to the AGM. The accompanying circular sets out the details of each proposed resolution and other relevant information as required under the Listing Rules. Voting results are posted on the Company's website on the day of the AGM.

Shareholder(s) holding not less than one-twentieth of the paid up capital of the Company can make a requisition to convene an extraordinary general meeting pursuant to Section 113 of the Companies Ordinance of Hong Kong (the "Ordinance"). The requisition must state the objects of the meeting, and must be signed by the relevant shareholder(s) and deposited at the registered office of the Company. Besides, Section 115A of the Ordinance provides that (i) shareholder(s) representing not less than one-fortieth of the total voting rights of all shareholders of the Company or (ii) not less than 50 shareholders holding the shares in the Company on which there has been paid up an average sum of not less than HK$2,000 per shareholder can put forward proposals for consideration at a general meeting of the Company by depositing a requisition in writing signed by the relevant shareholder(s) at the registered office of the Company.

The attendance record of the Directors at the AGM held on 5 June 2012 is set out below:

Executive Directors	
Ng Hung Sang	✓
Richard Howard Gorges	✓
Cheung Choi Ngor	✓
Ng Yuk Yeung Paul	✗
Chan Hing Wah	✓
Non-executive Director	
Ng Tze Wai	✗
Independent Non-executive Directors	
Tse Wong Siu Yin Elizabeth	✓
Raymond Arthur William Sears, Q.C.	✓
Tung Woon Cheung Eric	✓

Independent Auditors' Report

ERNST & YOUNG
安 永

To the shareholders of South China Financial Holdings Limited
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of South China Financial Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 23 to 97, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, 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 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, in accordance with Section 141 of the Hong Kong Companies Ordinance, 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.

To the shareholders of South China Financial Holdings Limited
(Incorporated in Hong Kong with limited liability)

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 profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
19 March 2013

Consolidated Income Statement

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
REVENUE	5	**122,749**	61,578
Other income		**285**	223
Fair value gain on investment properties		**34,200**	–
Fair value gain/(loss) on financial assets at fair value through profit or loss		**40,889**	(79,081)
Loss on disposal of available-for-sale investments		**–**	(8,895)
Impairment of available-for-sale investments		**(3,710)**	–
Reversal of impairment/(impairment) of loans and trade receivables, net		**1,441**	(6,596)
Other operating expenses		**(133,495)**	(125,992)
Profit/(loss) from operating activities		**62,359**	(158,763)
Finance costs	7	**(6,957)**	(5,500)
PROFIT/(LOSS) BEFORE TAX	6	**55,402**	(164,263)
Income tax credit	10	**1,205**	2,128
PROFIT/(LOSS) FOR THE YEAR		**56,607**	(162,135)
Attributable to:			
Equity holders of the Company	11	**56,610**	(162,136)
Non-controlling interests		**(3)**	1
		56,607	(162,135)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	12		
Basic and diluted		**HK1.13 cents**	(HK3.22 cents)

Consolidated Statement of Financial Position

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**7,206**	186,875
Investment properties	14	**357,900**	–
Intangible assets	15	**836**	836
Investments in associates	18	**14,923**	–
Available-for-sale investments	20	**23,957**	21,795
Other assets	16	**8,405**	7,087
Long term loans receivable	19	**4,605**	495
Long term deposits	24	**5,286**	5,574
Total non-current assets		**423,118**	222,662
CURRENT ASSETS			
Financial assets at fair value through profit or loss	22	**236,767**	246,787
Loans receivable	19	**204,204**	128,460
Trade receivables	23	**126,551**	100,420
Other receivables, prepayments and deposits	24	**11,614**	13,269
Tax recoverable		**–**	45
Pledged time deposits	25	**5,500**	5,500
Cash held on behalf of clients	26	**450,800**	414,648
Cash and bank balances	25	**107,018**	125,811
Total current assets		**1,142,454**	1,034,940
CURRENT LIABILITIES			
Client deposits	27	**437,358**	401,099
Trade payables	28	**142,614**	91,740
Other payables and accruals	29	**8,937**	8,132
Tax payable		**40**	11
Interest-bearing bank borrowings	30	**301,571**	272,737
Total current liabilities		**890,520**	773,719
NET CURRENT ASSETS		**251,934**	261,221
TOTAL ASSETS LESS CURRENT LIABILITIES		**675,052**	483,883
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	30	**145,249**	159,950
Deferred tax liabilities	21	**29,227**	6,669
Total non-current liabilities		**174,476**	166,619
Net assets		**500,576**	317,264

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	32	**125,708**	125,708
Reserves	34(a)	**374,299**	190,984
		500,007	316,692
Non-controlling interests		**569**	572
Total equity		**500,576**	317,264

Richard Howard Gorges
Director

Cheung Choi Ngor
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

		Attributable to equity holders of the Company											
	Notes	Issued capital HK$'000	Share premium account HK$'000	Capital redemption reserve HK$'000	Property revaluation reserve# HK$'000	Available-for-sale investment revaluation reserve HK$'000	Share option reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Proposed final dividend HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2011		125,721	220,027	1,601	–	3,062	11,781	1,386	117,920	16,092	497,590	571	498,161
Loss for the year		–	–	–	–	–	–	–	(162,136)	–	(162,136)	1	(162,135)
Other comprehensive income/ (loss) for the year		–	–	–	–	(4,588)	–	2,750	–	–	(1,838)	–	(1,838)
Total comprehensive income/ (loss) for the year		–	–	–	–	(4,588)	–	2,750	(162,136)	–	(163,974)	1	(163,973)
Repurchase and cancellation of ordinary shares	32	(13)	–	13	–	–	–	–	(54)	–	(54)	–	(54)
Equity-settled share option arrangements	33	–	–	–	–	–	(778)	–	–	–	(778)	–	(778)
Transfer of share option reserve upon the forfeiture or expiry of share options		–	–	–	–	–	(7,818)	–	7,818	–	–	–	–
Final 2010 dividend paid		–	–	–	–	–	–	–	–	(16,092)	(16,092)	–	(16,092)
At 31 December 2011 and 1 January 2012		125,708	220,027*	1,614*	–	(1,526)*	3,185*	4,136*	(36,452)*	–	316,692	572	317,264
Profit for the year		–	–	–	–	–	–	–	56,610	–	56,610	(3)	56,607
Other comprehensive income for the year		–	–	–	120,145	5,872	–	679	–	–	126,696	–	126,696
Total comprehensive income for the year		–	–	–	120,145	5,872	–	679	56,610	–	183,306	(3)	183,303
Equity-settled share option arrangements	33	–	–	–	–	–	9	–	–	–	9	–	9
Transfer of share option reserve upon the forfeiture or expiry of share options		–	–	–	–	–	(2,397)	–	2,397	–	–	–	–
At 31 December 2012		**125,708**	**220,027***	**1,614***	**120,145***	**4,346***	**797***	**4,815***	**22,555***	**–**	**500,007**	**569**	**500,576**

\# The property revaluation reserve arose from a change in use from owner-occupied properties to investment properties carried at fair value on 30 June 2012.

* These reserve accounts comprise the consolidated reserves of HK$374,299,000 (2011: HK$190,984,000) in the consolidated statement of financial position.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
PROFIT/(LOSS) FOR THE YEAR		**56,607**	(162,135)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	35	**126,696**	(1,838)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**183,303**	(163,973)
Attributable to:			
Equity holders of the Company		**183,306**	(163,974)
Non-controlling interests		**(3)**	1
		183,303	(163,973)

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**55,402**	(164,263)
Adjustments for:			
Finance costs	7	**6,957**	5,500
Dividend income from listed investments	5	**(2,989)**	(2,725)
Fair value gain on investment properties		**(34,200)**	–
Loss on disposal of available-for-sale investments		**–**	8,895
Fair value loss/(gain) on financial assets at fair value through profit or loss		**(40,889)**	79,081
Equity-settled share option expense/(reversal)	6	**9**	(778)
Impairment of available-for-sale investments	6	**3,710**	–
Impairment/(reversal of impairment) of loans and trade receivables, net	6	**(1,441)**	6,596
Depreciation	6	**5,173**	6,596
Write-off of items of property, plant and equipment	6	**1,682**	–
		(6,586)	(61,098)
Decrease/(increase) in financial assets at fair value through profit or loss		**50,909**	(46,043)
Decrease/(increase) in loans receivable		**(78,308)**	80,878
Decrease/(increase) in trade receivables		**(26,236)**	5,557
Decrease/(increase) in other receivables, prepayments and deposits		**2,265**	(8,273)
Increase in cash held on behalf of clients		**(36,152)**	(45,405)
Increase in an amount due from a related company		**(322)**	(401)
Increase in client deposits		**36,259**	37,179
Increase/(decrease) in trade payables		**50,874**	(3,039)
Increase/(decrease) in other payables and accruals		**805**	(926)
Cash used in operations		**(6,492)**	(41,571)
Interest paid		**(6,957)**	(5,500)
Hong Kong profits tax refunded/(paid)		**45**	(66)
Overseas taxes paid		**(8)**	(44)
Net cash flows used in operating activities		**(13,412)**	(47,181)

	Notes	2012 HK$'000	2011 HK$'000
Net cash flows used in operating activities		**(13,412)**	(47,181)
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend income received from listed investments		**2,989**	2,725
Purchases of items of property, plant and equipment	13	**(6,053)**	(2,581)
Additions to investment properties		**(900)**	–
Proceeds from disposal of available-for-sale investments		**–**	2,889
Capital contributions in respect of investments in associates		**(14,923)**	–
Increase in other assets		**(1,318)**	(125)
Net cash flows from/(used in) investing activities		**(20,205)**	2,908
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**6,493,642**	7,128,290
Repayment of bank loans		**(6,481,560)**	(7,116,868)
Repurchase and cancellation of ordinary shares		**–**	(54)
Dividends paid		**–**	(16,092)
Net cash flows from/(used in) financing activities		**12,082**	(4,724)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(21,535)**	(48,997)
Cash and cash equivalents at beginning of year		**66,641**	112,890
Effect of foreign exchange rate changes, net		**691**	2,748
CASH AND CASH EQUIVALENTS AT END OF YEAR		**45,797**	66,641
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of financial position	25	**107,018**	125,811
Pledged time deposits with original maturity of less than three months when acquired	25	**5,500**	5,500
Bank overdrafts	30	**(66,721)**	(64,670)
Cash and cash equivalents as stated in the statement of cash flows		**45,797**	66,641

Statement of Financial Position

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	17	**170,433**	160,900
Subordinated loan to a subsidiary	31	**100,000**	100,000
Total non-current assets		**270,433**	260,900
CURRENT ASSETS			
Other receivables, prepayments and deposits	24	**449**	449
Cash and bank balances	25	**98**	105
Total current assets		**547**	554
CURRENT LIABILITIES			
Other payables	29	**48**	48
NET CURRENT ASSETS		**499**	506
TOTAL ASSETS LESS CURRENT LIABILITIES		**270,932**	261,406
NON-CURRENT LIABILITIES			
Amounts due to subsidiaries	17	**7,104**	7,116
Net assets		**263,828**	254,290
EQUITY			
Issued capital	32	**125,708**	125,708
Reserves	34(b)	**138,120**	128,582
Total equity		**263,828**	254,290

Richard Howard Gorges
Director

Cheung Choi Ngor
Director

Notes to the Financial Statements

31 December 2012

1. CORPORATE INFORMATION

South China Financial Holdings Limited is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong.

