# CASH FINANCIAL SERVICES GROUP LIMITED

*(Incorporated in Bermuda with limited liability)*
(Stock code: 510)

## ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

## CONSOLIDATED INCOME STATEMENT

The audited consolidated results of CASH Financial Services Group Limited ("Company" or "CFSG") and its subsidiaries ("Group") for the year ended 31 December 2008 together with the comparative figures for the last corresponding year are as follows:

| | Notes | **2008**<br>**HK$'000** | 2007<br>HK$'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | (2) | **324,651** | 666,378 |
| Other operating income | | **5,260** | 1,859 |
| Salaries, commission and related benefits | | **(151,110)** | (247,980) |
| Depreciation | | **(15,655)** | (7,403) |
| Finance costs | | **(20,134)** | (91,844) |
| Other operating and administrative expenses | | **(100,649)** | (133,363) |
| Net (losses) gains on financial assets at fair value through profit or loss | 10(ii) | **(172,117)** | 20,334 |
| Net increase in fair value on derivative financial instruments | 10(iii) | **8,734** | - |
| Share of profit (loss) of an associate | | **39,096** | (3,370) |
| (Loss) profit before taxation | | **(81,924)** | 204,611 |
| Taxation charge | (4) | **(4,294)** | (28,825) |
| (Loss) profit for the year from continuing operations | | **(86,218)** | 175,786 |
| **Discontinued operations** | (5) | | |
| Profit for the year from discontinued operations | | **-** | 30,904 |
| (Loss) profit for the year | | **(86,218)** | 206,690 |

| | | **2008** | 2007 |
|---|---|---|---|
| | | **HK$'000** | HK$'000 |
| Attributable to: | | | |
| Equity holders of the Company | | **(99,595)** | 207,779 |
| Minority interests | | | |
| - Continuing operations | | **13,377** | (617) |
| - Discontinued operations | | **-** | (472) |
| | | **(86,218)** | 206,690 |
| Dividend: | | | |
| Proposed final dividend (31 December 2008: Nil; 31 December 2007: HK$0.03 per ordinary share based on 2,076,972,027 shares) | | **-** | 62,309 |
| Dividends recognised as distribution during the year | | | |
| - 2008 Interim - HK$0.10 per ordinary share (2007: HK$0.02 per ordinary share) | | | |
| - 2007 Final - HK$0.03 per ordinary share (2006: HK$0.02 per ordinary share) | | **103,566** | 57,333 |

| | Note | **2008** | 2007 (restated) |
|---|---|---|---|
| (Loss) earnings per share | (6) | | |
| From continuing and discontinued operations: | | | |
| - Basic | | **(24.1) HK cents** | 61.3 HK cents |
| - Diluted | | **-** | 60.6 HK cents |
| From continuing operations: | | | |
| - Basic | | **(24.1) HK cents** | 52.0 HK cents |
| - Diluted | | **-** | 51.4 HK cents |
| From discontinued operations: | | | |
| - Basic | | **-** | 9.3 HK cents |
| - Diluted | | **-** | 9.1 HK cents |

## CONSOLIDATED BALANCE SHEET

| | Notes | At 31 December 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property and equipment | | **108,164** | 24,787 |
| Investment property | | **-** | 5,000 |
| Goodwill | | **4,933** | 4,933 |
| Intangible assets | | **11,062** | 12,392 |
| Other assets | | **132,718** | 9,136 |
| Loans receivable | | **192** | 176 |
| Interests in associates | | **111,684** | 65,778 |
| Loan to an associate | | **10,296** | 10,296 |
| Amounts receivable on disposal of subsidiaries | | **-** | 162,703 |
| | | **379,049** | 295,201 |
| Current assets | | | |
| Amounts receivable on disposal of subsidiaries | | **171,498** | - |
| Accounts receivable | (7) | **304,042** | 931,595 |
| Loans receivable | | **13,629** | 28,867 |
| Prepayments, deposits and other receivables | | **22,864** | 28,218 |
| Amount due from an associate | | **260** | 260 |
| Amounts due from fellow subsidiaries | | **341** | 447 |
| Tax recoverable | | **1,230** | - |
| Investments held for trading | | **79,155** | 59,271 |
| Deposits with brokers | | **2,730** | 69,188 |
| Bank deposits subject to conditions | | **35,180** | 28,675 |
| Bank balances - trust and segregated accounts | | **542,079** | 928,527 |
| Bank balances (general accounts) and cash | | **175,201** | 256,668 |
| | | **1,348,209** | 2,331,716 |
| Current liabilities | | | |
| Accounts payable | (8) | **689,175** | 1,379,521 |
| Accrued liabilities and other payables | | **46,482** | 68,534 |
| Derivative financial liabilities | | **3,067** | - |
| Taxation payable | | **20,172** | 20,993 |
| Obligations under finance leases | | | |
| - amount due within one year | | **127** | - |
| Bank borrowings - amount due within one year | | **195,253** | 231,066 |
| Loan from a minority shareholder | | **27,437** | 27,437 |
| | | **981,713** | 1,727,551 |
| Net current assets | | **366,496** | 604,165 |
| | | **745,545** | 899,366 |

| | At 31 December 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Capital and reserves | | |
| Share capital | **41,140** | 207,697 |
| Reserves | **648,153** | 690,668 |
| Equity attributable to equity holders of the Company | **689,293** | 898,365 |
| Minority interests | **16,762** | 1,001 |
| Total equity | **706,055** | 899,366 |
| Non-current liabilities | | |
| Deferred tax liabilities | **2,342** | - |
| Obligations under finance leases | | |
| - amount due after one year | **315** | - |
| Bank borrowings - amount due after one year | **36,833** | - |
| | **39,490** | - |
| | **745,545** | 899,366 |

Notes:

**(1) Application of new and revised Hong Kong Financial Reporting Standards ("HKFRS")**

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

| | |
|---|---|
| HKAS 39 & HKFRS 7 (Amendments) | 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 the new HKFRSs had no material effect on how the Group's results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs [1] |
| HKAS 1 (Revised) | Presentation of financial statements [2] |
| HKAS 23 (Revised) | Borrowing costs [2] |
| HKAS 27 (Revised) | Consolidated and separate financial statements [3] |
| HKAS 32 & 1 (Amendments) | Puttable financial instruments and obligations arising on liquidation [2] |
| HKAS 39 (Amendment) | Eligible hedged items [3] |
| HKFRS 1 | First-time adoption of financial reporting standards [3] |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an investment in a subsidiary, jointly controlled entity or associate [2] |
| HKFRS 2 (Amendment) | Vesting conditions and cancellations [2] |
| HKFRS 3 (Revised) | Business combinations [3] |
| HKFRS 7 (Amendments) | Improving disclosures about financial instruments [2] |
| HKFRS 8 | Operating segments [2] |
| HK(IFRIC) - INT 13 | Customer loyalty programmes [4] |
| HK(IFRIC) - INT 15 | Agreements for the construction of real estate [2] |
| HK(IFRIC) - INT 16 | Hedges of a net investment in a foreign operation [5] |
| HK(IFRIC) - INT 17 | Distribution of non-cash assets to owners [3] |
| HK(IFRIC) - INT 18 | Transfer of assets from customers [6] |

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.
2 Effective for annual periods beginning on or after 1 January 2009.
3 Effective for annual periods beginning on or after 1 July 2009.
4 Effective for annual periods beginning on or after 1 July 2008.
5 Effective for annual periods beginning on or after 1 October 2008.
6 Effective for transfers on or after 1 July 2009.

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

**(2) Revenue**

| | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|
| **Continuing operations:** | | |
| Fees and commission income | **278,464** | 511,881 |
| Interest income | **46,187** | 154,497 |
| | **324,651** | 666,378 |
| **Discontinued operations:** | | |
| Online game income | **-** | 23,309 |
| Sales of online game auxiliary products | **-** | 9,738 |
| Licensing income | **-** | 2,064 |
| | **-** | 35,111 |

## (3) Business and geographical segments

### Business segments

For management purposes, the Group is currently organised into three main operating divisions, namely, broking, financing and corporate finance. These divisions are the basis on which the Group reports its primary segment information.

Principal activities for the year are as follows:

| | | |
|---|---|---|
| Broking | - | Broking of securities, options, futures and leveraged foreign exchange contracts as well as mutual funds and insurance-linked investment products |
| Financing | - | Provision of margin financing and money lending services |
| Corporate finance | - | Provision of corporate finance services |

The Group was also involved in the provision of online game services, sales of online game auxiliary products and licensing services up to 31 May 2007. This online game division was disposed of and discontinued on 1 June 2007 as mentioned in note 5.

The Group's operation by business segment is as follows:

**Consolidated income statement for the year ended 31 December 2008**

| | **Continuing operations** | | | | **Discontinued operations** | |
|---|---|---|---|---|---|---|
| | **Broking** | **Financing** | **Corporate finance** | **Total** | **Online game services** | **Consolidated** |
| | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** |
| Revenue | **270,878** | **46,187** | **7,586** | **324,651** | **-** | **324,651** |
| RESULT | | | | | | |
| Segment profit | **47,513** | **14,729** | **79** | **62,321** | **-** | **62,321** |
| Other operating income | | | | **5,260** | **-** | **5,260** |
| Share of profit of an associate | | | | **39,096** | **-** | **39,096** |
| Unallocated corporate expenses | | | | **(25,218)** | **-** | **(25,218)** |
| Net losses on financial assets at fair value through profit or loss | | | | **(172,117)** | **-** | **(172,117)** |
| Net increase in fair value on derivative financial instruments | | | | **8,734** | **-** | **8,734** |
| Loss before taxation | | | | **(81,924)** | **-** | **(81,924)** |
| Taxation charge | | | | **(4,294)** | **-** | **(4,294)** |
| Loss for the year | | | | **(86,218)** | **-** | **(86,218)** |

**Consolidated balance sheet as at 31 December 2008**

| | Continuing operations | | | | Discontinued operations | |
|---|---|---|---|---|---|---|
| | Broking HK$'000 | Financing HK$'000 | Corporate finance HK$'000 | Total HK$'000 | Online game services HK$'000 | Consolidated HK$'000 |
| ASSETS | | | | | | |
| Segment assets | 976,755 | 246,287 | 11,272 | 1,234,314 | - | 1,234,314 |
| Interests in associates | | | | | | 111,684 |
| Unallocated corporate assets | | | | | | 381,260 |
| Consolidated total assets | | | | | | 1,727,258 |
| LIABILITIES | | | | | | |
| Segment liabilities | 696,605 | 212,386 | 551 | 909,542 | - | 909,542 |
| Unallocated corporate liabilities | | | | | | 111,661 |
| Consolidated total liabilities | | | | | | 1,021,203 |

**Other information for the year ended 31 December 2008**

| | Continuing operations | | | | | Discontinued operations | |
|---|---|---|---|---|---|---|---|
| | Broking HK$'000 | Financing HK$'000 | Corporate finance HK$'000 | Unallocated HK$'000 | Total HK$'000 | Online game services HK$'000 | Consolidated HK$'000 |
| Additions to property and equipment | 71,921 | - | - | 26,878 | 98,799 | - | 98,799 |
| Allowance for bad and doubtful debts | - | 900 | - | - | 900 | - | 900 |
| Depreciation of property and equipment | 5,904 | - | - | 9,751 | 15,655 | - | 15,655 |

**Consolidated income statement for the year ended 31 December 2007**

| | Continuing operations | | | | Discontinued operations | |
|---|---|---|---|---|---|---|
| | Broking | Financing | Corporate finance | Total | Online game services | Consolidated |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Revenue | 502,039 | 154,497 | 9,842 | 666,378 | 35,111 | 701,489 |
| RESULT | | | | | | |
| Segment profit (loss) | 164,639 | 36,227 | (1,861) | 199,005 | (7,528) | 191,477 |
| Net gains on financial assets at fair value through profit or loss | | | | 20,334 | - | 20,334 |
| Other operating income | | | | 1,859 | 336 | 2,195 |
| Gain on disposal of subsidiaries | | | | - | 41,701 | 41,701 |
| Share of loss of an associate | | | | (3,370) | - | (3,370) |
| Unallocated corporate expenses | | | | (13,217) | (3,605) | (16,822) |
| Profit before taxation | | | | 204,611 | 30,904 | 235,515 |
| Taxation charge | | | | (28,825) | - | (28,825) |
| Profit for the year | | | | 175,786 | 30,904 | 206,690 |

