Notes to Financial Statements

31 December 2006

1. CORPORATE INFORMATION

South China Financial Holdings Limited (formerly known as "South China Brokerage Company 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, bullion and commodities broking and trading
- margin financing and money lending
- provision of corporate advisory and underwriting services
- property investment
- investment holding

In the opinion of the directors, the ultimate holding company and parent company of the Company are South China Holdings Limited ("SCH"), which is incorporated in the Cayman Islands and East Hill Development Limited, which is incorporated in Hong Kong, respectively.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for an investment property and equity investments, 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 for the year ended 31 December 2006. 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 significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Acquisitions of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 The Effects of Changes in Foreign Exchange Rates

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS 27 Consolidated and Separate Financial Statements

The adoption of the revised HKAS 27 has resulted in a change in accounting policy relating to the definition of a subsidiary for the purpose of the consolidated financial statements as described in note 2.4 "Summary of significant accounting policies" below.

(c) HKAS 39 Financial Instruments: Recognition and Measurement

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue. The adoption of this amendment has had no material impact on these financial statements.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS
(Continued)

(d) HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

2.3 IMPACT OF 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.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating segments
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objectives, policies and processes for managing capital; quantitative data about what the Group regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 Segment Reporting.

HK(IFRIC)-Int 8 and HK(IFRIC)-Int 11 shall be applied for annual periods beginning on or after 1 May 2006 and 1 March 2007, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment and HKFRS 7 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity 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 interests in subsidiaries are stated at cost less any impairment losses.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets, financial assets and an investment property), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as 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 each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however 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 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, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is a member of the key management personnel of the Group or its parent;

(c) the party is a close member of the family of any individual referred to in (a) or (b);

(d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c); or

(e) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

Leasehold improvements	Over the lease 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 depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment 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.

Investment property

An investment property is interests in land and buildings (including the leasehold interest under an operating lease for property which would otherwise meet the definition of an investment property) 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 property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair value of an investment property 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.

Intangible assets

The useful lives of intangible assets are assessed to be either finite or indefinite.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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.

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. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities 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 securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using 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.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost 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 been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed 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.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

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 where:

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

Where the Group has transferred its rights to receive cash flows from an asset and 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.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including client deposits trade and other payables, an amount due to the intermediate holding company and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provision, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which 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 balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period 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.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date 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:

- where the deferred tax liability 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 taxable temporary differences associated with investments in subsidiaries, where 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, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to 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 at the balance sheet date.

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

Revenue recognition

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

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

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

(c) service 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 through 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.

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 as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual has to be made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees. Contributions are made based on a percentage of the employees' basic salaries 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Share-based payment transactions

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 payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 35 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

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, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date 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.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market 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. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

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

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

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to 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 functional currencies of certain overseas subsidiaries, are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, 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

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 available-for-sale financial assets

The Group determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged decline requires judgement. In making this judgement, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. The carrying amount of available-for-sale financial assets at 31 December 2006 was HK$23,193,000 (2005: HK$12,345,000). More details are given in note 19 to the financial statements.

Estimation uncertainty

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Impairment of loans receivable

The Group reviews its loan portfolios to assess impairment 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 loans 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 in 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 carrying amount of loans receivable at 31 December 2006 was HK$213,705,000 (2005: HK$158,805,000). More details are given in note 20 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit 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 2006 was HK$4,414,000 (2005: HK$4,015,000). The amount of unrecognised tax losses at 31 December 2006 was HK$314,176,000 (2005: HK$335,486,000). Further details are contained in note 21 to the financial statements.

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributable to the segments based on the location of the customers, and assets are attributable to the segments based on the location of the assets. No geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Hong Kong, and over 90% of the Group's assets are located in Hong Kong.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the services they provide. Each of the Group's business segments represents a strategic business unit that offers services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

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

(b) the trading and investment segment engages in securities, 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 property investment segment engages in property rental; and

(f) the corporate and others segment comprises corporate income, expense, asset and liability items.

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

4. SEGMENT INFORMATION (Continued)

Business segments

The following tables represent revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

Year ended 31 December 2006	Broking	Trading and investment	Margin financing and money lending	Corporate advisory and underwriting	Property investment	Corporate and others	Eliminations	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:								
Sales to external customers	84,376	13,305	49,434	9,031	4,405	537	–	161,088
Intersegment sales	–	–	3,129	–	–	–	(3,129)	–
Total	84,376	13,305	52,563	9,031	4,405	537	(3,129)	161,088
Segment results	**9,714**	**10,250**	**13,500**	**(3,711)**	**9,345**	**(8,257)**	**–**	**30,841**
Finance costs								(4,162)
Profit before tax								26,679
Tax								(1,358)
Profit for the year								25,321
Assets and liabilities								
Segment assets	479,564	104,659	254,736	2,252	163,005	36,813		1,041,029
Unallocated assets								9,936
Total assets								1,050,965
Segment liabilities	408,179	136	173,488	255	92,684	923		675,665
Unallocated liabilities								7,247
Total liabilities								682,912
Other segment information:								
Depreciation	1,302	72	292	267	18	145		2,096
Capital expenditure	891	67	90	212	22	–		1,282
Fair value on an investment property	–	–	–	–	7,000	–		7,000
Impairment of loans receivable	360	–	10,930	–	–	–		11,290

4. SEGMENT INFORMATION (Continued)

Business segments (Continued)