During the year, the Group was involved in the following principal activities:

- securities, commodities, bullion and forex broking and trading
- margin financing and money lending
- provision of corporate advisory and underwriting services
- wealth management
- investment holding

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 Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, available-for-sale investments and financial assets at fair value through profit or loss, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

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*

Other than as further explained below regarding the impact of amendments to HKAS 12, the adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

The HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes — Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. Prior to the adoption of the amendments, deferred tax with respect to the Group's investment properties was provided on the basis that the carrying amount will be recovered through use, and accordingly the profits tax rate had been applied to the calculation of deferred tax arising on the revaluation of the Group's investment properties. Upon the adoption of the HKAS 12 Amendments, deferred tax in respect of the Group's investment properties is provided on the presumption that the carrying amount will be recovered through sale. The effects of the above change are summarised below:

	2012 **HK$'000**	2011 HK$'000
Consolidated income statement for the year ended 31 December		
Decrease in income tax expense	**5,643**	–
Increase in profit for the year	**5,643**	–
Increase in basic earnings per share (HK cents)	**0.11**	–
Increase in diluted earnings per share (HK cents)	**0.11**	–
Consolidated statement of financial position at 31 December		
Decrease in deferred tax liabilities and total non-current liabilities	**5,643**	–
Increase in net assets and reserves	**5,643**	–

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 these 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

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The Group expects to adopt the amendments from 1 January 2013.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation — Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in HK(SIC)-Int 12. Based on the preliminary analyses performed, HKFRS 10 is not expected to have any impact on the currently held investments of the Group.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011), HKAS 28 (2011), and the subsequent amendments to these standards issued in July and December 2012 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

The HKAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to setoff" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

The *Annual Improvements to HKFRSs 2009-2011 Cycle* issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) *HKAS 1 Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(b) *HKAS 32 Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 Income Taxes. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(i) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(ii) a jointly controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Joint ventures *(Continued)*

(iii) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(iv) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets, investment properties and financial 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 the income statement 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 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/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement 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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

(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 an associate or 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).

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 the income statement 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 land and building	2%
Leasehold improvements	Over the lease terms
Furniture and equipment	10% to 25%
Motor vehicles	20%

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 the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

For a transfer from owner-occupied properties to investment properties, the related revaluation surplus arising from the revaluation at the date of transfer is recognised in property revaluation reserve, and remains there until the date of subsequent disposal or retirement of the property when the revaluation surplus is transferred to retained profits.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date: whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

(I) GROUP AS A LESSEE

Rentals payable under operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms. Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

(II) GROUP AS A LESSOR

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. The Group leases out its investment properties as operating leases, thus generating rental income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

(II) GROUP AS A LESSOR *(Continued)*

The amounts due from the lessees under finance leases are recorded in the consolidated statement of financial position as "Loans receivable". The amount comprises the gross investment in the finance leases less gross earnings allocated to future accounting periods. The total gross earnings under finance leases are allocated to the accounting periods over the duration of the underlying agreements so as to produce an approximately constant periodic rate of return on the net cash investment for each accounting period.

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.

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 in fair value presented in the income statement. These net fair value changes do not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

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. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, as these instruments cannot be reclassified after initial recognition.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

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 is included in other income in the income statement. The loss arising from impairment is recognised in the income statement in finance costs for loans and in other operating expenses for receivables.

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 the income statement 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 the income statement as "Impairment of available-for-sale investments". 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 the income statement as other income 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.

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 the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 liability. 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 either directly or through the use of an allowance account and the loss is recognised in the income statement. 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 the income statement.

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 financial 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 the income statement, is removed from other comprehensive income and recognised in the income statement.

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 the income statement — 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 the income statement. 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

The subsequent measurement of loans and borrowings is as follows:

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement 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 finance costs in the income statement.

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 the income statement.

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 transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models or other valuation models.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 statement of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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 countries 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 goodwill or 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 taxable temporary differences associated with interests in subsidiaries and associates, 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, the 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 interests in subsidiaries and associates, 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)*

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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are 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 are recognised immediately as a liability when they are proposed and declared.

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) commission and brokerage income, accrued on all broking transactions on a trade date basis;

(b) profit or loss on the trading of securities, forex, bullion and futures contracts, on a trade date basis;

(c) service and handling fee income, when the underlying services have been provided;

(d) rental income, on a time proportion basis over the lease terms;

(e) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset; and

(f) dividend income, when the shareholders' right to receive payment has been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits

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 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 has to be made at the end of the reporting period for the expected future cost of such paid leave earned during the year by the employees and carried forward.

PENSION SCHEMES

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance in Hong Kong for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' relevant income and are charged to the income statement 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 local municipal governments. These subsidiaries are required to contribute certain percentage of their payroll costs to the central pension schemes. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension schemes.

SHARE-BASED PAYMENTS

The Company operates a share option 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) 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 for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a trinomial model, further details of which are given in note 33 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 the reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

SHARE-BASED PAYMENTS *(Continued)*

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance conditions are satisfied.

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. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. 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.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

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 the income statement.

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 (that is, 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 and associates 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 income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

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 revenue, 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 material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

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

IMPAIRMENT OF TRADE AND LOANS RECEIVABLES

The Group reviews its loan portfolios to assess whether there is any objective evidence that a loan receivable is impaired at least on a yearly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of trade and loans receivables before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets of the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methods and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The aggregate carrying amount of trade and loans receivable at 31 December 2012 was HK$335,360,000 (2011: HK$229,375,000). More details are given in notes 19 and 23 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

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 NON-FINANCIAL ASSETS

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other 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.

DEFERRED TAX ASSETS

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profits will be available against which the 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. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2012 was HK$8,374,000 (2011: HK$6,943,000).

IMPAIRMENT OF AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS

The Group classifies certain assets as available for sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement. At 31 December 2012, impairment losses of HK$3,710,000 have been recognised for available-for-sale financial assets (2011: Nil). The carrying amount of available-for-sale financial assets was HK$23,957,000 (2011: HK$21,795,000).

ESTIMATION OF FAIR VALUE OF INVESTMENT PROPERTIES

Investment properties are carried in the statement of financial position at their fair value. The fair value was based on valuation on these properties conducted by an independent firm of professionally qualified valuers using property valuation techniques which involve making assumptions on certain market conditions. Favorable or unfavorable changes to these assumptions would result in changes in the fair value of the Group's investment properties and the corresponding adjustments to the gain or loss recognised in the income statement.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their services. The Group has six reportable operating segments as follows:

(a) the broking segment engages in securities, commodities and futures contracts broking;

(b) the trading and investment segment engages in securities, forex, bullion and futures contracts trading and investment holding;

(c) the margin financing and money lending segment engages in the provision of margin and personal loan financing;

(d) the corporate advisory and underwriting segment engages in the provision of corporate advisory and underwriting services;

(e) the wealth management segment engages in the insurance broking; and

(f) the property investment.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is measured consistently with the Group's profit/(loss) before tax except that interest income, finance costs relating to the Group's treasury function, head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, tax recoverable, and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank borrowings, tax payable, deferred tax liabilities, and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment transactions are conducted with reference to the prices charged to third parties at the then prevailing market prices.

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2012

	Broking HK$'000	Trading and investment HK$'000	Margin financing and money lending HK$'000	Corporate advisory and underwriting HK$'000	Wealth management HK$'000	Property investment HK$'000	Consolidated HK$'000
Segment revenue:							
Revenue from external customers	47,754	53,492	17,135	2,317	1,455	596	122,749
Segment results:	(24,171)	64,958	9,455	(6,359)	(2,030)	31,881	73,734
Reconciliation:							
Corporate and other unallocated expenses							(11,375)
Finance costs							(6,957)
Profit before tax							55,402
Segment assets:	627,910	288,202	259,965	5,337	1,598	359,323	1,542,335
Reconciliation:							
Corporate and other unallocated assets							23,237
Total assets							1,565,572
Segment liabilities:	576,470	79,310	152,586	317	321	1,023	810,027
Reconciliation:							
Corporate and other unallocated liabilities							254,969
Total liabilities							1,064,996
Other segment information:							
Fair value gain on financial assets at fair value through profit or loss	–	(40,889)	–	–	–	–	(40,889)
Impairment/(reversal of impairment) of loans and trade receivables, net	105	–	(2,142)	–	–	–	(2,037)
Depreciation	2,023	667	316	124	91	61	3,282
Capital expenditure*	3,655	1,191	817	121	162	107	6,053

* Capital expenditure represents additions to property, plant and equipment.

