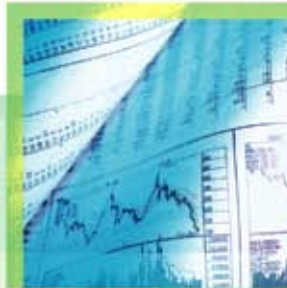




# South China Financial Holdings Limited

Incorporated in Hong Kong with limited liability

Stock Code : 619



**ANNUAL REPORT 2007**

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# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. Ng Hung Sang (*Chairman*)  
Mr. Richard Howard Gorges (*Vice-chairman*)  
Ms. Cheung Choi Ngor (*Vice-chairman*)  
Mr. Ng Chun Sang  
Mr. Ng Yuk Yeung, Paul

### Independent Non-executive Directors

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

### AUDIT COMMITTEE

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

### REMUNERATION COMMITTEE

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

### COMPANY SECRETARY

Mrs. Sin Li Mei Wah, Jenifer

### REGISTERED OFFICE

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

### AUDITORS

Ernst & Young  
Certified Public Accountants

## BANKERS

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

## SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited  
Rooms 1901-02, Fook Lee Commercial Centre  
Town Place, 33 Lockhart Road  
Wanchai, Hong Kong

## STOCK CODE

619

## WEBSITE

<http://www.sctrade.com>

# Chairman's Statement and Management Discussion and Analysis

I am pleased to report the activities of South China Financial Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2007.

## **BUSINESS REVIEW**

Benefiting from the record high daily trading turnover in the local stock market together with the substantial increase in the number of initial public offers listing on the Hong Kong Stock Exchange, we experienced an unprecedented robust financial market in the year 2007. The Group achieved a turnover of HK\$286.0 million and a profit attributable to equity holders of the Company of HK\$199.5 million for the year 2007. This represents an increase of 82% in turnover and 689% in profit as compared to HK\$156.9 million and HK\$25.3 million respectively in the previous year.

## **DIVIDEND**

The Board propose the payment of a final dividend of 0.6 HK cent (2006: 0.4 HK cent) per share, totaling approximately HK\$30,172,000 (2006: HK\$20,020,000) in respect of the year ended 31 December 2007 to the shareholders whose names appear on the register of members of the Company on 20 May 2008. This, together with the interim dividend of 0.4 HK cent per share paid on 25 September 2007, will give a total dividend of 1.0 HK cent per share for the whole year. The final dividend will be paid on or about 3 June 2008.

## **OPERATION REVIEW**

### **Securities broking, trading and investment**

The strong stock market sentiment boosted the Group's rise in commission income from the securities and futures broking business. The segment recorded a high level of revenue of HK\$162.4 million and a profit of HK\$45.4 million for 2007, that was an increase of 92% in revenue and 368% increase in profit over the results in the year 2006.

During the year, the Group made a gain of HK\$72.4 million on disposal of available-for-sale financial assets. At the year-end, a fair value loss of financial assets at fair value through profit or loss was booked for the amount of HK\$12.3 million. At balance sheet date, the Group held HK\$186.5 million financial assets at fair value through profit or loss while all available-for-sale financial assets were disposed of during the year.

### **Margin financing and money lending**

Revenue from this sector rose from HK\$49.4 million in 2006 to HK\$69.7 million in 2007, resulting in a profit of HK\$57.1 million (including the increase in market value of collateral from margin clients) for 2007, a 323% increase from HK\$13.5 million of last year due to the great demand for share financing in an actively traded market.

Our loan and advances portfolio for margin financing and personal loans increased by 18% to HK\$252.5 million by the end of the year.

### **Corporate advisory and underwriting**

Income from this sector rose slightly over the previous year, but with more extensive recruitment in qualified professionals to join our corporate finance team and expansion cost on investing new offices in the major cities in the PRC market, higher operating costs were incurred during last year. The sector reported a loss HK\$10.4 million in 2007 compared to a loss of HK\$3.7 million in the previous year.

According to the 4th Quarter M&A Financial Advisory Review conducted by Thomson Financial, South China Capital Limited has been ranked No. 13 based on number of merger and acquisition transactions in Asia (ex-Japan) for the year ended 31 December 2007. In addition, according to the 4th Quarter Mid-Market M&A Review conducted by Thomson Financial, South China Capital Limited has been ranked No. 2 based on value and number of merger and acquisition transactions in Hong Kong valued up to US\$100 million for the year ended 31 December 2007.

# Chairman's Statement and Management Discussion and Analysis

## Property Investment and others

The rising trend in local property market sustained a growth in rental income for our investment property of Lippo Centre at the Central District. It reported an increase in gross rental income of 56% to HK\$5.6 million for 2007. A gain of HK\$47.1 million was reported on revaluation at the year-end.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group has obtained facilities which are renewable on a yearly basis from a number of banks. The facilities for the share margin finance operations are secured by the securities of margin clients and the Group. The facilities for the money lending operations are clean loans. All the facilities are guaranteed by the Company.

As at 31 December 2007, the Group's long term bank borrowings apart from those for share margin finance business and personal loan business amounted to HK\$54.0 million (2006: HK\$46.2 million), which, when related to the Group's equity of HK\$539.2 million (2006: HK\$368.1 million), represents a gearing ratio of approximately 10.0% (2006: 12.6%).

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group had no significant exposure to fluctuations in exchange rates and any related hedges as at 31 December 2007.

## ISSUE OF BONUS WARRANTS

The Company issued 1,005,678,188 warrants which entitle the holders thereof to subscribe at any time during the period from 23 October 2007 to 22 October 2008 for fully paid shares of the Company at an initial subscription price of HK\$0.168 per share on the basis of one bonus warrant for every five shares held by the shareholders of the Company on 12 October 2007.

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

The Group had no material acquisitions and disposals of subsidiaries and associates for the year ended 31 December 2007.

## CHARGES ON ASSETS

As at 31 December 2007, the Group's leasehold land and building and investment properties were pledged to a bank for installment and revolving loan facilities.

## CONTINGENT LIABILITIES

As at 31 December 2007, the Group had no material contingent liabilities.

## INVESTMENTS

For the year ended 31 December 2007, the Group's portfolio of Hong Kong listed securities increased mainly due to net addition during the year.

## EMPLOYEES

As at 31 December 2007, the total number of employees of the Group was approximately 171 (31 December 2006: approximately 181). Employee's cost (including directors' emoluments) amounted to approximately HK\$69 million for the year (2006: approximately HK\$48 million).

# Chairman's Statement and Management Discussion and Analysis

The Group considers its employees as its most valuable asset. Apart from salary payment, other staff benefits include medical subsidies, life insurance, provident fund and subsidized external training. Continuous Professional Training will continue to be arranged for those staff registered with the Securities and Futures Commission. Performance of the employees is normally reviewed on an annual basis with adjustment compatible to the market. Individual employee may also receive a discretionary bonus at the end of each year based on performance. The Company adopted an employee share option scheme on 31 May 2002 which became effective on 28 June 2002.

## PROSPECTS

The market sentiment has been clearly affected by the aftermath of the sub-prime crisis in the US financial market since the end of last year. Its impact has been going deeper and more extensive than would have generally been expected as affecting the global stock market. It is hard to expect the subsequent negative effects to disappear in a short period of time.

On the other hand, the China Central Government has already announced that they are determined in continuing to implement necessary macro-policies to control inflation and to cool down the overheated market. This coupled with some large size fund-raising activities in the China A-shares market is believed to further adversely affect the investors' sentiment, in particular on H-shares companies listed in the local stock market. We expect the Hong Kong stock market will continue to be very volatile this year.

Notwithstanding the above factors, we still expect a double-digit economic growth in Mainland China, which in turn will benefit the financial market of Hong Kong in the medium to long run. The Group is now in the progress of establishing a leasing company in Nanjing, the PRC. With a well-managed risk policy and appropriate cost control measures, we remain cautiously optimistic in meeting any challenges in the year 2008.

## CLOSURE OF REGISTER FOR ENTITLEMENT TO FINAL DIVIDEND

The register of members of the Company will be closed from 14 May 2008 to 20 May 2008, both days inclusive, during which period no share transfers will be registered. To qualify for the final dividend, all transfers accompanied by the relevant share certificates of the Company or in the case of warrant holders of the Company all subscription forms accompanied by the relevant warrant certificates and exercise money, must be lodged for registration with the Company's Share Registrar, Union Registrars Limited of Rooms 1901-02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong not later than 4:00 p.m. on 13 May 2008.

## APPRECIATION

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

**Ng Hung Sang**  
Chairman

Hong Kong, 18 March 2008

# Directors' Biographical Details

## EXECUTIVE DIRECTORS

**Mr. Ng Hung Sang**, aged 58, is an Executive Director and the Chairman of the Company, Mr. Ng is also an executive director and the chairman of South China Holdings Limited ("SCH"), South China (China) Limited (formerly known as "South China Industries Limited") ("SCC") and South China Land Limited 南華置地有限公司 ("SCL"). He holds a Master degree in marketing from Lancaster University in the United Kingdom and is a fellow member of the Chartered Institute of Management Accountants. He is a brother of Mr. Ng Chun Sang, Executive Director of the Company and the father of Mr. Ng Yuk Yeung, Paul, Executive Director of the Company. Mr. Ng was appointed as a Director of the Company in December 1988.

**Mr. Richard Howard Gorges**, aged 64, is an Executive Director and a Vice-chairman of the Company and SCC and an executive director of SCH. He holds a Master degree in law from Cambridge University in the United Kingdom. He was appointed as a Director of the Company in December 1988.

**Ms. Cheung Choi Ngor**, aged 54, is an Executive Director and a Vice-chairman of the Company. She is also a vice-chairman and the chief executive officer of SCC and an executive director of SCH. She holds a Master degree in business administration from University of Illinois in the United States of America. Ms. Cheung is a member of the National Committee of the Chinese People's Political Consultative Conference. She was appointed as a Director of the Company in December 1988.

**Mr. Ng Chun Sang**, aged 45, is an Executive Director of the Company. He holds a Bachelor degree in science from the University of London in the United Kingdom. He has extensive experience in securities and commodities broking. He is a brother of Mr. Ng Hung Sang and uncle of Mr. Ng Yuk Yeung, Paul. He was appointed as a Director of the Company in October 1999.

**Mr. Ng Yuk Yeung, Paul**, aged 26, is an Executive Director of the Company, executive director and the chief executive officer of SCL. He graduated in law from Corpus Christi College, University of Cambridge (the "University") in the United Kingdom. He is a Scholar of the University. He has been engaged in the financial services, tourism and media businesses for five years. Mr. Ng is a son of Mr. Ng Hung Sang and a nephew of Mr. Ng Chun Sang. He was appointed as a Director of the Company in September 2003.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mrs. Tse Wong Siu Yin, Elizabeth**, aged 50, is an Independent Non-executive Director of the Company, SCH and SCC, the chairman of the Hong Kong Flower Retailers Association, the Committee Member (Gardening and Floristry) of Labour and Welfare Bureau and the Youth Skills Competition Committee Member of Vocational Training Council. Mrs. Tse holds a Bachelor degree of Science from the University of Western Ontario in Canada. She was appointed as an Independent Non-executive Director of the Company in November 1992.

**Hon. Raymond Arthur William Sears, Q.C.**, aged 75, a retired High Court Judge, holds a Master degree in law from Cambridge University in the United Kingdom. He became a Queen's Counsel in 1975 and was a former vice-chairman Judicial Section of the International Bar Association. In the United Kingdom, he had been leading Counsel in England to the Government and large Authorities on redevelopment and construction projects and to the General Medical Council. In 1986 and 1987, he was a Justice of the Supreme Court of Hong Kong and the Commissioner to the Sultan of Brunei, respectively. From 1994 to 1999, he was a Senior Civil High Court Judge. He was appointed as an Independent Non-executive Director of the Company in March 2000.

**Mr. Tung Woon Cheung, Eric**, aged 37, is general manager of the finance department of Beijing Enterprises Holdings Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong; the company secretary of Biosino Bio-technology and Science Incorporation, a company listed on the GEM Board of the Stock Exchange of Hong Kong; the director of Eversource Scientific and Technology Development Co., Ltd. and the financial controller of Shenzhen Guanshun Road & Bridge Co. Ltd.; Mr. Tung graduated from York University, Toronto, Canada with a Bachelor honours degree in administrative studies. He is a Certified Public Accountant of Hong Kong Institute of Certified Public Accountants and a U.S. Certified Public Accountant of The American Institute of Certified Public Accountants. Mr. Tung was appointed as an Independent Non-executive Director of the Company in September 2004.



# Directors' Report

The directors of the Company (the "Directors") have pleasure in presenting their report and the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007.

## CHANGE OF NAME

By a special resolution passed at an extraordinary general meeting held on 13 February 2007, the Company changed its name from "South China Brokerage Company Limited 南華證券有限公司" to "South China Financial Holdings Limited 南華金融控股有限公司" with effect from 26 February 2007.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries consist of securities, bullion and commodities broking and trading, margin financing, money lending, provision of corporate advisory and underwriting services, property investment and investment holding. There were no significant changes in the nature of the Group's principal activities during the year.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 23 to 89 of this Annual Report.

The Board recommends the payment of a final dividend of 0.6 HK cent (2006: 0.4 HK cent) per share, totaling approximately HK\$30,172,000 (2006: HK\$20,020,000) in respect of the year ended 31 December 2007 to the shareholders whose names appear on the register of members of the Company on 20 May 2008. This, together with the interim dividend of 0.4 HK cent per share paid on 25 September 2007, will give a total dividend of 1.0 HK cent per share for the whole year. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

Subject to the approval by the shareholders of the final dividend at the forthcoming annual general meeting of the Company, the final dividend will be paid on or about 3 June 2008.

