SWS

# Shenyin Wanguo (H.K.) Limited
# 申 銀 萬 國（香 港）有 限 公 司

（Stock Code 股份代號：218）

Annual Report 2009 年報

# CONTENTS

# CORPORATE INFORMATION

## DIRECTORS

### Executive Directors

Feng Guorong *(Chairman)*
Lu Wenqing
Lee Man Chun Tony *(Chief Executive Officer)*
Guo Chun
Ying Niankang

### Non-executive Directors

Chang Pen Tsao
Huang Gang

### Independent Non-executive Directors

Ng Wing Hang Patrick
Kwok Lam Kwong Larry
Zhuo Fumin

## AUDIT COMMITTEE

Ng Wing Hang Patrick *(Chairman)*
Kwok Lam Kwong Larry
Zhuo Fumin

## REMUNERATION COMMITTEE

Kwok Lam Kwong Larry *(Chairman)*
Ng Wing Hang Patrick
Zhuo Fumin

## COMPANY SECRETARY

Wong Che Keung Leslie

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of Communications Co., Ltd., Hong Kong Branch
China Construction Bank (Asia) Corporation Limited
China Construction Bank Corporation, Hong Kong Branch
Chong Hing Bank Limited
Dah Sing Bank, Limited
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
Oversea-Chinese Banking Corporation Limited, Hong Kong Branch
Public Bank (Hong Kong) Limited
Standard Chartered Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

## AUDITORS

Ernst & Young

## SOLICITORS

Fred Kan & Co.

## REGISTERED OFFICE

28/F Citibank Tower
Citibank Plaza
3 Garden Road
Central
Hong Kong

## SHARE REGISTRARS & TRANSFER OFFICE

Tricor Tengis Limited
26/F Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

## WEBSITE

http://www.sywg.com.hk

# CHAIRMAN'S STATEMENT

I hereby present to the shareholders the annual report of Shenyin Wanguo (H.K.) Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2009.

## RESULTS

For the year ended 31 December 2009, the Group recorded a net profit attributable to shareholders of approximately HK$74.88 million, representing an increase of 420% over 2008. The turnover increased by 59.4% to approximately HK$355.2 million (2008: HK$222.9 million). The basic earnings per share increased by 420% to HK14.11 cents as compared to HK2.71 cents for last year.

## DIVIDEND

The board of directors (the "Board") of the Company has resolved to recommend the payment of a final dividend of HK2 cents per ordinary share in respect of 2009, to shareholders whose names appear on the register of members of the Company on 14 May 2010. The proposed final dividend will be paid on or about 20 May 2010 subject to the approval of the shareholders at the forthcoming annual general meeting of the Company.

## REVIEW OF MARKET IN 2009

In 2009, Chinese Mainland introduced various policies and measures to stimulate the economy, including a GDP growth target of no less than 8% under the macro-economic regulation and control, a two-year investment scheme involving RMB 4 trillion and intensive proposals to bolster industrial and regional development. The successful implementation of the said measures helped the Chinese Mainland's economy to recover quickest from the global financial crisis. Latest statistics from the State Statistical Bureau showed that the Chinese Mainland's GDP for 2009 reached RMB 33.5 trillion, grew by 8.7% from the previous year and achieved the GDP growth target of over 8% under the macro-economic regulation and control. In December last year, Chinese Mainland's exports experienced a remarkable rebound with a year-on-year increase of 17.7%. This ended the negative growth trend of 13 consecutive months of Chinese Mainland's exports and marked an upturn in the Chinese Mainland's economy.

Regarding the global economic environment, as the measures of the US and European governments to stimulate economy and restore stability to the financial markets started to take effect, the global financial system was stabilizing with investors' confidence picking up and the global stock market generally revealed signs of a rally. During the fourth quarter last year, the US attained a year-on-year increase in GDP of 5.7%, which was the highest single-quarter GDP growth in six years. The upswing of the mainland economy and the improving neighbouring markets contributed to the revival of trading in the Hong Kong securities market in 2009, pushing the Hang Seng Index and the H-share index upwards, albeit amid strong fluctuations. On 17 November 2009, the Hang Seng Index reached 23,000 points, up 102.7% from the one-year low of 11,345 points. The recent highest close of the H-share index was 13,863 points, up by 116.5% from the one-year low of 6,404 points. In the second half of 2009, the primary market showed strong evidence of recovery with increasing capital-raising exercises and accelerating the listing of newly-issued equity.

# CHAIRMAN'S STATEMENT *(Cont'd)*

## REVIEW OF MARKET IN 2009 *(Cont'd)*

In 2009, the Group took advantage of various market opportunities and devoted extra resources to promote business development, and we recorded growth in our businesses of brokerage, investment banking and investment. During the year, the Group's brokerage business captured a markedly higher market share, and there was a surge in commission income from the corresponding period in 2008 despite the drop in trading transaction amount as compared to the previous year. With its financial strength, the Group expanded its areas of fund investment and asset management by consolidating its investment and asset management businesses and reported satisfactory profits from its self-invested and -managed funds under the overall favourable market condition. During the year, the Group continued its efforts in strengthening cooperation with the parent company in various business areas and, in particular, there was a satisfactory progress in developing the institutional client base in overseas markets and the client base in the mainland market. The Group also strived to recommend PRC enterprises to become listed in Hong Kong and provide listed state-owned enterprises with various consultancy services. The successful listing of Hing Lee (HK) Holdings Limited (0396) on the Main Board of the Hong Kong Stock Exchange was one of the achievements of the Group during the year and the market performance of the company was satisfactory. In addition, the fair value of the Group's available-for-sale investments recovered notably in 2009 as compared with the previous year, contributed to the rise in this year's profit.

## FUTURE PLAN & PROSPECTS

At the Central Economic Work Conference held at the end of 2009, the central government decided that while maintaining a proactive fiscal policy and a moderately relaxed monetary policy, stepping up economic restructuring and managing inflation expectations would be the focus of the macro-economic regulation and control. Some analysts pointed out that the foundation for economic upturn in Chinese Mainland was not stable and many concerns remain, such as the lack of momentum in domestic economic growth, weak private investment and overcapacity.

From an external perspective, evidences show that global economic recovery is just a slow and complicated process. Shrinkage in global trade, high unemployment in major economies, huge fiscal deficit and, in particular, the recent Dubai's default in sovereign debt and Greece debt crisis further created market uncertainties about another plunge of the global economy (the so-called "double dip" scenario). Nevertheless, the market generally holds the view that investors are still confident in prospects of the mainland economy and expects a continuing growth in 2010. It is believed that the Chinese Mainland concept stocks such as State-owned enterprises and red chips will continue to be the market focus and the Hong Kong securities market will resume its uptrend.

# CHAIRMAN'S STATEMENT *(Cont'd)*

**FUTURE PLAN & PROSPECTS** *(Cont'd)*

In the coming year, the Group will adopt active and prudent business approach by further expanding the neighbouring overseas markets, enhancing the development of overseas institutional client base, expanding the scale of asset management business, developing direct investment business and balancing the growth of the brokerage, investment banking and asset management businesses. Furthermore, the Group will expand its brokerage teams, further enlarge its share in the local retail market, strengthen the cooperation with the headquarters in developing the mainland business and advancing our business in IPO, financing and financial consultancy services provided to PRC enterprises. With its knowledge of the mainland capital market, the Group will grasp the strategic opportunities offered by the "two-way opening" of the Chinese Mainland capital market and strive to expand into the new business areas in QDII and QFII, cross-border financing and merger and acquisition by foreign investors. The Group will continue to employ the management philosophy of "in conformity with law, regulations and standards" by strengthening our risk management, improving corporate governance and promoting a corporate culture of progressive and active development while devoting effort to business development. By capitalizing on our unique advantage, the Group will be able to sustain a healthy and steady growth in business.