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2011

	Broking HK$'000	Trading and investment HK$'000	Margin financing and money lending HK$'000	Corporate advisory and underwriting HK$'000	Consolidated HK$'000
Segment revenue:					
Revenue from external customers	57,280	(12,783)	16,541	540	61,578
Segment results:	(12,550)	(128,316)	2,226	(8,492)	(147,132)
Reconciliation:					
Corporate and other unallocated expenses					(11,631)
Finance costs					(5,500)
Loss before tax					(164,263)
Segment assets:	563,768	304,555	178,270	23,691	1,070,284
Reconciliation:					
Corporate and other unallocated assets					187,318
Total assets					1,257,602
Segment liabilities:	489,965	86,743	124,388	799	701,895
Reconciliation:					
Corporate and other unallocated liabilities					238,443
Total liabilities					940,338
Other segment information:					
Fair value loss on financial assets at fair value through profit or loss	–	79,081	–	–	79,081
Impairment/(reversal of impairment) of loans and trade receivables, net	302	–	6,804	(510)	6,596
Depreciation	1,874	610	151	179	2,814
Capital expenditure*	1,758	567	123	133	2,581

* Capital expenditure represents additions to property, plant and equipment.

4. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

NON-CURRENT ASSETS

	2012	2011
	HK$'000	HK$'000
Hong Kong	**380,088**	200,636
Other countries	**19,073**	231
	399,161	200,867

The non-current assets information above is based on the location of assets and excludes financial instruments.

5. REVENUE

Revenue, which is also the Group's turnover, represents commission and brokerage income from securities, forex, bullion, futures contracts and insurance broking; profit/(loss) on the trading of securities, forex, bullion and futures contracts; interest income; handling fee income; corporate advisory fees; commission income from share underwriting and placing; dividend income and gross rental income.

An analysis of revenue is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Revenue		
Commission and brokerage income	**48,003**	57,213
Profit/(loss) on the trading of securities, forex, bullion and futures contracts	**48,855**	(20,066)
Interest income from loans and trade receivable	**13,115**	15,049
Interest income from bullion and forex	**619**	1,077
Handling fee income	**2,059**	2,394
Rendering of services	**4,151**	2,589
Dividend income from listed investments	**2,989**	2,725
Gross rental income	**596**	–
Interest income from banks and financial institutions	**2,362**	597
	122,749	61,578

6. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	Notes	Group 2012 HK$'000	Group 2011 HK$'000
Cost of services provided		**25,480**	26,667
Depreciation	13	**5,173**	6,596
Auditors' remuneration		**980**	920
Minimum lease payments under operating leases on land and buildings		**17,213**	15,121
Employee benefit expense (including directors' remuneration (note 8)):			
Pension scheme contributions		**2,073**	1,802
Less: Forfeited contributions		**–**	(186)
Net pension scheme contributions		**2,073**	1,616
Wages and salaries		**50,553**	47,424
Equity-settled share option expense/(reversal)		**9**	(778)
		52,635	48,262
Interest expense for margin financing and money lending operations:			
Bank loans and overdrafts wholly repayable within five years		**3,089**	2,348
Foreign exchange differences, net		**(207)**	613
Impairment/(reversal of impairment) of loans receivable, net	19	**(1,546)**	6,804
Impairment/(reversal of impairment) of trade receivables, net	23	**105**	(208)
Write-off of items of property, plant and equipment	13	**1,682**	–

7. FINANCE COSTS

	Group 2012 HK$'000	Group 2011 HK$'000
Interest on:		
Bank loans wholly repayable within five years	**2,632**	1,944
Bank loans wholly repayable over five years	**4,325**	3,556
	6,957	5,500

8. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

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	2011
	HK$'000	HK$'000
Fees	**310**	310
Other emoluments:		
Salaries, allowances and benefits in kind	**8,223**	6,842
Equity-settled share option reversal	**–**	(172)
Pension scheme contributions	**105**	115
	8,328	6,785
	8,638	7,095

In prior years, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 33 to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2012	2011
	HK$'000	HK$'000
Hon. Raymond Arthur William Sears Q.C.	**100**	100
Mr. Tung Woon Cheung Eric	**75**	75
Mrs. Tse Wong Siu Yin Elizabeth	**75**	75
	250	250

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

8. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) Executive directors and a non-executive director

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense/ (reversal) HK$'000	Pension scheme contributions HK$'000
2012				
Executive directors:				
Mr. Ng Hung Sang	**10**	**4,280**	**–**	**–**
Mr. Richard Howard Gorges	**10**	**1,800**	**–**	**90**
Ms. Cheung Choi Ngor	**10**	**–**	**–**	**–**
Mr. Ng Yuk Yeung Paul	**10**	**–**	**–**	**–**
Mr. Chan Hing Wah	**10**	**2,040**	**–**	**14**
	50	**8,120**	**–**	**104**
Non-executive director:				
Mr. Ng Tze Wai	**10**	**103**	**–**	**1**
	60	**8,223**	**–**	**105**

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense/ (reversal) HK$'000	Pension scheme contributions HK$'000
2011				
Executive directors:				
Mr. Ng Hung Sang	10	–	–	–
Mr. Richard Howard Gorges	10	1,800	–	89
Ms. Cheung Choi Ngor	10	–	–	–
Mr. Ng Yuk Yeung Paul	10	–	–	–
Mr. Cheung Wai Kwok Gary	4	863	(172)	6
Mr. Ng Tze Wai	10	2,828	–	12
Mr. Chan Hing Wah	6	1,351	–	8
	60	6,842	(172)	115

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2011: three), details of whose remuneration are disclosed in note 8 above. Details of the remuneration of the remaining three (2011: two) non-director, highest paid employees for the year are as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**4,314**	1,878
Pension scheme contributions	**39**	24
	4,353	1,902

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

	Number of employees	
	2012	2011
Nil to HK$1,000,000	**1**	2
HK$1,000,001 to HK$1,500,000	**1**	–
HK$1,500,001 to HK$2,000,000	**–**	–
HK$2,000,001 to HK$2,500,000	**1**	–
	3	2

10. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group has available tax losses carried forward to offset the assessable profits arising in Hong Kong. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2012	2011
	HK$'000	HK$'000
Current — Hong Kong		
Underprovision in prior year	**–**	22
Current — Elsewhere	**37**	26
Deferred (note 21)	**(1,242)**	(2,176)
Total tax credit for the year	**(1,205)**	(2,128)

10. INCOME TAX *(Continued)*

A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax at the statutory rate for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax credit at the effective tax rate, and a reconciliation of the statutory tax rate to the effective tax rate, are as follows:

	Group			
	2012		2011	
	HK$'000	**%**	HK$'000	%
Profit/(loss) before tax	**55,402**		(164,263)	
Tax at the statutory tax rate	**9,141**	**16.5**	(27,103)	(16.5)
Higher tax rates on profit/(loss) arising elsewhere	**156**	**0.3**	(525)	(0.3)
Adjustments in respect of current tax of previous periods	**–**	**–**	22	–
Income not subject to tax	**(6,388)**	**(11.5)**	(272)	(0.2)
Expenses not deductible for tax	**175**	**0.3**	237	0.1
Tax losses not recognised	**1,814**	**3.3**	23,463	14.3
Tax losses utilised from previous periods	**(5,943)**	**(10.7)**	12	–
Deferred tax not recognised	**(160)**	**(0.3)**	2,038	1.3
Tax credit at the Group's effective rate	**(1,205)**	**(2.1)**	(2,128)	(1.3)

11. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2012 includes a profit of HK$9,529,000 (2011: a loss of HK$121,373,000) which has been dealt with in the financial statements of the Company (note 34(b)).

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amount is based on the profit for the year attributable to equity holders of the Company of HK$56,610,000 (2011: loss of HK$162,136,000) and the weighted average number of ordinary shares of 5,028,334,500 (2011: 5,028,501,623) in issue during the year, as adjusted to reflect the repurchase and cancellation of shares during the prior year.

No adjustment had been made to the basic earnings/(loss) per share amount presented for the years ended 31 December 2012 and 31 December 2011 in respect of a dilution because the exercise price of the Company's share options was higher than the average market price of shares for both years.

13. PROPERTY, PLANT AND EQUIPMENT

	Group				
	Leasehold land and building under long term lease# HK$'000	Leasehold improvements HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 31 December 2012					
At 31 December 2011 and at 1 January 2012:					
Cost	189,100	15,745	36,185	3,316	244,346
Accumulated depreciation	(8,354)	(13,649)	(32,152)	(3,316)	(57,471)
Net carrying amount	180,746	2,096	4,033	–	186,875
At 1 January 2012, net of accumulated depreciation	180,746	2,096	4,033	–	186,875
Additions	–	3,048	3,005	–	6,053
Depreciation provided during the year	(1,891)	(129)	(3,153)	–	(5,173)
Surplus on revaluation^	143,945	–	–	–	143,945
Transfer to investment properties (note 14)	(322,800)	–	–	–	(322,800)
Write-off	–	(1,628)	(54)	–	(1,682)
Exchange realignment	–	–	(12)	–	(12)
At 31 December 2012, net of accumulated depreciation	–	3,387	3,819	–	7,206
At 31 December 2012:					
Cost	–	15,366	38,947	3,316	57,629
Accumulated depreciation	–	(11,979)	(35,128)	(3,316)	(50,423)
Net carrying amount	–	3,387	3,819	–	7,206

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Group				
	Leasehold land and building under long term lease[#] HK$'000	Leasehold improvements HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 31 December 2011					
At 1 January 2011:					
Cost	189,100	16,974	42,738	3,316	252,128
Accumulated depreciation	(4,572)	(15,075)	(38,277)	(3,316)	(61,240)
Net carrying amount	184,528	1,899	4,461	–	190,888
At 1 January 2011, net of accumulated depreciation	184,528	1,899	4,461	–	190,888
Additions	–	1,193	1,388	–	2,581
Depreciation provided during the year	(3,782)	(996)	(1,818)	–	(6,596)
Exchange realignment	–	–	2	–	2
At 31 December 2011, net of accumulated depreciation	180,746	2,096	4,033	–	186,875
At 31 December 2011:					
Cost	189,100	15,745	36,185	3,316	244,346
Accumulated depreciation	(8,354)	(13,649)	(32,152)	(3,316)	(57,471)
Net carrying amount	180,746	2,096	4,033	–	186,875

At the prior year end, the Group's leasehold land and building with a net book value of HK$180,746,000 were pledged to secure general banking facilities granted to the Group (note 30).