## SUMMARY OF FINANCIAL INFORMATION

A summary of the results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 90 of this Annual Report. This summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

Details of movements in the property, plant and equipment and investment property of the Group during the year are set out in notes 14 and 15 to the financial statements respectively.

## SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

There were no changes in the Company's authorized share capital during the year. Details of movements in the Company's share capital, share options and warrants during the year are set out in notes 34 and 35 to the financial statements.

## PURCHASE, REDEMPTION OR SALE OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the listed securities of the Company during the year ended 31 December 2007.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 36 to the financial statements and in the consolidated statement of changes in equity respectively.

### **DISTRIBUTABLE RESERVES**

As at 31 December 2007, the Company's reserves available for distribution amounted to approximately HK\$178,347,000.

### **DIRECTORS**

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

#### **Executive Directors:**

Mr. Ng Hung Sang (Chairman)

Mr. Richard Howard Gorges (Vice-chairman)

Ms. Cheung Choi Ngor (Vice-chairman)

Dr. Tang Kam Sun

(Appointed as Executive Director and Managing Director on 12 February 2007 and resigned as Executive Director and Managing Director on 30 August 2007)

Mr. Ng Chun Sang

Mr. Ng Yuk Yeung, Paul

#### **Independent Non-executive Directors:**

Mrs. Tse Wong Siu Yin, Elizabeth

Hon. Raymond Arthur William Sears, Q.C.

Mr. Tung Woon Cheung, Eric

In accordance with article 116 of the Articles of Association of the Company, Mrs. Tse Wong Siu Yin, Elizabeth, Hon. Raymond Arthur William Sears, Q.C. and Mr. Tung Woon Cheung, Eric will retire from office. All of the retiring Directors, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

### **CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS**

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") from each of the Independent Non-executive Directors namely, Mrs. Tse Wong Siu Yin, Elizabeth, Hon. Raymond Arthur William Sears, Q.C. and Mr. Tung Woon Cheung, Eric for the year ended 31 December 2007 and as at the date of this report, the Company still considers the Independent Non-executive Directors to be independent.

### **DIRECTORS' BIOGRAPHIES**

Biographical details of the Directors are set out on pages 6 and 7 of this Annual Report.

### **DIRECTORS' SERVICE CONTRACTS**

None of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

### **DIRECTORS' REMUNERATION**

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the board of directors of the Company with reference to directors' duties, responsibilities, and performance and the results of the Group.

## Directors' Report

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2007, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

#### (a) The Company

##### (i) Interests in Shares

Name of Director	Capacity	Number of ordinary shares	Approximate percentage of shareholding
Ng Hung Sang ("Mr. Ng")	Interest of controlled corporations	3,660,502,500 (Note a)	72.79%
Richard Howard Gorges ("Mr. Gorges")	Beneficial owner	12,174,000	0.24%
Cheung Choi Ngor ("Ms. Cheung")	Beneficial owner	10,000,000	0.20%
Raymond Arthur William Sears ("Mr. Raymond Sears")	Interest of spouse	200,000	0.00%

##### (ii) Interests in underlying Shares

##### a) Warrants

Name of Director	Capacity	Number of underlying shares	Approximate percentage of shareholding
Mr. Ng	Interest of controlled corporations	732,100,500 (Notes b and c)	14.56%
Mr. Gorges	Beneficial owner	2,434,800 (Note b)	0.05%
Ms. Cheung	Beneficial owner	2,000,000 (Note b)	0.04%
Mr. Raymond Sears	Interests of spouse	40,000 (Note b)	0.00%

**b) Share options**

Name of Director	Capacity	Number of underlying shares (Note)	Approximate percentage of shareholding
Mr. Gorges	Beneficial owner	30,000,000	0.60%
Ms. Cheung	Beneficial owner	20,000,000	0.40%
Ng Chun Sang ("Mr. CS Ng")	Beneficial owner	8,000,000	0.16%
Ng Yuk Yeung, Paul ("Mr. Paul Ng")	Beneficial owner	50,000,000	0.99%

Note: Each of Mr. Gorges and Ms. Cheung was granted with share options to subscribe for 30,000,000 shares of the Company on 16 March 2006 at an exercise price of HK\$0.128 per share. Ms. Cheung had exercised the share options to subscribe for 10,000,000 shares of the Company. Mr. CS Ng was granted with share options to subscribe for 5,000,000 shares of the Company and 3,000,000 shares of the Company on 12 April 2007 and 17 April 2007 respectively, at an exercise price of HK\$0.161 per share. Mr. Paul Ng was granted with share options to subscribe for 30,000,000 shares of the Company and 20,000,000 shares of the Company on 16 March 2006 and 26 April 2006 respectively, at an exercise price of HK\$0.128 per share.

The exercisable periods are as follows: (i) 1/3 of the total share options granted shall be exercised from the beginning of the second year from the date of grant to the end of third year from the date of grant; (ii) 1/3 of the total share options granted shall be exercised from the beginning of the third year from the date of grant to the end of the fourth year from date of grant; and (iii) 1/3 of the total share options granted shall be exercised from the beginning of the fourth year from the date of grant to the end of the fifth year from the date of grant.

**(b) Associated corporations**

(1) Interests in shares

(i) South China Holdings Limited ("SCH") (Note d)

Director	Capacity	Number of ordinary shares	Total number of ordinary shares	Approximate percentage of shareholding
Mr. Ng	Beneficial owner	71,652,200	1,344,181,812 (Note e)	73.72%
	Interest of controlled corporations	1,272,529,612		
Mr. Gorges	Interest of controlled corporations	487,949,760	487,949,760 (Note e)	26.76%
Ms. Cheung	Interest of controlled corporations	487,949,760	487,949,760 (Note e)	26.76%

## Directors' Report

(ii) South China (China) Limited ("SCC") (Note f)

Name of Director	Capacity	Number of ordinary shares	Approximate percentage of shareholding
Mr. Ng	Interest of controlled corporations	1,983,206,785 (Note g)	74.79%

(iii) South China Land Limited ("SCL") (Note h)

Name of Director	Capacity	Number of ordinary shares	Approximate percentage of shareholding
Mr. Ng	Interest of controlled corporations	346,829,203 (Note i)	68.48%

(iv) South China Financial Credits Limited ("SCFC") (Note j)

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

(v) Prime Prospects Limited ("Prime Prospects") (Note k)

Name of Director	Capacity	Number of ordinary shares	Approximate percentage of shareholding
Mr. Ng	Interest of a controlled corporation	30	30%

(2) Interests in underlying shares

(i) SCH

**Share options**

Name of Director	Capacity	Number of underlying shares (Note)	Approximate percentage of shareholding
Mr. Gorges	Beneficial owner	18,000,000	0.99%
Ms. Cheung	Beneficial owner	18,000,000	0.99%
Mr. Paul Ng	Beneficial owner	18,000,000	0.99%

Note: These share options were granted on 18 September 2007, at an exercise price of HK\$2.00 per share of SCH with exercisable periods as follows: (i) not more than 1/3 of the total share options granted shall be exercised from the beginning of the second year from the date of grant to the end of the tenth year from the date of grant; (ii) not more than 2/3 of the total share options granted shall be exercised from the beginning of the third year from the date of grant to the end of the tenth year from the date of grant; and (iii) all of the share options granted shall be exercised from the beginning of the fourth year from the date of grant to the end of the tenth year from the date of grant.

## Directors' Report

(ii) SCC

a) **Warrants**

Name of Director	Capacity	Number of underlying shares	Approximate percentage of shareholding
Mr. Ng	Interest of controlled corporations	396,641,357 (Note l)	14.96%

b) **Share options**

Name of Director	Capacity	Number of underlying shares (Note)	Approximate percentage of shareholding
Ms. Cheung	Beneficial owner	26,000,000	0.98%
Paul Ng	Beneficial owner	26,000,000	0.98%

Note: These share options were granted on 18 September 2007, at an exercise price of HK\$1.50 per share of SCC with exercisable periods as follows: (i) not more than 1/3 of the total share options granted shall be exercised from the beginning of the second year from the date of grant to the end of the tenth year from the date of grant; (ii) not more than 2/3 of the total share options granted shall be exercised from the beginning of the third year from the date of grant to the end of the tenth year from the date of grant; and (iii) all of the share options granted shall be exercised from the beginning of the fourth year from the date of grant to the end of the tenth year from the date of grant.

(iii) SCL

a) **Convertible Notes**

Name of Director	Capacity	Number of underlying shares	Approximate percentage of shareholding
Mr. Ng	Interest of controlled corporations	10,666,666,666 (Note m)	2,105.96%

b) **Share options**

Name of Director	Capacity	Number of underlying shares (Note)	Approximate percentage of shareholding
Paul Ng	Beneficial owner	5,000,000	0.99%

Note: These share options were granted on 14 March 2007, at an exercise price of HK\$0.2166 per share of SCL with exercisable periods as follows: (i) 1/3 of the total share options granted shall be exercised from the beginning of the second year from the date of grant to the end of the third year from the date of grant; (ii) 1/3 of the total share options granted shall be exercised from the beginning of the third year from the date of grant to the end of the fourth year from the date of grant; and (iii) 1/3 of the total share options granted shall be exercised from the beginning of the fourth year from the date of grant to the end of the fifth year from the date of grant.

## Directors' Report

### Notes:

- (a) By virtue of notes (d) and (e) below, Mr. Ng has a duty of disclosure under the SFO in relation to 3,660,502,500 shares in the Company held by certain wholly-owned subsidiary of SCH.
- (b) There are interests held under warrants of the Company which entitle the holders thereof to subscribe at any time during the period 23 October 2007 to 22 October 2008 (both days inclusive) for fully paid shares of the Company at an initial subscription price of HK\$0.168 per share (subject to adjustments).
- (c) By virtue of notes (d) and (e) below, Mr. Ng has a duty of disclosure under SFO in relation to the 732,100,500 warrants of the Company held by certain wholly-owned subsidiaries of SCH.
- (d) SCH owns 72.79% shareholdings in the Company and is the ultimate holding company of the Company.
- (e) Mr. Ng, Ms. Cheung and Mr. Gorges, through companies wholly-owned and controlled by them, had interests in 487,949,760 shares in SCH. Mr. Ng personally owned 71,652,200 shares in SCH and through companies wholly-owned and controlled by him, beneficially owned 784,579,852 shares in SCH.
- (f) SCC is a 74.79% owned subsidiary of SCH.
- (g) By virtue of notes (e) and (f), Mr. Ng has a duty of disclosure under the SFO in relation to the 1,983,206,785 shares in SCC held by certain wholly-owned subsidiaries of SCH.
- (h) SCL is a 68.48% owned subsidiary of SCC.
- (i) By virtue of notes (e), (f) and (h), Mr. Ng has a duty of disclosure under the SFO in relation to 346,829,203 shares in SCL held by certain wholly-owned subsidiaries of SCH.
- (j) SCFC is a 98.42% owned subsidiary of the Company.
- (k) Prime Prospects is a 70% owned subsidiary of SCC.
- (l) There are interests held under warrants of SCC which entitle the holders thereof to subscribe at any time during the period from 7 September 2007 to 6 September 2010 (both days inclusive) for fully paid shares of SCC at an initial subscription price of HK\$0.40 per share (subject to adjustments). By virtue of notes (e) and (f), Mr. Ng has a duty of disclosure under SFO in relation to the 396,641,357 warrants in SCC held by certain wholly-owned subsidiaries of SCH.
- (m) There are 2 convertible notes issued by SCL to a wholly-owned subsidiary of SCC, with the rights to convert into 5,440,000,000 shares of SCL and 5,226,666,666 shares of SCL respectively at a conversion price of HK\$0.075 per share. By virtue of notes (e), (f) and (h), Mr. Ng has a duty of disclosure under SFO in relation to the said convertible notes.

Save as disclosed above, as at 31 December 2007, none of the Directors or chief executives of the Company had registered any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

## SHARE OPTION SCHEME

The Directors and employees of the Company and its subsidiaries are entitled to participate in the share option scheme of the Company and its ultimate holding company whereas certain Directors are entitled to participate in the share option schemes of certain fellow subsidiaries. Particulars of the share option scheme of the Company are set out in note 35 to the financial statements. Details of the options granted by the Company and the fellow subsidiaries to the Directors were set out under the headings "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" of this Annual Report. Save as disclosed above, at no time during the year was the Company, or any of its holding companies, fellow subsidiaries or subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or chief executives or any of their spouses or children under the age of 18, was granted any right to subscribe for the equity or debt securities of the Company or any other body corporate nor had exercised any such right.

## RETIREMENT BENEFIT PLAN

Details of the retirement benefit plan of the Group are set out in note 2.5 to the financial statements.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of transactions during the year between the Group and other companies in which a Director of the Company, Mr. Ng has beneficial interests as set out in note 40 to the financial statements.

Save as disclosed above, no contracts of significance in relation to the business of the Group to which the Company, or any of its holding companies, or any of its subsidiaries or fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

As at 31 December 2007, the following persons, other than the Directors and chief executives of the Company, had interests and short positions in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company under Section 336 of Part XV of SFO.

### (1) Interests in shares

Name of shareholder	Capacity	Number of ordinary shares	Approximate percentage of shareholding
SCH	Interest of controlled corporations	3,660,502,500	72.79%

### (2) Interests in underlying Shares

#### Warrants

Name of shareholder	Capacity	Number of underlying shares	Approximate percentage of shareholding
SCH	Interest of controlled corporations	732,100,500	14.56%

Save as disclosed above, as at 31 December 2007, no person, other than the Directors or chief executives of the Company, whose interests are set out in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.



## Directors' Report

### **SUFFICIENCY OF PUBLIC FLOAT**

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

### **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

Details of the compliance by the Company with the Code on Corporate Governance Practices are set out on pages 18 to 21 of this Annual Report.