Year ended 31 December 2005	Broking HK$'000	Trading and investment HK$'000	Margin financing and money lending HK$'000	Corporate advisory and underwriting HK$'000	Property investment HK$'000	Corporate and others HK$'000	Eliminations HK$'000	Consolidated HK$'000
Segment revenue:								
Sales to external customers	65,630	6,778	35,109	9,821	2,877	979	–	121,194
Intersegment sales	–	–	3,020	–	–	–	(3,020)	–
Total	65,630	6,778	38,129	9,821	2,877	979	(3,020)	121,194
Segment results	**(5,121)**	**(13,245)**	**4,441**	**(1,317)**	**31,256**	**(5,055)**	**–**	**10,959**
Finance costs								(2,358)
Profit before tax								8,601
Tax								(4,392)
Profit for the year								4,209
Assets and liabilities								
Segment assets	293,898	70,951	232,747	5,864	155,644	6,015		765,119
Unallocated assets								9,882
Total assets								775,001
Segment liabilities	246,978	148	121,385	325	76,436	961		446,233
Unallocated liabilities								5,977
Total liabilities								452,210
Other segment information:								
Depreciation	1,566	86	503	296	22	173	–	2,646
Capital expenditure	1,460	112	216	280	37	–	–	2,105
Fair value gain on an investment property	–	–	–	–	30,000	–	–	30,000
Impairment of loans receivable	1,909	–	9,242	–	–	–	–	11,151

5. TURNOVER AND OTHER REVENUE

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

An analysis of turnover and other revenue is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Turnover		
Commission and brokerage income	82,222	64,150
Profit on trading of securities, bullion and futures contracts, net	11,959	5,855
Dividend income from listed investments	1,346	925
Interest income from loans receivable	35,193	27,805
Interest income from bank and financial institutions	14,359	6,583
Rendering of services	8,211	9,453
Gross rental income	3,583	2,176
	156,873	116,947
Other revenue		
Handling fee income	2,124	1,831
Interest income from an amount due from an intermediate holding company	521	953
Others	1,570	1,463
	4,215	4,247

6. PROFIT BEFORE TAX

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

		Group	
	Notes	**2006** **HK$'000**	2005 HK$'000
Cost of services provided		42,304	26,709
Depreciation	14	2,096	2,646
Auditors' remuneration		1,184	839
Minimum lease payments under operating leases on land and buildings		10,417	8,820
Direct operating expenses (including repairs and maintenance) arising on an rental-earning investment property		1,025	962
Employee benefits expense (including directors' remuneration (note 8)):			
Pension scheme contributions		1,759	1,647
Less: Forfeited contributions		(200)	(104)
Net pension scheme contributions	(a)	1,559	1,543
Wages and salaries		39,700	47,031
Equity-settled share option expenses		6,711	–
		47,970	48,574
Interest expense for margin financing and money lending operations:			
Bank loans and overdrafts wholly repayable within five years		16,697	6,636
Gain on disposal of items of property, plant and equipment, net		–	(23)
Foreign exchange differences, net		(4,626)	(1,541)

Note:

(a) At 31 December 2006, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2005: Nil).

7. FINANCE COSTS

	Group	
	2006	2005
	HK$'000	HK$'000
Interest on:		
Bank loans, overdrafts and other loans wholly repayable within five years	**4,144**	2,321
Finance leases	**18**	37
	4,162	2,358

8. DIRECTORS' REMUNERATION

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

	Group	
	2006	2005
	HK$'000	HK$'000
Fees	**230**	196
Other emoluments:		
Salaries, allowances and benefits in kind	**5,294**	5,196
Discretionary bonuses	**–**	8,000
Share option benefits	**3,696**	–
Pension scheme contributions	**205**	204
	9,195	13,400
	9,425	13,596

During the year, 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 35 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant, and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

8. DIRECTORS' REMUNERATION (Continued)

(a) Independent non-executive directors

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

	2006 HK$'000	2005 HK$'000
Hon. Raymond Arthur William Sears Q.C.	**100**	66
Mr. Tung Woon Cheung, Eric	**50**	50
Mrs. Wong Siu Yin, Elizabeth	**20**	20
	170	136

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

(b) Executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2006						
Executive directors:						
Mr. Ng Hung Sang	**10**	**1,200**	**–**	**–**	**60**	**1,270**
Mr. Richard Howard Gorges	**10**	**1,020**	**–**	**849**	**51**	**1,930**
Ms. Cheung Choi Ngor	**10**	**1,020**	**–**	**849**	**51**	**1,930**
Mr. Chan Hing Wah	**10**	**1,323**	**–**	**594**	**12**	**1,939**
Mr. Ng Chun Sang	**10**	**731**	**–**	**–**	**31**	**772**
Mr. Ng Yuk Yeung, Paul	**10**	**–**	**–**	**1,404**	**–**	**1,414**
	60	**5,294**	**–**	**3,696**	**205**	**9,255**
2005						
Executive directors:						
Mr. Ng Hung Sang	10	1,200	3,000	–	60	4,270
Mr. Richard Howard Gorges	10	1,020	2,500	–	51	3,581
Ms. Cheung Choi Ngor	10	1,020	2,500	–	51	3,581
Mr. Chan Hing Wah	10	1,259	–	–	12	1,281
Mr. Ng Chun Sang	10	697	–	–	30	737
Mr. Ng Yuk Yeung, Paul	10	–	–	–	–	10
	60	5,196	8,000	–	204	13,460

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 three directors (2005: four), details of whose remuneration are disclosed in note 8 above. Details of the remuneration of the remaining two (2005: one) non-director, highest paid employees for the year are as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**3,861**	1,435
Pension scheme contributions	**18**	7
	3,879	1,442

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

	Number of employees	
	2006	2005
HK$1,000,001 – HK$1,500,000	**–**	1
HK$1,500,001 – HK$2,000,000	**1**	–
HK$2,000,001 – HK$2,500,000	**1**	–
	2	1

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2006	2005
	HK$'000	HK$'000
Current – Hong Kong		
Charge for the year	**178**	–
Overprovision/(under provision) in prior years	**2**	(14)
Current – Elsewhere	**85**	90
Deferred (note 21)	**1,093**	4,316
Total tax charge for the year	**1,358**	4,392

