South China Financial Holdings Limited

Incorporated in the Hong Kong with limited liability

Stock Code : 619

ANNUAL REPORT 2008

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Ng Hung Sang (*Chairman*)
Mr. Richard Howard Gorges (*Vice-chairman*)
Ms. Cheung Choi Ngor (*Vice-chairman*)
Mr. Ng 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 2008.

FINANCIAL SUMMARY

The overall business environment in 2008 was affected by the uncertain global economic conditions that in turn led to poor investment sentiment and subdued market activities. The situation further deteriorated in the last quarter of the year onslaught of a financial tsunami that originated in the US.

For the year ended 31 December 2008, the Group recorded turnover of HK$90.9 million and a net loss of HK$186.5 million. When compared to the previous year, the Group's turnover dropped by approximately 68% while the operating results in the current year were directly impacted by the market downturn. The greater than expected loss was mainly the result of an unrealized holding loss of HK$114.6 million on writing down the trading and investment portfolio to their market values and a fair value loss of HK$46.2 million on an investment property at 31 December 2008.

Other than the unrealized holding loss on investment in financial assets, the Group's principal businesses of securities broking and margin financing remained profitable and fundamentally sound.

DIVIDEND

The Board propose the payment of a final dividend of 0.04 HK cent (2007: 0.6 HK cent) per share, totaling approximately HK$2,012,000 (2007: HK$30,172,000) in respect of the year ended 31 December 2008 to the shareholders whose names appear on the register of members of the Company on 9 June 2009.

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 15 June 2009.

BUSINESS REVIEW

Securities broking, trading and investment

Affected by record low daily turnover in the local stock market and the substantial decrease in number of initial public offerings, our securities broking income dropped by 53% to HK$76.2 million and reported operating profit of HK$2.3 million.

The result of securities trading and investment for the year ended 31 December 2008 was a loss of HK$137.2 million which included HK$114.6 million of unrealized holding loss as compared with a gain of HK$80.5 million in the previous year. The Group had financial assets at fair value through profit and loss of HK$115.8 million in value after provision for unrealized holding loss as at the end of the year.

Margin financing and money lending

The slowdown of IPO activities coupled with the current narrowing of borrowing and lending spreads continued to exert pressure on our margin financing and money lending businesses. Revenue from interest income recorded a fall of 56% and contribution from this segment reduced from HK$57.1 million to HK$9.4 million when compared to the previous year. Our loan and advances portfolio for margin financing and personal loan contracted by 55.0% during the year to HK$113.6 million.

Corporate advisory and underwriting

Revenue from corporate advisory and underwriting business decreased by 80% to HK$2.2 million and operating loss slightly reduced to HK$9.1 million as the segment was directly affected by the lack of merger and acquisitions and IPO activities in the market during the year.

Property investment and others

Gross rental income from the investment property at Lippo Centre was HK$3.8 million for the year under review, a decline of 48.6% when compared to the previous year. The reduction in income is primarily due to a vacant period between tenancies. A loss of HK$45.1 million after deferred tax provision was reported on revaluation at year-end.

South China finance leasing business

Our South China finance leasing business had gotten off to a slow start due to the deteriorating credit environment in China. Management is still evaluating the type of transactions and risks that we want to undertake before making a bigger capital commitment.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has obtained bank credit facilities that are all renewable on a yearly basis. 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 credit facilities are guaranteed by the Company.

As at 31 December 2008, the Group's long term bank borrowings apart from those for share margin finance business and personal loan business amounted to HK$87.3 million (2007: HK$54.0 million), which, when related to the Group's equity of HK$328.1 million (2007: HK$539.2 million), represent a gearing ratio of approximately 26.7% (2007: 10.0%).

The Group has cash balance of HK$101.6 million at the current year-end, an increase of over 25% from last year-end. The Group has sufficient working capital to meet its operational needs.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group had no significant exposure to fluctuations in exchange rates and any related hedges as at 31 December 2008.

CAPITAL STRUCTURE

As at 1 January 2008, the Company had 1,005,463,228 outstanding warrants which entitle the holders thereof to subscribe in cash for fully paid ordinary shares of HK$0.025 each in the Company during the period from 23 October 2007 to 22 October 2008 at an initial subscription price of HK$0.168 per share. During the year, 228,600 warrants were exercised and the remaining warrants lapsed on the expiry date of 22 October 2008.

The Group had no debt securities or other capital instruments as at 31 December 2008.

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 2008.

CHARGES ON ASSETS

As at 31 December 2008, the Group's investment properties were pledged to a bank for installment and revolving loan facilities.

CONTINGENT LIABILITIES

As at 31 December 2008, the Group had no material contingent liabilities.

INVESTMENTS

For the year ended 31 December 2008, the Group's portfolio of Hong Kong listed securities decreased mainly due to fair value losses during the year.

EMPLOYEES

As at 31 December 2008, the total number of employees of the Group was approximately 145 (31 December 2007: approximately 171). Employee's cost (including directors' emoluments) amounted to approximately HK$49 million for the year (2007: approximately HK$69 million).

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

PROSPECTS

The financial tsunami that started with the sub-prime crisis in the US and spread to Europe has begun to impact the Asian economies in 2008. Japan's economy contracted at its sharpest pace since 1974 in its fiscal third quarter, shrinking 3.3% from its previous quarter, an annualized rate of 12.7%. China has also seen its exports decline and revised its economic growth forecast for 2009 to a single digit growth of 8%, the lowest rate in recent years. This crisis may turn out to be the worst global recession since the US Great Depression of the 1930's.

Governments and central banks worldwide have started to pour money into their financial systems in order to resuscitate the credit markets and revive their economies. Rescue plans are aplenty from the major economies around the world.

China has also announced a 4 trillion yuan stimulus plan to support its economy and has instructed the Chinese banks to start loosen credit and lending. In January 2009 alone, bank lending more than doubled the year before to a record of 1.62 trillion yuan. This loosening of credit should arrest the economic downturn and stimulate domestic consumption.

Hong Kong in turn will benefit from China's stimulus package and the Group believes that confidence will return to the investment market in the second half of the year and thus is preparing for expansion to its businesses in order to reap the benefits when the financial markets rebound.

CLOSURE OF REGISTER FOR ENTITLEMENT TO FINAL DIVIDEND

The register of members of the Company will be closed from 4 June 2009 to 9 June 2009, 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 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 pm on 3 June 2009.

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, 24 March 2009

Directors' Biographical Details

EXECUTIVE DIRECTORS

Mr. Ng Hung Sang, aged 59, is an Executive Director and the Chairman of the Company. Mr. Ng is actively involved in the overall corporate policies, strategic planning and business development of the Group. Mr. Ng is also an executive director and the chairman of South China Holdings Limited ("SCH"), South China (China) Limited ("SCC") and South China Land Limited 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. Mr. Ng was appointed as a Director of the Company on 7 December 1988. Mr. Ng is a brother of Mr. Ng Chun Sang, Executive Director of the Company and the father of Mr. Ng Yuk Yeung, Paul, an Executive Director of the Company.

Mr. Richard Howard Gorges, aged 65, an Executive Director and a Vice-Chairman of the Company and SCC, and an executive director of SCH and SCL. He holds a Master degree in law from Cambridge University in the United Kingdom. Mr. Gorges was appointed as a Director of the Company on 7 December 1988.

Ms. Cheung Choi Ngor, aged 55, is an Executive Director and a Vice-Chairman of the Company. She is also an executive director, a vice-chairman and the chief executive officer of SCC, an executive director of SCH and an executive director, the Compliance Officer and an Authorised Representative of SCL. She holds a Master degree in Business Administration from University of Illinois in the United States of America. Ms. Cheung is a member of the National Committee of the Chinese People's Political Consultative Conference. Ms. Cheung was appointed as a Director of the Company on 7 December 1988.

Mr. Ng Chun Sang, aged 46, is an Executive Director of the Company. He holds a Bachelor's degree in science from the University of London in the United Kingdom. He has extensive experience in securities and commodities broking. He was appointed as a Director of the Company on 8 October 1999. He is a brother of Mr. Ng Hung Sang, the Chairman of the Company, and uncle of Mr. Ng Yuk Yeung, Paul, an Executive Director of the Company.

Mr. Ng Yuk Yeung, Paul, aged 27, is an Executive Director of the Company, and an Executive Director and the Chief Executive Officer of SCL. Mr. Ng graduated in law from Corpus Christi College, University of Cambridge (the "University") in the United Kingdom and is a Scholar of the University. Mr. Ng was appointed as a Director of the Company on 15 September 2003. He has been engaged in the financial services, tourism and media businesses for six years. Mr. Ng is a son of Mr. Ng Hung Sang, the Chairman of the Company, and a nephew of Mr. Ng Chun Sang, an Executive Director of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mrs. Tse Wong Siu Yin, Elizabeth, aged 51, is an independent non-executive director of the Company, SCH and SCC, the Chairman of the Hong Kong Flower Retailers Association, the Committee Member of Skills Upgrading Scheme (Gardening and Floristry) of Labour and Welfare Bureau and the Convenor of Youth Skills Competition in Floristry of Vocational Training Council. Mrs. Tse holds a Bachelor degree of Science from the University of Western Ontario in Canada. Mrs. Tse was appointed as an Independent Non-executive Director of the Company on 25 November 1992.