### **MODEL CODE FOR SECURITIES TRANSACTIONS**

Details of the compliance with the Model Code for Securities Transactions are set out on page 20 of this Annual Report.

### **CONNECTED TRANSACTIONS**

There were no transactions to be disclosed as connected transactions in accordance with the requirements of the Listing Rules during the year ended 31 December 2007.

### **AUDIT COMMITTEE**

The Company has established an audit committee with written terms of reference in compliance with the Listing Rules. The principal duties of the audit committee include the review of the Group's audit plan and process with the Auditors, review of the independence of Auditors, the Group's financial statements and system of internal control. The audit committee comprises three Independent Non-executive Directors, namely Mr. Tung Woon Cheung, Eric (newly appointed as Chairman of the Committee on 19 February 2008), Mrs. Tse Wong Siu Yin, Elizabeth (resigned as Chairman of the Committee on 19 February 2008) and Hon. Raymond Arthur William Sears, Q.C..

The audit committee is satisfied with its review of the audit fee, the independence of the auditors and recommended to the Board re-appointment of the Auditors in 2008 at the forthcoming annual general meeting.

The Group's annual results for the year ended 31 December 2007 have been reviewed by the audit committee, which was of the opinion that the preparation of such annual results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

## **MAJOR CUSTOMERS AND SUPPLIERS**

In the year under review, the aggregate turnover attributable to the Group's five largest customers accounted for less than 30% of the total turnover for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

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

## **AUDITORS**

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

On behalf of the Board

**Ng Hung Sang**  
Chairman

Hong Kong, 18 March 2008

# Corporate Governance Report

The Company is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasize accountability and transparency and are adopted in the best interests of the Company and its shareholders.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the “CG Code”) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the year ended 31 December 2007 with exception (i) to code provision A.4.1 that non-executive directors of the Company were not appointed for a specific term; (ii) to code provision A.4.2 that the Articles of Association of the Company did not provide that (a) every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years and (b) all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting of the Company after their appointment; and (iii) to code provision E.1.2 that the Chairman of the Board had not attended the annual general meeting.

In order to comply with the code provision A.4.2 of CG Code, a special resolution was passed at the annual general meeting of the Company on 22 May 2007 to amend the Articles of Association of the Company, inter alia, to the effect that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years and all newly appointed directors should be subject to re-election by shareholders at the first general meeting of the Company after their appointment.

All the directors of the Company (the “Directors”) are subject to the retirement by rotation in accordance with the Company’s Articles of Association. Each of the non-executive Directors has agreed and confirmed in writing with the Company that his term of appointment is three years commenced from the date of his last re-election by the shareholders at the annual general meeting. As such, the Board considers that the code provision A.4.1 of the CG Code of the Listing Rules is complied.

According to code provision E.1.2 of CG Code, the chairman of the board shall attend the annual general meeting to answer questions. The Chairman of the Board was unable to attend the annual general meeting of the Company held on 22 May 2007. The Vice-chairman of the Company attended the annual general meeting in the absence of the Chairman to answer questions on the Group’s businesses at the meeting. The Directors believe that this was an exceptional incident and the Company ensures future compliance with code provision E.1.2.

## BOARD COMPOSITION AND BOARD PRACTICES

The board of directors of the Company (the “Board”) is composed of 8 Directors, including the Chairman who is an Executive Director, 2 Vice-chairmen who are Executive Directors, 2 additional Executive Directors and 3 Independent Non-executive Directors. One Executive Director resigned during the year. One-third of the Board is Independent Non-executive Directors and a majority of them have appropriate professional qualifications, or accounting or related, financial management expertise. Their biographies and relevant relationships amongst them are set out in the Directors’ Biographical Details on pages 6 to 7 of this Annual Report.

Review will be made regularly on the Board composition to ensure that it has a balance of skills and experience appropriate for the requirement of the business of the Company and its subsidiaries (the “Group”). Also, a balanced composition of Executive Directors and Non-executive Directors is maintained to ensure independence and effective management. The Company has satisfied the relevant provision of the Listing Rules in having one of the Independent Non-executive Directors with appropriate accounting qualifications and expertise as one of the members of the Audit Committee.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

## Corporate Governance Report

The Board has adopted a formal written procedure and policy for the appointment of new directors. When selecting potential candidates for directors, their skill, experience, expertise, devotion of time and conflicts of interests are the key factors for consideration. No Nomination Committee has been set up, and hence, the nomination and selection process are performed by the Board. The Board meets at least once a year in discussing whether the composition, size, structure of the Board is adequate. The Board met once in 2007 with a majority of Directors present.

All the directors of the Company are subject to the retirement by rotation in accordance with the Company's Articles of Association. Each of the non-executive Directors has agreed and confirmed in writing with the Company that his term of appointment is three years commenced from the date of his last re-election by the shareholders at the annual general meeting.

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

The roles of the Chairman and the Chief Executive Officer of the Company are exercised by separate individuals with a view to reinforce their independence and accountability. Key and important decisions are fully discussed at the board meetings. All Directors have been fully consulted about any matters proposed for inclusion in the agenda of regular meetings. The Chairman has delegated the responsibility for drawing up the agenda for each board meeting to the Company Secretary. With the assistance of the Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at board meetings and have received adequate and reliable information in a timely manner.

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

The Board meets regularly. Four board meetings were held in 2007:

	<b>Attendance</b>
<b>Executive Directors</b>	
Ng Hung Sang (Chairman)	4/4
Richard Howard Gorges (Vice-chairman)	4/4
Cheung Choi Ngor (Vice-chairman)	4/4
Tang Kam Sun (appointed on 12 February 2007 and resigned on 30 August 2007)	2/2
Ng Chun Sang	0/4
Ng Yuk Yeung, Paul	4/4
<b>Independent Non-executive Directors</b>	
Tse Wong Siu Yin, Elizabeth	4/4
Raymond Arthur William Sears	4/4
Tung Woon Cheung, Eric	4/4

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

Directors shall have full access to information on the Group and are able to obtain independent professional advice whenever they deem necessary.

# Corporate Governance Report

## MODEL CODE FOR SECURITIES TRANSACTIONS

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

All Directors have confirmed, following specific enquiry by the Company, their compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors throughout the year ended 31 December 2007.

## INTERNAL CONTROL

Recognising that a well-designed and effective system of internal control is crucial to safeguard the assets of the Company and the shareholders' investment and to ensure the reliability of financial reporting as well as compliance with the relevant requirement of the Listing Rules, the Directors also acknowledge that they have overall responsibility for the Company's internal control, financial control and risk management and shall monitor its effectiveness from time to time. Therefore, a team, comprising qualified accountants, has been organised to carry out the internal audit function of the Company ("IA Team").

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

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

IA Team monitors the internal control procedures and systems of the Group, reports findings and makes recommendations, if any, to Audit Committee on a regular interval. During the year, the money lending business of the Group was reviewed, recommended remedial actions, distinguishing specific incidents from control weakness that require procedural changes or enhancements to prevent recurrence were proposed and addressed in the internal control report which was presented by the IA Team to the Audit Committee and the Board for review.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

## AUDITORS' REMUNERATION

For the year ended 31 December 2007, the Auditors of the Company received approximately HK\$1,200,000 for audit service. No non-audit services was provided by the Auditors in 2007.

## REMUNERATION COMMITTEE

The Remuneration Committee was set up on 10 March 2005 and comprises all the Independent Non-executive Directors, Mrs. Tse Wong Siu Yin, Elizabeth (newly appointed Chairman of the Committee on 19 February 2008), Mr. Tung Woon Cheung, Eric (resigned as Chairman of the Committee on 19 February 2008) and Hon. Raymond Arthur William Sears, Q.C..

The Remuneration Committee met once in 2007 and was attended by all Committee members. The policies for the remuneration of Executive Directors were reviewed by the Remuneration Committee. Remuneration, including basic salaries, discretionary performance bonus and other emolument of the Executive Directors is based on skills, knowledge, involvement and performance of the individuals by reference to the Company's performance and profitability, as well as industry practice. Granting share options is considered as one of the means for giving long-term motivation and incentive to and for retaining staff.

Remuneration, comprising directors' fees, of Independent Non-executive Directors is subject to annual assessment for shareholders' approval at the annual general meeting. Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties including attendance at board meetings and committee meetings.

### AUDIT COMMITTEE

The Audit Committee comprises all Independent Non-executive Directors, Mr. Tung Woon Cheung, Eric (newly appointed Chairman of the Committee on 19 February 2008), Mrs. Tse Wong Siu Yin, Elizabeth (resigned as Chairman of the Committee on 19 February 2008) and Hon. Raymond Arthur William Sears, Q.C.. The principal duties of the Audit Committee include the review of the Group's audit plan and process with the Auditors, the independence of Auditors, the Group's financial statements and internal control procedures in accordance with its terms of reference, which is substantially the same as the CG Code.

The Audit Committee Members meet regularly and held three meetings in 2007.

<b>Name of member</b>	<b>Attendance</b>
Tung Woon Cheung, Eric	3/3
Tse Wong Siu Yin, Elizabeth	3/3
Raymond Arthur William Sears	3/3

The Audit Committee is satisfied with their review of the audit fees, the independence of the Auditors and recommended to the Board the re-appointment of the Auditors in 2008 at the forthcoming annual general meeting.

The Group's annual results for the year ended 31 December 2007 were reviewed by the Audit Committee.

# Independent Auditors' Report



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

We have audited the financial statements of South China Financial Holdings Limited set out on pages 23 to 89, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## **AUDITORS' RESPONSIBILITY**

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

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

## **OPINION**

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**Ernst & Young**  
Certified Public Accountants  
18th Floor  
Two International Finance Centre  
8 Finance Street, Central  
Hong Kong  
18 March 2008

# Consolidated Income Statement

Year ended 31 December 2007

	Notes	2007 HK\$'000	2006 HK\$'000
<b>TURNOVER</b>	5	<b>285,952</b>	156,873
Other revenue	5	4,922	4,215
Fair value gain on an investment property	15	47,079	7,000
Gains on disposal of available-for-sale financial assets		72,413	540
Fair value gain/(loss) on financial assets at fair value through profit or loss		(12,257)	2,605
Reversal of impairment/(impairment) of loans and trade receivables, net		21,472	(11,662)
Other operating expenses		(204,572)	(128,730)
<b>PROFIT FROM OPERATING ACTIVITIES</b>		<b>215,009</b>	30,841
Finance costs	7	(5,690)	(4,162)
<b>PROFIT BEFORE TAX</b>	6	<b>209,319</b>	26,679
Tax	10	(9,775)	(1,358)
<b>PROFIT FOR THE YEAR</b>		<b>199,544</b>	25,321
Attributable to:			
Equity holders of the Company	11	199,536	25,300
Minority interests		8	21
		<b>199,544</b>	25,321
<b>DIVIDENDS</b>			
Interim	12	20,073	–
Proposed final	12	30,172	20,020
		<b>50,245</b>	20,020
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>	13		
Basic		<b>HK 3.98 cents</b>	HK 0.51 cents
Diluted		<b>HK 3.83 cents</b>	HK 0.51 cents



# Consolidated Balance Sheet

31 December 2007

	Notes	2007 HK\$'000	2006 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	33,010	3,580
Investment property	15	180,000	162,000
Intangible assets	16	836	836
Other assets	17	6,085	6,916
Available-for-sale financial assets	19	–	23,193
Loans receivable	20	6,913	5,979
Deferred tax assets	21	2,782	2,787
<b>Total non-current assets</b>		<b>229,626</b>	<b>205,291</b>
<b>CURRENT ASSETS</b>			
Financial assets at fair value through profit or loss	22	186,523	81,162
Loans receivable	20	245,566	207,726
Trade receivables	23	86,365	69,811
Other receivables, prepayments and deposits	24	7,958	14,697
Tax recoverable		7,117	7,149
Pledged time deposits	25	5,750	5,750
Cash held on behalf of clients	26	538,546	363,372
Cash and cash equivalents	25	79,544	96,007
<b>Total current assets</b>		<b>1,157,369</b>	<b>845,674</b>
<b>CURRENT LIABILITIES</b>			
Amount due to an intermediate holding company	27	4,652	–
Client deposits	28	518,718	361,719
Trade payables	29	86,141	85,669
Tax payable		3,028	1,835
Other payables and accruals	30	24,182	10,050
Interest-bearing bank and other borrowings	32	143,481	172,031
<b>Total current liabilities</b>		<b>780,202</b>	<b>631,304</b>
<b>NET CURRENT ASSETS</b>		<b>377,167</b>	<b>214,370</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>606,793</b>	<b>419,661</b>

# Consolidated Balance Sheet

31 December 2007

	Notes	2007 HK\$'000	2006 HK\$'000
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings	32	53,984	46,196
Deferred tax liabilities	21	13,651	5,412
<b>Total non-current liabilities</b>		<b>67,635</b>	<b>51,608</b>
<b>Net assets</b>		<b>539,158</b>	<b>368,053</b>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Issued capital	34	125,715	125,122
Reserves	36(a)	382,277	221,900
Proposed final dividend	12	30,172	20,020
		<b>538,164</b>	<b>367,042</b>
<b>Minority interests</b>		<b>994</b>	<b>1,011</b>
<b>Total equity</b>		<b>539,158</b>	<b>368,053</b>