10. TAX (Continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the location in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the statutory tax rate to the effective tax rate, are as follows:

	Group			
	2006		2005	
	HK$'000	**%**	HK$'000	%
Profit before tax	**26,679**		8,601	
Tax at the statutory tax rate	**4,669**	**17.5**	1,505	17.5
Higher tax rates on profits arising elsewhere	**68**	**0.3**	(27)	(0.3)
Adjustments in respect of current tax of previous periods	**2**	**0.0**	(14)	(0.2)
Income not subject to tax	**(3,171)**	**(11.9)**	(1,382)	(16.1)
Expenses not deductible for tax	**1,174**	**4.4**	256	3.0
Tax losses not recognised	**1,015**	**3.8**	6,738	78.3
Tax losses utilised from previous periods	**(2,490)**	**(9.3)**	(2,684)	(31.2)
Unrecognised deferred tax assets	**91**	**0.3**	–	–
Tax charge at the Group's effective rate	**1,358**	**5.1**	4,392	51.0

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2006 includes a loss of HK$5,162,000 (2005: HK$19,430,000) which has been dealt with in the financial statements of the Company (note 36(b)).

12. DIVIDEND

	2006	2005
	HK$'000	HK$'000
Proposed final – HK0.4 cents (2005: Nil) per ordinary share	**20,020**	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company of HK$25,300,000 (2005: HK$4,109,000) and the weighted average number of 4,997,876,967 (2005: 4,861,990,940) ordinary shares in issue during the year.

Diluted earnings per share amount for the year ended 31 December 2006 has not been presented as the share options during the year outstanding had no dilutive effect on the basic earnings per share for the year.

No diluted earnings per share had been presented for the year ended 31 December 2005 because the exercise price of the Company's warrants was higher than average market price for shares for the year ended 31 December 2005.

14. PROPERTY, PLANT AND EQUIPMENT

	Group			
	Leasehold improvements HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 31 December 2006				
At 31 December 2005 and at 1 January 2006:				
Cost	16,941	36,208	3,316	56,465
Accumulated depreciation	(15,544)	(33,214)	(3,316)	(52,074)
Net carrying amount	1,397	2,994	–	4,391
At 1 January 2006, net of accumulated depreciation	1,397	2,994	–	4,391
Additions	690	592	–	1,282
Depreciation provided during the year	(758)	(1,338)	–	(2,096)
Exchange realignment	–	3	–	3
At 31 December 2006, net of accumulated depreciation	1,329	2,251	–	3,580
At 31 December 2006:				
Cost	17,730	36,861	3,316	57,907
Accumulated depreciation	(16,401)	(34,610)	(3,316)	(54,327)
Net carrying amount	1,329	2,251	–	3,580
At 31 December 2005				
At 31 December 2004 and at 1 January 2005:				
Cost	16,634	34,849	3,316	54,799
Accumulated depreciation	(15,104)	(31,427)	(3,316)	(49,847)
Net carrying amount	1,530	3,422	–	4,952
At 1 January 2005, net of accumulated depreciation	1,530	3,422	–	4,952
Additions	492	1,613	–	2,105
Disposals	–	(15)	–	(15)
Depreciation provided during the year	(624)	(2,022)	–	(2,646)
Exchange realignment	(1)	(4)	–	(5)
At 31 December 2005, net of accumulated depreciation	1,397	2,994	–	4,391
At 31 December 2005:				
Cost	16,941	36,208	3,316	56,465
Accumulated depreciation	(15,544)	(33,214)	(3,316)	(52,074)
Net carrying amount	1,397	2,994	–	4,391

The net book value of the Group's property, plant and equipment held under finance leases included in furniture and equipment at 31 December 2006 amounted to nil (2005: HK$82,000).

15. INVESTMENT PROPERTY

	Group	
	2006	2005
	HK$'000	HK$'000
Carrying amount at 1 January	**155,000**	125,000
Gain from a fair value adjustment	**7,000**	30,000
Carrying amount at 31 December	**162,000**	155,000

The Group's investment property is situated in Hong Kong and is held under a long term lease. At the balance sheet date, the investment property was pledged to a bank to secure banking facilities granted to the Group (note 32).

The Group's investment property was revalued on 31 December 2006 by BMI Appraisals Limited, independent professional valuers, at HK$162,000,000 on an open market, existing use basis. The investment property is leased to third parties under operating lease arrangements, further details of which are included in note 39(a) to the financial statements.

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

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

16. INTANGIBLE ASSETS

	Group	
	2006	2005
	HK$'000	HK$'000
Cost at 1 January and at 31 December, net of accumulated amortisation	**836**	836
At 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 directors, are having indefinite useful life.

Pursuant to the restructuring of the Stock Exchange and the Hong Kong Futures Exchange Limited(the "Futures Exchange"), effective on 6 March 2000, the Group received four Stock Exchange Trading Rights, the 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 under the accounting policy as set out in note 2.4 to the financial statements.

17. OTHER ASSETS

	Group 2006 HK$'000	Group 2005 HK$'000
Membership in Chinese Gold and Silver Exchange	**1,280**	1,280
Statutory deposits in respect of securities and commodities dealings	**5,276**	4,236
Club debentures	**360**	360
	6,916	5,876

The carrying amounts of the Group's other assets approximate to their fair values.

18. INTERESTS IN SUBSIDIARIES

	Company 2006 HK$'000	Company 2005 HK$'000
Unlisted shares, at cost	**111,294**	100,904
Amounts due from subsidiaries	**472,827**	466,870
Amounts due to subsidiaries	**(856)**	(856)
	583,265	566,918
Impairment	**(296,500)**	(296,500)
	286,765	270,418

The amounts due from and to subsidiaries included in the Company's non-current assets are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the amounts due from and to subsidiaries approximate to their fair values.