As the prepaid land lease properties cannot be allocated reliably between the land and the building elements, the entire lease payment is included in the cost of land and building as a finance lease in property, plant and equipment in accordance with HKAS 17.

^ On 30 June 2012, the Group transferred its owner-occupied property with carrying amount of HK$178,855,000 to investment properties. The properties were revalued on that date by BMI Appraisals Limited, independent professionally qualified valuers, at HK$322,800,000 on an open market, existing use basis. The increase in the carrying value of HK$143,945,000, net of deferred tax charge of HK$23,800,000 (note 21), was recognised in the property revaluation reserve.

14. INVESTMENT PROPERTIES

	Group	
	2012	2011
	HK$'000	HK$'000
Transfer from owner-occupied properties (note 13)	**322,800**	–
Additions	**900**	–
Net gain from a fair value adjustment	**34,200**	–
Carrying amount at 31 December	**357,900**	–

The Group's investment properties are situated in Hong Kong and are held under long term leases.

The Group's investment properties were revalued on 31 December 2012 by BMI Appraisals Limited, independent professionally qualified valuer, at HK$357,900,000 on an open market, existing use basis. The investment properties are partially leased to third parties under operating leases, further summary details of which are included in note 38(a) to the financial statements.

At 31 December 2012, the Group's investment properties with a carrying value of HK$357,900,000 (2011: Nil) were pledged to secure general banking facilities granted to the Group (note 30(b)).

Details of the Group's investment properties are as follows:

Location	**Existing use**
26th Floor, Tower One, Lippo Centre, 89 Queensway, Admiralty, Hong Kong	Office building

15. INTANGIBLE ASSETS

	Group	
	2012	2011
	HK$'000	HK$'000
Cost at 1 January and at 31 December, net of accumulated amortisation	**836**	836
At 1 January and 31 December:		
Cost	**1,619**	1,619
Accumulated amortisation	**(783)**	(783)
Net carrying amount	**836**	836

Intangible assets are trading rights that have no expiry date and, in the opinion of the directors, have indefinite useful lives.

15. INTANGIBLE ASSETS *(Continued)*

Pursuant to the restructuring of the Stock Exchange and the Hong Kong Futures Exchange Limited (the "Futures Exchange") effective 6 March 2000, the Group received four Stock Exchange Trading Rights, five Futures Exchange Trading Rights and 10,187,500 ordinary shares of HK$1 each in Hong Kong Exchanges and Clearing Limited (the "HKEC Shares") in exchange for its four shares previously held in the Stock Exchange and five shares previously held in the Futures Exchange.

The carrying costs of the previously held shares in the Stock Exchange and the Futures Exchange have been apportioned to the Stock Exchange Trading Rights, the Futures Exchange Trading Rights and the HKEC Shares on the basis of the respective estimated fair values on 6 March 2000.

The Stock Exchange Trading Rights and the Futures Exchange Trading Rights have been classified as intangible assets as disclosed above and have been treated according to the accounting policy as set out in note 2.4 to the financial statements.

16. OTHER ASSETS

	Group	
	2012	2011
	HK$'000	HK$'000
Membership in Chinese Gold and Silver Exchange	**1,280**	1,280
Statutory deposits in respect of securities and commodities dealings	**7,125**	5,807
	8,405	7,087

Other assets are non-interest-bearing and have no fixed terms of repayment.

17. INTERESTS IN SUBSIDIARIES

	Company	
	2012	2011
	HK$'000	HK$'000
Unlisted shares, at cost	**204,484**	192,484
Amounts due from subsidiaries	**326,947**	338,899
	531,431	531,383
Impairment#	**(360,998)**	(370,483)
	170,433	160,900

An impairment was recognised for investment costs and amounts due from subsidiaries with carrying amounts of HK$149,600,000 (before deducting the impairment loss) (2011: HK$136,600,000) and HK$326,504,000 (before deducting the impairment loss) (2011: HK$338,456,000), respectively, as certain subsidiaries of the Company were persistently making losses.

17. INTERESTS IN SUBSIDIARIES *(Continued)*

Movements in the provision for impairment of interests in subsidiaries are as follows:

	Company	
	2012	2011
	HK$'000	HK$'000
At 1 January	**370,483**	248,277
Impairment losses recognised	**5,958**	122,289
Impairment losses reversed	**(15,443)**	(83)
At 31 December	**360,998**	370,483

The balances with subsidiaries included in the Company's non-current assets and non-current liabilities are unsecured and interest-free. In the opinion of the directors, these balances are not repayable within twelve months from the end of the reporting period.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Polyluck Trading Limited	Hong Kong	HK$2	100	Property investment
South China Bullion Company Limited	Hong Kong	HK$30,000,000	100	Bullion dealing
South China Capital Limited	Hong Kong	HK$25,000,000	100	Provision of corporate advisory services
South China Forex Limited	Hong Kong	HK$45,000,000	100	Forex dealing
South China Commodities Limited	Hong Kong	HK$35,000,000	100	Commodities broking
South China Finance Company Limited	Hong Kong	HK$1,000,000	100	Provision of loan financing
South China Finance and Management Limited	Hong Kong	HK$2	100	Share dealing and provision of management services
South China Finance (Nominees) Limited	Hong Kong	HK$2	100	Provision of nominee services
South China Financial Credits Limited	Hong Kong	HK$42,125,000	98.81	Money lending

17. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
South China Asset Management Limited	Hong Kong	HK$6,600,000	100	Asset management
South China Precious Metal Limited	Hong Kong	HK$2	100	Futures trading
South China Research Limited	Hong Kong	HK$600,000	100	Research publication
South China Securities Limited	Hong Kong	HK$10,000,000	100	Securities broking, margin financing and provision of underwriting services
Kingwise Secretarial Services Limited	Hong Kong	HK$2	100	Securities and futures trading
South China Finance Lease Holdings Limited	Hong Kong	HK$1	100	Investment holding
South China Wealth Management Limited	Hong Kong	HK$2,000,000	100	Insurance broking
South China Securities (UK) Limited*	United Kingdom	GBP200,000	100	Securities broking
廣州南華四海諮詢有限公司**	The People's Republic of China ("PRC")/ Mainland China	HK$100,000	100	Provision of corporate advisory services
藍華投資咨詢(上海)有限公司**	PRC/Mainland China	US$100,000	100	Provision of corporate advisory services and investment holding
Nanjing Southchina Leasing Co., Limited**	PRC/Mainland China	RMB100,000,000	100	Provision of loan financing

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

** 廣州南華四海咨詢有限公司, 藍華投資咨詢(上海)有限公司 and Nanjing Southchina Leasing Co., Limited are registered as wholly-foreign-owned enterprises under PRC law.

Except for Polyluck Trading Limited, 廣州南華四海咨詢有限公司, 藍華投資咨詢(上海)有限公司 and Nanjing Southchina Leasing Co., Limited, all principal subsidiaries are directly held by the Company.

The above table lists the principal subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

18. INVESTMENTS IN ASSOCIATES

	Group 2012 HK$'000	Group 2011 HK$'000
Share of net assets	**14,923**	–

Particulars of the associates are as follows:

Name	Registered capital	Place of registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
嘉田文化發展（天津）有限公司	RMB20,000,000	PRC/Mainland China	45%	Media and entertainment
上海華威創富股權投資管理有限公司	RMB20,000,000	PRC/Mainland China	50%	Provision of fund management services

The above companies are not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The above associates are indirectly held by the Company.

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts.

	2012 HK$'000	2011 HK$'000
Assets	**27,360**	–
Liabilities	**–**	–
Revenues	**–**	–
Profit	**1**	–

19. LOANS RECEIVABLE

The Group's loans receivable mainly arose from the margin financing, the finance lease and the money lending operations during the year.

Loans receivable bear interest at rates and with credit periods mutually agreed between the contracting parties. Each customer has a credit limit. The Group maintains strict control over its outstanding loans receivable, and a credit control department has been established to monitor potential credit risk. Margin loans receivable are secured by the pledge of customers' securities as collateral. Overdue balances are reviewed regularly by senior management and are handled closely by the credit control department. The Group's loans receivable relate to a large number of diversified customers and there is no significant concentration of credit risk.

	Group	
	2012	2011
	HK$'000	HK$'000
Loans receivable	**240,733**	162,019
Impairment	**(31,924)**	(33,064)
	208,809	128,955
Portion classified as current assets	**(204,204)**	(128,460)
Portion classified as non-current assets	**4,605**	495
Market value of collateral at 31 December	**787,835**	507,330

At the end of reporting period, certain listed equity securities provided by clients of approximately HK$243,650,000 (2011: HK$190,077,000) were pledged as collateral to banks to secure banking facilities granted to the Group (note 30).

The loans receivable at the end of the reporting period are analysed by the remaining period to the contractual maturity date as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Repayable:		
On demand	**199,160**	126,752
Within 3 months	**1,788**	517
3 months to 1 year	**3,256**	1,191
1 to 5 years	**4,605**	495
	208,809	128,955

19. LOANS RECEIVABLE *(Continued)*

Movements in the provision for impairment of loans receivable are as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
At 1 January	**33,064**	25,385
Impairment losses recognised (note 6)	**2,159**	7,789
Impairment losses reversed (note 6)	**(3,186)**	(69)
Amount written off as uncollectible, net	**(113)**	(41)
At 31 December	**31,924**	33,064
Recovery of personal loans receivable directly written off in previous years (note 6)	**(519)**	(916)

Included in the above impairment of loans receivable is a provision for individually impaired loans receivable of HK$31,688,000 (2011: HK$33,031,000) and collectively impaired loans receivable of HK$236,000 (2011: HK$33,000) as at 31 December 2012 with carrying amounts before provision of HK$41,983,000 (2011: HK$40,908,000) and HK$5,526,000 (2011: HK$1,825,000), respectively. The individually impaired loans receivable relate to customers that were in default or delinquency in payments and only a portion of the receivables is expected to be recovered. The Group holds certain listed equity securities of clients as collateral over these individually impaired loans receivable.