**Richard Howard Gorges**  
Director

**Cheung Choi Ngor**  
Director

# Consolidated Statement of Changes in Equity

Year ended 31 December 2007

		Attributable to equity holders of the Company										
		Issued share capital	Share premium account	Capital redemption reserve	Available-for-sale investment revaluation reserve	Share option reserve	Warrant reserve	Retained profits/ (accumulated losses)	Proposed final dividend	Total	Minority interests	Total equity
Notes		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2005 and 1 January 2006		121,550	201,674	1,601	68	-	25,220	(28,702)	-	321,411	1,380	322,791
Changes in fair value of available-for-sale financial assets		19	-	-	(301)	-	-	-	-	(301)	-	(301)
Total income and expense recognised directly in equity		-	-	-	(301)	-	-	-	-	(301)	-	(301)
Profit for the year		-	-	-	-	-	-	25,300	-	25,300	21	25,321
Total income and expense for the year		-	-	-	(301)	-	-	25,300	-	24,999	21	25,020
Transfer to the income statement on disposal of available-for-sale financial assets		19	-	-	(540)	-	-	-	-	(540)	-	(540)
Acquisition of minority interests		-	-	-	-	-	-	-	-	-	(390)	(390)
Issue of shares upon exercise of warrants		34	3,572	10,889	-	-	-	-	-	14,461	-	14,461
Transfer of warrant reserve to share premium account upon the exercise of warrants		34	-	3,715	-	-	(3,715)	-	-	-	-	-
Transfer of warrant reserve to retained profits upon the expiry of unexercised warrants		-	-	-	-	-	(21,505)	21,505	-	-	-	-
Equity-settled share option arrangements		35	-	-	-	6,711	-	-	-	6,711	-	6,711
Proposed final 2006 dividend		12	-	-	-	-	-	(20,020)	20,020	-	-	-
At 31 December 2006		125,122	216,278	1,601	(773)	6,711	-	(1,917)	20,020	367,042	1,011	368,053
At 1 January 2007		125,122	216,278	1,601	(773)	6,711	-	(1,917)	20,020	367,042	1,011	368,053
Changes in fair value of available-for-sale financial assets		19	-	-	73,186	-	-	-	-	73,186	-	73,186
Total income and expense recognised directly in equity		-	-	-	73,186	-	-	-	-	73,186	-	73,186
Profit for the year		-	-	-	-	-	-	199,536	-	199,536	8	199,544
Total income and expense for the year		-	-	-	73,186	-	-	199,536	-	272,722	8	272,730
Transfer to the income statement on disposal of available-for-sale financial assets		19	-	-	(72,413)	-	-	-	-	(72,413)	-	(72,413)
Acquisition of minority interests		-	-	-	-	-	-	-	-	-	(25)	(25)
Issue of shares upon exercise of warrants		34	5	31	-	-	-	-	-	36	-	36
Issue of shares upon exercise of share option		34	588	2,420	-	-	-	-	-	3,008	-	3,008
Transfer of share option reserve to share premium upon the exercise of share option		34	-	1,265	-	(1,265)	-	-	-	-	-	-
Equity-settled share option arrangements		35	-	-	-	7,862	-	-	-	7,862	-	7,862
Final 2006 paid		-	-	-	-	-	-	-	(20,020)	(20,020)	-	(20,020)
Interim 2007 dividend		12	-	-	-	-	-	(20,073)	-	(20,073)	-	(20,073)
Proposed final 2007 dividend		12	-	-	-	-	-	(30,172)	30,172	-	-	-
At 31 December 2007		125,715	219,994*	1,601*	-*	13,308*	-*	147,374*	30,172	538,164	994	539,158

\* These reserve accounts comprise the consolidated reserves of HK\$382,277,000 (2006: HK\$221,900,000) in the consolidated balance sheet.

# Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 HK\$'000	2006 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		<b>209,319</b>	26,679
Adjustments for:			
Finance costs	7	<b>5,690</b>	4,162
Interest income, excluding that derived from margin financing and money lending operations	5	–	(521)
Dividend income from listed investments	5	<b>(543)</b>	(1,346)
Fair value gain of an investment property	15	<b>(47,079)</b>	(7,000)
Gains on disposal of available-for-sale financial assets		<b>(72,413)</b>	(540)
Fair value loss/(gain) on financial assets at fair value through profit or loss		<b>12,257</b>	(2,605)
Equity-settled share option expenses	6	<b>7,862</b>	6,711
Impairment/(reversal of impairment) of loans and trade receivables, net		<b>(21,472)</b>	11,662
Write-off of other receivables, prepayments and deposits	6	<b>3,894</b>	–
Depreciation	6	<b>2,958</b>	2,096
		<b>100,473</b>	39,298
Increase in financial assets at fair value through profit or loss		<b>(117,618)</b>	(20,362)
Decrease/(increase) in non-current loans receivable		<b>(934)</b>	422
Increase in loans receivable		<b>(16,656)</b>	(66,612)
Increase in trade receivables		<b>(16,266)</b>	(26,644)
Decrease/(increase) in other receivables, prepayments and deposits		<b>2,845</b>	(2,668)
Increase in cash held on behalf of clients		<b>(175,174)</b>	(126,909)
Increase in an amount due to an intermediate holding company, net		<b>4,652</b>	442
Increase in client deposits		<b>156,999</b>	136,252
Increase in trade payables		<b>472</b>	23,997
Increase in other payables and accruals		<b>14,132</b>	2,735
		<b>(47,075)</b>	(40,049)
Cash used in operations		<b>(47,075)</b>	(40,049)
Interest received, excluding that derived from margin financing and money lending operations		–	521
Interest paid		<b>(5,662)</b>	(4,144)
Interest element on finance lease rental payments		<b>(28)</b>	(18)
Hong Kong profits tax paid		–	(54)
Overseas taxes paid		<b>(306)</b>	(87)
		<b>(53,071)</b>	(43,831)
<b>Net cash outflow from operating activities</b>		<b>(53,071)</b>	(43,831)

continued/...

# Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 HK\$'000	2006 HK\$'000
<b>Net cash outflow from operating activities</b>		<b>(53,071)</b>	(43,831)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Dividend income received from listed investments		543	1,346
Purchases of items of property, plant and equipment	14	(2,758)	(1,282)
Purchases of available-for-sale financial assets		–	(14,454)
Proceeds from disposal of available-for-sale financial assets		96,379	3,305
Acquisition of minority interests		(25)	(390)
Decrease/(increase) in other assets		831	(1,040)
<b>Net cash inflow/(outflow) from investing activities</b>		<b>94,970</b>	(12,515)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
New bank borrowings		21,114,110	14,631,151
Repayment of bank borrowings		(21,130,912)	(14,568,815)
Capital element on finance lease rental payments	41	(175)	(223)
Issue of shares	34	3,044	14,461
Dividends paid		(40,093)	–
<b>Net cash inflow/(outflow) from financing activities</b>		<b>(54,026)</b>	76,574
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(12,127)</b>	20,228
Cash and cash equivalents at beginning of year		97,422	77,197
Effect of foreign exchange rate changes, net		(1)	(3)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>85,294</b>	97,422
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	25	79,544	59,507
Non-pledged time deposits with original maturity of less than three months when acquired	25	–	36,500
Pledged time deposits with original maturity of less than three months when acquired	25	5,750	5,750
Bank overdrafts	32	–	(4,335)
		<b>85,294</b>	97,422

# Balance Sheet

31 December 2007

	Notes	2007 HK\$'000	2006 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Interests in subsidiaries	18	438,265	286,765
Subordinated loan to a subsidiary	33	100,000	50,000
<b>Total non-current assets</b>		<b>538,265</b>	<b>336,765</b>
<b>CURRENT ASSETS</b>			
Other receivables, prepayments and deposits	24	494	449
Cash and cash equivalents	25	255	135
<b>Total current assets</b>		<b>749</b>	<b>584</b>
<b>CURRENT LIABILITIES</b>			
Other payables and accruals	30	49	50
<b>NET CURRENT ASSETS</b>		<b>700</b>	<b>534</b>
<b>Net assets</b>		<b>538,965</b>	<b>337,299</b>
<b>EQUITY</b>			
Issued capital	34	125,715	125,122
Reserves	36(b)	383,078	192,157
Proposed final dividend	12	30,172	20,020
<b>Total equity</b>		<b>538,965</b>	<b>337,299</b>

**Richard Howard Gorges**  
Director

**Cheung Choi Ngor**  
Director

# Notes to Financial Statements

31 December 2007

## 1. CORPORATE INFORMATION

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

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

- securities, 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 of the Company is South China Holdings Limited, which is incorporated in the Cayman Islands.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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 (collectively referred to as the “Group”) for the year ended 31 December 2007. 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 HKFRSs

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.

HKFRS 7	Financial Instruments: Disclosures
HKAS 1 Amendment	Capital Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The principal effects of adopting these new and revised HKFRSs changes in accounting policies are as follows:

### (a) HKFRS 7 Financial Instruments: Disclosures

This 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. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/ revised where appropriate.

### (b) Amendment to HKAS 1 Presentation of Financial Statements – Capital Disclosures

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 43 to the financial statements.

### (c) HK(IFRIC)-Int 8 Scope of HKFRS 2

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued equity instruments to its employees in accordance with the Company's share option scheme, the interpretation has had no effect on these financial statements.

### (d) HK(IFRIC)-Int 9 Reassessment of Embedded Derivatives

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.



# Notes to Financial Statements

31 December 2007

## 2.2 IMPACT OF NEW AND REVISED HKFRSs (Continued)

### (e) HK(IFRIC)-Int 10 Interim Financial Reporting and Impairment

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

## 2.3 EARLY ADOPTION OF HKFRSs

The Group has early adopted HKAS 23 (Revised) Borrowing Costs, which early adoption is permitted.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional provision in the revised standard, the Group shall apply the revised standard on a prospective basis to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2007. The adoption of the revised standard has had no impact on the financial position or results of operations of the Group.

## 2.4 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs

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 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions <sup>2</sup>
HK(IFRIC)-Int 12	Service Concession Arrangements <sup>4</sup>
HK(IFRIC)-Int 13	Customer Loyalty Programmes <sup>3</sup>
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2007

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2008

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2008

HKAS 1 (Revised), which will replace HKAS 1 *Presentation of Financial Statements*, require an entity to consider whether to present the statement of comprehensive income as a single statement or as two statements, and consider how this may affect the information disclosed in other announcements by the entity, for example press releases. As several revised standards that may require changes in accounting policies are expected to become effective for annual periods beginning on or after 1 January 2009, it is likely that the first interim and annual financial statements prepared after HKAS 1 (Revised) becomes effective will need to include a statement of financial position as at the beginning of the earliest comparative period. The Group expects to adopt HKAS 1 (Revised) from 1 January 2009.

## 2.4 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs *(Continued)*

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

As the Group currently has no customer loyalty award credits and defined benefit scheme, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

## 2.5 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.

# Notes to Financial Statements

31 December 2007

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **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 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, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for the revalued 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, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for the revalued asset.

### **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.

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at 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 an interest 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.

For a transfer from investment properties to owner-occupied properties, the deemed cost of property for subsequent accounting is its fair value at the date of change in use.

# Notes to Financial Statements

31 December 2007

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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.

### 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.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

### 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, and 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 assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is referred to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

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.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Investments and other financial assets** *(continued)*

#### *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. The net fair value gain or loss recognised in the income statement does not include any dividends on these financial assets which are recognised in accordance with the policy set out for “Revenue recognition” below.

#### *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 less any allowance for impairment. 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.

#### *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. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as “Turnover” in accordance with the policy set out for “Revenue recognition” below. Losses arising from the impairment of such investments are recognised in the income statement as “Impairment losses on available-for-sale financial assets” and are transferred from the available-for-sale investment revaluation reserve.

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 other valuation 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.

# Notes to Financial Statements

31 December 2007

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Impairment of financial assets** *(continued)*

#### *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. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the 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 by adjusting the allowance account. 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 and other 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 and significant changes in the technological, market economic or legal environment that have an adverse effect on 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.

#### *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. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. 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.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Derecognition of financial assets** *(continued)*

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. The related interest expense is recognised within "finance costs" in the income statement.

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

### **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.

### **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 that 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, 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.



# Notes to Financial Statements

31 December 2007

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Income tax (continued)

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.

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.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. Other borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 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.

#### *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.

# Notes to Financial Statements

31 December 2007

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Employee benefits** *(continued)*

#### *Share-based payment transactions (continued)*

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.

### **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.

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

### **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.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Foreign currencies** *(continued)*

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

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

### **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:

#### *Operating lease commitments – Group as lessor*

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

#### *Classification between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

# Notes to Financial Statements

31 December 2007

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

### 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.

#### *Impairment of non-financial assets*

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

#### *Impairment of loans receivable*

The Group reviews its loan portfolios to assess whether there is any objective evidence that a loan receivable is impaired at least on a yearly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of 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 2007 was HK\$252,479,000 (2006: HK\$213,705,000). 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 2007 was HK\$4,680,000 (2006: HK\$4,414,000). The amount of unrecognised tax losses at 31 December 2007 was HK\$267,442,000 (2006: HK\$314,176,000). 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.

**4. SEGMENT INFORMATION** (Continued)

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.