Particulars of the principal subsidiaries are as follows:

Name of Company	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company 2006	Percentage of equity attributable to the Company 2005	Principal activities
Polyluck Trading Limited	Hong Kong	HK$2	**100**	100	Property investment
South China Capital Limited	Hong Kong	HK$10,000,000	**100**	100	Provision of corporate advisory services
South China Commodities Limited	Hong Kong	HK$10,000,000	**100**	100	Commodities broking
South China Finance Company Limited	Hong Kong	HK$1,000,000	**100**	100	Provision of loan financing

18. 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 2006	2005	Principal activities
South China Finance And Management Limited	Hong Kong	HK$2	**100**	100	Shares dealings and provision of management services
South China Finance (Nominees) Limited	Hong Kong	HK$2	**100**	100	Provision of nominee services
South China Financial Credits Limited	Hong Kong	HK$42,125,000	**98.36**	97.44	Money lending
South China Fund Management Limited	Hong Kong	HK$600,000	**100**	100	Asset management
South China Precious Metal Limited	Hong Kong	HK$2	**100**	100	Bullion broking
South China Research Limited	Hong Kong	HK$600,000	**100**	100	Research publication
South China Securities Limited	Hong Kong	HK$10,000,000	**100**	100	Securities broking, margin financing and provision of underwriting services
South China Securities (UK) Limited*	United Kingdom	GBP200,000	**100**	100	Securities broking
廣州南華四海咨詢有限公司**	People's Republic of China/Mainland China	HK$100,000	**100**	100	Provision of corporate advisory services
南又華投資咨詢(上海)有限公司**	People's Republic of China/Mainland China	US$150,000	**100**	100	Provision of corporate advisory services

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

** 廣州南華四海咨詢有限公司 and 南又華投資咨詢(上海)有限公司 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 and南又華投資咨詢(上海)有限公司, 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.

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2006	2005
	HK$'000	HK$'000
Listed equity investments in Hong Kong, at fair value	**23,193**	12,345

During the year, the fair value loss of the Group's available-for-sale financial assets recognised directly in equity amounted to HK$301,000 (2005: HK$2,113,000), and a gain of HK$540,000 (2005: HK$68,000) was released from equity upon disposal of the investments and recognised in the income statement.

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

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

The market value of the Group's listed equity investments at the date of approval of these financial statements was approximately HK$47,329,000.

20. LOANS RECEIVABLE

The Group's loans receivable arose from margin financing and money lending operations.

The Group allows a credit period mutually agreed with the contracting parties. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding loans receivable and has a credit control department to minimise credit risk. Loans for margin financing are secured by the pledge of customers' securities as collateral. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's loans and advances relate to a large number of diversified customers, there is no significant concentration of credit risk. Loans receivable are interest-bearing at a rate mutually agreed with the contracting parties.

	Group	
	2006	2005
	HK$'000	HK$'000
Loans receivable	**353,512**	289,772
Impairment	**(139,807)**	(130,967)
	213,705	158,805
Market value of collateral at 31 December	**933,550**	656,388

At 31 December 2006, certain listed equity securities provided by fellow subsidiaries and clients of approximately HK$158,294,000 (2005: HK$128,737,000) as collateral were pledged to banks to secure banking facilities granted to the Group (note 32).

The carrying amounts of the Group's loans and advances approximate to their fair values.

20. LOANS RECEIVABLE (Continued)

The loans receivable at the balance sheet date are analysed by the remaining periods to their contractual maturity dates as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Repayable:		
On demand	**184,578**	124,170
Within 3 months	**8,243**	10,443
3 months to 1 year	**14,905**	17,791
1 to 5 years	**5,979**	6,401
	213,705	158,805
Portion classified as current assets	**(207,726)**	(152,404)
Portion classified as non-current assets	**5,979**	6,401

21. DEFERRED TAX

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

Deferred tax liabilities

2006

	Group			
	Loss available for offset against future taxable profits HK$'000	**Depreciation allowance in excess of related depreciation HK$'000**	**Revaluation of properties HK$'000**	**Total HK$'000**
At 1 January 2006	**(4,015)**	**2,405**	**5,930**	**4,320**
Deferred tax charged/(credited) to the income statement during the year (note 10)	**(399)**	**266**	**1,225**	**1,092**
At 31 December 2006	**(4,414)**	**2,671**	**7,155**	**5,412**

2005

	Loss available for offset against future taxable profits HK$'000	Depreciation allowance in excess of related depreciation HK$'000	Revaluation of properties HK$'000	Total HK$'000
At 1 January 2005	(2,819)	2,139	680	–
Deferred tax charged/(credited) to the income statement during the year (note 10)	(1,196)	266	5,250	4,320
At 31 December 2005	(4,015)	2,405	5,930	4,320

21. DEFERRED TAX (Continued)

Deferred tax assets

2006

	Group		
	Provision HK$'000	**Depreciation in excess of related depreciation allowance** HK$'000	**Total** HK$'000
At 1 January 2006	2,765	23	2,788
Deferred tax charged to the income statement during the year (note 10)	–	(1)	(1)
At 31 December 2006	2,765	22	2,787

2005

	Provision HK$'000	Depreciation in excess of related depreciation allowance HK$'000	Total HK$'000
At 1 January 2005	2,765	27	2,792
Deferred tax charged to the income statement during the year (note 10)	–	(4)	(4)
At 31 December 2005	2,765	23	2,788

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

	Group		Company	
	2006 **HK$'000**	2005 HK$'000	**2006** **HK$'000**	2005 HK$'000
Tax losses	**314,176**	335,486	**382**	468
Deductible temporary differences	**5,536**	3,237	**563**	611
	319,712	338,723	**945**	1,079

The above tax losses are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

As at 31 December 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

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	
	2006	2005
	HK$'000	HK$'000
Listed equity investments, at market value:		
Hong Kong	**81,162**	58,195

The above financial assets at 31 December 2006 were classified as held for trading, of which approximately HK$49,839,000 (2005: HK$33,611,000) were pledged to banks to secure banking facilities granted to the Group (note 32).