Hon. Raymond Arthur William Sears, Q.C., aged 76, a retired High Court Judge, holds a Master's degree in law from Cambridge University in the United Kingdom. He became a Queen's Counsel in 1975 and was a former Vice-chairman 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 to1999, he was a Senior Civil High Court Judge. Mr. Sears was appointed as an Independent Non-executive Director of the Company on 24 March 2000.

Mr. Tung Woon Cheung, Eric, aged 38, 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 financial controller of Beijing Enterprises Water Group 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. Mr. Tung graduated from York University, Toronto, Canada with a bachelor honours degree in administrative studies. He is a Certified Public Accountant of Hong Kong Institute of Certified Public Accountants and a U.S. Certified Public Accountant of The American Institute of Certified Public Accountants. Mr. Tung was appointed as an Independent Non-Executive Director of the Company on 21 September 2004.

Directors' Report

The directors of the Company (the "Directors") have pleasure in presenting their report and the audited consolidated financial statements of the Group for the year ended 31 December 2008.

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.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 20 to 89 of this Annual Report.

The Board recommends the payment of a final dividend of 0.04 HK cent (2007: 0.6 HK cent) per share, totaling approximately HK$2,012,000 (2007: HK$30,172,000) in respect of the year ended 31 December 2008 to the shareholders whose names appear on the register of members of the Company on 9 June 2009. 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. No interim dividend was paid during the year ended 31 December 2008.

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 15 June 2009.

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

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

INVESTMENT PROPERTY

Details of movements in the investment property of the Group are set out in note 15 to the financial statements.

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 35 and 36 to the financial statements.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2008.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 37 to the financial statements and in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2008, the Company's reserves available for distribution amounted to approximately HK$2,850,000.

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*)
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, Mr. Richard Howard Gorges, Ms. Cheung Choi Ngor and Mr. Ng Chun Sang will retire from office at the forthcoming annual general meeting and being eligible, offer themselves for re-election.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "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 2008 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' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2008, 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) *Long positions in shares*

Name of Director	Capacity	Number of ordinary shares	Total number of ordinary shares	Approximate percentage of shareholding
Ng Hung Sang ("Mr. Ng")	Beneficial owner Interest of controlled corporations	143,304,400 2,558,758,972 (Note a)	2,702,063,372	53.73%
Richard Howard Gorges ("Mr. Gorges")	Beneficial owner	12,174,000	12,174,000	0.24%
Cheung Choi Ngor ("Ms. Cheung")	Beneficial owner	10,000,000	10,000,000	0.20%
Raymond Arthur William Sears	Interest of spouse	200,000	200,000	0.00%

(ii) *Long positions in underlying shares*

Share option

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

(b) Associated corporations

Long positions in shares

South China Financial Credits Limited ("SCFC") (Note c)

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

Notes:

(a) The 2,558,758,972 shares of the Company held by Mr. Ng through controlled corporations referred to above include 474,606,720 shares held by Bannock Investment Limited ("Bannock"), 501,292,800 shares held by Earntrade Investments Limited ("Earntrade"), 792,100,504 shares held by Fung Shing Group Limited ("Fung Shing"), 743,728,000 shares held by Parkfield Holdings Limited ("Parkfield"), 33,331,200 shares held by Ronastar Investments Limited ("Ronastar") and 13,699,748 shares held by Tek Lee Finance and Investment Corporation Limited ("Tek Lee"). Fung Shing, Parkfield and Ronastar are wholly-owned by Mr. Ng. Bannock is a wholly-owned subsidiary of Earntrade which is owned as to 60% by Mr. Ng, 20% by Mr. Gorges and 20% by Ms. Cheung, Tek Lee is an indirectly subsidiary of South China Holdings Limited, which is controlled by Mr. Ng as to 73.72%

(b) 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. Ng Chun Sang 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. Ng Yuk Yeung, Paul 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.

(c) SCFC is a 98.62% owned subsidiary of the Company.

Save as disclosed above, as at 31 December 2008, 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. Particulars of the share option scheme of the Company are set out in note 36 to the financial statements. Details of the options granted by the Company to the Directors were set out under the headings "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or any associated corporation" of this Annual Report.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

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

RETIREMENT BENEFIT PLAN

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of transactions during the year between the Group and other companies in which certain Directors of the Company have beneficial interests as set out in note 42 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.

MANAGEMENT CONTRACTS

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

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

As at 31 December 2008, 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.

Long Position

Name of shareholder	Capacity	Number of ordinary shares	Approximate Percentage of shareholding
Earntrade	Beneficial owner and interest of controlled corporation	975,899,520 (Note)	19.41%
Bannock	Beneficial owner	474,606,720 (Note)	9.44%
Parkfield	Beneficial owner	743,728,000	14.79%
Fung Shing	Beneficial owner	792,100,504	15.75%

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

Save as disclosed above, as at 31 December 2008, 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 of the Company or any associated corporation" 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.

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 15 to 18 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 16 of this Annual Report.

CONNECTED TRANSACTIONS

There were no transactions to be disclosed as connected transactions in accordance with the requirements of the Listing Rules during the year ended 31 December 2008.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the Listing Rules. The audit committee comprises three Independent Non-executive Directors, namely Mr. Tung Woon Cheung, Eric (Chairman of the Audit Committee), Mrs. Tse Wong Siu Yin, Elizabeth 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 2009 at the forthcoming annual general meeting.

The Group's annual results for the year ended 31 December 2008 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, 24 March 2009

Corporate Governance Report

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

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2008.

BOARD COMPOSITION AND BOARD PRACTICES

As at 31 December 2008, the board of directors of the Company (the "Board") 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-third of the Board is Independent Non-executive Directors. 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 to chair 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.

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 2008 with a majority of Directors present.

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

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

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

There are defined roles in relation to the responsibilities of the Chairman and the chief executive officer of the Company. Their roles 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.

The Board held four meetings in 2008:

	Attendance
Executive Directors	
Ng Hung Sang (*Chairman*)	3/4
Richard Howard Gorges (*Vice-chairman*)	4/4
Cheung Choi Ngor (*Vice-chairman*)	4/4
Ng Chun Sang	0/4
Ng Yuk Yeung, Paul	4/4
Independent Non-executive Directors	
Tse Wong Siu Yin, Elizabeth	4/4
Raymond Arthur William Sears	3/4
Tung Woon Cheung, Eric	3/4

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. With respect to other meetings, Directors are given as much notice as is reasonable and practicable in the circumstances. 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 complied with. Minutes of board meetings and meetings of board committees are kept by the Company Secretary and are available for inspection at any time on reasonable notice by any Directors.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. 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 2008.

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 clients' money segregation and margin financing operation of the Group were reviewed and addressed in the internal control reports which were presented by the IA Team to the Audit Committee and the Board for review.

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 19 of this Annual Report.

AUDITORS' REMUNERATION

For the year ended 31 December 2008, the Auditors of the Company received approximately HK$850,000 for audit service. No non-audit services was provided by the Auditors in 2008.

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 (Chairman of the Remuneration Committee), Mr. Tung Woon Cheung, Eric and Hon. Raymond Arthur William Sears, Q.C..

The Remuneration Committee met once in November 2008 and was attended by all Committee members. The policies on 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 skill, knowledge, involvement in the Company's affairs and performance of the individual Executive Directors with 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 incentive to and for retaining staff.

The directors' fees for all Directors are subject to shareholders' approval at general meeting. Remuneration packages of the Executive Directors are reviewed by the Remuneration Committee. 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 (Chairman of the Audit Committee), Ms. Wong Siu Yin, Elizabeth and Hon. Raymond Arthur William Sears, Q.C.. The principal duties of the Audit Committee in accordance with its terms of reference, are substantially the same as the CG Code, include the review of the Group's financial reporting system and internal control procedures, review of financial information of the Group and review of the relationship with the Auditor of the Group.

The Audit Committee Members held two meetings in 2008 in which representatives of the management were present to review the interim and final results, the interim report and annual report and other financial and internal control matters. The Group's Auditors were also present in the meetings.

	Attendance
Tung Woon Cheung, Eric	2/2
Tse Wong Siu Yin, Elizabeth	2/2
Raymond Arthur William Sears	2/2

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 2009 at the forthcoming annual general meeting.

The Group's annual results for the year ended 31 December 2008 were reviewed by the Audit Committee.