**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 2007 and 2006.

Year ended 31 December 2007	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
<b>Segment revenue:</b>								
Sales to external customers	162,371	40,646	69,747	10,762	7,348	-	-	290,874
Intersegment sales	-	-	5,957	-	-	-	(5,957)	-
<b>Total</b>	<b>162,371</b>	<b>40,646</b>	<b>75,704</b>	<b>10,762</b>	<b>7,348</b>	<b>-</b>	<b>(5,957)</b>	<b>290,874</b>
<b>Segment results</b>	<b>45,432</b>	<b>80,483</b>	<b>57,100</b>	<b>(10,446)</b>	<b>51,552</b>	<b>(9,112)</b>	<b>-</b>	<b>215,009</b>
Finance costs								(5,690)
Profit before tax								209,319
Tax								(9,775)
<b>Profit for the year</b>								<b>199,544</b>

# Notes to Financial Statements

31 December 2007

## 4. SEGMENT INFORMATION (Continued)

### Business segments (continued)

Year ended 31 December 2007	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
<b>Assets and liabilities</b>								
Segment assets	540,472	187,348	417,749	3,431	211,236	16,860	-	1,377,096
Unallocated assets								9,899
<b>Total assets</b>								<b>1,386,995</b>
Segment liabilities	455,137	8,895	250,233	776	110,619	5,498	-	831,158
Unallocated liabilities								16,679
<b>Total liabilities</b>								<b>847,837</b>
<b>Other segment information:</b>								
Depreciation	1,463	229	283	276	603	104	-	2,958
Capital expenditure	2,365	133	394	371	45	-	-	3,308
Fair value gain on an investment property	-	-	-	-	(47,079)	-	-	(47,079)
Reversal of impairment of loans and trade receivables, net	(288)	-	(21,184)	-	-	-	-	(21,472)
Write-off of other receivables, prepayments and deposits	-	-	-	-	-	3,894	-	3,894
<b>Year ended 31 December 2006</b>								
<b>Segment revenue:</b>								
Sales to external customers	84,376	13,305	49,434	9,031	4,405	537	-	161,088
Intersegment sales	-	-	3,129	-	-	-	(3,129)	-
<b>Total</b>	<b>84,376</b>	<b>13,305</b>	<b>52,563</b>	<b>9,031</b>	<b>4,405</b>	<b>537</b>	<b>(3,129)</b>	<b>161,088</b>
<b>Segment results</b>	<b>9,714</b>	<b>10,250</b>	<b>13,500</b>	<b>(3,711)</b>	<b>9,345</b>	<b>(8,257)</b>	<b>-</b>	<b>30,841</b>
Finance costs								(4,162)
Profit before tax								26,679
Tax								(1,358)
<b>Profit for the year</b>								<b>25,321</b>

**4. SEGMENT INFORMATION** (Continued)**Business segments** (continued)

Year ended 31 December 2006	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
<b>Assets and liabilities</b>								
Segment assets	479,564	104,659	254,736	2,252	163,005	36,813	-	1,041,029
Unallocated assets								9,936
<b>Total assets</b>								<b>1,050,965</b>
Segment liabilities	408,179	136	173,488	255	92,684	923	-	675,665
Unallocated liabilities								7,247
<b>Total liabilities</b>								<b>682,912</b>
<b>Other segment information:</b>								
Depreciation	1,302	72	292	267	18	145	-	2,096
Capital expenditure	891	67	90	212	22	-	-	1,282
Fair value gain on an investment property	-	-	-	-	(7,000)	-	-	(7,000)
Impairment of loans and trade receivables	732	-	10,930	-	-	-	-	11,662



## Notes to Financial Statements

31 December 2007

### 5. TURNOVER AND OTHER REVENUE

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:

	<b>Group</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
<b>Turnover</b>		
Commission and brokerage income	159,866	82,222
Profit on the trading of securities, bullion and futures contracts	40,103	11,959
Dividend income from listed investments	543	1,346
Interest income on impaired loans and trade receivables	5,685	5,258
Interest income from loans receivable	43,798	29,935
Interest income from bank and financial institutions	20,432	14,359
Rendering of services	9,969	8,211
Gross rental income	5,556	3,583
	<b>285,952</b>	156,873
<b>Other revenue</b>		
Handling fee income	2,551	2,124
Interest income from an intermediate holding company	–	521
Others	2,371	1,570
	<b>4,922</b>	4,215

**6. PROFIT BEFORE TAX**

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

	Note	Group	
		2007 HK\$'000	2006 HK\$'000
Cost of services provided		74,662	42,304
Depreciation	14	2,958	2,096
Auditors' remuneration		1,334	1,184
Minimum lease payments under operating leases on land and buildings		10,095	10,417
Direct operating expenses (including repairs and maintenance) arising on an rental-earning investment property		1,103	1,025
Employee benefits expense (including directors' remuneration (note 8)):			
Pension scheme contributions		2,134	1,759
Less: Forfeited contributions		–	(200)
Net pension scheme contributions <sup>#</sup>		2,134	1,559
Wages and salaries		65,246	39,700
Equity-settled share option expense		7,862	6,711
		75,242	47,970
Interest expense for margin financing and money lending operations:			
Bank loans and overdrafts wholly repayable within five years		26,271	16,697
Foreign exchange differences, net		(1,327)	(4,626)
Impairment/(reversal of impairment) of loans receivable, net		(21,184)	11,290
Impairment/(reversal of impairment) of trade receivables, net		(288)	372
Write-off of other receivables, prepayments and deposits		3,894	–
Net rental income		4,453	2,558

Note:

<sup>#</sup> At 31 December 2007, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2006: Nil).

# Notes to Financial Statements

31 December 2007

## 7. FINANCE COSTS

	Group	
	2007	2006
	HK\$'000	HK\$'000
Interest on:		
Bank loans, overdrafts and other loans wholly repayable within five years	5,662	4,144
Finance leases	28	18
	<b>5,690</b>	<b>4,162</b>

## 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	
	2007	2006
	HK\$'000	HK\$'000
Fees	255	230
Other emoluments:		
Salaries, allowances and benefits in kind	6,354	5,294
Discretionary bonuses	300	–
Share option benefits	2,498	3,696
Pension scheme contributions	209	205
	<b>9,361</b>	<b>9,195</b>
	<b>9,616</b>	<b>9,425</b>

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 in 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:

	2007 HK\$'000	2006 HK\$'000
Hon. Raymond Arthur William Sears Q.C.	100	100
Mr. Tung Woon Cheung, Eric	50	50
Mrs. Wong Siu Yin, Elizabeth	50	20
	<b>200</b>	<b>170</b>

There were no other emoluments payable to the independent non-executive directors during the year (2006: 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
<b>2007</b>					
Executive directors:					
Mr. Ng Hung Sang	10	1,200	–	–	60
Mr. Richard Howard Gorges	10	1,020	–	628	51
Ms. Cheung Choi Ngor	10	1,020	–	578	51
Dr. Tang Kam Sun*	5	2,299	–	–	7
Mr. Ng Chun Sang	10	815	–	245	40
Mr. Ng Yuk Yeung, Paul	10	–	300	1,047	–
	<b>55</b>	<b>6,354</b>	<b>300</b>	<b>2,498</b>	<b>209</b>

\* Appointed as a director on 12 February 2007 and resigned as a director on 30 August 2007.

	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
<b>2006</b>					
Executive directors:					
Mr. Ng Hung Sang	10	1,200	–	–	60
Mr. Richard Howard Gorges	10	1,020	–	849	51
Ms. Cheung Choi Ngor	10	1,020	–	849	51
Mr. Chan Hing Wah <sup>#</sup>	10	1,323	–	594	12
Mr. Ng Chun Sang	10	731	–	–	31
Mr. Ng Yuk Yeung, Paul	10	–	–	1,404	–
	<b>60</b>	<b>5,294</b>	<b>–</b>	<b>3,696</b>	<b>205</b>

<sup>#</sup> Resigned as a director on 19 December 2006.

## Notes to Financial Statements

31 December 2007

### 8. DIRECTORS' REMUNERATION *(Continued)*

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 one director (2006: three), details of whose remuneration are disclosed in note 8 above. Details of the remuneration of the remaining four (2006: two) non-director, highest paid employees for the year are as follows:

	Group	
	2007 HK\$'000	2006 HK\$'000
Salaries, allowances and benefits in kind	13,590	3,861
<u>Pension scheme contributions</u>	<u>41</u>	<u>18</u>
	<b>13,631</b>	<b>3,879</b>

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

	Number of employees	
	2007 HK\$'000	2006 HK\$'000
HK\$1,500,001 – HK\$2,000,000	–	1
HK\$2,000,001 – HK\$2,500,000	–	1
HK\$2,500,001 – HK\$3,000,000	2	–
HK\$3,000,001 – HK\$3,500,000	1	–
<u>HK\$4,500,000 – HK\$5,000,000</u>	<u>1</u>	<u>–</u>
	<b>4</b>	<b>2</b>

**10. TAX**

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 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.

	<b>Group</b>	
	<b>2007</b> <b>HK\$'000</b>	2006 HK\$'000
Current – Hong Kong		
Charge for the year	1,350	178
Overprovision in prior years	53	2
Current – Elsewhere	128	85
Deferred (note 21)	8,244	1,093
<b>Total tax charge for the year</b>	<b>9,775</b>	<b>1,358</b>

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:

	<b>Group</b>			
	<b>2007</b>		2006	
	<b>HK\$'000</b>	%	HK\$'000	%
<b>Profit before tax</b>	<b>209,319</b>		26,679	
Tax at the statutory tax rate	36,631	17.5	4,669	17.5
Higher tax rates on profits arising elsewhere	134	0.1	68	0.3
Adjustments in respect of current tax of previous periods	53	–	2	–
Income not subject to tax	(16,310)	(7.8)	(3,171)	(11.9)
Expenses not deductible for tax	1,820	0.9	1,174	4.4
Tax losses not recognised	890	0.4	1,015	3.8
Tax losses utilised from previous periods	(13,443)	(6.4)	(2,490)	(9.3)
Unrecognised deferred tax assets	–	–	91	0.3
<b>Tax charge at the Group's effective rate</b>	<b>9,775</b>	<b>4.7</b>	<b>1,358</b>	<b>5.1</b>

**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 2007 includes a profit of HK\$230,853,000 (2006: a loss of HK\$5,162,000) which has been dealt with in the financial statements of the Company (note 36(b)).

## Notes to Financial Statements

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### 12. DIVIDENDS

	2007 HK\$'000	2006 HK\$'000
Interim – HK0.4 cents (2006: Nil) per ordinary share	20,073	–
Proposed final – HK0.6 cents (2006: HK0.4 cents) per ordinary share	30,172	20,020
	<b>50,245</b>	<b>20,020</b>

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 equity holders of the Company of HK\$199,536,000 (2006: HK\$25,300,000) and the weighted average number of 5,012,649,007 (2006: 4,997,876,967) ordinary shares in issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

	2007 HK\$'000	2006 HK\$'000
<b>Earnings</b>		
Profit attributable to equity holders of the Company	199,536	25,300
	<b>2007</b>	<b>2006</b>
<b>Shares</b>		
Weighted average number of ordinary shares in issued during the year used in the basic earnings per share calculation	5,012,649,007	4,997,876,967
Effect of dilution – weighted average number of ordinary shares:		
Share options	201,122,516	–
	<b>5,213,771,523</b>	<b>4,997,876,967</b>

The Company's warrants have no dilution effect for the year ended 31 December 2007 because the exercise price of the Company's warrant was higher than average market price for shares for the year ended 31 December 2007.

**13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY** *(Continued)*

The Company's share options have no dilution effect for the year ended 31 December 2006 because the exercise price of the Company's share options was higher than average market price for shares for the year ended 31 December 2006.

**14. PROPERTY, PLANT AND EQUIPMENT**

	Group				
	Leasehold land and building under long term lease <sup>#</sup> HK\$'000	Leasehold improvements HK\$'000	Furniture and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>At 31 December 2007</b>					
At 31 December 2006 and at 1 January 2007:					
Cost	–	17,730	36,861	3,316	57,907
Accumulated depreciation	–	(16,401)	(34,610)	(3,316)	(54,327)
<b>Net carrying amount</b>	<b>–</b>	<b>1,329</b>	<b>2,251</b>	<b>–</b>	<b>3,580</b>
At 1 January 2007, net of accumulated depreciation	–	1,329	2,251	–	3,580
Transfer from an investment property (note 15)	29,079	–	–	–	29,079
Additions	–	1,002	2,306	–	3,308
Depreciation provided during the year	(582)	(950)	(1,426)	–	(2,958)
Exchange realignment	–	–	1	–	1
<b>At 31 December 2007, net of accumulated depreciation</b>	<b>28,497</b>	<b>1,381</b>	<b>3,132</b>	<b>–</b>	<b>33,010</b>
At 31 December 2007:					
Cost	29,079	17,337	38,425	3,316	88,157
Accumulated depreciation	(582)	(15,956)	(35,293)	(3,316)	(55,147)
<b>Net carrying amount</b>	<b>28,497</b>	<b>1,381</b>	<b>3,132</b>	<b>–</b>	<b>33,010</b>

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



## Notes to Financial Statements

31 December 2007

### 14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Leasehold improvements HK\$'000	Group Furniture and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>At 31 December 2006</b>				
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)
<b>Net carrying amount</b>	<b>1,397</b>	<b>2,994</b>	<b>–</b>	<b>4,391</b>
At 1 January 2006, net of accumulated depreciation				
Additions	690	592	–	1,282
Depreciation provided during the year	(758)	(1,338)	–	(2,096)
Exchange realignment	–	3	–	3
<b>At 31 December 2006, net of accumulated depreciation</b>	<b>1,329</b>	<b>2,251</b>	<b>–</b>	<b>3,580</b>
At 31 December 2006:				
Cost	17,730	36,861	3,316	57,907
Accumulated depreciation	(16,401)	(34,610)	(3,316)	(54,327)
<b>Net carrying amount</b>	<b>1,329</b>	<b>2,251</b>	<b>–</b>	<b>3,580</b>

The net book value of the Group's property, plant and equipment held under finance leases included in furniture and equipment at 31 December 2007 amounted to HK\$481,249 (2006: Nil).

At 31 December 2007, the Group's leasehold land and building with a net book value of approximately HK\$28,497,000 (2006: Nil) was pledged to secure general banking facilities granted to the Group (note 32).