The market value of the Group's listed equity investments at the date of approval of these financial statements was approximately HK$82,606,000.

23. TRADE RECEIVABLES

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

The Group allows a credit period up to the respective settlement dates of securities, bullion and commodities transactions or a credit period mutually agreed with the contracting parties. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Overdue trade receivables bear interest by reference to the prime rate.

The carrying amounts of the Group's trade receivables approximate to their fair values.

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

	Group	
	2006	2005
	HK$'000	HK$'000
Current to 90 days	**69,811**	43,539

24. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deposits and other receivables	**13,099**	10,559	**–**	587
Prepayments	**1,598**	1,470	**449**	458
	14,697	12,029	**449**	1,045

The carrying amounts of the Group's and Company's other receivables, prepayments and deposits approximate to their fair values.

25. AMOUNT DUE FROM AN INTERMEDIATE HOLDING COMPANY

The amount due from Tek Lee Finance and Investment Corporation Limited was unsecured, bore interest at the Hong Kong dollar prime rate (2005: the Hong Kong dollar prime rate) per annum and had no fixed terms of repayment.

26. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

		Group		Company	
		2006	2005	**2006**	2005
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Cash and bank balances		**59,507**	58,947	**135**	161
Time deposits		**42,250**	18,250	**–**	–
		101,757	77,197	**135**	161
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)	**–**	–
Pledged for bank overdraft facilities	32	**(250)**	(250)	**–**	–
		(5,750)	(5,750)	**–**	–
Cash and cash equivalents		**96,007**	71,447	**135**	161

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$639,978 (2005: HK$674,000). The 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. The carrying amounts of the cash and cash equivalents and the pledged time deposits approximate to their fair values.

27. CASH HELD ON BEHALF OF CLIENTS

The Group maintains segregated trust accounts with licensed banks to hold 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 balance sheet and recognised the corresponding accounts payable to respective clients on grounds that it is liable for any loss or misappropriation of clients' monies. The Group is not allowed to use the clients' monies to settle its own obligations.

28. CLIENT DEPOSITS

The Group's client deposits arose from securities, bullion and commodities dealings.

The client deposits are unsecured, bear interest at bank deposit saving rate (2005: bank deposit saving rate) and are repayable on demand.

Included in client deposits are deposits from fellow subsidiaries, directors of a fellow subsidiary and directors of the ultimate holding company of HK$2,133,000 (2005: Nil), HK$44,000 (2005: HK$2,555,000) and HK$7,176,000 (2005: HK$4,891,000), respectively, which are subject to similar terms offered by the Group to its major clients.

The carrying amounts of the Group's client deposits approximate to their fair values.

29. TRADE PAYABLES

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

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

	Group	
	2006	2005
	HK$'000	HK$'000
Current to 30 days	**85,669**	61,672

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

The carrying amounts of the Group's trade payables approximate to their fair values.

30. OTHER PAYABLES AND ACCRUALS

	Group		**Company**	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deferred income	**197**	32	**–**	–
Other payables	**8,456**	6,345	**50**	335
Accruals	**1,397**	938	**–**	–
	10,050	7,315	**50**	335

Other payables are non-interest-bearing and have an average term of three months. The Group's and the Company's other payables and accruals approximate to their fair values.

31. OBLIGATION UNDER FINANCE LEASES

The Group leases certain office equipment for its business operations. These leases are classified as finance leases and have a remaining lease term of 4 months (2005: 16 months).

At 31 December 2006, the total future minimum lease payments under finance leases and their present values were as follows:

	Group			
	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Obligation under finance leases:				
Within one year	**81**	242	**79**	223
In the second year	**–**	80	**–**	79
Total minimum finance lease payments	**81**	322	**79**	302
Future finance charges	**(2)**	(20)		
Total net finance lease payables	**79**	302		
Portion classified as current Liabilities (note 32)	**(79)**	(223)		
Non-current portion (note 32)	**–**	79		

32. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group **2006** **HK$'000**	Group 2005 HK$'000
Current				
Obligation under finance leases (note 31)	9.0	2007	**79**	223
Bank overdrafts – secured	6.5 – 9.8	On demand	**4,335**	–
Bank loans – secured	4.1 – 6.7	2007	**127,875**	48,483
Bank loans – unsecured	6.0 – 8.8	2007	**39,742**	50,178
			172,031	98,884
Non-current				
Obligation under finance leases (note 31)	9.0	2007	**–**	79
Bank loans – secured	5.0 – 5.8	2008-2014	**44,857**	50,736
Bank loans – unsecured	6.0 – 6.6	2008-2010	**1,339**	2,080
			46,196	52,895
			218,227	151,779

32. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

	Group	
	2006	2005
	HK$'000	HK$'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	**171,952**	98,661
In the second year	**6,962**	6,516
In the third to fifth years, inclusive	**21,039**	20,700
Beyond five years	**18,195**	25,600
	218,148	151,477
Other borrowings repayable:		
Within one year	**79**	223
In the second year	**–**	79
	79	302
	218,227	151,779

Notes:

(a) The Group's overdraft facilities amounting to HK$81,000,000 (2005: HK$75,000,000), of which HK$4,335,000 (2005: Nil) had been utilised as at the balance sheet date, are secured by the pledge of certain of the Group's time deposits amounting to HK$250,000 (2005: HK$250,000) (note 26).

(b) Certain of the Group's bank loans are secured by the Group's investment property situated in Hong Kong, which had an aggregate carrying value at the balance sheet date of approximately HK$162,000,000 (2005: HK$155,000,000) (note 15).