**Feng Guorong**
*Chairman*

Hong Kong
12 March 2010

# MANAGEMENT DISCUSSION & ANALYSIS OF PERFORMANCE

## REVIEW OF OPERATIONS

### Securities Broking

The Group focused its securities broking business on the stock and futures markets in Hong Kong as well as the B-share market in Chinese Mainland. The indexes of both the securities markets of Chinese Mainland and Hong Kong have shown resumption of growth since March 2009. Though the average daily turnover amount of the Hong Kong Stock Exchange dropped 13.5% as compared with that of last year, the soaring of the Hang Seng Index during the year boosted the market sentiment. Both the securities brokerage commission and the market share of the Group attained a considerable growth as compared with that of last year. A notable revival was seen in the transaction amount from institutional clients, while the transactions from the local retail investors were more active as compared with that of last year. The futures and options brokerage commission also increased as compared with that of last year. In 2009, the brokerage business of the Group recorded an income of HK$260.6 million, increased by 37.9% from HK$189 million last year.

In respect of business expansion, during 2009, the Group continued to make good progress in promoting sales to overseas institutional clients and expanding the local retail teams, which laid a solid foundation for future business development.

### Securities Financing

During the first half of 2009, in light of the uncertainties caused by the financial turmoil, the Group continued its policy to moderately tighten credits and the demand for margin financing from clients declined, resulting in a lower interest income from loan. In addition, Hong Kong inter-bank rate has stayed low since early 2009, which led to a substantial decline in spread income in the Group as compared with last year. In the second half of 2009, the uptrend of the Hong Kong Hang Seng Index and China Enterprise Index, the further revival in market turnover, coupled with the increase in new share issuance in the primary market, the average balance of margin loans from the Group had picked up month by month. Thanks to our prudent credit policy, no provision for bad debt was required during the year.

For the year of 2009, the Group recorded an interest income of HK$47.17 million, representing a decrease of 32.7% as compared to HK$70.1 million of 2008.

The Group will continue to exercise caution in granting securities financing to clients, closely monitor its credit policy and perform regular reviews and assessment on the gearing level, investment portfolio and credit record of individual borrowers.

# MANAGEMENT DISCUSSION & ANALYSIS OF PERFORMANCE *(Cont'd)*

## REVIEW OF OPERATIONS *(Cont'd)*

### Corporate Finance

Shenyin Wanguo Capital (H.K.) Limited ("Shenyin Wanguo Capital"), a wholly-owned subsidiary of the Company, is mainly engaged in financial consultancy and securities underwriting. In 2009, Shenyin Wanguo Capital acted as the sponsor to Hing Lee (HK) Holdings Limited for its listing on the Main Board of the Hong Kong Stock Exchange. It also actively participated in the underwriting of new issues, including that of China Singyes Solar Technologies Holdings Limited, China Zhongwang Holdings Limited, Sinopharm Group Co. Ltd., Evergrande Real Estate Group Ltd. and China Pacific Insurance (Group) Co., Ltd., as well as in the placing of shares of Kam Hing International Holdings Limited and the open offer of Royale Furniture Holdings Limited. In addition, Shenyin Wanguo Capital acted as the compliance adviser for Fosun International Limited, Xtep International Holdings Limited, China Zhongwang Holdings Limited, Hing Lee (HK) Holdings Limited and TravelSky Technology Limited during the year. With regard to corporate advisory work, Shenyin Wanguo Capital was appointed as independent financial adviser to several listed companies including Angang Steel Co., Ltd., Modern Beauty Salon Holdings Limited and Uni-President China Holdings Limited in relation to their respective connected transactions.

### Securities Research

Our securities trading and broking businesses are supported by securities research members of the Group. With the support of our parent company, which is one of the leading securities companies in Chinese Mainland, the Group became a specialist in the securities market in Chinese Mainland and produces regular reports on the securities market in Chinese Mainland covering the macroeconomics, market strategy as well as comments on individual Chinese Mainland related enterprises which listed on the Hong Kong, Shanghai and Shenzhen stock exchanges. The research members of the Group also produce detailed company analyses, which are circulated to our clients. In 2009, a total of 20 investment analysts from our parent company joined our exchange programs. They familiarised themselves with the local economy and stock market during their visits in Hong Kong. We believe that the exchange programs are beneficial to the collaboration between our parent company and us on the research and investment banking fronts.

### Asset Management

In 2009, stock markets underwent a strong rally after the sharp decline in 2008. The Group's asset management team correctly predicted the markets' uptrend and delivered good performance for funds under management. The scale of assets under management for this reporting period had increased considerably. At the same time further cooperation with overseas corporations for the Group's asset management business also showed good progress, and plans for new funds to be launched are underway.

## CAPITAL STRUCTURE

During the year, there was no change to the share capital of the Company. As at 31 December 2009, the total number of the issued ordinary shares was 530,759,126 shares and total equity attributable to shareholders was HK$1,012 million.

# MANAGEMENT DISCUSSION & ANALYSIS OF PERFORMANCE *(Cont'd)*

## LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 31 December 2009, the Group had a cash holding of HK$85 million and short-term marketable securities of HK$178 million. As at 31 December 2009, the Group's total unutilized banking facilities amounted to HK$367 million, of which HK$134 million could be drawn down without the need of notice nor completion of condition precedent.

As at 31 December 2009, the Group had outstanding short-term bank borrowings amounting to HK$134 million. The liquidity ratio (current assets to current liabilities) and gearing ratio (borrowings to net asset value) as at 31 December 2009 were 1.29 and 0.13 respectively.

The Group has sufficient financial resources for its day to day operations as well as spare capacity to take advantage of any investment opportunities when they arise.

## SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITION AND DISPOSAL

During the year, the Group continued to hold 26.19% interest in The New China Hong Kong Highway Limited, which in turn held a 60% interest in Sichuan Chengmian Expressway Co., Ltd. It was recorded at the carrying value of HK$128 million as at 31 December 2009.

During the year, the Group did not have any material acquisition or disposal.

## CHARGES ON THE GROUP'S ASSET

No asset of the Group was subject to any charge as at 31 December 2009.

## RISK MANAGEMENT

The Group has properly put in place credit management policies which cover the examination of the approval of clients' trading and credit limits, regular reviews of facilities granted, monitoring of credit exposures and the follow up of credit risks associated with overdue debts. The policies are reviewed and updated regularly.

The management closely monitors the market condition so that precautionary measures will be taken to eliminate any risk that the Group may encounter. As at 31 December 2009, all advances to customers were margin financing and amounted to HK$699 million (2008: HK$204 million), of which 4% (2008: 10%) was attributable to corporate customers with the rest attributable to individual customers. There were no direct loans as at 31 December 2009 (2008: Nil).

# MANAGEMENT DISCUSSION & ANALYSIS OF PERFORMANCE *(Cont'd)*

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The Group's exposure to fluctuations in exchange rates arises from its dealings in overseas share markets. Such dealings are entered into on behalf of clients of the Group and accounted for a small portion of the Group's revenue. A material portion of such overseas transactions is denominated in United States dollars. The pegged exchange rate between United States dollars and Hong Kong dollars kept the Group's exchange risk exposure to a minimum and thus, no hedging was required. Exchange gains and/or losses are dealt with in the income statement. The Group has endeavored to closely monitor its foreign currency positions and take necessary measures when the situations so justify.

## CONTINGENT LIABILITIES

There were no material contingent liabilities as at 31 December 2009.

## FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Except the future plans as disclosed in the paragraph of "Future Plan & Prospects" in the Chairman's Statement, the Group had no other future plans for material investments or capital assets as at 31 December 2009.

## EMPLOYEES AND TRAINING

As at 31 December 2009, the total number of full-time employees was 189 (2008: 167). The total staff costs for the year (excluding directors' fees) amounted to approximately HK$85.5 million.

The Group is committed to professional training for its employees. In compliance with the relevant requirement of the Securities and Futures Commission, the Group had organized a Continuous Professional Training seminar in September 2009 for all licensed staff members.

# CORPORATE GOVERNANCE REPORT

To better the Company's transparency and accountability to the shareholders, the Company is, so far as practicable, committed to maintaining high standard of corporate governance. Save for the deviation from the Code Provision A.4.1 which is explained as below, the Company has met all the code provisions stipulated in Appendix 14, Code on Corporate Governance Practices (the "Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the financial year ended 31 December 2009.