Details of the Group's property are as follows:

Location

Unit 2605, 26th Floor, Tower One, Lippo Centre, 89 Queensway, Admiralty, Hong Kong

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**15. INVESTMENT PROPERTY**

	<b>Group</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Carrying amount at 1 January	162,000	155,000
Transfer to property, plant and equipment	(29,079)	–
Gain from a fair value adjustment	47,079	7,000
<b>Carrying amount at 31 December</b>	<b>180,000</b>	<b>162,000</b>

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 2007 by BMI Appraisals Limited, independent professionally qualified valuers, at HK\$180,000,000 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
Units 2601 to 2604, 26th Floor, Tower One, Lippo Centre, 89 Queensway, Admiralty, Hong Kong	Office building

**16. INTANGIBLE ASSETS**

	<b>Group</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Cost at 1 January and at 31 December, net of accumulated amortisation	<b>836</b>	<b>836</b>
At 1 January and 31 December:		
Cost	1,619	1,619
Accumulated amortisation	(783)	(783)
<b>Net carrying amount</b>	<b>836</b>	<b>836</b>

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

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, 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.

## Notes to Financial Statements

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### 16. INTANGIBLE ASSETS (Continued)

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

The Stock Exchange Trading Rights and the Futures Exchange Trading Rights have been classified as intangible assets as disclosed above and have been treated according to the accounting policy as set out in note 2.5 to the financial statements.

### 17. OTHER ASSETS

	Group	
	2007 HK\$'000	2006 HK\$'000
Membership in Chinese Gold and Silver Exchange	1,280	1,280
Statutory deposits in respect of securities and commodities dealings	4,445	5,276
Club debentures	360	360
	<b>6,085</b>	<b>6,916</b>

Other assets are non-interest bearing and have no fixed terms of repayment. The carrying amounts of the Group's other assets approximate to their fair values.

### 18. INTERESTS IN SUBSIDIARIES

	Company	
	2007 HK\$'000	2006 HK\$'000
Unlisted shares, at cost	116,319	111,294
Amounts due from subsidiaries	439,676	472,827
Amounts due to subsidiaries	(1,230)	(856)
	<b>554,765</b>	<b>583,265</b>
Impairment <sup>#</sup>	<b>(116,500)</b>	<b>(296,500)</b>
	<b>438,265</b>	<b>286,765</b>

<sup>#</sup> An impairment was recognised for amounts due from subsidiaries with a carrying amount of HK\$439,676,000 (before deducting the impairment loss) (2006: HK\$472,827,000) because certain subsidiaries of the Company were making loss persistently. There was a reversal of HK\$180,000,000 (2006: Nil) in the impairment account during the current year.

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

	Company	
	2007 HK\$'000	2006 HK\$'000
At 1 January	296,500	296,500
Impairment losses reversed	(180,000)	—
At 31 December	<b>116,500</b>	<b>296,500</b>

**18. INTERESTS IN SUBSIDIARIES** *(Continued)*

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	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2007	2006	
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\$15,000,000	100	100	Commodities broking
South China Finance Company Limited	Hong Kong	HK\$1,000,000	100	100	Provision of loan financing
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	98.42	98.36	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

## Notes to Financial Statements

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### 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		Principal activities
			2007	2006	
South China Securities (UK) Limited*	United Kingdom	GBP200,000	100	100	Securities broking
廣州南華四海 諮詢有限公司**	People's Republic of China/Mainland China	HK\$100,000	100	100	Provision of corporate advisory services
南又華投資諮詢(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 member firm of the Ernst & Young global network.

\*\* 廣州南華四海諮詢有限公司 and 南又華投資諮詢(上海)有限公司 are registered as wholly-foreign-owned enterprises under PRC law.

Except for Polyluck Trading Limited, 廣州南華四海諮詢有限公司 and 南又華投資諮詢(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	
	2007 HK\$'000	2006 HK\$'000
<u>Listed equity investments in Hong Kong, at fair value</u>	—	23,193

During the year, the change in fair value of the Group's available-for-sale financial assets recognised directly in equity amounted to a gain of HK\$73,186,000 (2006: a loss of HK\$301,000), and a gain of HK\$72,413,000 (2006: HK\$540,000) was released from equity to the income statement upon disposal of the investments.

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.

**20. LOANS RECEIVABLE**

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

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

	<b>Group</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Loans receivable	<b>283,700</b>	353,512
Impairment	<b>(31,221)</b>	(139,807)
	<b>252,479</b>	213,705
<b>Market value of collateral at 31 December</b>	<b>1,509,118</b>	933,550

Included in the Group's loans receivable are amounts due from the Group's fellow subsidiaries of HK\$15,859,000 (2006: HK\$56,000) arising from margin financing operation, which is repayment on similar credit terms to those offered to the major customers of the Group.

At 31 December 2007, certain listed equity securities provided by fellow subsidiaries and clients of approximately HK\$145,884,000 (2006: HK\$158,294,000) as collateral were pledged to banks to secure banking facilities granted to the Group (note 32).

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

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

	<b>Group</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Repayable:		
On demand	<b>219,208</b>	184,578
Within 3 months	<b>9,081</b>	8,243
3 months to 1 year	<b>17,277</b>	14,905
1 to 5 years	<b>6,913</b>	5,979
	<b>252,479</b>	213,705
Portion classified as current assets	<b>(245,566)</b>	(207,726)
<b>Portion classified as non-current assets</b>	<b>6,913</b>	5,979

## Notes to Financial Statements

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### 20. LOANS RECEIVABLE (Continued)

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

	Group	
	2007 HK\$'000	2006 HK\$'000
At 1 January	139,807	128,517
Impairment losses recognised (note 6)	6,195	11,290
Impairment losses reversed (note 6)	(27,379)	–
Amount written off as uncollectible, net	(87,402)	–
<b>At 31 December</b>	<b>31,221</b>	<b>139,807</b>

Included in the above provision for impairment of loans receivable is a provision for individually impaired loans receivable of HK\$28,238,000 (2006: HK\$137,689,000) with a carrying amount of HK\$38,887,000 (2006: HK\$167,085,000). The individually impaired loans receivable relate to customers that were in default or delinquency in payments and only a portion of the receivables is expected to be recovered. The Group holds certain listed equity securities of clients as collateral over these individually impaired loans receivable.

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

	Group	
	2007 HK\$'000	2006 HK\$'000
Neither past due nor impaired	216,938	166,982
Less than 1 month past due	493	1,320
1 to 3 months past due	222	232
3 to 6 months past due	328	127
6 to 9 months past due	366	286
9 months to 1 year past due	387	292
	<b>218,734</b>	<b>169,239</b>

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

Loans receivable that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group holds certain listed equity securities of clients as collateral over these loans receivable.

**21. DEFERRED TAX**

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

**Deferred tax liabilities**

2007

	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 2007	(4,414)	2,671	7,155	5,412
Deferred tax charged/(credited) to the income statement during the year (note 10)	(266)	266	8,239	8,239
<b>At 31 December 2007</b>	<b>(4,680)</b>	<b>2,937</b>	<b>15,394</b>	<b>13,651</b>

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
<b>At 31 December 2006</b>	<b>(4,414)</b>	<b>2,671</b>	<b>7,155</b>	<b>5,412</b>



# Notes to Financial Statements

31 December 2007

## 21. DEFERRED TAX (Continued)

### Deferred tax assets

2007

	Provision HK\$'000	Group Depreciation in excess of related depreciation allowance HK\$'000	Total HK\$'000
At 1 January 2007	2,765	22	2,787
Deferred tax charged to the income statement during the year (note 10)	–	(5)	(5)
<b>At 31 December 2007</b>	<b>2,765</b>	<b>17</b>	<b>2,782</b>

2006

	Provision HK\$'000	Group 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)
<b>At 31 December 2006</b>	<b>2,765</b>	<b>22</b>	<b>2,787</b>

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

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Tax losses	267,442	314,176	739	382
Deductible temporary differences	2,905	5,536	519	563
	<b>270,347</b>	<b>319,712</b>	<b>1,258</b>	<b>945</b>

**21. DEFERRED TAX** *(Continued)***Deferred tax assets** *(continued)*

The above tax losses arising in Hong Kong are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. 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 2007, there was no significant unrecognised deferred tax liability (2006: 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	
	2007 HK\$'000	2006 HK\$'000
Hong Kong listed equity investments, at market value	<b>186,523</b>	81,162

The above financial assets at 31 December 2007 were classified as held for trading, of which approximately HK\$127,096,000 (2006: HK\$49,839,000) 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\$132,641,000.

**23. TRADE RECEIVABLES**

	Group	
	2007 HK\$'000	2006 HK\$'000
Trade receivables	<b>88,421</b>	76,320
Impairment	<b>(2,056)</b>	(6,509)
	<b>86,365</b>	69,811

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

The Group allows a credit period up to the respective settlement dates of securities, bullion and commodities transactions (normally two business days after the respective trade dates) or a credit period mutually agreed between the contracting parties. Each customer has a credit limit. The Group maintains strict control over its outstanding receivables and a credit control department has been established to monitor the potential credit risk. Overdue balances are reviewed regularly by senior management and would be handled closely by the credit control department. As a matter of fact, 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.

## Notes to Financial Statements

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### 23. TRADE RECEIVABLES (Continued)

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	
	2007 HK\$'000	2006 HK\$'000
Current to 90 days	82,302	67,392
91 days to 1 year	4,063	2,419
	86,365	69,811

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

	Group	
	2007 HK\$'000	2006 HK\$'000
At 1 January	6,509	6,137
Impairment losses recognised (note 6)	1,184	372
Impairment losses reversed (note 6)	(1,472)	–
Amount written off as uncollectible	(4,165)	–
	2,056	6,509

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK\$2,056,000 (2006: HK\$6,509,000) with a carrying amount of HK\$3,574,000 (2006: HK\$23,231,000). The individually impaired trade receivables relate to customers that were in default or delinquency in payments. The Group holds certain listed equity securities of clients as collateral over these individually impaired trade receivables.

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

	Group	
	2007 HK\$'000	2006 HK\$'000
Neither past due nor impaired	67,451	44,639
Less than 1 month past due	3,856	3,977
1 to 3 months past due	9,477	2,054
Over 3 months past due	4,063	2,419
	84,847	53,089

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

**23. TRADE RECEIVABLES** *(Continued)*

Accounts receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group holds certain listed equity securities of clients as collateral over these trade receivables.

**24. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS**

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

As at 31 December 2007, the Group's and Company's other receivable, prepayments and deposits were neither past due nor impaired (2006: Nil).

**25. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS**

	Note	Group		Company	
		2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Cash and bank balances		79,544	59,507	255	135
Time deposits		5,750	42,250	—	—
		85,294	101,757	255	135
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)	—	—
<b>Cash and cash equivalents</b>		<b>79,544</b>	<b>96,007</b>	<b>255</b>	<b>135</b>

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$253,478 (2006: HK\$639,978). 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 bank balances and pledged deposits are deposits with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged time deposits approximate to their fair values.

# Notes to Financial Statements

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## 26. 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 the 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.

## 27. AMOUNT DUE TO AN INTERMEDIATE HOLDING COMPANY

The amount due to Tek Lee Finance and Investment Corporation Limited was unsecured, non-interest-bearing and had no fixed terms of repayment.

## 28. CLIENT DEPOSITS

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

The client deposits are unsecured, bear interest at the bank deposit saving rate (2006: bank deposit saving rate) and are repayable on demand.

Included in client deposits are deposits from fellow subsidiaries, directors of a fellow subsidiary and the ultimate holding company of HK\$126,000 (2006: HK\$2,133,000), HK\$73,163,000 (2006: HK\$44,000) and HK\$Nil (2006: HK\$7,176,000), 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	
	2007	2006
	HK\$'000	HK\$'000
Current to 30 days	86,141	85,669

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

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 34 months (2006: 4 months).

At 31 December 2007, 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	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Obligation under finance leases:				
Within one year	210	81	176	79
In the second year	210	–	193	–
From third to fifth year	87	–	85	–
<b>Total minimum finance lease payments</b>	<b>507</b>	<b>81</b>	<b>454</b>	<b>79</b>
Future finance charges	(53)	(2)		
<b>Total net finance lease payables</b>	<b>454</b>	<b>79</b>		
Portion classified as current				
Liabilities (note 32)	(176)	(79)		
<b>Non-current portion (note 32)</b>	<b>278</b>	<b>–</b>		

**32. INTEREST-BEARING BANK AND OTHER BORROWINGS**

	Effective interest rate (%)	Maturity	Group	
			2007 HK\$'000	2006 HK\$'000
<b>Current</b>				
Obligation under finance leases (note 31)	4.6	2008	176	79
Bank overdrafts – secured	6.5 – 8.3	On demand	–	4,335
Bank loans – secured	4.0 – 4.5	2008	95,819	127,875
Bank loans – unsecured	5.6 – 8.5	2008	47,486	39,742
			<b>143,481</b>	<b>172,031</b>
<b>Non-current</b>				
Obligation under finance leases (note 31)	4.6	2010	278	–
Bank loans – secured	4.2 – 5.0	2009-2016	51,015	44,857
Bank loans – unsecured	5.6 – 6.9	2009-2011	2,691	1,339
			<b>53,984</b>	<b>46,196</b>
			<b>197,465</b>	<b>218,227</b>

## Notes to Financial Statements

31 December 2007

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

	Group	
	2007 HK\$'000	2006 HK\$'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	143,305	171,952
In the second year	7,340	6,962
In the third to fifth years, inclusive	21,031	21,039
Beyond five years	25,335	18,195
	<b>197,011</b>	<b>218,148</b>
Other borrowings repayable:		
Within one year	176	79
In the second and third years	278	–
	<b>454</b>	<b>79</b>
	<b>197,465</b>	<b>218,227</b>

Notes:

- (a) The Group's overdraft facilities amounting to HK\$91,000,000 (2006: HK\$81,000,000), of which HK\$Nil (2006: HK\$4,335,000) 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 (2006: HK\$250,000) (note 25).
- (b) Certain of the Group's bank loans are secured by the Group's investment property and leasehold land and building situated in Hong Kong, which had an aggregate carrying value at the balance sheet date of approximately HK\$208,497,000 (2006: HK\$162,000,000) (notes 14 and 15).