In addition, listed equity investments belonging to the Group, fellow subsidiaries and clients totalling approximately HK$208,133,000 (2005: HK$162,348,000) were pledged to banks to secure banking facilities granted to a subsidiary of the Group at the balance sheet date (notes 20 and 22).

(c) All borrowings are in Hong Kong dollars.

Other interest rate information:

	Group			
	2006		2005	
	Fixed rate HK$'000	**Floating rate HK$'000**	Fixed rate HK$'000	Floating rate HK$'000
Finance lease payables	**79**	**–**	302	–
Bank overdrafts	**–**	**4,335**	–	–
Bank loans – secured	**–**	**172,732**	–	99,219
Bank loans – unsecured	**–**	**41,081**	–	52,258

The carrying amounts of the Group's bank and other borrowings approximate to their fair values. The fair value of bank and other borrowings was estimated to be the present value of future cash flows, discounted at prevailing interest rates at 31 December 2006.

33. 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 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 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.

The carrying amount of the Company's subordinated loan to the subsidiary approximates to its fair value.

34. SHARE CAPITAL

Shares

	2006 **HK$'000**	2005 HK$'000
Authorised:		
8,000,000,000 (2005: 8,000,000,000) ordinary shares of HK$0.025 each	**200,000**	200,000
Issued and fully paid:		
5,004,890,940 (2005: 4,861,990,940) ordinary shares of HK$0.025 each	**125,122**	121,550

During the year, 142,900,000 shares of HK$0.025 each were issued for cash at a subscription price of HK$0.1012 per share pursuant to the exercise of the Company's warrants for a total cash consideration, before expenses, of HK$14,461,000.

A summary of the transactions during the year with reference to the above movements in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	**Issued share capital** HK$'000	**Share premium account** HK$'000	**Total** HK$'000
At 1 January 2005 and 1 January 2006	4,861,990,940	121,550	201,674	323,224
Warrants exercised	142,900,000	3,572	10,889	14,461
At 31 December 2006	5,004,890,940	125,122	212,563	337,685

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 35 to the financial statements.

34. SHARE CAPITAL (Continued)

Warrants

On 2 March 2005, the Company issued 970,000,000 warrants of HK$0.026 each. Each warrant entitled the holder thereof to subscribe for one ordinary share of HK$0.025 at a subscription price of HK$0.1012 per warrant, payable in cash and subject to adjustment, from the date of issue to 2 March 2006.

During the year, 142,900,000 warrants were exercised at a share price of HK$0.1012. Accordingly, a portion of the warrant reserve, amounting to HK$3,715,000, was transferred to the share premium account. The remaining unexercised warrants lapsed on 2 March 2006, resulting in the transfer of warrant reserve of HK$21,505,000 to retained profits (note 36(b)).

35. SHARE OPTION SCHEME

The Directors and employees of the Company and its subsidiaries are entitled to participate in the share option scheme operated by the Company (the "Share Option Scheme"). Details of the Share Option Scheme are as follows:

(i) Summary of the Share Option Scheme

(1) Purpose of the Share Option Scheme

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

(2) Participants of the Share Option Scheme

According to the Share Option Scheme, the board may, at its absolute discretion, grant 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 directors (including any independent non-executive directors) 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;

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

35. SHARE OPTION SCHEME (Continued)

(i) Summary of the Share Option Scheme (Continued)

(2) Participants of the Share Option Scheme (Continued)

(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 Share Option Scheme

The maximum number of shares in respect of which share options may be granted under the Share Option Scheme is 486,193,674 shares of the Company, being 10% of the issued share capital of the Company as at 31 May 2002, the date of the annual general meeting of the Company approving the Share Option Scheme.

As at 31 December 2006, the Company had 238,000,000 share options outstanding under the 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 238,000,000 additional ordinary shares of the Company and additional share capital of HK$5,950,000 and share premium of HK$24,514,000 (before issue expenses).

During the year ended 31 December 2006, no share options were exercised by the grantees pursuant to the Share Option Scheme.

Subsequent to the balance sheet date, there were movements in the share options as follows:

(i) on 19 January 2007 and 13 February 2007, 21,000,000 and 6,000,000 share options granted to a Director and an employee, respectively, during the year were lapsed after their resignation;

(ii) on 16 February 2007, 50,000,000 share options were granted to a Director of the Company in respect of his service to the Group in the forthcoming year subject to a vesting period and becoming exercisable in the manner as disclosed in Note* below. The price of the Company's shares at the date of the grant was HK$0.092 per share.

At the date of approval of these financial statements and the date of this annual report, a total of 225,193,674 shares of the Company are available for issue and 261,000,000 share options are outstanding under the Share Option Scheme, which represent approximately 4.5% and 5.2% of the Company's shares in issue as at that date, respectively.

(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 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 provide restrictions on the exercise of a share option during the period a share option may be exercised.

35. SHARE OPTION SCHEME (Continued)

(i) Summary of the Share Option Scheme (Continued)

(6) Minimum period, if any, for which an option must be held before it can be exercised

There is no specific requirement under the Share Option Scheme that an option must be held for any minimum period before it can be exercised, but the terms of the 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 option.

(8) Basis of determining the exercise price of the option

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 quotations sheet on the date of offer; (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; and (iii) the nominal value of the Company's shares.

(9) Remaining Life of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which it became unconditional on 28 June 2002.