The aged analysis of the loans receivable that are neither individually nor collectively considered to be impaired is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Neither past due nor impaired	**193,224**	119,286

Loans receivable that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

19. LOANS RECEIVABLE *(Continued)*

Finance lease receivable

Included in loans receivable was a receivable in respect of an asset leased under finance lease as set out below:

	Minimum lease payments		Present value of minimum lease payments	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts receivable under finance lease:				
Within one year	**3,519**	–	**3,175**	–
In the second to fifth years, inclusive	**1,931**	–	**1,833**	–
	5,450	–	**5,008**	–
Less: Unearned finance income	**(442)**	–		
Present value of minimum lease payment receivable	**5,008**	–		

The Group has entered into a finance lease arrangement with a customer in respect of an item of equipment. The term of the finance lease entered into was a two-year term.

20. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2012	2011
	HK$'000	HK$'000
Listed equity investments in Hong Kong, at fair value	**21,630**	19,320
Club debentures, at fair value	**2,327**	2,475
	23,957	21,795

During the year, the net gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to HK$2,162,000 (2011: net loss of HK$13,483,000). In the prior year, a loss of HK$8,895,000 was reclassified from other comprehensive loss to the income statement upon the disposal of certain available-for-sale investments during that year.

There was a prolonged decline in the market value of certain listed equity investments during the year. The directors consider that such a decline indicates that the listed equity investments have been impaired and an impairment loss of HK$3,710,000 (2011: Nil) has been reclassified from other comprehensive income to the income statement during the year.

The above investments were designated as available-for-sale financial assets. They have no fixed maturity date or coupon rate. The fair values of these investments are based on quoted market prices.

21. DEFERRED TAX

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

Deferred tax liabilities

2012

	Group			
	Loss available for offsetting against future taxable profits HK$'000	Depreciation allowance in excess of related depreciation HK$'000	Fair value adjustments arising from transfer of owner-occupied properties to investment properties HK$'000	Total HK$'000
At 1 January 2012	(6,943)	13,612	–	6,669
Deferred tax charged/(credited) to the income statement during the year (note 10)	(1,431)	189	–	(1,242)
Deferred tax charged to property revaluation reserve	–	–	23,800	23,800
At 31 December 2012	(8,374)	13,801	23,800	29,227

2011

	Group		
	Loss available for offsetting against future taxable profits HK$'000	Depreciation allowance in excess of related depreciation HK$'000	Total HK$'000
At 1 January 2011	(5,135)	13,985	8,850
Deferred tax credited to the income statement during the year (note 10)	(1,808)	(373)	(2,181)
At 31 December 2011	(6,943)	13,612	6,669

21. DEFERRED TAX *(Continued)*

Deferred tax assets

2011	Group
	Depreciation in excess of related depreciation allowance HK$'000
At 1 January 2011	5
Deferred tax charged to income statement during the year (note 10)	(5)
At 31 December 2011	–

Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Tax losses	**383,480**	373,760	**558**	569
Deductible temporary differences	**343**	1,315	**343**	374
	383,823	375,075	**901**	943

The above tax losses arising in Hong Kong are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of HK$10,728,000 (2011: HK$9,804,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of the these items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2012, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. These subsidiaries recorded accumulated losses since 1 January 2008.

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

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2012	2011
	HK$'000	HK$'000
Listed equity investments in Hong Kong, at market value	**236,767**	246,787

The financial assets at the end of the reporting period were classified as held for trading, of which approximately HK$211,790,000 (2011: HK$236,734,000) were pledged to banks to secure banking facilities granted to the Group (note 30).

The market value of the Group's listed equity investments at the date of approval of these financial statements was approximately HK$211,096,000 (2011: HK$259,973,000).

23. TRADE RECEIVABLES

	Group	
	2012	2011
	HK$'000	HK$'000
Trade receivables	**128,381**	102,649
Impairment	**(1,830)**	(2,229)
	126,551	100,420

The Group's trade receivables arose from securities, bullion, forex and commodities dealings and the provision of corporate advisory and underwriting services during the year.

The Group allows a credit period up to the respective settlement dates of securities, forex, bullion and commodities transactions (normally two business days after the respective trade dates) or a credit period mutually agreed between the contracting parties. Each customer has a credit limit. The Group maintains strict control over its outstanding receivables and a credit control department has been established to monitor the potential credit risk. Overdue balances are reviewed regularly by senior management and are handled closely by the credit control department. The Group's trade receivables relate to a large number of diversified customers, and there is no significant concentration of credit risk. Overdue trade receivables bear interest by reference to the prime rate.

23. TRADE RECEIVABLES *(Continued)*

An aged analysis of the Group's trade receivables at the end of the reporting period, based on the settlement due date and net of provisions for impairment, is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Current to 90 days	**126,551**	100,420

Movements in the provision for impairment of trade receivables are as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
At 1 January	**2,229**	2,437
Impairment losses recognised (note 6)	**123**	1,037
Impairment losses reversed (note 6)	**(18)**	(1,245)
Amount written off as uncollectible	**(504)**	–
	1,830	2,229

Included in the provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$1,830,000 (2011: HK$2,229,000) with a carrying amount of HK$2,355,000 (2011: HK$2,677,000). The individually impaired trade receivables relate to customers that were in default or delinquency in payments. The Group holds certain listed equity securities of clients as collateral over these individually impaired trade receivables.

The aged analysis of the trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Neither past due nor impaired	**119,031**	95,999
Less than 1 month past due	**2,001**	1,106
1 to 3 months past due	**2,607**	1,102
3 months to 1 year past due	**2,387**	1,765
	126,026	99,972

23. TRADE RECEIVABLES *(Continued)*

Trade receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company 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.

24. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	Group		**Company**	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**1,415**	1,172	**449**	449
Deposits	**11,154**	13,456	**–**	–
Other receivables	**4,331**	4,215	**–**	–
	16,900	18,843	**449**	449
Portion classified as current assets	**(11,614)**	(13,269)	**(449)**	(449)
Portion classified as non-current assets	**5,286**	5,574	**–**	–

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

Included in other receivables as at 31 December 2012 was HK$1,287,000 (2011: HK$965,100), an amount due from South China Media Limited, a director of which is also a director of the Company. The amount was unsecured, non-interest-bearing and has no fixed terms of repayment. The maximum outstanding balance during the year was HK$1,287,000.

25. CASH AND BANK BALANCES AND PLEDGED TIME DEPOSITS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**57,274**	125,811	**98**	105
Time deposits	**55,244**	5,500	**–**	–
	112,518	131,311	**98**	105
Less: Pledged time deposits:				
Pledged for a guarantee provided to Hong Kong Exchanges and Clearing Limited for commodities dealings	**(5,000)**	(5,000)	**–**	–
Pledged for a guarantee provided to Hong Kong Exchanges and Clearing Limited for securities dealings	**(500)**	(500)	**–**	–
	(5,500)	(5,500)	**–**	–
Cash and bank balances	**107,018**	125,811	**98**	105

At the end of the reporting period, cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$53,188,000 (2011: HK$68,892,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale 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 three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. Bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

26. CASH HELD ON BEHALF OF CLIENTS

The Group maintains segregated trust accounts with licensed banks to hold securities, futures and forex clients' monies arising from its normal course of business. The Group has classified the clients' monies as "Cash held on behalf of clients" under the current assets section of the consolidated statement of financial position and recognised the corresponding accounts payable to respective clients on the grounds that the Group is liable for any loss or misappropriation of the clients' monies. The Group is not allowed to use the clients' monies to settle its own obligations.

27. CLIENT DEPOSITS

The Group's client deposits arose from securities, forex, bullion and commodities dealings during the year.

The client deposits are unsecured, bear interest at the bank deposit saving rate (2011: bank deposit saving rate) and are repayable on demand.

Included in client deposits are deposits from directors, the directors' close family members and companies in which certain directors have beneficial interests totalling HK$2,008,000 (2011: HK$2,834,000), which are subject to similar terms offered by the Group to its major clients.

28. TRADE PAYABLES

The Group's trade payables arose from securities, forex, bullion and commodities dealings during the year.

An aged analysis of the Group's trade payables at the end of the reporting period, based on the settlement due date, is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Current to 30 days	**142,614**	91,740

The trade payables are non-interest-bearing and repayable on the settlement day of the relevant trades or upon demand from customers.

29. OTHER PAYABLES AND ACCRUALS

	Group		**Company**	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other payables	**5,368**	3,938	**48**	48
Accruals	**3,569**	4,194	**–**	–
	8,937	8,132	**48**	48

Other payables are non-interest-bearing and have an average term of two months.

30. INTEREST-BEARING BANK BORROWINGS

	Group					
	2012			2011		
	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank overdrafts — secured	HIBOR + 2.5%	On demand	59,757	HIBOR + 2.5%	On demand	57,699
Bank overdrafts — unsecured	Prime rate + 0.375% to Prime rate + 0.5%	On demand	6,964	Prime rate + 0.375% to Prime rate + 0.5%	On demand	6,971
Bank loans — secured	HIBOR + 1.25% to HIBOR + 2.75%	2013	190,741	HIBOR + 0.9% to HIBOR + 2.75%	2012	156,067
Bank loans — unsecured	HIBOR + 2.5% to HIBOR + 4% Base rate + 5%	2013	44,109	HIBOR + 1.5% to HIBOR + 4%	2012	52,000
			301,571			272,737
Non-current						
Bank loans — secured	HIBOR + 2.25%	2014–2021	143,384	HIBOR + 2.25%	2013–2021	159,950
Bank loans — unsecured	Base rate + 5%	2014	1,865			–
			145,249			159,950
			446,820			432,687

	Group	
	2012 HK$'000	2011 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	301,571	272,737
In the second year	18,829	16,500
In the third to fifth years, inclusive	53,531	52,133
Beyond five years	72,889	91,317
	446,820	432,687

30. INTEREST-BEARING BANK BORROWINGS *(Continued)*

Notes:

(a) The Group's overdraft facilities amounting to HK$143,000,000 (2011: HK$146,000,000), of which HK$66,721,000 (2011: HK$64,670,000) had been utilised at the end of the reporting period, are guaranteed by the Company up to HK$143,000,000 (2011: HK$139,000,000). The loans were secured by the pledge of certain of the Group's listed equity investments amounting to HK$159,446,000 (2011: HK$112,951,000).