In addition, listed equity investments belonging to the Group, fellow subsidiaries and clients totalling approximately HK\$272,980,000 (2006: HK\$208,133,000) 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.

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 2007.

### 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 (2006: 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**

	<b>2007</b> <b>HK\$'000</b>	2006 HK\$'000
Authorised:		
8,000,000,000 (2006: 8,000,000,000) ordinary shares of HK\$0.025 each	<b>200,000</b>	200,000
Issued and fully paid:		
5,028,605,900 (2006: 5,004,890,940) ordinary shares of HK\$0.025 each	<b>125,715</b>	125,122

During the year, the movements in share capital were as follows:

- (a) The subscription rights attaching to 23,500,000 share options were exercised at the subscription price of HK\$0.128 per share (note 35), resulting in the issue of 23,500,000 shares of HK\$0.025 each for a total cash consideration, before expenses, of HK\$3,008,000.
- (b) 214,960 shares of HK\$0.025 each were issued for cash at a subscription price of HK\$0.168 per share pursuant to the exercise of the Company's warrants for a total cash consideration, before expenses, of HK\$36,000.

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:

	<b>Number of shares in issue</b>	<b>Issued share capital HK\$'000</b>	<b>Share premium account HK\$'000</b>	<b>Total HK\$'000</b>
At 1 January 2006	4,861,990,940	121,550	201,674	323,224
Warrants exercised	142,900,000	3,572	10,889	14,461
Transfer from warrant reserve	–	–	3,715	3,715
At 1 January 2007	5,004,890,940	125,122	216,278	341,400
Share options exercised	23,500,000	588	2,420	3,008
Transfer from share option reserve	–	–	1,265	1,265
Warrants exercised	214,960	5	31	36
At 31 December 2007	5,028,605,900	125,715	219,994	345,709

**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.



# Notes to Financial Statements

31 December 2007

## 34. SHARE CAPITAL (Continued)

### Warrants

During the year, a bonus issue of warrants was made in the proportion of one warrant for every five shares held by members on the register of members on 12 October 2007, resulting in 1,005,678,188 warrants being issued. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK\$0.025 each at a subscription price of HK\$0.168 per share, payable in cash and subject to adjustment, from the date of issue to 22 October 2008.

During the year, 214,960 warrants were exercised for 214,960 shares of HK\$0.025 each at a price of HK\$0.168 per share. At the balance sheet date, the Company had 1,005,463,228 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 1,005,463,228 additional shares of HK\$0.025 each.

## 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:

### (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)***(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 2007, the Company had 319,250,000 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 319,250,000 additional ordinary shares of the Company and additional share capital of HK\$7,981,250 and share premium of HK\$39,587,000 (before issue expenses).

During the year ended 31 December 2007, 23,500,000 share options were exercised by the grantees pursuant to the Share Option Scheme.

At the date of approval of these financial statements and the date of this annual report, a total of 143,443,674 shares of the Company are available for issue and 319,250,000 share options are outstanding under the Share Option Scheme, which represent approximately 2.85% and 6.35% 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.

**(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.

# Notes to Financial Statements

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## 35. SHARE OPTION SCHEME (Continued)

### (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 quotation sheets for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares.

### (9) Remaining Life of the 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.

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

	2007		2006	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	0.128	238,000	–	–
Granted during the year	0.164	202,000	0.128	238,000
Forfeited during the year	0.134	(97,250)	–	–
Exercised during the year	0.128	(23,500)	–	–
<b>At 31 December</b>	<b>0.149</b>	<b>319,250</b>	0.128	238,000

The weighted average share price at the date of exercise for share options exercised during the year was HK\$0.216 (2006: Nil).

**35. SHARE OPTION SCHEME (Continued)****(9) Remaining Life of the Share Option Scheme (continued)**

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

Name or category of participant	Number of share options					Outstanding as at 31 December 2007	Date of grant of share options <sup>*</sup>	Exercise period of share options	Subscription price per share <sup>**</sup> HK\$	Price of the Company's shares <sup>***</sup>	
	Outstanding as at 1 January 2007	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year					Immediately preceding the grant date of share options HK\$ per share	Immediately preceding the exercise date of share options HK\$ per share
<b>Directors</b>											
Ms. Cheung Choi Ngor	10,000,000	-	(10,000,000)	-	-	-	16 Mar 2006	16 Mar 2007 – 15 Mar 2009	0.128	0.104	0.212
	10,000,000	-	-	-	-	10,000,000	16 Mar 2006	16 Mar 2008 – 15 Mar 2010	0.128	0.104	N/A
	10,000,000	-	-	-	-	10,000,000	16 Mar 2006	16 Mar 2009 – 15 Mar 2011	0.128	0.104	N/A
Mr. Richard Howard Gorges	10,000,000	-	-	-	-	10,000,000	16 Mar 2006	16 Mar 2007 – 15 Mar 2009	0.128	0.104	N/A
	10,000,000	-	-	-	-	10,000,000	16 Mar 2006	16 Mar 2008 – 15 Mar 2010	0.128	0.104	N/A
	10,000,000	-	-	-	-	10,000,000	16 Mar 2006	16 Mar 2009 – 15 Mar 2011	0.128	0.104	N/A
Mr. Ng Chun Sang	-	1,666,667	-	-	-	1,666,667	12 Apr 2007	12 Apr 2008 – 11 Apr 2010	0.161	0.156	N/A
	-	1,666,667	-	-	-	1,666,667	12 Apr 2007	12 Apr 2009 – 11 Apr 2011	0.161	0.156	N/A
	-	1,666,666	-	-	-	1,666,666	12 Apr 2007	12 Apr 2010 – 11 Apr 2012	0.161	0.156	N/A
	-	1,000,000	-	-	-	1,000,000	17 Apr 2007	17 Apr 2008 – 16 Apr 2010	0.161	0.148	N/A
	-	1,000,000	-	-	-	1,000,000	17 Apr 2007	17 Apr 2009 – 16 Apr 2011	0.161	0.148	N/A
	-	1,000,000	-	-	-	1,000,000	17 Apr 2007	17 Apr 2010 – 16 Apr 2012	0.161	0.148	N/A
Mr. Ng Yuk Yeung, Paul	10,000,000	-	-	-	-	10,000,000	16 Mar 2006	16 Mar 2007 – 15 Mar 2009	0.128	0.104	N/A
	10,000,000	-	-	-	-	10,000,000	16 Mar 2006	16 Mar 2008 – 15 Mar 2010	0.128	0.104	N/A
	10,000,000	-	-	-	-	10,000,000	16 Mar 2006	16 Mar 2009 – 15 Mar 2011	0.128	0.104	N/A
	6,666,667	-	-	-	-	6,666,667	26 Apr 2006	26 Apr 2007 – 25 Apr 2009	0.128	0.110	N/A
	6,666,667	-	-	-	-	6,666,667	26 Apr 2006	26 Apr 2008 – 25 Apr 2010	0.128	0.110	N/A
6,666,666	-	-	-	-	6,666,666	26 Apr 2006	26 Apr 2009 – 25 Apr 2011	0.128	0.110	N/A	
Mr. Chan Hing Wah <sup>†</sup>	7,000,000	-	-	(7,000,000)	-	-	16 Mar 2006	16 Mar 2007 – 15 Mar 2009	0.128	0.104	N/A
	7,000,000	-	-	(7,000,000)	-	-	16 Mar 2006	16 Mar 2008 – 15 Mar 2010	0.128	0.104	N/A
	7,000,000	-	-	(7,000,000)	-	-	16 Mar 2006	16 Mar 2009 – 15 Mar 2011	0.128	0.104	N/A
Dr. Tang Kam Sun <sup>††</sup>	-	16,666,667	-	(16,666,667)	-	-	16 Feb 2007	16 Feb 2008 – 15 Feb 2010	0.128	0.090	N/A
	-	16,666,667	-	(16,666,667)	-	-	16 Feb 2007	16 Feb 2009 – 15 Feb 2011	0.128	0.090	N/A
	-	16,666,666	-	(16,666,666)	-	-	16 Feb 2007	16 Feb 2010 – 15 Feb 2012	0.128	0.090	N/A
	131,000,000	58,000,000	(10,000,000)	(71,000,000)	-	108,000,000					

# Notes to Financial Statements

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## 35. SHARE OPTION SCHEME (Continued)

### (9) Remaining Life of the Share Option Scheme (continued)

The following share options were outstanding under the Share Option Scheme during the year: (continued)

Name or category of participant	Number of share options					Date of grant of share options <sup>1</sup>	Exercise period of share options	Subscription price per share ** HK\$	Price of the Company's shares ***		
	Outstanding as at 1 January 2007	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year				Outstanding as at 31 December 2007	Immediately preceding the grant date of share options HK\$ per share	Immediately preceding the exercise date of share options HK\$ per share
<b>Consultant</b>											
In aggregate	-	1,000,000	-	-	-	1,000,000	10 Jul 2007	10 Jul 2008 – 9 July 2010	0.172	0.170	N/A
	-	1,000,000	-	-	-	1,000,000	10 Jul 2007	10 Jul 2009 – 9 Jul 2011	0.172	0.170	N/A
	-	1,000,000	-	-	-	1,000,000	10 Jul 2007	10 Jul 2010 – 9 Jul 2012	0.172	0.170	N/A
	-	3,000,000	-	-	-	3,000,000					
<b>Employees</b>											
In aggregate	29,000,000	(13,500,000)	(3,333,333)	-	-	12,166,667	16 Mar 2006	16 Mar 2007 – 15 Mar 2009	0.128	0.104	0.224
	29,000,000	-	(3,333,333)	-	-	25,666,667	16 Mar 2006	16 Mar 2008 – 15 Mar 2010	0.128	0.104	N/A
	29,000,000	-	(3,333,334)	-	-	25,666,666	16 Mar 2006	16 Mar 2009 – 15 Mar 2011	0.128	0.104	N/A
	6,666,667	-	-	-	-	6,666,667	26 Apr 2006	26 Apr 2007 – 25 Apr 2009	0.128	0.110	N/A
	6,666,667	-	-	-	-	6,666,667	26 Apr 2006	26 Apr 2008 – 25 Apr 2010	0.128	0.110	N/A
	6,666,666	-	-	-	-	6,666,666	26 Apr 2006	26 Apr 2009 – 25 Apr 2011	0.128	0.110	N/A
	-	30,500,000	(5,083,333)	-	-	25,416,667	12 Apr 2007	12 Apr 2008 – 11 Apr 2010	0.161	0.156	N/A
	-	30,500,000	(5,083,333)	-	-	25,416,667	12 Apr 2007	12 Apr 2009 – 11 Apr 2011	0.161	0.156	N/A
	-	30,500,000	(5,083,334)	-	-	25,416,666	12 Apr 2007	12 Apr 2010 – 11 Apr 2012	0.161	0.156	N/A
	-	1,666,667	(333,333)	-	-	1,333,334	23 Apr 2007	23 Apr 2008 – 22 Apr 2010	0.161	0.136	N/A
	-	1,666,667	(333,333)	-	-	1,333,334	23 Apr 2007	23 Apr 2009 – 22 Apr 2011	0.161	0.136	N/A
	-	1,666,666	(333,334)	-	-	1,333,332	23 Apr 2007	23 Apr 2010 – 22 Apr 2012	0.161	0.136	N/A
	-	4,833,333	-	-	-	4,833,333	10 Jul 2007	10 Jul 2008 – 09 Jul 2010	0.172	0.170	N/A
	-	4,833,333	-	-	-	4,833,333	10 Jul 2007	10 Jul 2009 – 09 Jul 2011	0.172	0.170	N/A
	-	4,833,334	-	-	-	4,833,334	10 Jul 2007	10 Jul 2010 – 09 Jul 2012	0.172	0.170	N/A
	-	2,000,000	-	-	-	2,000,000	10 Sept 2007	10 Sept 2008 – 09 Sept 2010	0.227	0.212	N/A
	-	2,000,000	-	-	-	2,000,000	10 Sept 2007	10 Sept 2009 – 09 Sept 2011	0.227	0.212	N/A
	-	2,000,000	-	-	-	2,000,000	10 Sept 2007	10 Sept 2010 – 09 Sept 2012	0.227	0.212	N/A
	-	8,000,000	-	-	-	8,000,000	17 Oct 2007	17 Oct 2008 – 16 Oct 2010	0.227	0.183	N/A
	-	8,000,000	-	-	-	8,000,000	17 Oct 2007	17 Oct 2009 – 16 Oct 2011	0.227	0.183	N/A
	-	8,000,000	-	-	-	8,000,000	17 Oct 2007	17 Oct 2010 – 16 Oct 2012	0.227	0.183	N/A
	107,000,000	141,000,000	(13,500,000)	(26,250,000)	-	208,250,000					
	238,000,000	202,000,000	(23,500,000)	(97,250,000)	-	319,250,000					

**35. SHARE OPTION SCHEME** (Continued)**(9) Remaining Life of the Share Option Scheme** (continued)

The following share options were outstanding under the Share Option Scheme during the year: (continued)

Notes:

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

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

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.

# Resigned as a director on 19 December 2006.

## Appointed as a director on 12 February 2007 and resigned as a director on 30 August 2007.

The fair value of the share options granted during the year was HK\$15,760,000 (HK\$0.0314 to HK\$0.1384 each) (2006: HK\$0.0538 to HK\$0.0768 each). The Group recognised a share option expense of HK\$7,862,000 (2006: HK\$6,711,000) during the year ended 31 December 2007.