Independent Auditors' Report

ERNST & YOUNG
安 永

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

We have audited the financial statements of South China Financial Holdings Limited set out on pages 20 to 89, which comprise the consolidated and Company balance sheets as at 31 December 2008, 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 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
24 March 2009

Consolidated Income Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
TURNOVER	5	**90,862**	285,952
Other revenue	5	**3,456**	4,922
Fair value gain/(loss) on investment properties	15	**(46,215)**	47,079
Gains on disposal of available-for-sale financial assets		–	72,413
Fair value loss on financial assets at fair value through profit or loss		**(114,619)**	(12,257)
Reversal of impairment/(impairment) of loans and trade receivables, net		**(8,467)**	21,472
Other operating expenses		**(112,963)**	(204,572)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES		**(187,946)**	215,009
Finance costs	7	**(4,087)**	(5,690)
PROFIT/(LOSS) BEFORE TAX	6	**(192,033)**	209,319
Tax	10	**5,569**	(9,775)
PROFIT/(LOSS) FOR THE YEAR		**(186,464)**	199,544
Attributable to:			
Equity holders of the Company	11	**(186,451)**	199,536
Minority interests		**(13)**	8
		(186,464)	199,544
DIVIDENDS	12		
Interim		–	20,073
Proposed final		**2,012**	30,172
		2,012	50,245
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	13	**(HK 3.71 cents)**	HK 3.98 cents
Diluted		**N/A**	HK 3.83 cents

Consolidated Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**4,063**	33,010
Investment properties	15	**161,700**	180,000
Intangible assets	16	**836**	836
Other assets	17	**5,681**	5,725
Loans receivable	19	**2,130**	6,913
Available-for-sale investments	20	**1,570**	360
Deferred tax assets	21	**10**	2,782
Total non-current assets		**175,990**	229,626
CURRENT ASSETS			
Financial assets at fair value through profit or loss	22	**115,764**	186,523
Loans receivable	19	**111,421**	245,566
Trade receivables	23	**28,187**	86,365
Other receivables, prepayments and deposits	24	**9,544**	7,958
Tax recoverable		**74**	7,117
Pledged time deposits	25	**5,750**	5,750
Cash held on behalf of clients	26	**341,716**	538,546
Cash and cash equivalents	25	**101,642**	79,544
Total current assets		**714,098**	1,157,369
CURRENT LIABILITIES			
Amount due to an intermediate holding company	27	**–**	4,652
Amount due to a related company	28	**437**	–
Client deposits	29	**320,929**	518,718
Trade payables	30	**38,111**	86,141
Tax payable		**38**	3,028
Other payables and accruals	31	**6,261**	24,182
Interest-bearing bank and other borrowings	33	**103,523**	143,481
Total current liabilities		**469,299**	780,202
NET CURRENT ASSETS		**244,799**	377,167
TOTAL ASSETS LESS CURRENT LIABILITIES		**420,789**	606,793
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	33	**87,310**	53,984
Deferred tax liabilities	21	**5,410**	13,651
Total non-current liabilities		**92,720**	67,635
Net assets		**328,069**	539,158

Consolidated Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	35	**125,721**	125,715
Reserves	37(a)	**199,440**	382,277
Proposed final dividend	12	**2,012**	30,172
		327,173	538,164
Minority interests		**896**	994
Total equity		**328,069**	539,158

Richard Howard Gorges
Director

Cheung Choi Ngor
Director

Consolidated Statement Of Changes In Equity

Year ended 31 December 2008

		Attributable to equity holders of the Company									
	Notes	Issued capital HK$'000	Share premium account HK$'000	Capital redemption reserve HK$'000	Available–for-sale investment revaluation reserve HK$'000	Share option reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Proposed final dividend HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
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		–	–	–	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		–	–	–	(72,413)	–	–	–	(72,413)	–	(72,413)
Acquisition of minority interests		–	–	–	–	–	–	–	–	(25)	(25)
Issue of shares upon exercise of warrants	35	5	31	–	–	–	–	–	36	–	36
Issue of shares upon exercise of share options	35	588	2,420	–	–	–	–	–	3,008	–	3,008
Transfer of share option reserve to share premium upon the exercise of share options	35	–	1,265	–	–	(1,265)	–	–	–	–	–
Equity-settled share option arrangements	36	–	–	–	–	7,862	–	–	7,862	–	7,862
Final 2006 dividend 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
At 1 January 2008		125,715	219,994	1,601	–	13,308	147,374	30,172	538,164	994	539,158
Change in fair value of available-for-sales financial assets		–	–	–	1,210	–	–	–	1,210	–	1,210
Total income and expense recognised directly in equity		–	–	–	1,210	–	–	–	1,210	–	1,210
Loss for the year		–	–	–	–	–	(186,451)	–	(186,451)	(13)	(186,464)
Total income and expense for the year		–	–	–	1,210	–	(186,451)	–	(185,241)	(13)	(185,254)
Acquisition of minority interests		–	–	–	–	–	–	–	–	(85)	(85)
Issue of shares upon exercise of warrants	35	6	33	–	–	–	–	–	39	–	39
Equity-settled share option arrangements	36	–	–	–	–	4,383	–	–	4,383	–	4,383
Final 2007 dividend paid	12	–	–	–	–	–	–	(30,172)	(30,172)	–	(30,172)
Proposed final 2008 dividend	12	–	–	–	–	–	(2,012)	2,012	–	–	–
At 31 December 2008		125,721	220,027*	1,601*	1,210*	17,691*	(41,089)*	2,012	327,173	896	328,069

* These reserve accounts comprise the consolidated reserves of HK$199,440,000 (2007: HK$382,277,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	**2008** **HK$'000**	2007 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**(192,033)**	209,319
Adjustments for:			
Finance costs	7	**4,087**	5,690
Dividend income from listed investments	5	**(2,719)**	(543)
Fair value loss/(gain) of investment properties	15	**46,215**	(47,079)
Gains on disposal of available-for-sale financial assets		**–**	(72,413)
Fair value loss on financial assets at fair value through profit or loss		**114,619**	12,257
Equity-settled share option expenses	6	**4,383**	7,862
Impairment/(reversal of impairment) of loans and trade receivables, net		**8,467**	(21,472)
Write-off of other receivables, prepayments and deposits		**–**	3,894
Depreciation	6	**3,309**	2,958
Loss on disposal of items of property, plant and equipment	6	**30**	–
		(13,642)	100,473
Increase in financial assets at fair value through profit or loss		**(43,860)**	(117,618)
Decrease/(increase) in non-current loans receivable		**4,783**	(934)
Decrease/(increase) in loans receivable		**125,804**	(16,656)
Decrease/(increase) in trade receivables		**58,052**	(16,266)
Decrease/(increase) in other receivables, prepayments and deposits		**(1,586)**	2,845
Decrease/(increase) in cash held on behalf of clients		**196,830**	(175,174)
Decrease/(increase) in an amount due to an intermediate holding company		**(4,652)**	4,652
Increase in an amount due to a related company		**437**	–
Increase/(decrease) in client deposits		**(197,789)**	156,999
Increase/(decrease) in trade payables		**(48,030)**	472
Increase/(decrease) in other payables and accruals		**(17,921)**	14,132
Cash generated from/(used in) operations		**58,426**	(47,075)
Interest paid		**(4,053)**	(5,662)
Interest element on finance lease rental payments		**(34)**	(28)
Hong Kong profits tax refund		**4,272**	–
Overseas taxes paid		**(119)**	(306)
Net cash inflow/(outflow) from operating activities		**58,492**	(53,071)

Continued...

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Net cash inflow/(outflow) from operating activities		**58,492**	(53,071)
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend income received from listed investments		**2,719**	543
Purchases of items of property, plant and equipment	14	**(2,328)**	(2,758)
Proceeds from disposal of available-for-sale financial assets		**–**	96,379
Acquisition of minority interests		**(85)**	(25)
Decrease in other assets		**44**	831
Net cash inflow from investing activities		**350**	94,970
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank borrowings		**2,862,908**	21,114,110
Repayment of bank borrowings		**(2,869,364)**	(21,130,911)
Capital element on finance lease rental payments	33	**(176)**	(176)
Issue of shares	35	**39**	3,044
Dividends paid		**(30,172)**	(40,093)
Net cash outflow from financing activities		**(36,765)**	(54,026)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**22,077**	(12,127)
Cash and cash equivalents at beginning of year		**85,294**	97,422
Effect of foreign exchange rate changes, net		**21**	(1)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**107,392**	85,294
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS	25		
Cash and bank balances		**101,642**	79,544
Pledged time deposits with original maturity of less than three months when acquired		**5,750**	5,750
		107,392	85,294

Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	18	**267,340**	438,265
Subordinated loan to a subsidiary	34	**100,000**	100,000
Total non-current assets		**367,340**	538,265
CURRENT ASSETS			
Other receivables, prepayments and deposits	24	**449**	494
Cash and cash equivalents	25	**201**	255
Total current assets		**650**	749
CURRENT LIABILITIES			
Other payables and accruals	31	**100**	49
NET CURRENT ASSETS		**550**	700
Net assets		**367,890**	538,965
EQUITY			
Issued capital	35	**125,721**	125,715
Reserves	37(b)	**240,157**	383,078
Proposed final dividend	12	**2,012**	30,172
Total equity		**367,890**	538,965

Richard Howard Gorges
Director

Cheung Choi Ngor
Director

Notes to the Financial Statements

31 December 2008

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

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*
HK(IFRIC)-Int 11	*HKFRS 2 – Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 14	*HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The adoption of these new interpretations and amendments has had no significant financial effect on these financial statements, there have been no significant changes to the accounting policies applied in these financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* [1]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* [1]
HKFRS 3 (Revised)	*Business Combinations* [2]
HKFRS 8	*Operating Segments* [1]
HKFRS 7 Amendment	*Improving Disclosures about Financial Instruments* [1]
HKAS 1 (Revised)	*Presentation of Financial Statements* [1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* [1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [2]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes* [3]
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate* [1]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation* [4]
HK(IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners* [2]
HK(IFRIC)-Int 18	*Transfer of Assets from Customers* [2]

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

Apart from the above, the HKICPA has also issued *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarify wording. Except for the amendment to HKFRS 5 which is effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 July 2008
[4] Effective for annual periods beginning on or after 1 October 2008
* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised), HKAS 27 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets, financial assets and an investment property), the asset's recoverable amount is estimated. An asset's recoverable amount is 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets other than goodwill *(continued)*

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 an 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill)

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(continued)*

Available-for-sale financial assets (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(continued)*

Available-for-sale financial assets

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

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, an amount due to a related 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(continued)*

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.