(ii) Details of Options Granted

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

	Number of share options									Price of the Company's shares ***	
Name or category of participant	Outstanding as at 1 January 2006	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31 December 2006	Date of grant of share options*	Exercise period of share options	Subscription price per share** HK$	Immediately preceding the grant date of share options HK$ per share	Immediately preceding the exercise date of share options HK$ per share
Directors											
Ms. Cheung Choi Ngor	–	10,000,000	–	–	–	10,000,000	16 Mar 06	16 Mar 07 – 15 Mar 09	0.128	0.104	N/A
	–	10,000,000	–	–	–	10,000,000	16 Mar 06	16 Mar 08 – 15 Mar 10	0.128	0.104	N/A
	–	10,000,000	–	–	–	10,000,000	16 Mar 06	16 Mar 09 – 15 Mar 11	0.128	0.104	N/A
Mr. Ng Yuk Yeung, Paul	–	10,000,000	–	–	–	10,000,000	16 Mar 06	16 Mar 07 – 15 Mar 09	0.128	0.104	N/A
	–	10,000,000	–	–	–	10,000,000	16 Mar 06	16 Mar 08 – 15 Mar 10	0.128	0.104	N/A
	–	10,000,000	–	–	–	10,000,000	16 Mar 06	16 Mar 09 – 15 Mar 11	0.128	0.104	N/A
	–	6,666,667	–	–	–	6,666,667	26 Apr 06	26 Apr 07 – 25 Apr 09	0.128	0.110	N/A
	–	6,666,667	–	–	–	6,666,667	26 Apr 06	26 Apr 08 – 25 Apr 10	0.128	0.110	N/A
	–	6,666,666	–	–	–	6,666,666	26 Apr 06	26 Apr 09 – 25 Apr 11	0.128	0.110	N/A
Mr. Richard Howard Gorges	–	10,000,000	–	–	–	10,000,000	16 Mar 06	16 Mar 07 – 15 Mar 09	0.128	0.104	N/A
	–	10,000,000	–	–	–	10,000,000	16 Mar 06	16 Mar 08 – 15 Mar 10	0.128	0.104	N/A
	–	10,000,000	–	–	–	10,000,000	16 Mar 06	16 Mar 09 – 15 Mar 11	0.128	0.104	N/A
Mr. Chan Hing Wah #	–	7,000,000	–	–	–	7,000,000	16 Mar 06	16 Mar 07 – 15 Mar 09	0.128	0.104	N/A
	–	7,000,000	–	–	–	7,000,000	16 Mar 06	16 Mar 08 – 15 Mar 10	0.128	0.104	N/A
	–	7,000,000	–	–	–	7,000,000	16 Mar 06	16 Mar 09 – 15 Mar 11	0.128	0.104	N/A
Sub-total	–	131,000,000	–	–	–	131,000,000					

Notes to Financial Statements

31 December 2006

35. SHARE OPTION SCHEME (Continued)

(ii) Details of Options Granted (Continued)

	Number of share options									Price of the Company's shares ***	
Name or category of participant	Outstanding as at 1 January 2006	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31 December 2006	Date of grant of share options*	Exercise period of share options	Subscription price per share** HK$	Immediately preceding the grant date of share options HK$ per share	Immediately preceding the exercise date of share options HK$ per share
Employees											
In aggregate ##	–	29,000,000	–	–	–	29,000,000	16 Mar 06	16 Mar 07 – 15 Mar 09	0.128	0.104	N/A
	–	29,000,000	–	–	–	29,000,000	16 Mar 06	16 Mar 08 – 15 Mar 10	0.128	0.104	N/A
	–	29,000,000	–	–	–	29,000,000	16 Mar 06	16 Mar 09 – 15 Mar 11	0.128	0.104	N/A
	–	6,666,667	–	–	–	6,666,667	26 Apr 06	26 Apr 07 – 25 Apr 09	0.128	0.110	N/A
	–	6,666,667	–	–	–	6,666,667	26 Apr 06	26 Apr 08 – 25 Apr 10	0.128	0.110	N/A
	–	6,666,666	–	–	–	6,666,666	26 Apr 06	26 Apr 09 – 25 Apr 11	0.128	0.110	N/A
Sub-total	–	107,000,000	–	–	–	107,000,000					
Total	–	238,000,000	–	–	–	238,000,000					

Notes:

* All share options granted are subject to a vesting period and becoming exercisable in the following manner:

From the date of grant of share options	*Exercisable percentage* %
Within 12 months	Nil
13th month – 36th month	33 1/3
25th month – 48th month	33 1/3
37th month – 60th month	33 1/3

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

** 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.

*** The price of the Company's shares disclosed as immediately preceding the grant date of the share options is the closing price of the shares on the Stock Exchange on the trading day immediately prior to the date of the grant of the share options. The price of the Company's shares disclosed immediately preceding the exercise date of the share options is the weighted average of the closing prices of the shares on the Stock Exchange immediately before the date on which the options were exercised.

Subsequent to the balance sheet date on 19 January 2007, 21,000,000 share options granted to Mr. Chan Hing Wah, who resigned as a Director on 19 December 2006, during the year were lapsed after his resignation.

Subsequent to the balance sheet date on 13 February 2007, 6,000,000 share options granted to an employee, who resigned on 13 January 2007, during the year were lapsed after his resignation.

The fair value of the share options granted during the year was HK$14,886,000 of which the Group recognised a share option expense of HK$6,711,000 during the year ended 31 December 2006.

35. SHARE OPTION SCHEME (Continued)

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2006:

Date of grant	16 March 2006	26 April 2006
Dividend yield (%)	0.00	0.00
Average expected volatility (%)	85.32	85.54
Average historical volatility (%)	85.32	85.54
Average risk-free interest rate (%)	4.27	4.49
Expected life of option (year)	3 – 5	3 – 5
Closing share price (HK$)	0.103	0.115

The expected life of the options is based on the contractual life and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

36. 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 23 of the financial statements.