Code Provision A.4.1 specifies that non-executive directors should be appointed for a specific term, subject to re-election. Even though non-executive directors of the Company are not appointed for specific terms, each director must be subject to retirement by rotation at least once every three years. The Company is of the opinion that it conforms with the spirit of the Code.

## CORPORATE GOVERNANCE PRINCIPLES AND SHENYIN WANGUO'S PRACTICES:

### A.1 The Board of Directors

Principle: An issuer should be headed by an effective board which should assume responsibility for leadership and control of the issuer and be collectively responsible for promoting the success of the issuer by directing and supervising the issuer's affairs. Directors should take decisions objectively in the interests of the issuer.

Four board meetings were held in the financial year ended 31 December 2009. The following is the attendance record of the meetings:

| Name of Directors | Number of meetings attended | Attendance rate |
|---|---|---|
| **Executive Directors** | | |
| Feng Guorong *(Chairman)* | | |
| *(in person or by authorized representative)* | 4 | 100% |
| Lu Wenqing | 4 | 100% |
| Lee Man Chun Tony *(Chief Executive Officer)* | 4 | 100% |
| Guo Chun | 4 | 100% |
| Ying Niankang | 4 | 100% |
| **Non-executive Directors** | | |
| Chang Pen Tsao | | |
| *(in person or by authorized representative)* | 4 | 100% |
| Huang Gang | 4 | 100% |
| **Independent Non-executive Directors** | | |
| Ng Wing Hang Patrick | 4 | 100% |
| Kwok Lam Kwong Larry | 2 | 50% |
| Zhuo Fumin | 3 | 75% |

Drafts of the agenda are sent to directors for comments. They can include matters in the agenda for board meetings.

Notice of at least 14 days are given of a regular board meeting to give all directors an opportunity to attend. For all other board meetings, reasonable notice will be given.

# CORPORATE GOVERNANCE REPORT *(Cont'd)*

Directors have access to the advice and services of the Company Secretary to ensure that board procedures, and all applicable rules and regulations, are followed.

Minutes of the board meetings, and meetings of the Audit Committee and the Remuneration Committee are kept by the Company Secretary. Minutes of other board committees (as listed under D.2 Board Committees) are kept by the appointed secretary of each committee. Such minutes are open for inspection during office hour by any director by giving at least 2 days' notice to the Company Secretary.

Minutes of the board meetings and meetings of board committees have recorded in sufficient detail the matters considered by the Board and the committees and decisions reached, including any concerns raised by directors or dissenting views expressed. Draft and final versions of minutes of the board meetings are sent to all directors for their comment and records respectively, in both cases normally within one month after the board meeting is held.

The Company has established a policy for any director to seek independent professional advice in appropriate circumstances, at the Company's expenses. The director is required to submit a request in writing to the Chairman stating the grounds for seeking the independent professional advice. The Chairman shall either approve the director's request directly, or if thinks fit, convene a board meeting to resolve the matter.

If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter shall not be dealt with by way of circulation or by a committee (except an appropriate board committee set up for that purpose pursuant to a resolution passed in a board meeting) but a board meeting shall be held. Independent non-executive directors who, and whose associates, have no material interest in the transaction shall be present at such board meeting.

## A.2 Chairman and Chief Executive Officer

Principle: There are two key aspects of the management of every issuer - the management of the board and the day-to-day management of the issuer's business. There should be a clear division of these responsibilities at the board level to ensure a balance of power and authority, so that power is not concentrated in any one individual.

To ensure a balance of power and authority, the role of Chairman is separate from that of Chief Executive Officer. Mr. Feng Guorong presently acts as the Chairman, and Mr. Lee Man Chun Tony acts as the Chief Executive Officer.

Their respective responsibilities are clearly established. The Chairman is responsible for the management of the Board whilst the Chief Executive Officer is responsible for day-to-day management of the Group's business including the implementation of significant strategies formulated by the Board.

The Chairman shall ensure that all directors are properly briefed on issues arising at board meetings.

The Chairman is responsible for ensuring that directors receive adequate information, which must be complete and reliable, in a timely manner.

# CORPORATE GOVERNANCE REPORT *(Cont'd)*

**A.3 Board Composition**

Principle: The board should have a balance of skills and experience appropriate for the requirements of the business of the issuer. The board should ensure that changes to its composition can be managed without undue disruption. The board should include a balanced composition of executive and non-executive directors (including independent non-executive directors) so that there is a strong independent element on the board, which can effectively exercise independent judgement. Non-executive directors should be of sufficient calibre and number for their views to carry weight.

During the financial year, the Board of the Company is composed of 10 directors – five executive directors, two non-executive directors and three independent non-executive directors. Their names and titles are set out below:–

**Executive Directors**
Feng Guorong *(Chairman)*
Lu Wenqing
Lee Man Chun Tony *(Chief Executive Officer)*
Guo Chun
Ying Niankang

**Non-executive Directors**
Chang Pen Tsao
Huang Gang

**Independent Non-executive Directors**
Ng Wing Hang Patrick
Kwok Lam Kwong Larry
Zhuo Fumin

All directors are expressly identified by categories of executive directors, non-executive directors and independent non-executive directors in all corporate communications that disclose the names of the directors of the Company.

# CORPORATE GOVERNANCE REPORT *(Cont'd)*

## A.4 Appointments, Re-election and Removal of Directors

Principle: There should be a formal, considered and transparent procedure for the appointment of new directors to the board. There should be plans in place for orderly succession for appointments to the board. All directors should be subject to re-election at regular intervals. An issuer must explain the reasons for the resignation or removal of any director.

Any director appointed by the Board during the year shall retire at the next general meeting after his appointment. Also, every director shall be subject to retirement at least once every three years.

The Company has not established a nomination committee. The functions of appointment and removal of directors are performed by the Board. Proposals for the appointment of a new director will be considered and reviewed by the Board. The proposal for appointment of a new director is resolved either at meeting of directors in persons or by way of circulating resolutions among directors. The successful candidate must possess with the necessary experience or qualification which can help the Board to direct the Company's business. In addition, the newly appointed director must be able to meet the criteria stipulated in Rules 3.08 and 3.09 of the Listing Rules. A director who is to be appointed as an independent non-executive director should also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

## A.5 Responsibilities of Directors

Principle: Every director is required to keep abreast of his responsibilities as a director of an issuer and of the conduct, business activities and development of that issuer. Given the essential unitary nature of the board, non-executive directors have the same duties of care and skill and fiduciary duties as executive directors.

Every newly appointed director of the Company shall receive guidance materials from the Company Secretary upon his appointment. The guidance materials comprise the group chart, annual report and a booklet relating to the duties and responsibilities of the director so as to enable the director having a proper understanding of the operations and business of the Company and to ensure him to be fully aware of his responsibilities under statue and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the issuer. A director can also request the Company Secretary to arrange him to attend any relevant course and seminar.

The functions of non-executive directors have included the functions as specified in Code Provision A.5.2(a) to (d) of the Code.

Each director is aware that he should give sufficient time and attention to the affairs of the Company. Directors have satisfactory attendance rates at both board meetings and committee meetings.

# CORPORATE GOVERNANCE REPORT *(Cont'd)*

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for dealings in securities of the Company by the directors or relevant employees as defined in the Model Code. The Company has made specific enquiry of all directors. According to their replies, all the directors have complied with the requirements set out in the Model Code during the financial year ended 31 December 2009. The Company has also complied with the other requirements stipulated in the Model Code.

## A.6 Supply of and Access to Information

Principle: Directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as directors of an issuer.

In respect of regular board meetings, and so far as practicable in all other cases, an agenda and accompanying board papers are sent in full to all directors in a timely manner and at least 3 days before the intended date of a board meeting and board committee meeting.

As mentioned in D.1 below, there are matters reserved to be approved by the Board. Management is aware of the duties to supply the Board and its committees with adequate information in a timely manner to enable it to make informed decisions. The information supplied must be complete and reliable. The Board and each director shall have separate and independent access to the Company's senior management.