**Consolidated balance sheet as at 31 December 2007**

| | Continuing operations | | | | Discontinued operations | |
|---|---|---|---|---|---|---|
| | Broking | Financing | Corporate finance | Total | Online game services | Consolidated |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| ASSETS | | | | | | |
| Segment assets | 1,495,624 | 780,602 | 12,197 | 2,288,423 | - | 2,288,423 |
| Interest in associates | | | | | | 65,778 |
| Unallocated corporate assets | | | | | | 272,716 |
| Consolidated total assets | | | | | | 2,626,917 |
| LIABILITIES | | | | | | |
| Segment liabilities | 1,164,302 | 489,678 | 409 | 1,654,389 | - | 1,654,389 |
| Unallocated corporate liabilities | | | | | | 73,162 |
| Consolidated total liabilities | | | | | | 1,727,551 |

**Other information for the year ended 31 December 2007**

| | Continuing operations | | | | | Discontinued operations | |
|---|---|---|---|---|---|---|---|
| | Broking | Financing | Corporate finance | Unallocated | Total | Online game services | Consolidated |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Additions to property and equipment | 39 | - | - | 5,006 | 5,045 | 5,683 | 10,728 |
| Allowance for bad and doubtful debts | 1,041 | 298 | - | - | 1,339 | - | 1,339 |
| Depreciation of property and equipment | 59 | - | - | 7,344 | 7,403 | 2,406 | 9,809 |
| Amortisation of intangible assets | - | - | - | - | - | 1,731 | 1,731 |

**Geographical segments**

The Group's operations are located in Hong Kong and the People's Republic of China ("PRC"). For the activities of broking, financing and corporate finance, they are based in Hong Kong and PRC and the revenue of these activities for the year ended 31 December 2008 and 31 December 2007 are derived from Hong Kong. The online game services were mainly based in the PRC and Taiwan and the relevant revenue for the year ended 31 December 2007 were derived mainly from the PRC and Taiwan.

The Group's segment revenue from external customers cannot be allocated based on geographic location of its customers. The following table provides an analysis of the Group's revenue by geographical market based on location of operations:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Continuing operations: | | |
| Hong Kong | **324,651** | 666,378 |
| Discontinued operations: | | |
| PRC | **-** | 27,781 |
| Taiwan | **-** | 7,330 |
| | **-** | 35,111 |
| | **324,651** | 701,489 |

The following is an analysis of the carrying amount of segment assets, and additions to property and equipment, analysed by the geographical area in which the assets are located:

*Carrying amount of segment assets*

| | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|
| Continuing operations: | | |
| Hong Kong | **1,165,853** | 2,288,423 |
| PRC | **68,461** | - |
| | **1,234,314** | 2,288,423 |
| Discontinued operations: | | |
| PRC | **-** | - |
| Taiwan | **-** | - |
| | **-** | - |
| | **-** | 2,288,423 |

*Additions to property and equipment*

| | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|
| Continuing operations: | | |
| Hong Kong | **26,878** | 5,045 |
| PRC | **71,921** | - |
| | **98,799** | 5,045 |
| Discontinued operations: | | |
| PRC | **-** | 1,824 |
| Taiwan | **-** | 3,859 |
| | **-** | 5,683 |
| | **98,799** | 10,728 |

## (4) Taxation charge

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| **Continuing operations:** | | |
| Current tax: | | |
| - Hong Kong | **(2,154)** | (27,635) |
| Overprovision in prior years | **202** | 385 |
| Deferred taxation | **(2,342)** | (1,575) |
| | **(4,294)** | (28,825) |

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Certain subsidiaries of the Company operated in the PRC and Taiwan and were disposed of by the Group in 2007, as disclosed in note 5, were subject to tax with rate of 15% because they were registered in 張江高科技園區 (translated as Shanghai Zhang Jiang High Technological Zone). No provision for the PRC income tax has been made as they had incurred tax losses in 2007. Also, no provision for taxation had been made for subsidiary located in Taiwan as no assessable profit is arisen in 2007.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax ("New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. The relevant tax rate for the Group's remaining subsidiaries in the PRC is 25%.

## (5) Discontinued operations

On 9 January 2007, the Group entered into a sale and purchase agreement with Celestial Asia Securities Holdings Limited ("CASH") (the controlling shareholder of the Company) to dispose of Netfield Technology Limited and its subsidiaries ("Netfield Group"), which carried out the Group's online game services operations. The disposal was effected in order to generate cash flows for the expansion of the Group's other businesses. The disposal was approved by independent shareholders of the Company at a special general meeting held on 23 April 2007 and was completed on 1 June 2007, on which date control of the Netfield Group has been passed to CASH.

The profit (loss) for the year ended 31 December 2007 from the discontinued operations is analysed as follows:

| | HK$'000 |
|---|---|
| Gain on disposal of the Netfield Group | 41,701 |
| Loss for the year on online game services operations | (10,797) |
| | 30,904 |

The results of the Netfield Group for the period from 1 January 2007 to 31 May 2007, which have been included in the consolidated income statement for the year ended 31 December 2007, were as follows:

| | HK$'000 |
|---|---|
| Revenue | 35,111 |
| Other operating income | 336 |
| Salaries, commission and related benefits | (10,665) |
| Depreciation and amortisation | (4,137) |
| Other operating and administrative expenses | (31,358) |
| Finance costs | (84) |
| Loss before taxation and loss for the period | (10,797) |
| Attributable to: | |
| The Group | (10,325) |
| Minority interests | (472) |
| | (10,797) |

## (6) (Loss) earnings per share

The calculation of basic and diluted (loss) earnings per share attributable to the ordinary equity holders of the Company for the year is based on the following data:

| | **2008**<br>**HK$'000** | 2007<br>HK$'000 |
|---|---|---|
| **From continuing and discontinued operations** | | |
| (Loss) profit for the purpose of basic and diluted (loss) earnings per share | **(99,595)** | 207,779 |
| **From continuing operations** | | |
| (Loss) profit for the purpose of basic and diluted (loss) earnings per share | **(99,595)** | 176,403 |
| **From discontinued operations** | | |
| Profit for the purpose of basic and diluted earnings per share | **-** | 31,376 |

| | **2008** | 2007<br>(restated) |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share | **413,600,313** | 339,047,794 |
| Effect of dilutive potential ordinary shares assumed exercise of share options | **-** | 4,061,310 |
| Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share | **413,600,313** | 343,109,104 |

The weighted average number of ordinary shares for the purpose of basic and diluted (loss) earnings per share has been adjusted for the consolidation of shares on 2 May 2008.