(b) Certain of the Group's bank loans are secured by the Group's investment properties situated in Hong Kong, which had a fair value at the end of the reporting period of approximately HK$357,900,000 (note 14) (2011: leasehold land and building with a carrying value of HK$180,746,000) (note 13).

In addition, listed equity investments belonging to the Group and clients totalling approximately HK$266,362,000 (2011: HK$245,183,000) were pledged to banks to secure banking facilities granted to a subsidiary of the Group at the end of the reporting period (notes 20 and 22).

(c) Except for the Base rate + 5% unsecured bank loan which is denominated in Renminbi, all borrowings are denominated in Hong Kong dollars.

31. SUBORDINATED LOAN TO A SUBSIDIARY

The Company's subordinated loan to a subsidiary, South China Securities Limited, is unsecured, bears interest at a rate of 2% below the Hong Kong dollar prime rate (2011: 2% below the Hong Kong dollar prime rate) per annum, and is repayable on a date as agreed between the Company and the subsidiary, subject to the overriding provision of the subordinated loan agreement that, if the subsidiary becomes insolvent or unable to meet the liquid capital requirements set out in the Hong Kong Securities and Futures (Financial Resources) Rules, the repayment of the loan will be subordinated to the prior repayment of all other creditors of the subsidiary. In the opinion of the directors, the balance is not repayable within one year from the end of the reporting period.

32. SHARE CAPITAL

Shares

	2012	2011
	HK$'000	HK$'000
Authorised:		
8,000,000,000 (2011: 8,000,000,000) ordinary shares of HK$0.025 each	**200,000**	200,000
Issued and fully paid:		
5,028,334,500 (2011: 5,028,334,500) ordinary shares of HK$0.025 each	**125,708**	125,708

In the prior year, the Company repurchased 500,000 ordinary shares from the market at an average price at HK$0.107 per share at a consideration of HK$54,000. All the ordinary shares repurchased were cancelled during the year ended 31 December 2011 and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of the ordinary shares of HK$41,000 was charged to retained profits during the year. In accordance with Section 49H of the Hong Kong Companies Ordinance, an amount equivalent to the par value of the ordinary shares cancelled was transferred to the capital redemption reserve as set out in the consolidated statement of changes in equity.

33. SHARE OPTION SCHEMES

The share option scheme adopted by the Company on 31 May 2002 (the "2002 Share Option Scheme") was terminated on 5 June 2012. Thereafter, no further options will be granted under the 2002 Share Option Scheme but the subsisting share options granted thereunder prior to its termination shall continue to be valid and exercisable pursuant to the terms of the 2002 Share Option Scheme.

At the annual general meeting of the Company held on 5 June 2012, the shareholders of the Company approved the adoption of a new share option scheme (the "2012 Share Option Scheme") and it became effective on 11 June 2012. Under the 2012 Share Option Scheme, the directors of the Company may grant options to eligible persons to subscribe for the Company's shares subject to the terms and conditions as stipulated therein. Unless otherwise cancelled or amended, the 2012 Share Option Scheme will be valid and effective for a period of 10 years commencing on the date on which it became effective.

The directors and employees of the Company and its subsidiaries are entitled to participate in the share option schemes operated by the Company. Details of the share option schemes are as follows:

(a) 2002 Share Option Scheme *(terminated on 5 June 2012)*

(1) PURPOSE OF THE 2002 SHARE OPTION SCHEME

In order to provide incentives or rewards to the participants for their contribution to the Group and to enable the Group to attract and retain employees of appropriate qualifications and with necessary experience to work for the Group and any entity in which any member of the Group holds any equity interest (the "Invested Entity"), the shareholders of the Company approved the adoption of the 2002 Share Option Scheme at the annual general meeting held on 31 May 2002.

(2) PARTICIPANTS OF THE 2002 SHARE OPTION SCHEME

According to the 2002 Share Option Scheme, the board may, at its absolute discretion, grant share options to any person belonging to any of the following classes of participants to subscribe for shares:

(i) any executive director, employee or proposed employee (whether full time or part time) of any member of the Group or any Invested Entity or substantial shareholder;

(ii) any non-executive director (including any independent non-executive director) of any member of the Group or any Invested Entity or substantial shareholder;

(iii) any individual for the time being seconded to work for any member of the Group or any Invested Entity or substantial shareholder;

(iv) any shareholder of any member of the Group or any Invested Entity or substantial shareholder or any holder of any securities issued by any member of the Group or any Invested Entity or substantial shareholder;

(v) any business partner, consultant or contractor of any member of the Group or any Invested Entity or substantial shareholder;

(vi) any supplier of goods or services to any member of the Group or any Invested Entity or substantial shareholder;

33. SHARE OPTION SCHEMES *(Continued)*

(a) 2002 Share Option Scheme (terminated on 5 June 2012) *(Continued)*

(2) PARTICIPANTS OF THE 2002 SHARE OPTION SCHEME *(Continued)*

(vii) any customer of any member of the Group or any Invested Entity or substantial shareholder;

(viii) any person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to any member of the Group or any Invested Entity or substantial shareholder; and

(ix) any company wholly owned by one or more persons belonging to any of the above classes of participants.

(3) TOTAL NUMBER OF SHARES AVAILABLE FOR ISSUE UNDER THE 2002 SHARE OPTION SCHEME

The maximum number of shares in respect of which share options may be granted shall not exceed 10% of the shares issue as at the date of approval of the 2002 Share Option Scheme, i.e., a total of 486,193,674 shares.

(4) MAXIMUM ENTITLEMENT OF EACH PARTICIPANT

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the 2002 Share Option Scheme to each participant in any 12-month period must not exceed 1% of the issued share capital of the Company for the time being unless otherwise approved by the shareholders of the Company, if applicable.

(5) PERIOD WITHIN WHICH THE SHARES MUST BE TAKEN UP UNDER AN OPTION

The board may, at its absolute discretion, determine the period during which a share option may be exercised, and such period should expire no later than 10 years from the date of grant. The board may also provide restrictions on the exercise of a share option during the period when a share option may be exercised.

(6) MINIMUM PERIOD, IF ANY, FOR WHICH AN OPTION MUST BE HELD BEFORE IT CAN BE EXERCISED

There is no specific requirement under the 2002 Share Option Scheme that an option must be held for any minimum period before it can be exercised, but the terms of the 2002 Share Option Scheme provide that the board has the discretion to impose a minimum period at the time of grant to any particular option.

(7) AMOUNT PAYABLE UPON ACCEPTANCE OF THE OPTION AND THE PERIOD WITHIN WHICH PAYMENT MUST BE MADE

An amount of HK$1 for each lot of share options granted is payable upon acceptance of the options within five business days from the date of offer of the options.

33. SHARE OPTION SCHEMES *(Continued)*

(a) 2002 Share Option Scheme (*terminated on 5 June 2012*) *(Continued)*

(8) BASIS OF DETERMINING THE EXERCISE PRICE OF THE OPTIONS

The exercise price is determined by the board, and shall be at least the highest of: (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of offer; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares.

(9) REMAINING LIFE OF THE 2002 SHARE OPTION SCHEME

The 2002 Share Option Scheme was in force for a period of 10 years commencing on 28 June 2002 and was terminated on 5 June 2012.

The following share options were outstanding under the 2002 Share Option Scheme during the year:

	2012		2011	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**0.155**	**29,000**	0.136	215,667
Granted during the year	**–**	**–**	–	–
Lapsed during the year	**0.159**	**(25,000)**	0.134	(186,667)
Cancelled during the year	**–**	**–**	–	–
At 31 December	**0.128**	**4,000**	0.155	29,000

No share options were exercised during the years ended 31 December 2012 and 2011.

33. SHARE OPTION SCHEMES *(Continued)*

(a) 2002 Share Option Scheme (*terminated on 5 June 2012*) *(Continued)*

(9) REMAINING LIFE OF THE 2002 SHARE OPTION SCHEME *(Continued)*

Particulars and movements during the year of the outstanding share options granted under the 2002 Share Option Scheme were as follows:

	Number of share options						
Name or category of participant	Outstanding as at 1 January 2012	Granted during the year	Lapsed during the year	Outstanding as at 31 December 2012	Date of grant of share options (Note a)	Exercise period of share options	Exercise price per Share HK$ (Note b)
Employees							
In aggregate	17,166,674	–	(17,166,674)	–	12/04/07	12/04/10–11/04/12	0.161
	1,000,000	–	(1,000,000)	–	17/04/07	17/04/10–16/04/12	0.161
	833,332	–	(833,332)	–	23/04/07	23/04/10–22/04/12	0.161
Sub-total	19,000,006	–	(19,000,006)	–			
Others							
In aggregate	2,000,000	–	(2,000,000)	–	12/04/07	12/04/10–11/04/12	0.161
	500,000	–	(500,000)	–	23/04/07	23/04/10–22/04/12	0.161
	1,500,000	–	(1,500,000)	–	10/07/07	10/07/10–09/07/12	0.172
	2,000,000	–	(2,000,000)	–	05/08/09	05/08/10–04/08/12	0.128
	2,000,000	–	–	2,000,000	05/08/09	05/08/11–04/08/13	0.128
	2,000,000	–	–	2,000,000	05/08/09	05/08/12–04/08/14	0.128
Sub-total	10,000,000	–	(6,000,000)	4,000,000			
Total	29,000,006	–	(25,000,006)	4,000,000			

Notes:

(a) All share options granted are subject to a vesting period and become exercisable in the following manner:

From the date of grant of share options	Exercisable percentage
Within 12 months	Nil
13th month to 36th month	$33^1/_3$%
25th month to 48th month	$33^1/_3$%
37th month to 60th month	$33^1/_3$%

The unexercised share options of each exercise period shall lapse at the end of the corresponding exercise period.