All directors are entitled to have access to board papers, minutes and related materials.

## B.1 The Level and Make-up of Remuneration and Disclosure

Principle: An issuer should disclose information relating to its directors' remuneration policy and other remuneration related matters. There should be a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration packages for all directors. Levels of remuneration should be sufficient to attract and retain the directors needed to run the issuer successfully, but the issuers should avoid paying more than is necessary for this purpose. No director should be involved in deciding his own remuneration.

The Remuneration Committee of the Company was established in April 2005. The functions of the Remuneration Committee are mainly to review and make recommendations to the Board on the Company's policy and structure for all remunerations of directors and senior management. The terms of reference of the Remuneration Committee include the specific duties set out in Code Provision B.1.3(a) to (f) of the Code, with appropriate modifications where necessary. Details of terms of reference of the Remuneration Committee are published in the Company's website.

The Remuneration Committee presently consists of three independent non-executive directors, namely, Mr. Kwok Lam Kwong Larry, Mr. Ng Wing Hang Patrick and Mr. Zhuo Fumin. Mr. Kwok Lam Kwong Larry acts as the chairman of the Remuneration Committee.

# CORPORATE GOVERNANCE REPORT *(Cont'd)*

The Remuneration Committee held two meetings in the financial year ended 31 December 2009. The following is an attendance record of the meeting held by the Remuneration Committee for the financial year:

| Name of Committee Members | Number of meetings attended | Attendance rate |
|---|---|---|
| Kwok Lam Kwong Larry *(Chairman)* | 2 | 100% |
| Ng Wing Hang Patrick | 2 | 100% |
| Zhuo Fumin | 2 | 100% |

During the financial year, the Remuneration Committee reviewed and considered the remuneration policy, packages and fringe benefits of the directors and senior management of the Group. In addition, the Remuneration Committee also reviewed the remuneration policies of the Group and compared with companies of similar scale as benchmark. Furthermore, the Committee made recommendations to the Board for the reward system of the Group, the salary increment of employees in 2009 and the reward of the Chief Executive Officer for 2009. None of the directors of the Company participated in the determination of the remuneration of their own. The Remuneration Committee was satisfied with the current remuneration policy and packages of the Group.

The Remuneration Committee shall consult the Chairman and/or Chief Executive Officer about their proposals relating to the remuneration of the directors and can have access to professional advice if considered necessary.

The Remuneration Committee is provided with sufficient resources to discharge its duties.

## C.1 Financial Reporting

Principle: The board should present a balanced, clear and comprehensible assessment of the issuer's performance, position and prospects.

Management shall provide such explanation and information to the Board as will enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

It is the responsibility of the directors to prepare accounts of the Company.

A statement by the external auditors about their reporting responsibilities is included in the Independent Auditors' Report on pages 31 to 32.

The Board shall present a balanced, clear and understandable assessment of the company's performance, position or prospects in annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.

# CORPORATE GOVERNANCE REPORT *(Cont'd)*

## C.2 Internal Controls

Principle: The board should ensure that the issuer maintains sound and effective internal controls to safeguard the shareholders' investment and the issuer's assets.

The Internal Audit Department is charged with the responsibilities to evaluate whether there are sound and effective internal controls in place to safeguard the shareholders' investment and the Company's assets. Such evaluation covers all material controls, including financial, operational and compliance controls and risk management functions. Internal Audit Department has reported twice during 2009 on significant findings on internal controls to the Audit Committee, which in turn has reported to the Board accordingly. The Board found that as at the publication of this report and financial statements, the internal controls are sound and effective which safeguard the shareholders' and customers' interests and the assets of the Group.

The Board shall also review the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget.

## C.3 Audit Committee

Principle: The board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the issuer's external auditors. The audit committee established by an issuer pursuant to the Exchange Listing Rules should have clear terms of reference.

The Audit Committee was set up in 1999. The roles of the Audit Committee are mainly to ensure integrity of financial statements, to oversee financial reporting system and internal control procedures as well as to provide advice and recommendations to the Board. The details of the terms of reference of the Audit Committee are published in the Company's website.

The Audit Committee is currently composed of three independent non-executive directors, namely, Mr. Ng Wing Hang Patrick, Mr. Kwok Lam Kwong Larry and Mr. Zhuo Fumin. Mr. Ng Wing Hang Patrick acts as the chairman of the Audit Committee.

The Audit Committee held two meetings in the financial year ended 31 December 2009. The following is an attendance record of the meeting held by the Audit Committee for the financial year:

| Name of Committee Members | Number of meetings attended | Attendance rate |
|---|---|---|
| Ng Wing Hang Patrick *(Chairman)* | 2 | 100% |
| Kwok Lam Kwong Larry | 2 | 100% |
| Zhuo Fumin | 2 | 100% |

# CORPORATE GOVERNANCE REPORT *(Cont'd)*

A summary of the work performed by the Audit Committee during the financial year is listed below:

(1) reviewing the financial statements and the independent auditors' report before their submission to the Board;

(2) reviewing the results of the audit on the Company's system of internal controls;

(3) reviewing the results of the audit on the connected or continuing connected parties transactions; and

(4) nominating external auditors for re-appointments and propose the remuneration and terms of engagement of external auditors.

The work and findings of the Audit Committee have been reported to the Board. During the year, no issues brought to the attention of management and the Board were of sufficient importance to require disclosure in the Annual Report.

The Board agrees with the Audit Committee's proposal for the re-appointment of Messrs. Ernst & Young as the Company's external auditors for 2010. The recommendation will be put forward for the approval of shareholders at the forthcoming annual general meeting.

Full minutes of Audit Committee meetings are kept by the Company Secretary. Draft and final versions of minutes of the Audit Committee meetings will be sent to all members of the Audit Committee for their comment and records respectively, in both cases normally within one month after the meeting.

No member of the Company's Audit Committee was a former partner of the Company's existing external auditors.

During the financial year ended 31 December 2009, the remuneration paid to the external auditors, Messrs. Ernst & Young, was as below:

| **Nature of services** | **HK$'000** |
|---|---|
| Audit services with recoverable expenses | 1,678 |
| Tax advisory services | 175 |
| Other advisory services | 61 |

The Audit Committee is provided with sufficient resources, including the advice of external auditors and Internal Audit Department, to discharge its duties.

# CORPORATE GOVERNANCE REPORT *(Cont'd)*

**D.1 Management Functions**

Principle: An issuer should have a formal schedule of matters specifically reserved to the board for its decision. The board should give clear directions to management as to the matters that must be approved by the board before decisions are made on behalf of the issuer.

The Board is responsible for formulating overall strategy, monitoring and controlling the performance of the Company whilst managing the Company's day-to-day business is the responsibility of the management.

When the Board delegates aspects of its management and administration functions to the management, it has given clear directions as to the powers of management, in particular, with respect to the circumstances where management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

Matters reserved to be approved by the Board include:

(1) Appointment of directors;

(2) Business plans of the Company;

(3) Proposal for selection of external auditors;

(4) Financial statements and budgets;

(5) Substantial investments in assets other than those arising in the ordinary course of Company's businesses; and

(6) Formation of board committees.

# CORPORATE GOVERNANCE REPORT *(Cont'd)*

## D.2 Board Committees

Principle: Board committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties.

Where board committees are established to deal with matters, the Board shall prescribe sufficiently clear terms of reference to enable such committees to discharge their functions properly.

Apart from the Audit Committee (particulars are disclosed under C.3) and Remuneration Committee (particulars are disclosed under B.1), the Board has also established an Executive Committee and a Management Committee with specific terms of reference. The Executive Committee consists of all the executive directors and is responsible for formulating and reviewing the Company's important strategies on business and operations. The Management Committee consists of the Chief Executive Officer, general manager, deputy general manager, executive directors and the head of certain important departments. The Management Committee usually meets weekly for making policy and discussing issues relating to the Company's day-to-day management and business. A monthly management report will be submitted to the Executive Directors and Management Committee reporting their work and findings.