For the year ended 31 December 2008, the computation of diluted loss per share does not assume the exercise of the Company's outstanding share options since their exercise would result in a decrease in loss per share.

## (7) Accounts receivable

| | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|
| Accounts receivable arising from the business of dealing in securities: | | |
| Clearing houses, brokers and dealers | **72,199** | 216,343 |
| Cash clients | **36,425** | 166,310 |
| Margin clients | **97,185** | 449,162 |
| Accounts receivable arising from the business of dealing in futures and options: | | |
| Clients | **65** | 68 |
| Clearing houses, brokers and dealers | **94,719** | 93,032 |
| Commission receivable from brokerage of mutual funds and insurance-linked investment products | **2,349** | 5,238 |
| Accounts receivable arising from the business of provision of corporate finance services | **1,100** | 1,442 |
| | **304,042** | 931,595 |

The settlement terms of accounts receivable arising from the business of dealing in securities are two days after trade date, and accounts receivable arising from the business of dealing in futures and options are one day after trade date.

In respect of the commission receivables from brokerage of mutual funds and insurance-linked investment products as well as accounts receivable arising from the business of corporate finance services, the Group allows a credit period of 30 days. The aged analysis is as follows:

| | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|
| 0 - 30 days | **2,034** | 4,173 |
| 31 - 60 days | **458** | 619 |
| 61 - 90 days | **323** | 697 |
| Over 90 days | **634** | 1,191 |
| | **3,449** | 6,680 |

Loans to margin clients are secured by clients' pledged securities at fair values of HK$442,488,000 (2007: HK$1,827,557,000) which can be sold at the Group's discretion to settle any margin call requirements imposed by their respective securities transactions. The Group is able to use client's pledged securities up to the amount of 140% of the loans to margin clients, as collateral of the Group's borrowing (with client's consent). The loans are repayable on demand and bear interest at commercial rates. No aged analysis is disclosed as in the opinion of directors of the Company, the aged analysis does not give additional value in view of the nature of business of share margin financing.

## (8) Accounts payable

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| Accounts payable arising from the business of dealing in securities : | | |
| Cash clients | **400,345** | 963,379 |
| Margin clients | **120,928** | 255,425 |
| Accounts payable to clients arising from the business of dealing in futures and options | **167,545** | 151,097 |
| Accounts payable to clients arising from the business of dealing in leveraged foreign exchange contracts | **357** | 9,620 |
| | **689,175** | 1,379,521 |

The settlement terms of accounts payable arising from the business of dealing in securities are two days after trade date. Except for the amounts payable to margin clients, the age of these balances is within 30 days.

Amounts due to margin clients are repayable on demand. No aged analysis is disclosed as in the opinion of directors, the aged analysis does not give additional value in view of the nature of business of share margin financing.

Accounts payable to clients arising from the business of dealing in futures and options and leveraged foreign exchange contracts are margin deposits received from clients for their trading of these contracts. The required margin deposits are repayable upon the closure of the corresponding futures and options and leveraged foreign contracts position. The excess of the outstanding amounts over the required margin deposits stipulated are repayable to clients on demand. No aged analysis is disclosed as in the opinion of directors of the Company, the aged analysis does not give additional value in view of the nature of these businesses.

The accounts payable amounting to HK$542,079,000 (2007: HK$928,527,000) were payable to clients and other institutions in respect of the trust and segregated bank balances received and held for clients and other institutions in the course of the conduct of regulated activities. However, the Group does not have a currently enforceable right to offset these payables with the deposits placed.

## (9) Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the bank borrowings, and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt. The Group's overall strategy remains unchanged throughout the year.

Certain group entities are regulated by the Hong Kong Securities and Futures Commission ("SFC") and are required to comply with certain minimum capital requirements according to the Hong Kong Securities and Futures Ordinance ("SFO"). Management closely monitors, on a daily basis, the liquid capital level of these entities to ensure the compliance of the minimum liquid capital requirement under the Hong Kong Securities and Futures (Financial Resources) Rules.

## (10) Financial Instruments

(i) Categories of financial instruments

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Financial assets | | |
| Fair value through profit or loss | | |
| - held-for-trading | **79,155** | 59,271 |
| Loans and receivables (including cash and cash equivalents) | **1,316,747** | 2,426,222 |
| Financial liabilities | | |
| Amortised cost | **965,877** | 1,644,066 |
| Derivative financial liabilities | **3,067** | - |

(ii) Net (losses) gains on financial assets at fair value through profit or loss

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Held-for-trading investments | | |
| - Equity securities listed in Hong Kong | **(141,290)** | 20,121 |
| - Investment funds | **(922)** | 213 |
| Designated at fair value through profit or loss | | |
| - Equity-linked structured deposits | **(29,905)** | - |
| | **(172,117)** | 20,334 |

(iii) Net increase in fair value on derivative financial instruments

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Equity-linked derivative contracts | **8,734** | - |

Financial risk management objectives and policies

The Group's major financial instruments include equity investments, deposits paid for acquisition of fellow subsidiaries, other receivables, other payables, bank balances and deposits, bank borrowings, accounts receivable and accounts payable. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

*Equity price risk*

The Group is exposed to equity price risk as a result of changes in fair value of its investments in equity securities and derivative financial instruments. The directors of the Company manage the exposure by closely monitoring the portfolio of equity investments and derivative financial instrument.

*Equity price sensitivity*

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. The analysis is prepared assuming the financial instruments outstanding at the balance sheet date were outstanding for the whole year. As a result of the volatility of the financial market in 2008, the management adjusted the sensitivity rate from 10% for 2007 to 30% for 2008 for the purpose of assessing equity price risk. A 30 percent change is used when reporting equity price risk internally to key management personnel and represents management's assessment of the reasonably possible change in equity price.