(b) Company

	Notes	Share premium account HK$'000	Capital redemption reserve HK$'000	Share option reserve HK$'000	Warrant reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2005		201,674	1,601	–	–	(9,326)	193,949
Loss for the year		–	–	–	–	(19,430)	(19,430)
Issue of warrants	34	–	–	–	25,220	–	25,220
At 31 December 2005 and 1 January 2006		201,674	1,601	–	25,220	(28,756)	199,739
Loss for the year	11	–	–	–	–	(5,162)	(5,162)
Issue of shares upon exercise of warrants	34	10,889	–	–	–	–	10,889
Transfer of warrant reserve to share premium account upon exercise of warrants	34	3,715	–	–	(3,715)	–	–
Transfer of warrant reserve to accumulated losses upon the expiry of unexercised warrants	34	–	–	–	(21,505)	21,505	–
Equity-settled share option arrangements	35	–	–	6,711	–	–	6,711
Proposed final 2006 dividend		–	–	–	–	(20,020)	(20,020)
At 31 December 2006		216,278	1,601	6,711	–	(32,433)	192,157

36. RESERVES (Continued)

Subsequent to the balance sheet date on 29 March 2007, certain subsidiaries of the Company declared interim dividends aggregating HK$34,000,000 to the Company.

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 should the related options expire or be forfeited.

37. PLEDGE OF ASSETS

Details of the Group's bank loans and overdrafts which are secured by the assets of the Group are included in notes 32 to the financial statements.

38. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements are as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to certain financial institutions in connection with commodities and bullion trading facilities granted to subsidiaries	–	–	–	11,953
Guarantees given to banks in connection with banking facilities granted to subsidiaries	–	–	845,910	514,910

At the balance sheet date, 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$218,148,000 (2005: HK$154,258,000).

39. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment property (note 15) under several operating lease arrangements, with the leases negotiated for terms ranging from two to three years. The terms of the leases generally also require the tenants to pay security deposits.

At 31 December 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within one year	**6,052**	559
In the second to fifth years, inclusive	**3,089**	–
	9,141	559

39. OPERATING LEASE ARRANGEMENTS (Continued)

(b) As lessee

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

At 31 December 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within one year	**9,938**	9,674
In the second to fifth years, inclusive	**7,215**	11,198
	17,153	20,872

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	**2006** HK$'000	2005 HK$'000
Consulting and service fees paid to a fellow subsidiary*:	(i)		
E-business service fee		**980**	980
Advertising and promotional fee		**980**	980
Commission and brokerage income received from:	(ii)		
Fellow subsidiaries*		**295**	490
Directors and companies in which certain directors have beneficial interests*		**1,205**	1,041
Interest income received from:			
An intermediate holding company*	(iii)	**521**	953
Fellow subsidiaries*	(iv)	**1,285**	–
Directors and companies in which certain directors have beneficial interests*	(iv)	**1,678**	458
Rental expenses paid to fellow subsidiaries*	(v)	**442**	368

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

40. RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

Notes:

(i) Consulting and service fees relate to the advisory and management services provided by a fellow subsidiary for e-commerce consultation and marketing and promotional services. These fees were calculated based on terms mutually agreed by the contracting parties.

(ii) Commission and brokerage income relates to the Group's securities broking business and was calculated by reference to commission and brokerage fees charged to third parties.

(iii) Interest income relates to cash advances to an intermediate holding company, details of which are set out in note 25 to the financial statements.

(iv) Interest income relates to the Group's margin financing business and was calculated at 4% over the Hong Kong dollar prime rate (2005: 4% over the Hong Kong dollar prime rate) per annum.

(v) Rental expenses relate to the leasing of certain office premises from fellow subsidiaries and were calculated by reference to market rental.

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

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

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include investments in equity securities, borrowings, trade receivables and trade payables. Details of these financial instruments are disclosed in the respective notes. The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. Management manages and monitors these exposures to ensure that appropriate measures are implemented on a timely and effective manner, and minimise potential adverse effects on the Group's financial performance.

Market risk

(i) Currency risk

Currency risk is the risk of loss due to adverse movements in foreign exchange rates relating to investments denominated in foreign currencies. The Group's principal businesses are conducted and recorded in Hong Kong dollars. The Group's assets and liabilities are primarily denominated in Hong Kong dollars. When seeking to optimise the returns on its funds available for investment, the Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Since the impact of foreign exchange exposure is minimal, no hedging against foreign currency exposure has been carried out by management.

(ii) Fair value Interest rate risk

Short-term floating rate bank loans, which are HIBOR-based, are used to fund margin financings of the securities brokerage business that are typically prime-based. The principal risk lies with the interest rate differential between the interbank rate and the best lending rate. The Group mitigates the risk by monitoring the interest rate gap between short-term bank loans and margin financing facilities, and revises the margin financing rate if necessary.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk (Continued)

(iii) Price risk

Price risk represents the possibilities of changes in fair value or future cash flows due to changes in market prices. The Group is exposed to equity security price risk through its available-for-sale financial assets and financial assets at fair value through profit or loss. The Group is not exposed to commodity price risk. Management monitors this exposure by maintaining a portfolio of investments with different risk profiles and the Investment Committee meets on an ad hoc basis to review the investments held by the Group in order to minimise the price risk.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise credit risk, management of the Group has delegated a team responsible for the determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts due from cash clients and loans due from margin clients with collateral shortfalls. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment is made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

Bank balances are placed in various authorised institutions, and the Company's Directors consider the credit risk for such is minimal.

Liquidity risk

Internally generated cash flow and bank borrowings are the general sources of funds to finance the operations of the Group. The majority of the Group's banking facilities are subject to floating rate and are renewable annually. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations. The Group aims to maintain flexibility in funding by keeping committed credit lines available and sufficient bank deposits to meet its short term cash requirements. The Group's liquidity risk management includes making available standby banking facilities and diversifying the funding sources.

42. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date on 26 February 2007, the name of the Company has been changed from "South China Brokerage Company Limited" to "South China Financial Holdings Limited".

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 03 April 2007.