Dividends

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

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

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

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

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

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

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

Employee benefits

Paid leave carried forward

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

Pension scheme

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(continued)*

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 36 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries, are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of turnover, 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, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

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 trade and 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 trade and loans receivables before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets 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 trade and loans receivable at 31 December 2008 was HK$141,738,000 (2007: HK$338,844,000). More details are given in notes 19 and 23 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 2008 was HK$4,863,000 (2007: HK$4,680,000). The amount of unrecognised tax losses at 31 December 2008 was HK$415,952,000 (2007: HK$267,442,000). Further details are contained in note 21 to the financial statements.

4. SEGMENT INFORMATION

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

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

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

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

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

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

(e) the property investment segment engages in property rental; and

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

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

4. SEGMENT INFORMATION *(Continued)*

Business segments

The following tables represent revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2008 and 2007.

Year ended 31 December 2008	Broking HK$'000	Trading and investment HK$'000	Margin financing and money lending HK$'000	Corporate advisory and underwriting HK$'000	Property investment HK$'000	Corporate and others HK$'000	Eliminations HK$'000	Consolidated HK$'000
Segment revenue:								
Sales to external customers	76,215	(18,708)	30,877	2,158	3,776	–	–	94,318
Intersegment sales	–	–	3,238	–	–	–	(3,238)	–
Total	76,215	(18,708)	34,115	2,158	3,776	–	(3,238)	94,318
Segment results	2,290	(137,201)	9,419	(9,066)	(45,146)	(8,242)	–	(187,946)
Finance costs								(4,087)
Loss before tax								(192,033)
Tax								5,569
Loss for the year								(186,464)
Assets and liabilities								
Segment assets	431,843	116,369	170,251	2,886	162,290	6,365	–	890,004
Unallocated assets								84
Total assets								890,088
Segment liabilities	324,629	141	84,996	164	145,533	1,115	–	556,578
Unallocated liabilities								5,441
Total liabilities								562,019
Other segment information:								
Depreciation	1,767	146	307	289	606	194	–	3,309
Capital expenditure	1,731	131	213	209	44	–	–	2,328
Fair value loss on investment properties	–	–	–	–	–	46,215	–	46,215
Impairment of loans and trade receivables, net	126	–	8,341	–	–	–	–	8,467
Write-back of other receivables, prepayments and deposits	–	–	–	–	–	(3,906)	–	(3,906)

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
Segment revenue:								
Sales to external customers	162,371	40,646	69,747	10,762	7,348	–	–	290,874
Intersegment sales	–	–	5,957	–	–	–	(5,957)	–
Total	162,371	40,646	75,704	10,762	7,348	–	(5,957)	290,874
Segment results	45,432	80,483	57,100	(10,446)	51,552	(9,112)	–	215,009
Finance costs								(5,690)
Profit before tax								209,319
Tax								(9,775)
Profit for the year								199,544
Assets and liabilities								
Segment assets	540,472	187,348	417,749	3,431	211,236	16,860	–	1,377,096
Unallocated assets								9,899
Total assets								1,386,995
Segment liabilities	455,137	8,895	250,233	776	110,619	5,498	–	831,158
Unallocated liabilities								16,679
Total liabilities								847,837
Other segment information:								
Depreciation	1,463	229	283	276	603	104	–	2,958
Capital expenditure	2,365	133	394	371	45	–	–	3,308
Fair value gain on investment properties	–	–	–	–	(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

5. TURNOVER AND OTHER REVENUE

The Group's turnover represents commission and brokerage income from securities, bullion and futures contracts broking; profit/(loss) on the trading of securities, bullion and commodities; dividend income; interest income; corporate advisory fees; commission income from share underwriting and placing; and gross rental income.

An analysis of turnover and other revenue is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Turnover		
Commission and brokerage income	**73,762**	159,866
Profit/(loss) on the trading of securities, bullion and futures contracts	**(21,427)**	40,103
Dividend income from listed investments	**2,719**	543
Interest income on impaired loans and trade receivables	**5,293**	5,685
Interest income from loans receivable	**19,402**	43,798
Interest income from bank and financial institutions	**5,726**	20,432
Rendering of services	**1,924**	9,969
Gross rental income	**3,463**	5,556
	90,862	285,952
Other revenue		
Handling fee income	**2,817**	2,551
Others	**639**	2,371
	3,456	4,922

6. PROFIT/(LOSS) BEFORE TAX

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

		Group	
		2008	2007
	Note	**HK$'000**	HK$'000
Cost of services provided		**28,391**	74,662
Depreciation	14	**3,309**	2,958
Auditors' remuneration		**967**	1,334
Minimum lease payments under operating leases on land and buildings		**14,041**	10,095
Direct operating expenses (including repairs and maintenance) arising on an rental-earning investment property		**1,204**	1,103
Employee benefits expense (including directors' remuneration (note 8)):			
Pension scheme contributions		**1,800**	2,134
Less: Forfeited contributions		**(844)**	–
Net pension scheme contributions#		**956**	2,134
Wages and salaries		**47,644**	65,246
Equity-settled share option expense		**4,383**	7,862
		52,983	75,242
Interest expense for margin financing and money lending operations: Bank loans and overdrafts wholly repayable within five years		**3,424**	26,271
Foreign exchange differences, net		**2,022**	(1,327)
Impairment/(reversal of impairment) of loans receivable, net		**8,341**	(21,184)
Impairment/(reversal of impairment) of trade receivables, net		**126**	(288)
Write-off/(write-back) of other receivables, prepayments and deposits		**(3,906)**	3,894
Loss on disposal of items of property, plant and equipment		**30**	–
Net rental income		**(2,259)**	(4,453)

Note:

At 31 December 2008, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2007: Nil).

7. FINANCE COSTS

	Group	
	2008	2007
	HK$'000	HK$'000
Interest on:		
Bank loans, overdrafts and other loans wholly repayable within five years	**4,053**	5,662
Finance leases	**34**	28
	4,087	5,690

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	
	2008	2007
	HK$'000	HK$'000
Fees	**250**	255
Other emoluments:		
Salaries, allowances and benefits in kind	**4,028**	6,354
Discretionary bonuses	**–**	300
Equity-settled share option expense	**2,249**	2,498
Pension scheme contributions	**200**	209
	6,477	9,361
	6,727	9,616

8. DIRECTORS' REMUNERATION *(Continued)*

(a) Independent non-executive directors

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

	2008 HK$'000	2007 HK$'000
Hon. Raymond Arthur William Sears Q.C.	**100**	100
Mr. Tung Woon Cheung, Eric	**50**	50
Mrs. Wong Siu Yin, Elizabeth	**50**	50
	200	200

There were no other emoluments payable to the independent non-executive directors during the year (2007: 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
2008					
Executive directors:					
Mr. Ng Hung Sang	10	1,164	–	–	58
Mr. Richard Howard Gorges	10	1,020	–	477	51
Ms. Cheung Choi Ngor	10	989	–	477	49
Mr. Ng Chun Sang	10	855	–	252	42
Mr. Ng Yuk Yeung, Paul	10	–	–	1,043	–
	50	4,028	–	2,249	200

8. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors *(continued)*

	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
2007					
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	–
	55	6,354	300	2,498	209

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

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2007: one), details of whose remuneration are disclosed in note 8 above. Details of the remuneration of the remaining three (2007: four) non-director, highest paid employees for the year are as follows:

	Group	
	2008 HK$'000	2007 HK$'000
Salaries, allowances and benefits in kind	**5,552**	13,590
Pension scheme contributions	**34**	41
	5,586	13,631

9. FIVE HIGHEST PAID EMPLOYEES *(Continued)*

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

	Number of employees	
	2008	2007
	HK$'000	HK$'000
HK$1,000,001 – HK$1,500,000	**1**	–
HK$1,500,001 – HK$2,000,000	**1**	–
HK$2,000,001 – HK$2,500,000	**1**	–
HK$2,500,001 – HK$3,000,000	**–**	2
HK$3,000,001 – HK$3,500,000	**–**	1
HK$4,500,000 – HK$5,000,000	**–**	1
	3	4

10. TAX

No provision for Hong Kong profit tax has been made as the Group did not generate any assessable profits in Hong Kong during the year. Hong Kong profits tax had been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong during the year ended 31 December 2007. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2008	2007
	HK$'000	HK$'000
Current – Hong Kong		
Charge for the year	**–**	1,350
Underprovision/(overprovision) in prior years	**(219)**	53
Current – Elsewhere	**119**	128
Deferred (note 21)	**(5,469)**	8,244
Total tax charge/(credit) for the year	**(5,569)**	9,775

10. TAX *(Continued)*

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

	Group			
	2008		2007	
	HK$'000	**%**	HK$'000	%
Profit/(loss) before tax	**(192,033)**		209,319	
Tax at the statutory tax rate	**(31,685)**	**16.5**	36,631	17.5
Effect on opening deferred tax of decrease in rate	**(622)**	**0.3**	–	–
Higher tax rates on profits arising elsewhere	**18**	**–**	134	0.1
Adjustments in respect of current tax of previous periods	**(219)**	**0.1**	53	–
Income not subject to tax	**(1,478)**	**0.8**	(16,310)	(7.8)
Expenses not deductible for tax	**723**	**(0.4)**	1,820	0.9
Tax losses not recognised	**24,929**	**(13.0)**	890	0.4
Tax losses utilised from previous periods	**–**	**–**	(13,443)	(6.4)
Derecognition of deferred tax assets	**2,765**	**(1.4)**	–	–
Tax charge/(credit) at the Group's effective rate	**(5,569)**	**(2.9)**	9,775	4.7

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

The consolidated profit/(loss) attributable to equity holders of the Company for the year ended 31 December 2008 includes a loss of HK$145,325,000 (2007: a profit of HK$230,853,000) which has been dealt with in the financial statements of the Company (note 37(b)).