The terms of reference of the Audit Committee and the Remuneration Committee require such committees to report back to the Board on their decisions and recommendations. Material matters will be reported to the Board by the other board committees according to their respective terms of reference.

## E.1 Effective Communication

Principle: The board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

At the annual general meeting held in 2009, a separate resolution was proposed by the Chairman in respect of each substantially separate issue.

The chairman of the Board and the members of the Audit Committee and Remuneration Committee respectively attended the 2009 annual general meeting to answer questions of shareholders.

The Company shall arrange for the notice to shareholders to be sent in the case of annual general meetings at least 20 clear business days before the meeting and to be sent at least 10 clear business days in the case of all other general meetings.

# CORPORATE GOVERNANCE REPORT *(Cont'd)*

**E.2 Voting by Poll**

Principle: The issuer should ensure that shareholders are familiar with the detailed procedures for conducting a poll.

Following the amendments to the Listing Rules effective on 1 January 2009, all resolutions set out in the notice of general meetings will be conducted by poll.

To ensure that shareholders are familiar with the poll procedures, at the commencement of the 2009 annual general meeting, the Chairman explained the detailed procedures of poll voting.

The poll results of general meetings shall be published on the website of Hong Kong Exchanges and Clearing Limited at http://www.hkexnews.hk and the Company's website at http://www.sywg.com.hk.

# REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2009.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2009 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 33 to 100.

An interim dividend of HK1 cent per ordinary share was paid on 16 October 2009. The directors recommend the payment of a final dividend of HK2 cents per ordinary share in respect of the year to shareholders on the register of members on 14 May 2010. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the statement of financial position.

# REPORT OF THE DIRECTORS *(Cont'd)*

## FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements is set out below.

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2009** | 2008 | 2007 | 2006 | 2005 |
| | **HK$** | HK$ | HK$ | HK$ | HK$ |
| RESULTS | | | | | |
| REVENUE | **355,242,738** | 222,881,804 | 644,603,740 | 229,778,162 | 101,438,022 |
| Commission expenses | **(91,920,767)** | (65,432,036) | (167,971,003) | (48,484,678) | (20,005,871) |
| Employee benefit expenses | **(85,979,793)** | (48,193,878) | (127,351,720) | (92,010,431) | (42,651,283) |
| Depreciation expenses | **(6,153,109)** | (5,884,932) | (5,195,375) | (4,370,568) | (2,028,359) |
| Interest expenses for financial services operations | **(352,328)** | (915,792) | (9,786,301) | (282,541) | (954,361) |
| Fair value gains/(losses) on available-for-sale investments | **8,874,201** | (28,916,337) | 29,747,489 | 48,314,483 | – |
| Fair value gain/(loss) on an unlisted financial instrument at fair value through profit or loss | **825,270** | 46,304,649 | (29,800,555) | 33,291,492 | 10,806,166 |
| Impairment of an available-for-sale investment | **–** | (30,192,357) | – | – | – |
| Write-back of impairment of accounts receivable and loans and advances | **–** | – | – | 1,700,000 | 3,200,000 |
| Other gains | **1,319,074** | – | 2,177,292 | 892,075 | 144,607 |
| Other expenses, net | **(96,005,267)** | (80,627,995) | (101,075,332) | (48,080,245) | (30,667,760) |
| Share of profits of associates | **–** | 13,003,124 | 22,473,494 | 15,373,215 | 8,636,045 |
| PROFIT BEFORE TAX | **85,850,019** | 22,026,250 | 257,821,729 | 136,120,964 | 27,917,206 |
| Income tax expense | **(11,720,185)** | (7,945,187) | (32,802,473) | (6,232,000) | (1,054,000) |
| PROFIT FOR THE YEAR | **74,129,834** | 14,081,063 | 225,019,256 | 129,888,964 | 26,863,206 |
| Attributable to: | | | | | |
| Owners of the Company | **74,875,249** | 14,396,208 | 225,324,940 | 129,888,964 | 26,863,206 |
| Minority interests | **(745,415)** | (315,145) | (305,684) | – | – |
| | **74,129,834** | 14,081,063 | 225,019,256 | 129,888,964 | 26,863,206 |

# REPORT OF THE DIRECTORS *(Cont'd)*

## FIVE YEAR FINANCIAL SUMMARY *(Cont'd)*

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2009** | 2008 | 2007 | 2006 | 2005 |
| | **HK$** | HK$ | HK$ | HK$ | HK$ |
| ASSETS, LIABILITIES AND MINORITY INTERESTS | | | | | |
| TOTAL ASSETS | **3,743,387,015** | 2,555,720,256 | 4,101,069,587 | 2,582,896,294 | 1,308,191,548 |
| TOTAL LIABILITIES | **(2,728,327,172)** | (1,605,775,222) | (3,074,705,519) | (1,785,431,223) | (618,373,139) |
| MINORITY INTERESTS | **(2,633,756)** | (3,379,171) | (1,694,316) | – | – |
| | **1,012,426,087** | 946,565,863 | 1,024,669,752 | 797,465,071 | 689,818,409 |

The above 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 13 to the financial statements.

## SHARE CAPITAL

There were no movements in either the Company's authorised or issued share capital during the year.

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 30(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

At 31 December 2009, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance, amounted to HK$80,105,812 of which HK$10,615,183 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK$314,739,683, may be distributed in the form of fully paid bonus shares.

## CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$50,000.

# REPORT OF THE DIRECTORS *(Cont'd)*

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

The Group is a provider of financial services. In the opinion of the directors, it is therefore of no value to disclose details of the Group's suppliers.

## DIRECTORS

The directors of the Company during the year were:

*Executive directors*
Feng Guorong *(Chairman)*
Lu Wenqing
Lee Man Chun Tony *(Chief Executive Officer)*
Guo Chun
Ying Niankang

*Non-executive directors*
Chang Pen Tsao
Huang Gang

*Independent non-executive directors*
Ng Wing Hang Patrick
Kwok Lam Kwong Larry
Zhuo Fumin

In accordance with Article 104(A) of the Company's Articles of Association, Messrs. Feng Guorong, Lu Wenqing, Chang Pen Tsao and Zhuo Fumin will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

The Company has received annual confirmations of independence from Messrs. Ng Wing Hang Patrick, Kwok Lam Kwong Larry and Zhuo Fumin and as at the date of this report, still considers them to be independent.

# REPORT OF THE DIRECTORS *(Cont'd)*

## BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND THE SENIOR MANAGEMENT OF THE GROUP

### Executive directors

**Feng Guorong**, aged 59, was appointed as an Executive Director and Chairman of the Company in February 2004. He is also the Vice Chairman and President of Shenyin & Wanguo Securities Co., Ltd. He holds a PhD in Economics and obtained high-ranking securities management recognition from the China Securities Regulatory Commission. Prior to joining the Group, he worked as an officer at the President's Affairs Office of the Industrial and Commercial Bank of China, Shanghai Branch as well as the People's Bank of China, Shanghai Branch. He had also participated in the founding of China Everbright Bank, Shanghai Branch and worked as the Governor. He also worked as the Managing Director and Deputy Governor at China Everbright Bank, Head Office. He also participated in the drafting of early securities rules and regulations in the new China and had more than 28 years' experience in financial management. He also has in-depth study in risk management of financial enterprises.

**Lu Wenqing**, aged 51, was appointed as a Non-executive Director of the Company in August 1996 and was re-designated as an Executive Director of the Company in September 2004. He is also the Vice President of Shenyin & Wanguo Securities Co., Ltd. He graduated from Shanghai University of Finance and Economics. He also holds a Master's Degree in Business Administration from The Asia (Macau) International Open University and W.P. Carey School of Business at Arizona State University. Prior to joining the former Shanghai Shenyin Securities Co., Ltd., he served as a senior officer in Shanghai, Trust & Investment Corporation of the Industrial and Commercial Bank of China and as an attache' of the Chinese Embassy in Gabon.