As at 31 December 2008, if the market bid prices of the Group's listed equity investments had been 30 percent higher/lower, the Group's loss would decrease/increase by HK$26,747,000 (2007: the Group's profit would increase/decrease by HK$17,781,000). This is mainly attributable to the changes in fair values of the listed investments held for trading.

For derivative financial instrument, the Group has obligations to take up equity securities based on the relevant contract. In addition, since these contracts are mark-to-market at reporting date, the Group will have profit and loss exposure in these contracts. No sensitivity analysis is prepared as the impact for the remaining contracts are expected to be insignificant.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent equity price risk as the year end exposure does not reflect the exposure during the year. An unexpected decrease in market bid price may result in the Group suffering significant loss due to the leverage feature.

*Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank balances and deposits with brokers. The Group currently does not have a fair value hedging policy. The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings, loans receivable, loans to margin clients and bank balances. The Group currently does not have a cash flow interest rate hedging policy. However, management is closely monitoring its exposure arising from margin financing and other lending activities undertaken by allowing an appropriate margin on the interest received and paid by the Group. A 100 (2007: 100) basis point change is used when reporting cash flow interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Prime Rate and HIBOR arising from the Group's variable interest rate instruments.

The sensitivity analysis is prepared assuming the financial instruments outstanding at the balance sheet date were outstanding for the whole year. As at 31 December 2008, if the interest rate of bank borrowings, loans receivable, loans to margin clients and bank balances had been 100 basis point higher/lower, the Group's loss would decrease/increase by HK$1,509,000 (2007: the Group's profit would increase / decrease by HK$4,925,000). This is mainly attributable to the bank interest expenses under finance costs or interest income under revenue.

*Foreign currency risk*

Foreign exchange risk is the risk of loss due to adverse movements in foreign exchange rate relating to receivables from foreign brokers and foreign currency deposits with banks. The management monitors foreign exchange exposure and will consider hedging significant foreign exposure should the need arises.

More than 99% of financial assets and financial liabilities of the Group are denominated in US$ or HK$. As HK$ is pegged to US$, the Group does not expect any significant movements in the US$/HK$ exchange rates. No foreign currency sensitivity is disclosed as in the opinion of directors, the foreign currency sensitivity does not give additional value in view of insignificant movement in the US$/HK$ exchange rates and insignificant exposure of other foreign currencies as at the balance sheet date.

Credit risk

As at 31 December, 2008, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk on brokerage, financing and corporate finance operations, the Credit and Risk Management Committee is set up to compile the credit and risk management policies, to approve credit limits and to determine any debt recovery action on those delinquent receivables. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Other than concentration of credit risk on deposits paid for acquisition of fellow subsidiaries and amounts receivable on disposal of subsidiaries which are payable by Celestial Investment Group Limited ("CIGL") (a wholly-owned subsidiary of CASH), the Group does not have any other significant concentration of credit risk as the exposure spread over a number of counterparties and customers. CIGL is financially supported by CASH. Accordingly, the directors of the Company consider the credit risk is minimal in the view of financial background of CASH.

Bank balances and deposits with brokers are placed in various authorised institutions and the directors of the Company consider the credit risk of such authorised institutions is low.

Liquidity risk

As part of ordinary broking activities, the Group is exposed to liquidity risk arising from (1) timing difference between settlement with clearing houses or brokers and customers and (2) derivative financial instruments (trading as accumulator) if it has difficulties in fulfilling its obligation to purchase the agreed amount of equity securities at any agreed point as set out in the contract. Securities market bid price and the associated volatility will affect the Group's future cash flows and profit and loss . To address the risk, treasury team works closely with the settlement division on monitoring the liquidity gap. In addition, for contingency purposes, clean loan facilities are put in place.

<u>Fair values</u>

The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices;

- the fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis, using prices or rates from observable current market transactions as input; and

- the fair values of derivative instruments are determined based on valuation techniques that incorporate market observable data such as share market price, risk-free rate and dividend yield.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

**(11) Capital commitment**

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property and equipment | - | 11,560 |

## DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2008 (2007: HK$0.03 per share).

## REVIEW AND OUTLOOK

### Financial Review

For the year ended 31 December 2008, the Group recorded a net loss of HK$86.2 million as compared to a net profit of HK$206.7 million as recorded in the previous year. The recorded loss was mainly due to recognition of the investment loss of HK$163.4 million on financial assets when the financial crisis in the last quarter of 2008 damaged investors' confidence, causing the share prices of most listed securities in the local stock market to reach their new lows since the aftermath of SARS outbreak in 2003. The Group's core financial services business still recorded an operating profit of HK$62.3 million for the year under the review even though the poor investment sentiment caused by the US subprime credit crisis started to take toll on the local stock market.

The Group recorded revenue of HK$324.7 million for the year ended 31 December 2008 as compared to the revenue from the continuing operations of HK$666.4 million for the previous year. The significant decrease was attributable to the reduction in both the commission income generated from the Group's brokerage business and interest income from its financing activities, which had in turn resulted from the weak investors' sentiment and the lack of mega IPO activities in the midst of the worsening US sub-prime credit crisis since late last year, followed by the downturn in both the local and global economies in the current year.

*Liquidity and Financial Resources*

The Group's total equity amounted to HK$706.1 million on 31 December 2008 as compared to HK$899.4 million at the end of the previous year. The change was the combined result of the reduction in retained earnings due to the loss for the year, the effect on repurchases of its own shares and the distribution of 2008 interim dividend and 2007 final dividend made during the year under review.

Subsequent to the balance sheet date, the Company announced a proposed 2-for-1 rights issue at a subscription price of HK$0.45 per share on 20 February 2009 to raise approximately HK$92.6 million capital in order to further strengthen its capital bases.

As at 31 December 2008, the Group had total bank borrowings of approximately HK$232.1 million, comprising bank loans of HK$179.0 million, mortgage loans of HK$38.1 million and overdrafts of HK$15.0 million.