12. DIVIDENDS

	2008	2007
	HK$'000	HK$'000
Interim – HK Nil cents (2007: HK 0.4 cents) per ordinary share	**–**	20,073
Proposed final – HK 0.04 cents (2007: HK 0.6 cents) per ordinary share	**2,012**	30,172
	2,012	50,245

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

The calculation of basic loss per share amounts is based on the loss for the year attributable to equity holders of the Company of HK$186,451,000 (2007: profit of HK$199,536,000) and the weighted average number of 5,028,759,139 (2007: 5,012,649,007) ordinary shares in issue during the year.

The Company's share options have no dilution effect for the year ended 31 December 2008 because the exercise price of the Company's share options was higher than average market price for shares for the year ended 31 December 2008.

The Company's warrants have no dilution effect for the years ended 31 December 2008 and 2007 because the exercise price of the Company's warrants was higher than the average market price for the shares for the years ended 31 December 2008 and 2007. All the Company's warrants lapsed at the expiry date of 22 October 2008.

For the year ended 31 December 2007, 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 ended 31 December 2007, 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/(loss) per share are based on:

	2008	2007
	HK$'000	HK$'000
Earnings/(loss)		
Profit/(loss) attributable to equity holders of the Company	**(186,451)**	199,536

	Number of shares	
	2008	2007
Shares		
Weighted average number of ordinary shares in issued during the year used in the basic earnings per share calculation	**5,028,759,139**	5,012,649,007
Effect of dilution – weighted average number of ordinary shares:		
Share options	–	201,122,516
	5,028,759,139	5,213,771,523

14. PROPERTY, PLANT AND EQUIPMENT

	Group				
	Leasehold land and building under long term lease#	Leasehold improvements	Furniture and equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2008					
At 31 December 2007 and at 1 January 2008:					
Cost	29,079	17,337	38,425	3,316	88,157
Accumulated depreciation	(582)	(15,956)	(35,293)	(3,316)	(55,147)
Net carrying amount	28,497	1,381	3,132	–	33,010
At 1 January 2008, net of accumulated depreciation	28,497	1,381	3,132	–	33,010
Transfer to an investment property (note 15)	(27,915)	–	–	–	(27,915)
Additions	–	935	1,393	–	2,328
Disposal	–	(3)	(27)	–	(30)
Depreciation provided during the year	(582)	(1,136)	(1,591)	–	(3,309)
Exchange realignment	–	–	(21)	–	(21)
At 31 December 2008, net of accumulated depreciation	–	1,177	2,886	–	4,063
At 31 December 2008:					
Cost	–	15,627	38,976	3,316	57,919
Accumulated depreciation	–	(14,450)	(36,090)	(3,316)	(53,856)
Net carrying amount	–	1,177	2,886	–	4,063

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.

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

	Group				
	Leasehold land and building under long term lease#	**Leasehold improvements**	**Furniture and equipment**	**Motor vehicles**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2007					
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)
Net carrying amount	–	1,329	2,251	–	3,580
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
At 31 December 2007, net of accumulated depreciation	28,497	1,381	3,132	–	33,010
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)
Net carrying amount	28,497	1,381	3,132	–	33,010

The net book value of the Group's property, plant and equipment held under finance leases included in furniture and equipment at 31 December 2008 amounted to HK$343,750 (2007: HK$481,000).

At 31 December 2007, the Group's leasehold land and building with a net book value of HK$28,497,000 was pledged to secure general banking facilities granted to the Group (note 33).

15. INVESTMENT PROPERTIES

	Group	
	2008	2007
	HK$'000	HK$'000
Carrying amount at 1 January	**180,000**	162,000
Transfer from/(to) property, plant and equipment (note 14)	**27,915**	(29,079)
Gain/(loss) from a fair value adjustment	**(46,215)**	47,079
Carrying amount at 31 December	**161,700**	180,000

The Group's investment properties are situated in Hong Kong and are held under long term leases. At the balance sheet date, the investment properties were pledged to a bank to secure banking facilities granted to the Group (note 33).

The Group's investment properties were revalued on 31 December 2008 by BMI Appraisals Limited, independent professionally qualified valuers, at HK$161,700,000 on an open market, existing use basis. The investment properties are leased to third parties under operating lease arrangements, further details of which are included in note 40(a) to the financial statements.

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

Location	Existing use
Units 2601 to 2605, 26th Floor, Tower One, Lippo Centre, 89 Queensway, Admiralty, Hong Kong	Office building

16. INTANGIBLE ASSETS

	Group	
	2008	2007
	HK$'000	HK$'000
Cost at 1 January and at 31 December, net of accumulated amortisation	**836**	836
At 1 January and 31 December:		
Cost	**1,619**	1,619
Accumulated amortisation	**(783)**	(783)
Net carrying amount	**836**	836

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

16. INTANGIBLE ASSETS *(Continued)*

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.

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

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

17. OTHER ASSETS

	Group	
	2008	2007
	HK$'000	HK$'000
Membership in Chinese Gold and Silver Exchange	**1,280**	1,280
Statutory deposits in respect of securities and commodities dealings	**4,401**	4,445
	5,681	5,725

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	
	2008	2007
	HK$'000	HK$'000
Unlisted shares, at cost	**116,404**	116,319
Amounts due from subsidiaries	**449,647**	439,676
Amounts due to subsidiaries	**(1,211)**	(1,230)
	564,840	554,765
Impairment#	**(297,500)**	(116,500)
	267,340	438,265

\# An impairment was recognised for amounts due from subsidiaries with a carrying amount of HK$449,647,000 (before deducting the impairment loss) (2007: HK$439,676,000) because certain subsidiaries of the Company were making loss persistently.

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

	Company	
	2008	2007
	HK$'000	HK$'000
At 1 January	**116,500**	296,500
Impairment losses recognised	**181,000**	–
Impairment losses reversed	**–**	(180,000)
At 31 December	**297,500**	116,500

The amounts due from and to subsidiaries included in the Company's non-current assets are unsecured and interest-free. In the opinion of the directors, these balances are not repayable within twelve months from the balance sheet date. The carrying amounts of the amounts due from and to subsidiaries approximate to their fair values.

18. INTERESTS IN SUBSIDIARIES *(Continued)*

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 2008	2007	Principal activities
Polyluck Trading Limited	Hong Kong	HK$2	**100**	100	Property investment
South China Capital Limited	Hong Kong	HK$10,000,000	**100**	100	Provision of corporate advisory services
South China Commodities Limited	Hong Kong	HK$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	**98.62**	98.42	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

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**
			2008	2007	
South China Finance Lease Holdings Limited	Hong Kong	HK$1	**100**	100	Investment holding
South China Securities (UK) Limited*	United Kingdom	GBP200,000	**100**	100	Securities broking
廣州南華四海咨詢有限公司**	People's Republic of China/ Mainland China	HK$100,000	**100**	100	Provision of corporate advisory services
南又華投資咨詢(上海)有限公司**	People's Republic of China/ Mainland China	US$150,000	**100**	100	Provision of corporate advisory services
Nanjing Southchina Leasing Co., Limited**	People's Republic of China/ Mainland China	RMB100,000,000	**100**	–	Provision of loan financing

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

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

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

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

19. 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.

	Group	
	2008	2007
	HK$'000	HK$'000
Loans receivable	**149,688**	283,700
Impairment	**(36,137)**	(31,221)
	113,551	252,479
Market value of collateral at 31 December	**646,789**	1,509,118

Included in the Group's loans receivable are amounts due from the Group's fellow subsidiaries of HK$45,622,000 (2007: HK$15,859,000) arising from margin financing operation, which are repayable on similar credit terms to those offered to the major customers of the Group.

At 31 December 2008, certain listed equity securities provided by fellow subsidiaries and clients of approximately HK$82,934,000 (2007: HK$145,884,000) as collateral were pledged to banks to secure banking facilities granted to the Group (note 33).