(b) The subscription price of the share options is subject to adjustment in the case of rights or bonus issues, or other alteration in the capital structure of the Company.

At the end of the reporting period, the Company had 4,000,000 share options outstanding under the 2002 Share Option Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 4,000,000 additional ordinary shares of the Company and additional share capital of HK$100,000 and share premium of HK$412,000 (before issue expenses).

33. SHARE OPTION SCHEMES *(Continued)*

(a) 2002 Share Option Scheme *(terminated on 5 June 2012)* *(Continued)*

No share option was granted during the year (2011: Nil). The Group recognised a share option expense of HK$9,000 (2011: reversed a share option expense of HK$778,000) during the year ended 31 December 2012.

The fair value of equity-settled share options granted in prior years was estimated as at the date of grant using a trinomial model, taking into account the terms and conditions upon which the options were granted.

(b) 2012 Share Option Scheme *(adopted on 5 June 2012 and become effective on 11 June 2012)*

(1) PURPOSE OF THE 2012 SHARE OPTION SCHEME

In order to provide incentives or rewards to the participants for their contribution to the Group and to enable the Group to attract and retain employees of appropriate qualifications and with necessary experience to work for the Group and any Invested Entity, the shareholders of the Company approved the adoption of the 2012 Share Option Scheme at the annual general meeting held on 5 June 2012.

(2) PARTICIPANTS OF THE 2012 SHARE OPTION SCHEME

According to the 2012 Share Option Scheme, the board may, at its discretion, grant share options to any person belonging to any of the following classes of participants to subscribe for shares:

(i) any executive director, employee or proposed employee (whether full time or part time) of any member of the Group or any Invested Entity or substantial shareholder;

(ii) any non-executive director (including any independent non-executive director) of any member of the Group or any Invested Entity or substantial shareholder;

(iii) any individual for the time being seconded to work for any member of the Group or any Invested Entity or substantial shareholder;

(iv) any shareholder of any member of the Group or any Invested Entity or substantial shareholder or any holder of any securities issued by any member of the Group or any Invested Entity or substantial shareholder;

(v) any business partner, agent, consultant, contractor or representative of any member of the Group or any Invested Entity or substantial shareholder;

(vi) any supplier of goods or services to any member of the Group or any Invested Entity or substantial shareholder;

(vii) any customer of any member of the Group or any Invested Entity or substantial shareholder;

(viii) any person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to any member of the Group or any Invested Entity or substantial shareholder;

33. SHARE OPTION SCHEMES *(Continued)*

(b) 2012 Share Option Scheme (*adopted on 5 June 2012 and become effective on 11 June 2012*) *(Continued)*

(2) PARTICIPANTS OF THE 2012 SHARE OPTION SCHEME *(Continued)*

(ix) any other group or classes of participants from time to time determined by the directors as having contributed or may contribute to the development and growth of any member of the Group (including any discretionary object of a participant which is a discretionary trust); and

(x) any company wholly owned by one or more persons belonging to any of the above classes of participants.

(3) TOTAL NUMBER OF SHARES AVAILABLE FOR ISSUE UNDER THE 2012 SHARE OPTION SCHEME

The maximum number of shares in respect of which share options may be granted shall not exceed 10% of the shares in issue as at the date of approval of the 2012 Share Option Scheme, ie a total of 502,833,450.

As at 31 December 2012, the total number of shares available for issue pursuant to the grant of further share options under the 2012 Share Option Scheme is 502,833,450, representing approximately 10% of the issued share capital of the Company as at the date of this Annual Report.

(4) MAXIMUM ENTITLEMENT OF EACH PARTICIPANT

The total number of share issued and which may fall to be issued upon exercise of the options granted under the 2012 Share Option Scheme to each participant in any 12-month period must not exceed 1% of the issued share capital of the Company for the time being unless otherwise approved by the shareholders of the Company, if applicable.

(5) PERIOD WITHIN WHICH THE SHARES MUST BE TAKEN UP UNDER AN OPTION

The board may at its absolute discretion determine the period during which a share option may be exercised, such period should expire no later than 10 years from the date of grant. The board may also impose restrictions on the exercise of a share option during the period a share option may be exercised.

(6) MINIMUM PERIOD, IF ANY, FOR WHICH AN OPTION MUST BE HELD BEFORE IT CAN BE EXERCISED

There is no specific requirement under the 2012 Share Option Scheme that an option must be held for any minimum period before it can be exercised, but the terms of the 2012 Share Option Scheme provide that the board has the discretion to impose a minimum period at the time of grant of any particular option.

(7) AMOUNT PAYABLE UPON ACCEPTANCE OF THE OPTION AND THE PERIOD WITHIN WHICH PAYMENT MUST BE MADE

An amount of HK$1 for each lot of share options granted is payable upon acceptance of the options within 28 days from the date of offer of the options.

33. SHARE OPTION SCHEMES *(Continued)*

(b) 2012 Share Option Scheme *(adopted on 5 June 2012 and become effective on 11 June 2012)* *(Continued)*

(8) BASIS OF DETERMINING THE EXERCISE PRICE OF THE OPTIONS

The exercise price is determined by the board, and shall be at least the higher of: (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of offer of grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer of grant; and (iii) the nominal value of the Company's shares.

Subject to early termination of the 2012 Share Option Scheme pursuant to the terms thereof, the 2012 Share Option Scheme will be valid and effective for a period of 10 years commencing on the date on which it became effective on 11 June 2012.

During the year ended 31 December 2012, no share option has been granted, exercised or cancelled under the 2012 Share Option Scheme since its adoption.

34. 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 page 26 of the financial statements.

(b) Company

	Notes	Share premium account HK$'000	Capital redemption reserve HK$'000	Share option reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2011		220,027	1,601	11,781	17,365	250,774
Total comprehensive loss for the year	11	–	–	–	(121,373)	(121,373)
Equity-settled share option arrangements	33	–	–	(778)	–	(778)
Repurchase of shares		–	–	–	(41)	(41)
Transferred from retained profits/ (accumulated losses) on cancellation of repurchased shares		–	13	–	(13)	–
Transfer of share option reserve upon the forfeiture or expiry of share options		–	–	(7,818)	7,818	–
At 31 December 2011 and at 1 January 2012		**220,027**	**1,614**	**3,185**	**(96,244)**	**128,582**
Total comprehensive income for the year	11	**–**	**–**	**–**	**9,529**	**9,529**
Equity-settled share option arrangements	33	**–**	**–**	**9**	**–**	**9**
Transfer of share option reserve upon the forfeiture or expiry of share options		**–**	**–**	**(2,397)**	**2,397**	**–**
At 31 December 2012		**220,027**	**1,614**	**797**	**(84,318)**	**138,120**

34. RESERVES *(Continued)*

(b) Company *(Continued)*

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits/(accumulated losses) should the related options expire or lapse.

35. OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR

	Group	
	2012	2011
	HK$'000	HK$'000
Available-for-sale investments:		
Changes in fair value	**2,162**	(13,483)
Reclassification adjustment for a loss on disposal	**–**	8,895
Reclassification adjustment for an impairment loss	**3,710**	–
	5,872	(4,588)
Exchange differences on translation of foreign operations	**679**	2,750
Surplus on revaluation upon the transfer of self-occupied properties to investment properties, net of deferred tax (note 13)	**120,145**	–
	126,696	(1,838)

36. PLEDGE OF ASSETS

Details of the Group's bank loans and overdrafts which are secured by the assets of the Group are included in note 30 to the financial statements.

37. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements are as follows:

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in connection with banking facilities granted to subsidiaries	**–**	–	**1,057,340**	1,020,006

At the end of the reporting period, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$441,846,000 (2011: HK$432,687,000).

38. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14 to financial statements) under operating lease arrangements, with lease negotiated for a term of two years. The terms of the lease generally also require the tenants to pay security deposits.

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

	Group	
	2012	2011
	HK$'000	HK$'000
Within one year	**2,194**	–
In the second to fifth years, inclusive	**1,649**	–
	3,843	–

During the year, the Group recognised HK$151,000 (2011: Nil) in respect of contingent rentals receivables.

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements, with leases negotiated for terms ranging from one to ten years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Within one year	**19,732**	21,103
In the second to fifth years, inclusive	**30,200**	29,961
After five years	**1,734**	–
	51,666	51,064

39. COMMITMENTS

In addition to the operating lease commitments detailed in note 38 above, the Group had contracted but not provided for capital commitment in respect of a capital contribution to an associate of RMB7,000,000 (equivalent to HK$8,705,000) (2011: Nil).

40. RELATED 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 and brokerage income received from:	(i)		
Directors and companies in which certain directors have beneficial interests*		**1,306**	1,078
Interest income arising from margin financing received from:	(ii)		
Directors and companies in which certain directors have beneficial interests*		**104**	52

* The related party transactions also constitute exempted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

Notes:

(i) The commission and brokerage income related to the Group's securities broking business and the rate was determined by reference to commission and brokerage fees charged to third parties.

(ii) The interest income related to the Group's margin financing business and the amount was calculated based on the Hong Kong dollar prime rate (2011: based on the Hong Kong dollar prime rate) per annum, which is similar to the rate offered to the Group's major clients.

(b) Compensation of key and senior management personnel of the Group:

The executive directors and the non-executive director are the key and senior management personnel of the Group. Details of their remuneration are disclosed in note 8 to the financial statements.

(c) Outstanding balances with related parties:

Details of the Group's balances with affiliates at the end of the reporting period are included in notes 24 and 27 to the financial statements.