Among the above bank borrowings, HK$14.0 million were collateralised by its margin clients' securities pledged to the Group. Another bank loan of HK$10.0 million was secured by a pledged deposit. Mortgage loans of HK$38.1 million were secured by the investment properties under construction with a total carrying amount of approximately HK$63.3 million. There were also unsecured borrowings including a syndicated bank loan of HK$105.0 million, unsecured bank loans of HK$50.0 million and unsecured overdrafts of HK$15.0 million.

As at 31 December 2008, our cash and bank balances including the trust and segregated accounts totalled HK$752.5 million as compared to HK$1,213.9 million at the end of the previous year. The decrease in the cash balances was mainly due to the decrease in deposits by our security clients whose confidence in the stock market had been weakened as the financial crisis was deepening in the last quarter of 2008.

Bank deposits of HK$10.7 million was pledged as collateral for a bank loan of HK$10.0 million. Another deposit of HK$0.2 million was pledged to facilitate a bank guarantee of a rental deposit. A further deposit of HK$7.1 million was pledged to facilitate a standby letter of credit facility granted by a bank to an associate of the Company. In addition, pursuant to a letter of undertaking provided by the Group to a bank, the Group undertakes to maintain deposits of not less than HK$15.0 million with the bank as a pre-condition for an overdraft facility of HK$15.0 million granted by this bank. Accordingly, a bank deposit of approximately HK$17.1 million was held for this purpose.

The liquidity ratio on 31 December 2008 remained healthy at 1.4 times, as compared to 1.3 times on 31 December 2007.

The ratio for our interest bearing borrowings to total equity was 32.9% on 31 December 2008 as compared to 25.7% on 31 December 2007, which was kept at a conservatively low level. On the other hand, we have no material contingent liabilities at the year-end.

*Foreign Exchange Risks*

As at the end of the year, the Group did not have any material un-hedged foreign exchange exposure or interest rate mismatch.

*Material Acquisitions and Disposals*

On 19 December 2008, the Group entered into a sale and purchase agreement with CASH Group Limited ("CGL") (a wholly-owned subsidiary of CASH) to acquire 60% of the equity interests in CASH Retail Management (HK) Limited ("CRM(HK)") and its subsidiaries (collectively known as "Retail Group") and the loan due from the Retail Group to CGL, at an aggregate consideration of approximately HK$184 million (subject to adjustment) and the Group will be granted a purchaser call option to acquire the remaining 40% of the equity interests in the Retail Group at the consideration of approximately HK$116 million (subject to adjustment) at any time from the date of the first completion date up to 31 December 2011. The total consideration of approximately HK$300 million (subject to adjustment) was based on price-to-earning ratio ("PE ratio") of 10 times of the estimated net profits of the Retail Group for the year ended 31 December 2008. The final consideration could be adjusted upward or downward based on the audited net profits of the Retail Group for the year ended 31 December 2008. The PE ratio was determined by reference to prospective PE ratio for year 2008 of various companies listed in Hong Kong engaging in the retail business. This transaction is still subject to, inter alia, the approval by independent shareholders of the Company at a special general meeting to be convened.

As at 31 December 2008, the Group has paid part of the consideration of HK$60 million to CGL as non-interest bearing deposit for the acquisition of 60% equity interests in the Retail Group. The remaining consideration for this 60% equity interest and the 40% interest upon the Group exercising the purchaser call option as mentioned above will be settled by the convertible note which shall be issued by the Company at principal value of approximately HK$240 million (subject to adjustment) with conversion price of HK$1.15 per conversion share. The conversion price will be adjusted to HK$1.482 per conversion share with retroactive effect from 19 March 2009 subject to completion of the 2-for-1 rights issue of the Company as set out in the prospectus of the Company dated 19 March 2009.

Save as aforesaid, the Group did not make any material acquisitions or disposals during the year.

*Capital Commitment*

As at 31 December 2008, the Group does not have any outstanding material capital commitment.

*Material Investments*

As at 31 December 2008, the Group was holding a portfolio of listed investments and unlisted investment funds with market values of approximately HK$79.2 million and net losses on listed investments, unlisted investment funds, equity-linked structured deposits and derivative financial instruments totally of HK$163.4 million was recorded for the year.

We do not have any future plans for material investments, nor addition of capital assets.

**Industry Review**

2008 was an extremely difficult year marked with unprecedented market volatilities, corporate failures, and widespread economic recession. The global de-leveraging and deflationary forces were massive and destructive. For example, the world market capitalisation has shrunk by half to reach its 2004 levels. The credit crisis that began in August 2007 in the US turned into a financial tsunami in October 2008 when Lehman Brothers collapsed. Global credits dried up and stock markets went into a tailspin. Speculative attacks led to severe capital flights in countries like Iceland, Hungary, Ukraine, and Russia. While governments around the world reacted with unprecedented coordinated efforts to ease monetary and fiscal policies to prevent the economies from entering a depression, investor confidence has fallen off a cliff and it will be a while before it can be restored.

Hong Kong was particularly hit hard given its size and economic openness. It slipped into recession for the first time since 2003. Massive wealth destruction, lack of credit availability and bleak export outlook in Southern China will likely prolong the current downturn.

The Hang Seng Index closed the year at 14,387, down 48.3% from the previous year. Market capitalisation evaporated 50% to HK$10 trillion. Total capital raised by 35 new listed companies has fallen 77% y-o-y to HK$66 billion.

In China, the economy seemed to have to come to a sudden halt after the best-ever summer Olympics. The already-weak export sector continued to struggle with little signs of turnaround. Investment spending decelerated sharply while domestic consumption began to show signs of fatigue. In response, the government announced the biggest-ever 4 trillion yuan fiscal stimulus plan to boost infrastructure spending, support the export sector and revive the property markets. It is expected that this massive government easing will start to trickle down to the economy in the second half of 2009. At the same time, the People's Bank of China reversed its tightening stance by aggressively cutting interest rates and lowering bank reserve requirements. It is encouraging to see early signs of re-accelerating credit growth. While few countries are immune to the global economic recession, China will likely lead the region to return to growth.

**Business Review**

The revenue for the year was HK$324.7 million, a decrease of 51.3% compared to HK$666.4 million for last year. Net loss for the year ended 31 December 2008 amounted to HK$86.2 million.