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

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

	Group	
	2008	2007
	HK$'000	HK$'000
Repayable:		
On demand	**101,265**	219,208
Within 3 months	**4,965**	9,081
3 months to 1 year	**5,191**	17,277
1 to 5 years	**2,130**	6,913
	113,551	252,479
Portion classified as current assets	**(111,421)**	(245,566)
Portion classified as non-current assets	**2,130**	6,913

19. LOANS RECEIVABLE *(Continued)*

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

	Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**31,221**	139,807
Impairment losses recognised (note 6)	**16,597**	6,195
Impairment losses reversed (note 6)	**(8,256)**	(27,379)
Amount written off as uncollectible, net	**(3,425)**	(87,402)
At 31 December	**36,137**	31,221

Included in the above provision for impairment of loans receivable is a provision for individually impaired loans receivable of HK$35,122,000 (2007: HK$28,238,000) with a carrying amount of HK$40,340,000 (2007: HK$38,887,000). 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	
	2008	2007
	HK$'000	HK$'000
Neither past due nor impaired	**91,461**	216,938
Less than 1 month past due	**952**	493
1 to 3 months past due	**513**	222
3 to 6 months past due	**–**	328
6 to 9 months past due	**–**	366
9 months to 1 year past due	**–**	387
	92,926	218,734

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.

20. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2008	2007
	HK$'000	HK$'000
Club debentures, at fair value	**1,570**	360

During the year, the gross gain of the Group's available-for-sale investments recognised directly in equity amounted to HK$1,210,000 (2007: Nil). No impairment of the Group's debentures was recognised in the income statement (2007: Nil).

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

21. DEFERRED TAX

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

Deferred tax liabilities

2008

	Group			
	Loss available for offsetting 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 2008	**(4,680)**	**2,937**	**15,394**	**13,651**
Deferred tax charged/ (credited) to the income statement during the year (note 10)	**(183)**	**448**	**(8,506)**	**(8,241)**
At 31 December 2008	**(4,863)**	**3,385**	**6,888**	**5,410**

2007

	Group			
	Loss available for offsetting 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
At 31 December 2007	(4,680)	2,937	15,394	13,651

21. DEFERRED TAX *(Continued)*

Deferred tax assets

2008

		Group	
	Provision	**Depreciation in excess of related depreciation allowance**	**Total**
	HK$'000	**HK$'000**	**HK$'000**
At 1 January 2008	**2,765**	**17**	**2,782**
Deferred tax charged to the income statement during the year (note 10)	**(2,765)**	**(7)**	**(2,772)**
At 31 December 2008	**–**	**10**	**10**

2007

		Group	
	Provision	Depreciation in excess of related depreciation allowance	Total
	HK$'000	HK$'000	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)
At 31 December 2007	2,765	17	2,782

21. DEFERRED TAX *(Continued)*

Deferred tax assets *(continued)*

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

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Tax losses	**415,952**	267,442	**721**	739
Deductible temporary differences	**3,333**	2,905	**479**	519
	419,285	270,347	**1,200**	1,258

The above tax losses arising in Hong Kong are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of HK$1,351,000 (2007: HK$1,301,000) that will expire in one to five years for offsetting against future taxable profit. 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.

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

At 31 December 2008, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

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	
	2008	2007
	HK$'000	HK$'000
Listed equity investments in Hong Kong, at market value	**87,517**	186,523
Fund investments, at market value		
Elsewhere	**28,247**	–
	115,764	186,523

The above financial assets at 31 December 2008 were classified as held for trading, of which approximately HK$49,119,000 (2007: HK$127,096,000) were pledged to banks to secure banking facilities granted to the Group (note 33).

The market value of the Group's listed equity investments at the date of approval of these financial statements was approximately HK$91,036,000.

23. TRADE RECEIVABLES

	Group	
	2008	2007
	HK$'000	HK$'000
Trade receivables	**29,970**	88,421
Impairment	**(1,783)**	(2,056)
	28,187	86,365

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.

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	
	2008	2007
	HK$'000	HK$'000
Current to 90 days	**28,187**	82,302
91 days to 1 year	–	4,063
	28,187	86,365

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

	Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**2,056**	6,509
Impairment losses recognised (note 6)	**1,100**	1,184
Impairment losses reversed (note 6)	**(974)**	(1,472)
Amount written off as uncollectible	**(399)**	(4,165)
	1,783	2,056

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$1,783,000 (2007: HK$2,056,000) with a carrying amount of HK$2,542,000 (2007: HK$3,574,000). 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.

23. TRADE RECEIVABLES *(Continued)*

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

	Group	
	2008	2007
	HK$'000	HK$'000
Neither past due nor impaired	**20,223**	67,451
Less than 1 month past due	**7,205**	3,856
1 to 3 months past due	–	9,477
Over 3 months past due	–	4,063
	27,428	84,847

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.

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

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

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

25. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

		Group		Company	
	Note	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Cash and bank balances		**101,642**	79,544	**201**	255
Time deposits		**5,750**	5,750	**–**	–
		107,392	85,294	**201**	255
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	33	**(250)**	(250)	**–**	–
		(5,750)	(5,750)	**–**	–
Cash and cash equivalents		**101,642**	79,544	**201**	255

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$8,805,341 (2007: HK$253,478). 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.

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 an intermediate holding company was unsecured, non-interest-bearing and had no fixed terms of repayment.

28. AMOUNT DUE TO A RELATED COMPANY

The amount due to a related company, of which a director of the Company is also a director, was unsecured, non-interest-bearing and had no fixed terms of repayment.

29. 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 (2007: bank deposit saving rate) and are repayable on demand.

Included in client deposits are deposits from fellow subsidiaries and directors of a fellow subsidiary of nil (2007: HK$126,000) and HK$2,138,000 (2007: HK$73,163,000) 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.

30. 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	
	2008	2007
	HK$'000	HK$'000
Current to 30 days	**38,111**	86,141

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.

31. 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 approximate to their fair values.

32. 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 22 months (2007: 34 months).

At 31 December 2008, 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	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Obligation under finance leases:				
Within one year	**210**	210	**188**	176
In the second year	**87**	210	**79**	193
From third to fifth year	**–**	87	**–**	85
Total minimum finance lease payments	**297**	507	**267**	454
Future finance charges	**(19)**	(53)		
Total net finance lease payables	**278**	454		
Portion classified as current liabilities (note 33)	**(176)**	(176)		
Non-current portion (note 33)	**102**	278		

33. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group 2008 HK$'000	Group 2007 HK$'000
Current				
Obligation under finance leases (note 32)	4.6	2009	**176**	176
Bank loans – secured	1.4 – 4.0	2009	**64,051**	95,819
Bank loans – unsecured	2.3 – 8.0	2009	**39,296**	47,486
			103,523	143,481
Non-current				
Obligation under finance leases (note 32)	4.6	2010	**102**	278
Bank loans – secured	1.4 – 4.0	2010 – 2018	**85,829**	51,015
Bank loans – unsecured	3.8 – 4.4	2010	**1,379**	2,691
			87,310	53,984
			190,833	197,465

	Group 2008 HK$'000	Group 2007 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**103,347**	143,305
In the second year	**10,056**	7,340
In the third to fifth years, inclusive	**29,867**	21,031
Beyond five years	**47,285**	25,335
	190,555	197,011
Other borrowings repayable:		
Within one year	**176**	176
In the second and third years, inclusive	**102**	278
	278	454
	190,833	197,465

33. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

Notes:

(a) The Group's overdraft facilities amounting to HK$83,000,000 (2007: HK$91,000,000), of which nil (2007: Nil) had been utilised as at the balance sheet date, are secured by the pledge of certain of the Group's time deposits amounting to HK$250,000 (2007: HK$250,000) (note 25).

(b) Certain of the Group's bank loans are secured by the Group's investment properties and leasehold land and building situated in Hong Kong, which had an aggregate carrying value at the balance sheet date of approximately HK$161,700,000 (2007: HK$208,497,000) (notes 14 and 15).

In addition, listed equity investments belonging to the Group, fellow subsidiaries and clients totalling approximately HK$132,053,000 (2007: HK$272,980,000) were pledged to banks to secure banking facilities granted to a subsidiary of the Group at the balance sheet date (notes 19 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 2008.

34. 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 (2007: 2% below the Hong Kong dollar prime rate) per annum, and is repayable on a date as agreed between the Company and the subsidiary, subject to the overriding provision of the subordinated loan agreement that, if the subsidiary becomes insolvent or unable to meet the liquid capital requirements set out in the Hong Kong Securities and Futures (Financial Resources) Rules, the repayment of the loan will be subordinated to the prior repayment of all other creditors of the subsidiary. In the opinion of the directors, the balance is not repayable within one year.

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

35. SHARE CAPITAL

Shares

	2008 HK$'000	2007 HK$'000
Authorised:		
8,000,000,000 (2007: 8,000,000,000) ordinary shares of HK$0.025 each	**200,000**	200,000
Issued and fully paid:		
5,028,834,500 (2007: 5,028,605,900) ordinary shares of HK$0.025 each	**125,721**	125,715

During the year, the movement in share capital was as follows:

228,600 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$39,000.