41. FINANCIAL INSTRUMENTS BY CATEGORY

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

2012 **Group**

Financial assets

	Financial assets at fair value through profit or loss — held for trading HK$'000	Available-for-sale investments HK$'000	Loans and receivables HK$'000	Total HK$'000
Other assets	–	–	8,405	8,405
Available-for-sale investments	–	23,957	–	23,957
Loans receivable	–	–	208,809	208,809
Trade receivables	–	–	126,551	126,551
Financial assets at fair value through profit or loss	236,767	–	–	236,767
Financial assets included in other receivables, prepayments and deposits (note 24)	–	–	15,485	15,485
Pledged time deposits	–	–	5,500	5,500
Cash held on behalf of clients	–	–	450,800	450,800
Cash and bank balances	–	–	107,018	107,018
	236,767	23,957	922,568	1,183,292

2012 **Group**

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Client deposits	437,358
Trade payables	142,614
Financial liabilities included in other payables and accruals (note 29)	7,885
Interest-bearing bank borrowings	446,820
	1,034,677

41. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

2011 Group

Financial assets

	Financial assets at fair value through profit or loss — held for trading HK$'000	Available-for-sale investments HK$'000	Loans and receivables HK$'000	Total HK$'000
Other assets	–	–	7,087	7,087
Available-for-sale investments	–	21,795	–	21,795
Loans receivable	–	–	128,955	128,955
Trade receivables	–	–	100,420	100,420
Financial assets at fair value through profit or loss	246,787	–	–	246,787
Financial assets included in other receivables, prepayments and deposits (note 24)	–	–	17,671	17,671
Pledged time deposits	–	–	5,500	5,500
Cash held on behalf of clients	–	–	414,648	414,648
Cash and bank balances	–	–	125,811	125,811
	246,787	21,795	800,092	1,068,674

2011 Group

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Client deposits	401,099
Trade payables	91,740
Financial liabilities included in other payables and accruals (note 29)	6,228
Interest-bearing bank borrowings	432,687
	931,754

41. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

Financial assets

	Company Loans and receivables	
	2012 **HK$'000**	2011 HK$'000
Due from subsidiaries	**443**	443
Subordinated loan to a subsidiary	**100,000**	100,000
Cash and bank balances	**98**	105
	100,541	100,548

Financial liabilities

	Company Financial liabilities at amortised cost	
	2012 **HK$'000**	2011 HK$'000
Due to subsidiaries (note 17)	**7,104**	7,116
Financial liabilities included in other payables and accruals (note 29)	**48**	48
	7,152	7,164

42. FAIR VALUE AND FAIR VALUE HIERARCHY

At the end of the reporting period, the carrying amounts of the Group's and the Company's financial assets and liabilities approximated 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 cash and bank balances, the current portion of pledged deposits, trade and loans receivables, client deposits, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, an amount due from a related company and interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the non-current portion of interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

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

42. FAIR VALUE AND FAIR VALUE HIERARCHY *(Continued)*

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)

At the end of the reporting period, the financial instruments measured at fair value held by the Group were classified as level 1 (2011: level 1).

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

The Company did not have any financial assets measured at fair value as at 31 December 2012 (2011: Nil).

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and overdrafts, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as loans receivable, trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk and equity price 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's exposure to the risk of changes in market interest rates relates primarily to the Group's net debt obligations with floating interest rates. The majority of the bank borrowings bear interest at interest rates with reference to the HIBOR whereas loans to customers bear interest at interest rates with reference to the prime rate. As the prime rate in Hong Kong basically changes in line with the HIBOR, the Group's exposure to the risk of changes in market interest rates is minimal.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Interest rate risk *(Continued)*

The following table demonstrates the sensitivity to a reasonably possible change in Hong Kong dollar interest rate, with all other variables held constant, of the Group's profit/(loss) before tax (through the impact on floating rate net borrowings).

	Group	
	Change in basis point	**Change in profit/(loss) before tax** HK$'000
2012		
Hong Kong dollar	**50**	**2,234**
2011		
Hong Kong dollar	50	2,163

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

The Group's concentration of credit risk is mainly in Hong Kong by geographical location. The Group's credit risk exposure spreads over a number of counterparties and customers. Hence, the Group has no significant concentration of credit risk by a single debtor.

Further quantitative data in respect of the Group's exposure to credit risk arising from loans receivable and trade receivables are disclosed in notes 19 and 23 to the financial statements, respectively.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., loans and trade receivables) and projected cash flows from operations.

The Group's borrowings from banks during the year are mainly for the provision of financing and loans to customers for their purchases and continuous holding of securities. The maturity of bank borrowings of the Group usually ranges from overnight to one month, and they are either rolled over or repaid by the Group's own funding. In addition, for those clients who are unable to settle their settlement obligations or margin deficits, the Group may dispose of the securities collateral pledged by the customers to the Group. The Group always ensures that the securities collateral pledged by customers is able to be realised in the market within a reasonable period of time.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans.

The maturity profile of the Group's and Company's financial liabilities 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$'000**	**1 to 5 years HK$'000**	**Over 5 years HK$'000**	**Total HK$'000**
Client deposits	**437,358**	**–**	**–**	**–**	**–**	**437,358**
Interest-bearing bank borrowings	**286,895**	**5,098**	**15,294**	**81,567**	**76,475**	**465,329**
Trade payables	**–**	**142,614**	**–**	**–**	**–**	**142,614**
Financial liabilities included in other payables and accruals	**2,517**	**5,368**	**–**	**–**	**–**	**7,885**
	726,770	**153,080**	**15,294**	**81,567**	**76,475**	**1,053,186**

Group			2011			
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Client deposits	401,099	–	–	–	–	401,099
Interest-bearing bank borrowings	256,670	5,112	15,336	81,793	97,150	456,061
Trade payables	–	91,740	–	–	–	91,740
Financial liabilities included in other payables and accruals	2,290	3,938	–	–	–	6,228
	660,059	100,790	15,336	81,793	97,150	955,128

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

Company	2012 On demand HK$'000	Less than 3 months HK$'000	Over 1 year HK$'000	Total HK$'000
Due to subsidiaries (note 17)	–	–	7,104	7,104
Other payables	48	–	–	48
Guarantees given to banks in connection with facilities granted to subsidiaries	441,846	–	–	441,846
	441,894	–	7,104	448,998

Company	2011 On demand HK$'000	Less than 3 months HK$'000	Over 1 year HK$'000	Total HK$'000
Due to subsidiaries (note 17)	–	–	7,116	7,116
Other payables	48	–	–	48
Guarantees given to banks in connection with facilities granted to subsidiaries	432,687	–	–	432,687
	432,735	–	7,116	439,851

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group was exposed to equity price risk arising from individual equity investments classified as financial assets at fair value through profit or loss (note 22) and available-for-sale investments (note 20) at the end of the reporting period. The Group's listed investments are listed on the Hong Kong Stock Exchange and are valued at quoted market prices at the end of the reporting period.

The market equity index for the Hong Kong Stock Exchange, at the close of business of the nearest trading day in the year to the end of the reporting period, and its respective highest and lowest points during the year were as follows:

	31 December 2012	High/low 2012	31 December 2011	High/low 2011
Hong Kong — Hang Seng Index	22,656	22,667/ 18,186	18,434	24,420/ 16,250

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Equity price risk *(Continued)*

The following table demonstrates the sensitivity to every 10% change in the fair value of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period.

	Carrying amount of equity investments HK$'000	Change in profit/ (loss) before tax HK$'000	Change in equity* HK$'000
2012			
Investments listed in:			
Hong Kong — Available-for-sale	**21,630**	**–**	**2,163**
— Held-for-trading	**236,767**	**23,677**	**–**
2011			
Investments listed in:			
Hong Kong — Available-for-sale	19,320	–	1,932
— Held-for-trading	246,787	24,679	–

* Excluding retained profits/accumulated losses

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 healthy capital ratios 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.

Certain subsidiaries of the Group are regulated by the Securities and Futures Commission (the "SFC") and are required to comply with certain minimum capital requirements according to the rules of the SFC. The Group has established a legal and compliance department which is operated by experienced internal qualified lawyers and compliance officers and is monitored by management. The principal roles of the legal and compliance department are to monitor the daily financial status and to review internal control of the Group regularly to ensure the Company's regulated subsidiaries are in compliance with related regulations. No changes were made in the objectives, policies or processes for managing capital during the two years ended 31 December 2012 and 2011.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Capital management *(Continued)*

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. The Group's policy is to maintain the gearing ratio below 50%. Net debt includes interest-bearing bank borrowings, less cash and bank balances. Capital represents total equity. The gearing ratios at the end of the reporting periods were as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Interest-bearing bank borrowings	**446,820**	432,687
Less: Cash and bank balances	**(107,018)**	(125,811)
Net debt	**339,802**	306,876
Capital	**500,576**	317,264
Capital and net debt	**840,378**	624,140
Gearing ratio	**40.4%**	49.2%

44. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2012, the Group transferred certain of its property, plant and equipment with carrying amount of HK$178,855,000 (2011: Nil) to investment properties.

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 March 2013.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below. This summary does not form part of the audited financial statements.

RESULTS

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**122,749**	61,578	192,343	146,808	93,679
Profit/(loss) before tax	**55,402**	(164,263)	88,664	116,842	(192,033)
Tax	**1,205**	2,128	(684)	(2,919)	5,569
Profit/(loss) for the year	**56,607**	(162,135)	87,980	113,923	(186,464)
Attributable to:					
Equity holders of the Company	**56,610**	(162,136)	87,977	113,896	(186,451)
Non-controlling interests	**(3)**	1	3	27	(13)
	56,607	(162,135)	87,980	113,923	(186,464)

	Year ended 31 December				
	2012	2011	2010	2009	2008
Earnings/(loss) per share (HK cents):					
Basic	**1.13**	(3.22)	1.75	2.26	(3.71)
Diluted	**1.13**	(3.22)	1.75	2.26	(3.71)
Dividend per share (HK cents)	**–**	–	0.47	0.60	0.04

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
TOTAL ASSETS	**1,565,572**	1,257,602	1,338,391	1,384,434	890,088
TOTAL LIABILITIES	**(1,064,996)**	(940,338)	(840,230)	(905,437)	(562,019)
NON-CONTROLLING INTERESTS	**(569)**	(572)	(571)	(923)	(896)
	500,007	316,692	497,590	478,074	327,173