**Lee Man Chun Tony**, aged 56, was appointed as an Executive Director and Chief Executive Officer of the Company in June 2000 and July 2000 respectively. He is an Associate of the Hong Kong Institute of Certified Public Accountants. He has more than 30 years' experience in accounting, finance and banking. He held senior positions with Standard Chartered Bank and Sanwa International Finance Ltd. before he joined the Group in 1995.

**Guo Chun**, aged 45, was appointed as an Executive Director of the Company in May 2000. He was further appointed as the Managing Director of the International Business Division of Shenyin & Wanguo Securities Co., Ltd. in May 2008. Mr. Guo began his career with the Industrial and Commercial Bank of China, Shanghai Branch in 1983. Other than the banking business, he has been working in the securities industry of the People's Republic of China (the "PRC") since 1987. He has 22 years' extensive experience in stockbroking and investment banking in the PRC. In 1990, he joined the former Shanghai Shenyin Securities Co., Ltd. and served as a regional superintendent in Shanghai. He was appointed as the Deputy Managing Director of Shenyin Wanguo (H.K.) Holdings Limited on secondment to Hong Kong in early 1997 after the merger of Shanghai Shenyin Securities Co., Ltd. and Shanghai International Securities Co., Ltd. He holds a Master's Degree in Business Administration from Murdoch University, Perth, Australia.

**Ying Niankang**, aged 58, was appointed as an Executive Director of the Company in August 1997. He was a Deputy General Manager of the International Business Division of Shenyin & Wanguo Securities Co., Ltd. and has more than 10 years' experience in corporate finance. He was the Chief of Division of Technology & Economics, Department of Project Management, College of Civil Engineering, in Shanghai, between 1983 and 1991. He holds a Master's Degree and a Bachelor's Degree from the Department of Industrial Economics at Shanghai University of Finance and Economics.

# REPORT OF THE DIRECTORS *(Cont'd)*

## BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND THE SENIOR MANAGEMENT OF THE GROUP *(Cont'd)*

### Non-executive directors

**Chang Pen Tsao**, aged 70, is a Non-executive Director of the Company. He is the Founder and Chairman of Taiwan International Securities Group, The Business Development Foundation of The Chinese Straits, Unitech Printed Circuit Board Corp. and Ideal Bike Corp. Both Unitech Printed Circuit Board Corp. and Ideal Bike Corp. are listed on the Taiwan Stock Exchange. Mr. Chang served as a Senator in Taiwan for 9 years and was the Chairman of Kwang Hua Securities Investment & Trust Co., Ltd. He has more than 20 years' experience in legal practice as a lawyer, prosecutor and district judge, as well as in business management, and has more than 10 years' experience in securities investment. He received his L.L.B. Degree from Chung Hsin University, Taiwan in 1967.

**Huang Gang**, aged 43, is a Non-executive Director of the Company. He graduated from Xian Jiaotong University and holds a Master's Degree in Economics conferred by Shanghai University of Finance and Economics. He has over 17 years' management experiences with enterprises. From 1993 to 1999, he worked with Agricultural Bank of China (Shanghai Branch) as an Assistant General Manager. In 2000, Mr. Huang joined Shanghai Industrial Investment (Holdings) Company Limited as an Assistant General Manager. He also presently holds directorships in certain wholly owned subsidiaries of Shanghai Industrial Investment (Holdings) Company Limited.

### Independent non-executive directors

**Ng Wing Hang Patrick**, aged 57, is an Independent Non-executive Director of the Company. He is a practising Certified Public Accountant in Hong Kong and is the Managing Director of Pan China (H.K.) CPA Limited, a certified public accountants firm in Hong Kong. He also serves as an Independent Non-executive Director of Dynamic Energy Holdings Limited and Far East Hotels and Entertainment Limited, which are listed on the Hong Kong Stock Exchange.

**Kwok Lam Kwong Larry**, **B.B.S., J.P.**, aged 54, is an Independent Non-executive Director of the Company. He is a practising solicitor in Hong Kong and is also qualified to practise as a solicitor in Australia, England and Wales and Singapore. He is also qualified as a Chartered Accountant in England and Wales and a CPA in Hong Kong and Australia. He graduated from the University of Sydney, Australia with Bachelor's Degrees in Economics and Laws as well as a Master's Degree in Laws. He is currently the Chairman of the Traffic Accident Victims Assistance Advisory Committee, a member of the Hospital Governing Committee of Kwai Chung Hospital/Princess Margaret Hospital and the Insurance Claims Complaints Panel in Hong Kong. He is also a member of the Political Consultative Committee of Guangxi in the People's Republic of China.

**Zhuo Fumin**, aged 58, is an Independent Non-executive Director of the Company. He graduated from Shanghai Jiaotong University's Electrical Engineering School and holds a Master's Degree in Economics conferred by Fudan University. Mr. Zhuo has more than 34 years of experience in running joint stock companies and in corporate management and has extensive capital market experience. Mr. Zhuo currently serves as a General Partner in SIG Capital Limited and as Managing Partner in GGV Capital. He also serves as an Independent Director of China Cable Network Company Limited and an Independent Director of Focus Media Holding Ltd, a company listed on the NASDAQ Stock Market. He had been a Chairman of SIIC Medical Science and Technology (Group) Limited, the Vice Chairman and an Executive Director of Shanghai Industrial Holdings Limited, a Non-executive Director of Imagi International Holdings Limited, the Chairman and Chief Executive Officer of Vertex China Investment Limited as well as an Independent Director of China Enterprise Company Limited, a company listed on the Shanghai Stock Exchange, until he resigned on 25 January 2002, 30 June 2002, 8 April 2004, 30 June 2005 and 8 April 2009, respectively.

# REPORT OF THE DIRECTORS *(Cont'd)*

## BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND THE SENIOR MANAGEMENT OF THE GROUP *(Cont'd)*

### Senior management

**Bai Youge**, aged 47, was appointed as Deputy General Manager of the Group in 2004. He is a non-practising member of the Chinese Institute of Certified Public Accountants and has previously worked for Arthur Andersen & Co. He joined the former Shanghai International Securities Co., Ltd. in 1994 as the Deputy General Manager of the Investment Bank Division. After the merger of Shanghai International Securities Co., Ltd. and Shanghai Shenyin Securities Co., Ltd. in 1996, he was appointed as the Deputy General Manager of the International Business and Brokerage Departments of Shenyin & Wanguo Securities Co., Ltd. respectively, and has over 10 years' experience in the securities field of the PRC. He graduated from Sichuan University in Mathematics and holds a Master's Degree in Economics from the Shanghai Academy of Social Sciences and a Master's Degree in Finance and Securities from the University of Reading in the United Kingdom.

**Fu Xingyi**, aged 47, has been appointed as the Deputy General Manager of the Group since November 2007. Mr. Fu was appointed as the Assistant to General Manager of the Group in 2004. He previously worked for the International Business Division, Investment Bank Division and Merger & Acquisition Division of Shenyin & Wanguo Securities Co., Ltd. and has more than 10 years' experience in corporate finance. He holds a Bachelor's Degree from Fudan University in Shanghai.

**Wong Che Keung Leslie**, aged 45, is the Chief Operating Officer and Company Secretary of the Group. Besides company secretarial duties, Mr. Wong is also responsible for overseeing accounting, securities settlement, credit, treasury and information technology activities of the Group. Mr. Wong once served as the Head of Compliance of the Group and subsequently, a Director of Shenyin Wanguo Securities (H.K.) Limited and the Finance Director before succeeding to the current position of the Chief Operating Officer of the Group in 2010. Mr. Wong was appointed as the Company Secretary of the Group in December 2004. Prior to joining the Group in 1996, he has worked in the Securities and Futures Commission for 7 years and in the stockbroking and treasury field for a further 2 years. He is a Fellow of the Hong Kong Institute of Certified Public Accountants. He obtained his Bachelor's Degree in Economics at the University of Hong Kong and a Master's Degree in Business Administration at the Chinese University of Hong Kong. Mr. Wong was appointed on 4 June 2007 as an Independent Non-executive Director of Rainbow Brothers Holdings Limited, which is listed on the Hong Kong Stock Exchange.