35. SHARE CAPITAL *(Continued)*

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

	Number of shares in issue	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
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
At 1 January 2008	5,028,605,900	125,715	219,994	345,709
Warrants exercised	228,600	6	33	39
At 31 December 2008	5,028,834,500	125,721	220,027	345,748

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 36 to the financial statements.

Warrants

At 1 January 2008, the Company had 1,005,463,228 outstanding warrants which entitled the holders to subscribe in cash for fully paid ordinary shares of HK$0.025 each in the Company at a subscription price of HK$0.168 per share, payable in cash, on or before 22 October 2008. During the year, 228,600 warrants were exercised and the remaining warrants lapsed on the expiry date of 22 October 2008.

36. 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.

36. SHARE OPTION SCHEME *(Continued)*

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

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

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

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

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

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

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

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

(3) Total number of shares available for issue under the 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 2008, the Company had 276,500,000 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 276,500,000 additional ordinary shares of the Company and additional share capital of HK$6,912,500 and share premium of HK$34,286,000 (before issue expenses).

At the date of approval of these financial statements and the date of this annual report, 243,000,000 share options are outstanding under the Share Option Scheme, which represent approximately 4.83% of the Company's shares in issue as at that date.

36. SHARE OPTION SCHEME *(Continued)*

(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.

(7) Amount payable upon acceptance of the option and the period within which payment must be made

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

(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.

36. SHARE OPTION SCHEME *(Continued)*

(9) Remaining life of the Share Option Scheme *(continued)*

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

	2008		2007	
	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	0.149	319,250	0.128	238,000
Granted during the year	–	–	0.164	202,000
Forfeited during the year	0.149	(42,750)	0.134	(97,250)
Exercised during the year	–	–	0.128	(23,500)
At 31 December	0.149	276,500	0.149	319,250

No share option was granted during the year. The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2007 was HK$0.216.

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

	Number of share options					
Name or category of participant	Outstanding as at 1 January 2008	Lapsed during the year	Outstanding as at 31 December 2008	Date of grant of share options*	Exercise period of share options	Exercise price per share ** HK$
Directors						
Ms. Cheung Choi Ngor	10,000,000	–	10,000,000	16 Mar 06	16 Mar 08 – 15 Mar 10	0.128
	10,000,000	–	10,000,000	16 Mar 06	16 Mar 09 – 15 Mar 11	0.128
Mr. Richard Howard Gorges	10,000,000	–	10,000,000	16 Mar 06	16 Mar 07 – 15 Mar 09	0.128
	10,000,000	–	10,000,000	16 Mar 06	16 Mar 08 – 15 Mar 10	0.128
	10,000,000	–	10,000,000	16 Mar 06	16 Mar 09 – 15 Mar 11	0.128
Mr. Ng Chun Sang	1,666,667	–	1,666,667	12 Apr 07	12 Apr 08 – 11 Apr 10	0.161
	1,666,667	–	1,666,667	12 Apr 07	12 Apr 09 – 11 Apr 11	0.161
	1,666,666	–	1,666,666	12 Apr 07	12 Apr 10 – 11 Apr 12	0.161
	1,000,000	–	1,000,000	17 Apr 07	17 Apr 08 – 16 Apr 10	0.161
	1,000,000	–	1,000,000	17 Apr 07	17 Apr 09 – 16 Apr 11	0.161
	1,000,000	–	1,000,000	17 Apr 07	17 Apr 10 – 16 Apr 12	0.161
Mr. Ng Yuk Yeung, Paul	10,000,000	–	10,000,000	16 Mar 06	16 Mar 07 – 15 Mar 09	0.128
	10,000,000	–	10,000,000	16 Mar 06	16 Mar 08 – 15 Mar 10	0.128
	10,000,000	–	10,000,000	16 Mar 06	16 Mar 09 – 15 Mar 11	0.128
	6,666,667	–	6,666,667	26 Apr 06	26 Apr 07 – 25 Apr 09	0.128
	6,666,667	–	6,666,667	26 Apr 06	26 Apr 08 – 25 Apr 10	0.128
	6,666,666	–	6,666,666	26 Apr 06	26 Apr 09 – 25 Apr 11	0.128
	108,000,000	–	108,000,000			

36. SHARE OPTION SCHEME *(Continued)*

(9) Remaining life of the Share Option Scheme *(continued)*

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

	Number of share options					
Name or category of participant	**Outstanding as at 1 January 2008**	**Lapsed during the year**	**Outstanding as at 31 December 2008**	**Date of grant of share options***	**Exercise period of share options**	**Exercise price per share ** HK$**
Consultant						
In aggregate	1,000,000	–	1,000,000	10 Jul 2007	10 Jul 2008 – 9 Jul 2010	0.172
	1,000,000	–	1,000,000	10 Jul 2007	10 Jul 2009 – 9 Jul 2011	0.172
	1,000,000	–	1,000,000	10 Jul 2007	10 Jul 2010 – 9 Jul 2012	0.172
	3,000,000	–	3,000,000			
Employees						
In aggregate	13,500,000	–	13,500,000	16 Mar 06	16 Mar 07 – 15 Mar 09	0.128
	25,000,000	(2,000,000)	23,000,000	16 Mar 06	16 Mar 08 – 15 Mar 10	0.128
	25,000,000	(2,000,000)	23,000,000	16 Mar 06	16 Mar 09 – 15 Mar 11	0.128
	6,666,667	–	6,666,667	26 Apr 06	26 Apr 07 – 25 Apr 09	0.128
	6,666,667	–	6,666,667	26 Apr 06	26 Apr 08 – 25 Apr 10	0.128
	6,666,666	–	6,666,666	26 Apr 06	26 Apr 09 – 25 Apr 11	0.128
	25,416,661	(4,916,666)	20,499,995	12 Apr 07	12 Apr 08 – 11 Apr 10	0.161
	25,416,661	(4,916,666)	20,499,995	12 Apr 07	12 Apr 09 – 11 Apr 11	0.161
	25,416,678	(4,916,668)	20,500,010	12 Apr 07	12 Apr 10 – 11 Apr 12	0.161
	1,333,334	–	1,333,334	23 Apr 07	23 Apr 08 – 22 Apr 10	0.161
	1,333,334	–	1,333,334	23 Apr 07	23 Apr 09 – 22 Apr 11	0.161
	1,333,332	–	1,333,332	23 Apr 07	23 Apr 10 – 22 Apr 12	0.161
	4,833,333	–	4,833,333	10 July 07	10 Jul 08 – 09 Jul 10	0.172
	4,833,333	–	4,833,333	10 July 07	10 Jul 09 – 09 Jul 11	0.172
	4,833,334	–	4,833,334	10 July 07	10 Jul 10 – 09 Jul 12	0.172
	2,000,000	–	2,000,000	10 Sept 07	10 Sep 08 – 09 Sep 10	0.227
	2,000,000	–	2,000,000	10 Sept 07	10 Sep 09 – 09 Sep 11	0.227
	2,000,000	–	2,000,000	10 Sept 07	10 Sep 10 – 09 Sep 12	0.227
	8,000,000	(8,000,000)	–	17 Oct 07	17 Oct 08 – 16 Oct 10	0.227
	8,000,000	(8,000,000)	–	17 Oct 07	17 Oct 09 – 16 Oct 11	0.227
	8,000,000	(8,000,000)	–	17 Oct 07	17 Oct 10 – 16 Oct 12	0.227
	208,250,000	(42,750,000)	165,500,000			
	319,250,000	(42,750,000)	276,500,000			

36. SHARE OPTION SCHEME *(Continued)*

(9) Remaining life of the Share Option Scheme *(continued)*

The following share options were outstanding under the 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 1/3%
25th month – 48th month	33 1/3%
37th month – 60th month	33 1/3%

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

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

No share options have been granted, exercised or cancelled during the year ended 31 December 2008. The fair value of the share options granted during 2007 was HK$15,760,000 (HK$0.0314 to HK$0.1384 each). The Group recognised a share option expense of HK$4,383,000 (2007: HK$7,862,000) during the year ended 31 December 2008.

The fair value of equity-settled share options granted during the year ended 31 December 2007 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
Dividend yield (%)	1.19
Average expected volatility (%)	77.04
Average historical volatility (%)	77.04
Average risk-free interest rate (%)	4.11
Expected life of options (year)	3 – 5
Weighted average share price (HK$)	0.155

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.

37. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 23 of the financial statements.

(b) Company

	Notes	Share premium account HK$'000	Capital redemption reserve HK$'000	Share option reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2008		219,994	1,601	13,308	148,175	383,078
Loss for the year	11	–	–	–	(145,325)	(145,325)
Issue of shares upon exercise of warrants	35	33	–	–	–	33
Equity-settled share option arrangements	36	–	–	4,383	–	4,383
Proposed final 2008 dividend	12	–	–	–	(2,012)	(2,012)
At 31 December 2008		220,027	1,601	17,691	838	240,157
At 1 January 2007		216,278	1,601	6,711	(32,433)	192,157
Profit for the year	11	–	–	–	230,853	230,853
Issue of shares upon exercise of warrants	35	31	–	–	–	31
Issue of shares upon exercise of share options	35	2,420	–	–	–	2,420
Transfer of share option reserve to share premium upon exercise of share options	35	1,265	–	(1,265)	–	–
Equity-settled share option arrangements	36	–	–	7,862	–	7,862
Interim 2007 dividend	12	–	–	–	(20,073)	(20,073)
Proposed final 2007 dividend	12	–	–	–	(30,172)	(30,172)
At 31 December 2007		219,994	1,601	13,308	148,175	383,078

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

38. 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 33 to the financial statements.