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:

	2007	2006
Dividend yield (%)	1.19	0.00
Average expected volatility (%)	77.04	85.43
Average historical volatility (%)	77.04	85.43
Average risk-free interest rate (%)	4.11	4.38
Expected life of option (year)	3 – 5	3 – 5
Weighted average share price (HK\$)	0.155	0.109

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.

# Notes to Financial Statements

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## 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 26 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	Retained profits/ losses (accumulated) HK\$'000	Total HK\$'000
At 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		–	–	–	(21,505)	21,505	–
Equity-settled share option arrangements	35	–	–	6,711	–	–	6,711
Proposed final 2006 dividend		–	–	–	–	(20,020)	(20,020)
<b>At 31 December 2006 and 1 January 2007</b>		<b>216,278</b>	<b>1,601</b>	<b>6,711</b>	<b>–</b>	<b>(32,433)</b>	<b>192,157</b>
Profit for the year	11	–	–	–	–	230,853	230,853
Issue of shares upon exercise of warrants	34	31	–	–	–	–	31
Issue of shares upon exercise of share options	34	2,420	–	–	–	–	2,420
Transfer of share option reserve to share premium upon exercise of share options	34	1,265	–	(1,265)	–	–	–
Equity-settled share option arrangements	35	–	–	7,862	–	–	7,862
Interim 2007 dividend		–	–	–	–	(20,073)	(20,073)
Proposed final 2007 dividend		–	–	–	–	(30,172)	(30,172)
<b>At 31 December 2007</b>		<b>219,994</b>	<b>1,601</b>	<b>13,308</b>	<b>–</b>	<b>148,175</b>	<b>383,078</b>

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 2.5 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 note 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:

	<b>Group</b>		<b>Company</b>	
	<b>2007</b> <b>HK\$'000</b>	2006 HK\$'000	<b>2007</b> <b>HK\$'000</b>	2006 HK\$'000
Guarantees given to banks in connection with banking facilities granted to subsidiaries	–	–	<b>980,000</b>	845,910

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\$197,465,000 (2006: HK\$218,148,000).

**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 for two years. The terms of the leases generally require the tenants to pay security deposits.

At 31 December 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>Group</b>	
	<b>2007</b> <b>HK\$'000</b>	2006 HK\$'000
Within one year	<b>6,557</b>	6,052
In the second to fifth years, inclusive	<b>5,087</b>	3,089
	<b>11,644</b>	9,141



## Notes to Financial Statements

31 December 2007

### 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 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2007 HK\$'000	2006 HK\$'000
Within one year	9,133	9,938
In the second to fifth years, inclusive	5,114	7,215
	14,247	17,153

### 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	2007 HK\$'000	2006 HK\$'000
Consulting and service fees paid to a fellow subsidiary*:			
E-business service fee	(i)	–	980
Advertising and promotional fee		–	980
Commission and brokerage income received from:			
Fellow subsidiaries*	(ii)	2,694	295
Directors and companies in which certain directors have beneficial interests*		2,229	1,205
Interest income received from:			
An intermediate holding company*	(iii)	–	521
Fellow subsidiaries*	(iv)	6,496	1,285
Directors and companies in which certain directors have beneficial interests*	(iv)	5,224	1,678
Rental expenses paid to fellow subsidiaries*	(v)	617	442

\* 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 related 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 related to the Group's securities broking business and was calculated by reference to commission and brokerage fees charged to third parties.
- (iii) Interest income related to an amount due from an intermediate holding company, details of which are set out in note 27 to the financial statements.
- (iv) Interest income related to the Group's margin financing business and was calculated at 4% over the Hong Kong dollar prime rate (2006: 4% over the Hong Kong dollar prime rate) per annum.
- (v) Rental expenses related 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. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### Major non-cash transactions

- (a) During the year, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of HK\$550,000 (2006: Nil).
- (b) During the year, the Group transferred certain of its investment property of HK\$29,079,000 (2006: Nil) to property, plant and equipment.

## Notes to Financial Statements

31 December 2007

### 42. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

2007	Group		
<b>Financial assets</b>			
	<b>Financial assets at fair value through profit or loss – held for trading HK\$'000</b>	<b>Loans and receivables HK\$'000</b>	<b>Total HK\$'000</b>
Loans receivable	–	252,479	252,479
Trade receivables	–	86,365	86,365
Financial assets included in other receivables, prepayments and deposits and other assets	–	14,043	14,043
Financial assets at fair value through profit or loss	186,523	–	186,523
Pledged time deposits	–	5,750	5,750
Cash held on behalf of clients	–	538,546	538,546
Cash and cash equivalents	–	79,544	79,544
	<b>186,523</b>	<b>976,727</b>	<b>1,163,250</b>
<b>Financial liabilities</b>			
			<b>Financial liabilities at amortised cost HK\$'000</b>
Client deposits			518,718
Trade payables			86,141
Financial liabilities included in other payables and accruals			24,182
Interest-bearing bank and other borrowings			197,465
Amount due to an intermediate holding company			4,652
			<b>831,158</b>

**42. FINANCIAL INSTRUMENTS BY CATEGORY** (Continued)

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: (continued)

2006	Group			
Financial assets	Financial assets at fair value through profit or loss – held for trading HK\$'000	Loans and receivables HK\$'000	Available- for-sale financial assets HK\$'000	Total HK\$'000
Available-for-sale financial assets	–	–	23,193	23,193
Loans receivable	–	213,705	–	213,705
Trade receivables	–	69,811	–	69,811
Financial assets included in other receivables, prepayments and deposits and other assets	–	21,613	–	21,613
Financial assets at fair value through profit or loss	81,162	–	–	81,162
Pledged time deposits	–	5,750	–	5,750
Cash held on behalf of clients	–	363,372	–	363,372
Cash and cash equivalents	–	96,007	–	96,007
	<b>81,162</b>	<b>770,258</b>	<b>23,193</b>	<b>874,613</b>
<b>Financial liabilities</b>				
			Financial liabilities at amortised cost HK\$'000	
Client deposits				361,719
Trade payables				85,669
Financial liabilities included in other payables and accruals				10,050
Interest-bearing bank and other borrowings				218,227
				<b>675,665</b>

## Notes to Financial Statements

31 December 2007

### 42. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: (continued)

Financial assets	Company Loans and receivables	
	2007 HK\$'000	2006 HK\$'000
Due from subsidiaries (note 18)	439,676	472,827
Subordinated loan to a subsidiary	100,000	50,000
Financial assets include other receivables, prepayments and deposits	494	449
Cash and cash equivalents	255	135
	<b>540,425</b>	<b>523,411</b>

Financial liabilities	Company Financial liabilities at amortised cost	
	2007 HK\$'000	2006 HK\$'000
Due to subsidiaries (note 18)	1,230	856
Financial liabilities included in other payables and accruals	49	50
	<b>1,279</b>	<b>906</b>

### 43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk and equity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.5 to the financial statements.

#### Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's net debt obligations with a floating interest rate. The majority of the bank borrowings bear interest at interest rates with reference to the HIBOR whereas loans to customers bear interest at interest rates with reference to the prime rate. As the prime rate in Hong Kong basically changes in line with the HIBOR, the Group's exposure to the risk of changes in market interest rates is minimal.

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

**43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** *(Continued)***Interest rate risk** *(continued)*

	<b>Change in basis point</b>	<b>Group Change in profit before tax HK\$'000</b>
<b>2007</b>		
Hong Kong dollar	50	795
<b>2006</b>		
Hong Kong dollar	50	494

**Foreign currency risk**

Foreign currency risk is the risk of losses 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.

**Credit risk**

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

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets, equity investments at fair value through profit or loss and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 38 to the financial statements.

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 a single debtor.

Further quantitative data in respect of the Group's exposure to credit risk arising from loans and trade receivables are disclosed in notes 20 and 23 to the financial statements respectively.

## Notes to Financial Statements

31 December 2007

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

#### Liquidity risk

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

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, finance leases and other interest-bearing loans.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

2007	Group					Total HK\$'000
	On demand HK\$'000	Less than 3 months HK\$'000	3 to less than 12 months HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	
Client deposits	518,718	–	–	–	–	518,718
Interest-bearing bank and other borrowings	–	142,095	1,122	35,464	18,784	197,465
Trade payables	–	86,141	–	–	–	86,141
Other payables and accruals	–	24,182	–	–	–	24,182
Due to an intermediate holding company	4,652	–	–	–	–	4,652
	<b>523,370</b>	<b>252,418</b>	<b>1,122</b>	<b>35,464</b>	<b>18,784</b>	<b>831,158</b>

2006	Group					Total HK\$'000
	On demand HK\$'000	Less than 3 months HK\$'000	3 to less than 12 months HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	
Client deposits	361,719	–	–	–	–	361,719
Interest-bearing bank and other borrowings	4,335	159,966	560	35,171	18,195	218,227
Trade payables	–	85,669	–	–	–	85,669
Other payables and accruals	–	10,050	–	–	–	10,050
	<b>366,054</b>	<b>255,685</b>	<b>560</b>	<b>35,171</b>	<b>18,195</b>	<b>675,665</b>

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

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

2007	Company					
	On demand HK\$'000	Less than 3 months HK\$'000	3 to less than 12 months HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
Due to subsidiaries (note 18)	1,230	–	–	–	–	1,230
Other payables and accruals	–	49	–	–	–	49
	<b>1,230</b>	<b>49</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,279</b>

2006	Company					
	On demand HK\$'000	Less than 3 months HK\$'000	3 to less than 12 months HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
Due to subsidiaries (note 18)	–	–	–	856	–	856
Other payables and accruals	–	50	–	–	–	50
	<b>–</b>	<b>50</b>	<b>–</b>	<b>856</b>	<b>–</b>	<b>906</b>

**Equity price risk**

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as trading equity investments (note 22) as at 31 December 2007. The Group's listed investments are listed on the Hong Kong Stock Exchange and are valued at quoted market prices at the balance sheet date.

The market equity indices for the following stock exchange, at the close of business of the nearest trading day in the year to the balance sheet date, and their respective highest and lowest points during the year were as follows:

	31 December 2007	High/low 2007	31 December 2006	High/low 2006
Hong Kong – Hang Seng Index	27,813	31,958/ 18,659	19,965	20,049/ 14,844

The following table demonstrates the sensitivity to every 10% change in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the balance sheet date. For the purpose of this analysis, for the available-for-sale equity investments the impact is deemed to be on the available-for-sale investment revaluation reserve and no account is given for factors such as impairment which might impact on the income statement.



## Notes to Financial Statements

31 December 2007

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

#### Equity price risk (continued)

	Carrying amount of equity investments HK\$'000	Change in profit before tax HK\$'000	Change in equity HK\$'000
<b>2007</b>			
Investments listed in:			
Hong Kong – Held-for-trading	186,523	18,652	–
<b>2006</b>			
Investments listed in:			
Hong Kong – Available-for sale	23,193	–	2,319
– Held-for-trading	81,162	8,116	–

#### Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

Certain subsidiaries of the Group are regulated by the Securities and Futures Commission (the "SFC") and are required to comply with certain minimum capital requirements according to the rules of the SFC. The Group has established a legal and compliance department which are operated by experienced internal qualified lawyers and compliance officers and are monitored by management. The principal roles of the legal and compliance department are to monitor the daily financial status and to review internal control of the Group regularly to ensure the Company's regulated subsidiaries are in compliance with related regulations. No changes were made in the objectives, policies or processes during the two years ended 31 December 2007.

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

	Group	
	2007 HK\$'000	2006 HK\$'000
Interest-bearing bank and other borrowings	197,465	218,227
Less: Cash and cash equivalents	(79,544)	(96,007)
Net debt	117,921	122,220
Capital	539,158	368,053
Capital and net debt	657,079	490,273
Gearing ratio	17.9%	24.9%

## **44. POST BALANCE SHEET EVENT**

Subsequent to the balance sheet date, there were significant falls in many major international stock markets, including the exchange on which the Group's listed investments are traded. Further details of the market values of the Group's listed investments are included in notes 22 to the financial statements. The decline in the carrying amounts of the investments subsequent to the balance sheet date and up to the date of approval of these financial statements has not been reflected in these financial statements.

## **45. COMPARATIVE AMOUNTS**

As further explained in note 2.2 to the financial statements, due to the adoption of the new and revised HKFRSs during the current year, certain comparative amounts have been adjusted to conform with the current year's presentation and to show separately comparative amounts in respect of items disclosed for the first time in 2007.

## **46. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 18 March 2008.

# Five Year Financial Summary

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

## RESULTS

	Year ended 31 December				
	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	<b>285,952</b>	156,873	116,947	131,953	117,715
Profit before tax	<b>209,319</b>	26,679	8,601	72,955	29,804
Tax	<b>(9,775)</b>	(1,358)	(4,392)	(4,352)	3,659
Profit for the year	<b>199,544</b>	25,321	4,209	68,603	33,463
Attributable to:					
Equity holders of the parent	<b>199,536</b>	25,300	4,109	68,576	33,429
Minority interests	<b>8</b>	21	100	27	34
	<b>199,544</b>	25,321	4,209	68,603	33,463

	Year ended 31 December				
	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
Earnings per share (HK cent):					
Basic	<b>3.98</b>	0.51	0.08	1.41	0.69
Diluted	<b>3.83</b>	0.51	N/A	N/A	N/A
Dividend per share (HK cents)	<b>0.60</b>	0.40	–	0.20	0.20

## ASSETS, LIABILITIES AND MINORITY INTERESTS

	Year ended 31 December				
	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
TOTAL ASSETS	<b>1,386,995</b>	1,050,965	775,001	832,359	775,613
TOTAL LIABILITIES	<b>(847,837)</b>	(682,912)	(452,210)	(523,948)	(527,734)
MINORITY INTERESTS	<b>(994)</b>	(1,011)	(1,380)	(1,371)	(1,749)
	<b>538,164</b>	367,042	321,411	307,040	246,130