*China Development*

Our key strategy in 2008 was to position ourselves for business growth in China. In addition to setting up the Shanghai office, we opened up branch offices in Chongqing and Beijing during the first half of the year. We also upgraded our Shenzhen operation support centre to strengthen our capacity and be closer to our Mainland business partners. All these offices carry our brand and serve as contact points for prospective clients and bases for marketing and business development. Currently, the offices in Mainland do not deal in securities trading. Their primary function is to provide potential clients and the investing public with market and investment research. Our experience suggests that investors value this type of investment information from a reputable and trustworthy company like us. Over time, we plan to leverage on these offices to build brand awareness, generate databases, gather market information, and develop strategic alliances with local partners. This strategy will help us tap the local network and talents for future expansion as the market liberalisation continues.

During the year, we held a number of exhibitions and seminars in the cities where we have representative offices to promote our services and corporate image. Majority of these initiatives received positive feedback and served as an important ground for our future China development.

*Securities Broking*

With the fall in market turnover and the lack of mega IPOs activities, interest income for margin financing business substantially dropped, resulting in a fall in revenue from securities broking compared to the same period of last year.

With service enhancement as one of our top priorities, we employed a straight-through commodities trading system to increase execution efficiency for our commodities clients. In addition, we adopted a localised real time quote system for Mainland clients.

In November, we were granted the Gold Futures Liquidity Provider privilege by the HKEX to become the only non-bank liquidity provider when it launched Gold Futures trading in Hong Kong.

As a leading technology-focused service provider, we introduced the world's first 3D AI Broker, a real-time and humanoid system that enhances online communications. The user-friendly application requires no special hardware or software to operate and enable multi-tasking clients to receive real-time account and market information in the language of their choice. We believe this convenience and humanoid application have elevated the online service standards of financial services industry in the world.

*Wealth Management*

The wealth management business, after re-engineering its pricing and payout scheme in recent years, has successfully attracted and retained talented sales professionals. Although the general capital markets were in turmoil since outbreak of the sub-prime crisis in mid-2007, sales revenue from the wealth management business saw a healthy growth in the first half of 2008. Net income for the year suffered as a result of a significant hike in rent and overheads even though the total sales income did not retract as much as the overall market. During the second half of the year, despite a continued increase in total number of clients, we experienced a noticeable fall in average order size and a significant increase in interest in protection-related investment. We believe this investment trend will persist in early 2009.

*Asset Management*

The asset management business provides us with a lever to tap into the high-net-worth segment where demand for personalised professional asset management service shows promising growth.

Over the past year, asset under management contracted significantly mainly due to global market sell-offs and partly due to fund withdrawals as investors turned risk averse. Portfolio return was hit particularly hard subsequent to the market meltdown triggered by the Lehman Brothers' collapse. Despite the difficult markets, the number of clients increased over the year, reflecting the underlying need for professional asset management service in times of rising volatility. These new clients are ready to invest as soon as the general market sentiment improves.

*Corporate Finance*

Corporate activities such as M&As, corporate restructuring, asset injections continued to dominate the market during 2008. IPO activities fell second year in a row after their peak in 2006. During the year, there were only 35 companies listed on the Hong Kong Stock Exchange, a 58% fall from the previous year. In aggregate, these companies raised HK$66 billion, merely a quarter of the amount raised in 2007. Under this challenging environment, the corporate finance unit shifted its focus to financial advisory and special transactions such as corporate restructuring and capital injections.

*People*

At CFSG, we recognise that the long-term success of our business is built on trust, integrity, and professionalism. Hence, people remain our most valuable assets. Our experience shows that if we treat our people right, they will serve our clients well and success will follow.

We believe having a set of corporate values will help solidify foundations for the healthy growth of a company. We nourish a culture of 'Five Hearts' – Devotion, Commitment, Caring, Winning and Happiness - within our organisation. These values over the years have proven to contribute to the goodness of our work atmosphere and strengthen our team spirit.

Throughout the year, our employees participated in a wide spectrum of training and development programs to upgrade their operational and managerial skills. We will continue to allocate resources towards personal development to enhance employees' competencies as well as their sense of belonging. Our goal is to create an environment to attract, develop, motivate, and retain talents and to encourage them to work together as a team.

*A Total Caring Organisation*

We are committed to creating value for stakeholders, delivering superior shareholders' returns, caring for employees' welfare, and being a trusted partner to clients we serve and a responsible corporate citizen in the communities we operate.

We manage the growth of our business without compromising the environment or society. We believe the health of our environment and society will in turn help sustain the growth of our business over the long term.

Our principles are to meet the needs of our customers with quality products and innovative services; creating an enjoyable work environment that unleashes the full potential of our employees; supporting the preservation of natural environment; and contributing to the betterment of the community, especially for our future generations.

**Outlook**

2009 will be a year where we focus on enhancing our business platform and refining our operation procedures. We will continue to exercise prudent cost measures while we position our development in the coming years. China will remain our core business development focus. We intend to leverage on our existing branch offices and networks in China to promote our securities broking, wealth management, and corporate finance business.

The securities broking business remains our core income contributor but its revenue composition will likely change as a result of our strategic shift to focus on the high margin and cash account business. In order to provide a stable and reliable service to a boundary-less clientele, we will continue to strengthen the execution capability and system stability of our platform. We will continue to add new features and functionalities as a continuous improvement project.

To anticipate changing client needs as market volatility remains high, we started to source for easy to understand and evaluate investment solutions with protection and investment features. Investors seem to seek more professional money management advice during volatile and down markets. Locally, potential investors tend to go to professional advisors or IFAs for investment advice instead of traditional banks after the Lehman Brothers mini-bond incident. To capture and expand this growing market segment, we will continue to strengthen recruitment and sales training. This change in investment behaviour also underpins our belief that income diversification through business diversification is essential. As such, we will continue to diversify and stabilise income sources by increasing the fee portion of income generated from discretionary portfolio management service. By exercising our philosophy in "Five Core Values", we believe we will be able to elevate our service level, exceed clients' expectation and ultimately become one of the most respectable wealth management advisors in China.