**Ting Kay Loong, Willis**, aged 48, is the Head of Corporate Finance of the Group. He has over 21 years of experience in the securities industry. Prior to joining the Group in 2006, he worked for several international financial institutions and listed companies in Hong Kong, responsible for capital market activities and equity investments. He holds a Bachelor of Economics Degree from Macquarie University, Australia and is a fellow member of the Australian Society of Certified Public Accountants.

**Philip Chan**, aged 47, joined the Group in 1994. He is a Director of Shenyin Wanguo Research (H.K.) Limited and has been based in Hong Kong for 21 years, working first with Mansion House Group Ltd. and later with PBI Securities Hong Kong Ltd. (formerly part of the Dutch ABN-AMRO Group), as an analyst. Prior to working in Hong Kong, he worked in the United Kingdom for 3 years for two securities brokerage firms as an analyst. He was born in the United Kingdom and obtained his Bachelor's Degree in Chemistry at Cardiff University, in Wales.

# REPORT OF THE DIRECTORS *(Cont'd)*

## DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' REMUNERATION

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

## DIRECTORS' INTERESTS IN CONTRACTS

No director had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its holding companies, subsidiaries and fellow subsidiaries was a party during the year.

## DIRECTOR'S INTEREST IN SHARES

At 31 December 2009, the interest of a director in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to 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 (the "Model Code") as set out in the Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), was as follows:

*Long position in the ordinary shares of the Company*

| Name of director | Number of ordinary shares directly beneficially owned | Percentage of the Company's issued share capital |
|---|---|---|
| Lee Man Chun Tony | 1,300,000 | 0.24 |

Save as disclosed above, as at 31 December 2009, none of the directors of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

# REPORT OF THE DIRECTORS *(Cont'd)*

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

At 31 December 2009, the interests of substantial shareholders, other than directors or chief executive of the Company, in the issued share capital of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

*Long positions in the ordinary shares of the Company*

| Name | Capacity and nature of interests | Number of ordinary shares held | Percentage of the Company's issued share capital |
|---|---|---|---|
| Shenyin Wanguo Holdings (B.V.I.) Limited ("SWHBVI") | Directly beneficially owned | 268,334,875* | 50.56 |
| Venture-Some Investments Limited ("VSI") | Through controlled corporation | 268,334,875* | 50.56 |
| Shenyin Wanguo (H.K.) Holdings Limited ("SWHKH") | Through controlled corporation<br>Directly beneficially owned | 268,334,875*<br>2,045,000* | 50.56<br>0.38 |
| Shenyin & Wanguo Securities Co., Ltd. ("SWSC") | Through controlled corporation | 270,379,875* | 50.94 |

* SWHBVI was held directly as to 50.51% by VSI. VSI was wholly-owned by SWHKH. SWHKH was wholly-owned by SWSC. Hence, VSI, SWHKH and SWSC were deemed to be interested in the same parcel of 268,334,875 shares held by SWHBVI under the SFO. SWHKH also held directly 2,045,000 shares of the Company. Hence, SWSC was also deemed to be interested in the same parcel of 2,045,000 shares held by SWHKH.

Save as disclosed above, as at 31 December 2009, the Company had not been notified of any person who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The connected transactions and continuing connected transactions of the Company and the Group during the year are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules in note 34 to the financial statements.

The independent non-executive directors of the Company have reviewed and confirmed that the continuing connected transactions as set out in note 34 to the financial statements were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to/from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

# REPORT OF THE DIRECTORS *(Cont'd)*

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

## DIRECTOR'S INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, a non-executive director, Mr. Huang Gang, is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules. Mr. Huang Gang is also a director of SIIC Asset Management Company Limited, which is also involved in the provision of asset management services.

As the Board of the Company is independent from the board of directors of SIIC Asset Management Company Limited and Mr. Huang Gang does not control the Board of the Company, the Group is capable of carrying on its businesses independently of, and at arm's length from, the business of SIIC Asset Management Company Limited.

## AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Feng Guorong**
*Chairman*

Hong Kong
12 March 2010

# INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安 永

**To the shareholders of Shenyin Wanguo (H.K.) Limited**
*(Incorporated in Hong Kong with limited liability)*

We have audited the financial statements of Shenyin Wanguo (H.K.) Limited set out on pages 33 to 100, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory 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.

# INDEPENDENT AUDITORS' REPORT *(Cont'd)*

**To the shareholders of Shenyin Wanguo (H.K.) Limited**
*(Incorporated in Hong Kong with limited liability)*

**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 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**Ernst & Young**
*Certified Public Accountants*
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
12 March 2010

# CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2009

| | Notes | 2009 HK$ | 2008 HK$ |
|---|---|---|---|
| REVENUE | 5 | **355,242,738** | 222,881,804 |
| Commission expenses | | **(91,920,767)** | (65,432,036) |
| Employee benefit expenses | 6 | **(85,979,793)** | (48,193,878) |
| Depreciation expenses | 13 | **(6,153,109)** | (5,884,932) |
| Interest expenses for financial services operations | 6 | **(352,328)** | (915,792) |
| Fair value gains/(losses) on available-for-sale investments | 18 | **8,874,201** | (28,916,337) |
| Fair value gain on an unlisted financial instrument at fair value through profit or loss | | **825,270** | 46,304,649 |
| Impairment of an available-for-sale investment | 18 | **–** | (30,192,357) |
| Other gains | 5 | **1,319,074** | – |
| Other expenses, net | | **(96,005,267)** | (80,627,995) |
| Share of profits of associates | 18 | **–** | 13,003,124 |
| PROFIT BEFORE TAX | 6 | **85,850,019** | 22,026,250 |
| Income tax expense | 9 | **(11,720,185)** | (7,945,187) |
| PROFIT FOR THE YEAR | | **74,129,834** | 14,081,063 |
| Attributable to: | | | |
| Owners of the Company | 10 | **74,875,249** | 14,396,208 |
| Minority interests | | **(745,415)** | (315,145) |
| | | **74,129,834** | 14,081,063 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY | 12 | | |
| Basic and diluted | | **HK14.11 cents** | HK2.71 cents |

Details of the dividends payable and proposed for the year are disclosed in note 11 to the financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

| | Notes | 2009 HK$ | 2008 HK$ |
|---|---|---|---|
| PROFIT FOR THE YEAR | | **74,129,834** | 14,081,063 |
| OTHER COMPREHENSIVE INCOME | | | |
| Available-for-sale investments: | | | |
| Changes in fair value | | **10,540,388** | (112,981,131) |
| Transfer of losses/(gains) to the consolidated income statement | | | |
| – loss/(gain) on disposal | 6 | **(8,874,201)** | 28,916,337 |
| – impairment losses | | **–** | 30,192,357 |
| Income tax effect | 19 | **(66,030)** | 9,200,000 |
| | | **1,600,157** | (44,672,437) |
| Exchange differences on translation of foreign operations | | **–** | 7,902,050 |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX | | **1,600,157** | (36,770,387) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | **75,729,991** | (22,689,324) |
| Attributable to: | | | |
| Owners of the Company | 10 | **76,475,406** | (22,374,179) |
| Minority interests | | **(745,415)** | (315,145) |
| | | **75,729,991** | (22,689,324) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2009