39. CONTINGENT LIABILITIES

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

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in connection with banking facilities granted to subsidiaries	**–**	–	**1,037,000**	980,000

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$190,554,000 (2007: HK$197,465,000).

40. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (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 2008, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Within one year	**2,520**	6,557
In the second to fifth years, inclusive	**1,680**	5,087
	4,200	11,644

(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 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Within one year	**23,218**	9,133
In the second to fifth years, inclusive	**33,490**	5,114
	56,708	14,247

41. COMMITMENTS

In addition to the operating lease commitments detailed in note 40(b) above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2008	2007
	HK$'000	HK$'000
Authorised, but not contracted for, capital contributions payable to a subsidiary	**79,408**	–

42. 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	**2008** HK$'000	2007 HK$'000
Commission and brokerage income received from:	(i)		
Fellow subsidiaries*		**64**	2,694
Directors and companies in which certain directors have beneficial interests*		**592**	2,229
Interest income received from:	(ii)		
Fellow subsidiaries*		**242**	6,496
Directors and companies in which certain directors have beneficial interests*		**399**	5,224
Rental expense paid to:	(iii)		
A related company**		**56**	–
Fellow subsidiaries*		**752**	617

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

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

(i) 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.

(ii) Interest income related to the Group's margin financing business and was calculated at 4% over the Hong Kong dollar prime rate (2007: 4% over the Hong Kong dollar prime rate) per annum.

(iii) Rental expenses related to the leasing of certain office premises from the fellow subsidiaries and a related company, of which a director of the Company is also a director, were calculated by reference to market rental.

42. RELATED PARTY TRANSACTIONS *(Continued)*

(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.

43. MAJOR NON-CASH TRANSACTION

During the year, the Group transferred certain of its property, plant and equipment of HK$27,915,000 to investment properties.

44. FINANCIAL INSTRUMENTS BY CATEGORY

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

2008 **Group**

Financial assets

	Financial assets at fair value through profit or loss – held for trading HK$'000	Available-for-sale investment HK$'000	Loans and receivables HK$'000	Total HK$'000
Other assets	–	–	5,681	5,681
Available-for-sale investments	–	1,570	–	1,570
Loans receivable	–	–	113,551	113,551
Trade receivables	–	–	28,187	28,187
Financial assets included in other receivables, prepayments and deposits and other assets	–	–	7,624	7,624
Financial assets at fair value through profit or loss	115,764	–	–	115,764
Pledged time deposits	–	–	5,750	5,750
Cash held on behalf of clients	–	–	341,716	341,716
Cash and cash equivalents	–	–	101,642	101,642
	115,764	1,570	604,151	721,485

44. 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):*

2008 **Group**

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Client deposits	**320,929**
Trade payables	**38,111**
Financial liabilities included in other payables and accruals	**5,207**
Interest-bearing bank and other borrowings	**190,833**
Amount due to a related company	**437**
	555,517

2007 Group

Financial assets

	Financial assets at fair value through profit or loss – held for trading HK$'000	Available-for-sale investment HK$'000	Loans and receivables HK$'000	Total HK$'000
Other assets	–	–	5,725	5,725
Available-for-sale investments	–	360	–	360
Loans receivable	–	–	252,479	252,479
Trade receivables	–	–	86,365	86,365
Financial assets included in other receivables, prepayments and deposits and other assets	–	–	5,992	5,992
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
	186,523	360	974,401	1,161,284

44. 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):*

2007 Group

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Client deposits	518,718
Trade payables	86,141
Financial liabilities included in other payables and accruals	15,112
Interest-bearing bank and other borrowings	197,465
Amount due to an intermediate holding company	4,652
	822,088

Financial assets	**Company Loans and receivables**	
	2008 HK$'000	2007 HK$'000
Due from subsidiaries (note 18)	**449,647**	439,676
Subordinated loan to a subsidiary	**100,000**	100,000
Cash and cash equivalents	**201**	255
	549,848	539,931

Financial liabilities	**Company Financial liabilities at amortised cost**	
	2008 HK$'000	2007 HK$'000
Due to subsidiaries (note 18)	**1,211**	1,230
Financial liabilities included in other payables and accruals	**100**	49
	1,311	1,279

45. 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.

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/(loss) before tax (through the impact on floating rate net borrowings) and the Group's equity.

		Group
	Change in basis point	**Change in profit/(loss) before tax** HK$'000
2008		
Hong Kong dollar	**50**	**953**
2007		
Hong Kong dollar	50	795

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.

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

Credit risk *(continued)*

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale investments, financial assets 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 39 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 19 and 23 to the financial statements respectively.

Liquidity risk

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

The Group's borrowings from banks during the year are 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.

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

Liquidity risk *(continued)*

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

2008	**Group**					
	On demand HK$'000	**Less than 3 months HK$'000**	**3 to less than 12 months HK$'000**	**1 to 5 years HK$'000**	**Over 5 years HK$'000**	**Total HK$'000**
Client deposits	**320,929**	**–**	**–**	**–**	**–**	**320,929**
Interest-bearing bank and other borrowings	**–**	**96,558**	**9,554**	**46,759**	**49,994**	**202,865**
Trade payables	**–**	**38,111**	**–**	**–**	**–**	**38,111**
Other payables	**–**	**5,207**	**–**	**–**	**–**	**5,207**
Due to a related company	**437**	**–**	**–**	**–**	**–**	**437**
	321,366	**139,876**	**9,554**	**46,759**	**49,994**	**567,549**

2007	Group					
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Client deposits	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	–	15,112	–	–	–	15,112
Due to an intermediate holding company	4,652	–	–	–	–	4,652
	523,370	243,348	1,122	35,464	18,784	822,088

2008	**Company**		
	Less than 3 months HK$'000	**Over 1 year HK$'000**	**Total HK$'000**
Due to subsidiaries (note 18)	**–**	**1,211**	**1,211**
Other payables	**100**	**–**	**100**
	100	**1,211**	**1,311**

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

Liquidity risk *(continued)*

2007	Less than 3 months HK$'000	Company Over 1 year HK$'000	Total HK$'000
Due to subsidiaries (note 18)	–	1,230	1,230
Other payables	49	–	49
	49	1,230	1,279

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 2008. 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 2008	**High/low 2008**	31 December 2007	High/low 2007
Hong Kong – Hang Seng Index	**14,387**	**27,615/ 11,015**	27,813	31,958/ 18,659

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.

	Carrying amount of equity investments HK$'000	**Change in profit before tax** HK$'000
2008		
Investments listed in:		
Hong Kong – Held-for-trading	**87,517**	**8,752**
2007		
Investments listed in:		
Hong Kong – Held-for-trading	186,523	18,652

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.

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

Capital management *(continued)*

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

Certain subsidiaries of the Group are regulated by the Securities and Futures Commission (the "SFC") and are required to comply with certain minimum capital requirements according to the rules of the SFC. The Group has established a legal and compliance department which is operated by experienced internal qualified lawyers and compliance officers and is monitored by management. The principal roles of the legal and compliance department are to monitor the daily financial status and to review internal control of the Group regularly to ensure the Company's regulated subsidiaries are in compliance with related regulations. No changes were made in the objectives, policies or processes for managing capital during the two years ended 31 December 2008.

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	
	2008	2007
	HK$'000	HK$'000
Interest-bearing bank and other borrowings	**190,833**	197,465
Less: Cash and cash equivalents	**(101,642)**	(79,544)
Net debt	**89,191**	117,921
Capital	**328,069**	539,158
Capital and net debt	**417,260**	657,079
Gearing ratio	**21.4%**	17.9%

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 March 2009.

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				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**90,862**	285,952	156,873	116,947	131,953
Profit/(loss) before tax	**(192,033)**	209,319	26,679	8,601	72,955
Tax	**5,569**	(9,775)	(1,358)	(4,392)	(4,352)
Profit/(loss) for the year	**(186,464)**	199,544	25,321	4,209	68,603
Attributable to:					
Equity holders of the parent	**(186,451)**	199,536	25,300	4,109	68,576
Minority interests	**(13)**	8	21	100	27
	(186,464)	199,544	25,321	4,209	68,603

	Year ended 31 December				
	2008	2007	2006	2005	2004
Earnings per share (HK cents):					
Basic	**(3.71)**	3.98	0.51	0.08	1.41
Diluted	**N/A**	3.83	0.51	N/A	N/A
Dividend per share (HK cents)	**0.04**	0.60	0.40	–	0.20

ASSETS, LIABILITIES AND MINORITY INTERESTS

	Year ended 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**890,088**	1,386,995	1,050,965	775,001	832,359
TOTAL LIABILITIES	**(562,019)**	(847,837)	(682,912)	(452,210)	(523,948)
MINORITY INTERESTS	**(896)**	(994)	(1,011)	(1,380)	(1,371)
	327,173	538,164	367,042	321,411	307,040