The asset management business will continue to expand its capacity by increasing the number of professional investment analysts and managers. Furthermore, it will launch portfolio management service with differentiated investment objectives. In addition to strengthening cross-selling synergies with the wealth management business through joint functions and promotions, the focus in 2009 is to continue its efforts to grow its client-base and assets under management.

The corporate finance team will focus on corporate advisory deals, and seek IPO sponsorship opportunities for companies in the Mainland, Singapore and Japan. The expansion of business regime into Asia is also a response to the development strategy promoted by the Hong Kong Stock Exchange in recent years to diversity the industry's portfolio and make Hong Kong a truly international capital centre.

The Group is generally cautious about the business outlook for 2009. As a small and open economy, Hong Kong is not immune to the global economic slowdown and financial tsunami. Hong Kong has already slipped into recession and its GDP is expected to shrink. The consumer and property sectors will likely remain weak while unemployment rate is expected to reach the levels unseen since the SARS in 2003. Against this economic backdrop as well as that of an unprecedented economic stimulus in both the developed and emerging countries, continued deleveraging, 2009 is unlikely to be a quiet year for investors. That said, some believe that the current downturn will be less severe compared to the Asian financial crisis 10 years ago because of the lower financial leveraging. While the world policy makers are likely to maintain a low interest rate policy to boost economy, the question remains whether this incentive is sufficient for consumers and investors to move from cash back into the market.

Locally, we have built a strong platform that positions us favourably as we aim to accelerate the pace of growth. With the PRC market as our future expansion focus, we continue to equip our platform with multi-faceted and diversified capabilities in anticipation of the eventual opening up of the financial markets in the Mainland. In the meantime, we will continue to cooperate with Mainland securities and brokerage firms for brand building opportunities. Overall, we will continue to diversify our revenue mix through strengthening existing businesses, enriching product types, and sourcing new income streams in concert with our business development in China. Our goal is to position CFSG as clients' financial services house of choice that has comprehensive product offerings to meet their diverse financial needs and values their business relationships.

## EMPLOYEE INFORMATION

At 31 December 2008, the Group had 258 employees. Our employees were remunerated according to their performance, working experience and market conditions. The total amount of remuneration cost of employees of the Group for the year under review was approximately HK$71.8 million.

*Benefits*

The Company and some of its subsidiaries provide employee benefits including mandatory provident fund scheme, medical insurance scheme, discretionary share options, performance bonus and sales commission for their staff. The Company also provides its employees in the PRC with medical and other subsidies, and contributes to the retirement benefit plans.

*Training*

The Group has implemented various training policies and organised a number of training programs aimed specifically at improving the skills of its employees and generally to increase the competitiveness, productivity and efficiency of the Group including training in areas such as product knowledge, customer service, selling techniques, team building, communication, presentation, coaching, quality management and also professional regulatory training programs as required by regulatory bodies. The Group also arranges for relevant staff, who are licensed persons under the SFO, to attend the requisite training courses to fulfill/comply with the continuous professional training as prescribed in the SFO.

The Group conducts an initial staff orientation for new employees in order to familiarise them with the Group's history and strategy, corporate culture, quality management measures, rules and regulations. This orientation is designed to integrate the employees into the Group and, the directors believe, helps improve productivity of new employees at an early stage.

## CORPORATE GOVERNANCE

The Board has adopted a set of corporate governance principles ("Principles") which aligns with the requirements set out in the Code on Corporate Governance Practices ("CG Code") and the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange. The Board had also in writing made specific enquiry to each executive director ("ED(s)") and independent non-executive director ("INED(s)") in respect of the due compliance of the rules and principles relevant to the Model Code. During the financial year ended 31 December 2008 and up to the date of this announcement ("CG Period"), the Principles had been duly complied with except for the deviations summarised as follows:

| CG Code | Deviation and reason |
|---|---|
| A.2.1 The roles of Chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual | The defined roles and responsibilities of the CEO shall be placed with a CEO other than the Chairman or if no CEO is appointed, shall be shared and jointly saddled by all EDs. During the period from 1 August 2008 to 4 January 2009, the Company has not maintained a CEO as the roles and responsibilities of the CEO was shared and jointly saddled by all EDs. However, since the appointment of Mr Chan Chi Ming Benson as the CEO on 5 January 2009, the CG Code A.2.1 had been fully complied. |

Save for the above, the Company has been in compliance with the CG Code and the Model Code throughout the CG Period.

## REVIEW OF RESULTS

The Group's audited consolidated results for the year ended 31 December 2008 have been reviewed by the Audit Committee of the Company.

## PURCHASE, REDEMPTION OR SALE OF THE COMPANY'S SECURITIES

During the year ended 31 December 2008, the Company purchased a total of 4,392,000 shares of HK$0.10 each in its own issued share capital on the Stock Exchange and such shares were then subsequently cancelled. The directors believe that such purchases would help enhancing the assets and earnings per share of the Company and would benefit the Company and the shareholders as a whole. Details of the repurchase of shares are summarised as follows:

| **Month/Year** | **Number of shares repurchased** | **Repurchase price per share** | | **Approximate aggregate consideration paid (excluding expenses)** |
|---|---|---|---|---|
| | | **Highest** | **Lowest** | |
| | | HK$ | HK$ | HK$'000 |
| June 2008 | 2,586,000 | 2.90 | 2.70 | 7,217 |
| July 2008 | 948,000 | 2.74 | 2.38 | 2,387 |
| October 2008 | 858,000 | 1.60 | 1.38 | 1,300 |
| Total | 4,392,000 | | | 10,904 |

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year under review.

## SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated balance sheet, consolidated income statement and the related notes thereto for the year ended 31 December 2008 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

On behalf of the Board
**Bankee P Kwan**
*Chairman*

Hong Kong, 20 March 2009

As at the date hereof, the directors of the Company are:-

*Executive directors:*

Mr Kwan Pak Hoo Bankee
Mr Chan Chi Ming Benson
Mr Law Ping Wah Bernard
Mr Cheng Man Pan Ben
Mr Yuen Pak Lau Raymond

*Independent non-executive directors:*

Mr Cheng Shu Shing Raymond
Mr Lo Kwok Hung John
Mr Lo Ming Chi Charles