| | Notes | 2009 HK$ | 2008 HK$ |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 13 | **7,415,136** | 9,476,238 |
| Prepaid land lease payments | 14 | **1,358,175** | 1,399,125 |
| Stock and Futures Exchange trading rights | 15 | **4,211,831** | 4,211,831 |
| Other assets | | **11,920,307** | 9,497,048 |
| Goodwill | 17 | **57,632,404** | 57,632,404 |
| Financial instruments | 18 | **135,093,358** | 156,929,503 |
| Deferred tax assets | 19 | **2,442,770** | 3,036,770 |
| Total non-current assets | | **220,073,981** | 242,182,919 |
| CURRENT ASSETS | | | |
| Investments at fair value through profit or loss | 18 | **177,837,092** | 65,813,019 |
| Accounts receivable | 20 | **624,146,678** | 183,657,637 |
| Loans and advances | 21 | **685,695,396** | 191,158,701 |
| Prepayments, deposits and other receivables | 22 | **10,869,304** | 7,909,838 |
| Tax recoverable | | **368,549** | 8,739,296 |
| Bank balances held on behalf of customers | 23 | **1,939,341,239** | 1,355,956,147 |
| Cash and cash equivalents | 24 | **85,054,776** | 500,302,699 |
| Total current assets | | **3,523,313,034** | 2,313,537,337 |
| CURRENT LIABILITIES | | | |
| Accounts payable | 25 | **2,508,232,995** | 1,503,625,709 |
| Other payables and accruals | 26 | **71,386,274** | 64,037,261 |
| Interest-bearing bank borrowings | 27 | **134,290,445** | – |
| Tax payable | | **7,480,043** | 35,906,252 |
| Total current liabilities | | **2,721,389,757** | 1,603,569,222 |
| NET CURRENT ASSETS | | **801,923,277** | 709,968,115 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **1,021,997,258** | 952,151,034 |
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liabilities | 19 | **66,030** | – |
| Other payables | 28 | **6,871,385** | 2,206,000 |
| Total non-current liabilities | | **6,937,415** | 2,206,000 |
| Net assets | | **1,015,059,843** | 949,945,034 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Cont'd)*

31 December 2009

| | Notes | 2009 HK$ | 2008 HK$ |
|---|---|---|---|
| EQUITY | | | |
| **Equity attributable to owners of the Company** | | | |
| Issued capital | *29* | **265,379,563** | 265,379,563 |
| Reserves | *30(a)* | **736,431,341** | 675,878,709 |
| Proposed final dividend | *11* | **10,615,183** | 5,307,591 |
| | | **1,012,426,087** | 946,565,863 |
| **Minority interests** | | **2,633,756** | 3,379,171 |
| Total equity | | **1,015,059,843** | 949,945,034 |

**Feng Guorong**
*Director*

**Lee Man Chun Tony**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

| | | Attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Issued capital HK$ | Share premium account HK$ | Capital reserve HK$ | Available-for-sale investment revaluation reserve HK$ | General reserve HK$ (Note 30(a)) | Exchange fluctuation reserve HK$ (Note 30(a)) | Retained profits HK$ | Proposed dividends HK$ | Total HK$ | Minority interests HK$ | Total equity HK$ |
| At 1 January 2008 | | 265,379,563 | 314,739,683 | 15,043 | 43,406,434 | 138,611 | 13,745,720 | 339,476,376 | 47,768,322 | 1,024,669,752 | 1,694,316 | 1,026,364,068 |
| Total comprehensive income for the year | | – | – | – | (44,672,437) | – | 7,902,050 | 14,396,208 | – | (22,374,179) | (315,145) | (22,689,324) |
| Contribution by a minority shareholder | | – | – | – | – | – | – | – | – | – | 2,000,000 | 2,000,000 |
| Final and special 2007 dividends declared | | – | – | – | – | – | – | – | (47,768,322) | (47,768,322) | – | (47,768,322) |
| Interim 2008 dividend | *11* | – | – | – | – | – | – | (7,961,388) | – | (7,961,388) | – | (7,961,388) |
| Proposed final 2008 dividend | *11* | – | – | – | – | – | – | (5,307,591) | 5,307,591 | – | – | – |
| **At 31 December 2008 and at 1 January 2009** | | **265,379,563** | **314,739,683** | **15,043** | **(1,266,003)** | **138,611** | **21,647,770** | **340,603,605** | **5,307,591** | **946,565,863** | **3,379,171** | **949,945,034** |
| Total comprehensive income for the year | | **–** | **–** | **–** | **1,600,157** | **–** | **–** | **74,875,249** | **–** | **76,475,406** | **(745,415)** | **75,729,991** |
| Final 2008 dividends declared | | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(5,307,591)** | **(5,307,591)** | **–** | **(5,307,591)** |
| Interim 2009 dividend | *11* | **–** | **–** | **–** | **–** | **–** | **–** | **(5,307,591)** | **–** | **(5,307,591)** | **–** | **(5,307,591)** |
| Proposed final 2009 dividend | *11* | **–** | **–** | **–** | **–** | **–** | **–** | **(10,615,183)** | **10,615,183** | **–** | **–** | **–** |
| At 31 December 2009 | | **265,379,563** | **314,739,683*** | **15,043*** | **334,154*** | **138,611*** | **21,647,770*** | **399,556,080*** | **10,615,183** | **1,012,426,087** | **2,633,756** | **1,015,059,843** |

* These reserve accounts comprise the consolidated reserves of HK$736,431,341 (2008: HK$675,878,709) in the consolidated statement of financial position.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2009

| | Notes | 2009 HK$ | 2008 HK$ |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | **85,850,019** | 22,026,250 |
| Adjustments for: | | | |
| Bank interest income | 5 | **(5,385,990)** | (22,777,746) |
| Dividend income | 5 | **(821,410)** | (870,436) |
| Share of profits of associates | | **–** | (13,003,124) |
| Fair value losses/(gains) on available-for-sale investments (transfer from other comprehensive income to the consolidated income statement upon disposal) | 18 | **(8,874,201)** | 28,916,337 |
| Gain on disposal of an available-for-sale investment | 6 | **(43,873)** | – |
| Depreciation | 13 | **6,153,109** | 5,884,932 |
| Recognition of prepaid land lease payments | 14 | **40,950** | 40,950 |
| Fair value gain on an unlisted financial instrument at fair value through profit or loss | | **(825,270)** | (46,304,649) |
| Impairment of an available-for-sale investment | 18 | **–** | 30,192,357 |
| Loss on disposal of items of property, plant and equipment | 6 | **–** | 454,789 |
| | | **76,093,334** | 4,559,660 |
| Decrease/(increase) in other assets | | **(2,423,259)** | 3,222,143 |
| Decrease/(increase) in investments at fair value through profit or loss | 31 | **(78,880,670)** | 70,972,433 |
| Decrease/(increase) in accounts receivable | | **(440,489,041)** | 709,168,679 |
| Decrease/(increase) in loans and advances | | **(494,536,695)** | 531,739,650 |
| Increase in prepayments, deposits and other receivables | | **(2,959,466)** | (2,014,326) |
| Increase/(decrease) in bank balances held on behalf of customers | | **(583,385,092)** | 603,176,292 |
| Increase/(decrease) in accounts payable | | **1,004,607,286** | (1,221,474,135) |
| Increase/(decrease) in other payables and accruals | | **12,014,398** | (90,755,641) |
| Cash generated from/(used in) operations | | **(509,959,205)** | 608,594,755 |
| Bank interest received | | **5,385,990** | 22,777,746 |
| Dividends received from listed equity investments | | **821,410** | 870,436 |
| Hong Kong profits tax paid | | **(31,181,647)** | (5,653,110) |
| Net cash flows from/(used in) operating activities | | **(534,933,452)** | 626,589,827 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Dividends received from an associate | | **–** | 16,138,738 |
| Purchases of items of property, plant and equipment | 13 | **(4,092,007)** | (8,036,290) |
| Proceeds from disposal of available-for-sale investments | | **102,273** | – |
| Proceeds from disposal of items of property, plant and equipment | | **–** | 270 |
| Net cash flows from/(used in) investing activities – page 39 | | **(3,989,734)** | 8,102,718 |

# CONSOLIDATED STATEMENT OF CASH FLOWS *(Cont'd)*

Year ended 31 December 2009

| | Notes | 2009 HK$ | 2008 HK$ |
|---|---|---|---|
| Net cash flows from/(used in) investing activities – page 38 | | **(3,989,734)** | 8,102,718 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| New bank loans | | **102,000,000** | – |
| Repayment of bank loans | | **–** | (132,000,000) |
| Contribution by a minority shareholder | | **–** | 2,000,000 |
| Dividends paid | | **(10,615,182)** | (55,729,710) |
| Net cash flows from/(used in) financing activities | | **91,384,818** | (185,729,710) |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | **(447,538,368)** | 448,962,835 |
| Cash and cash equivalents at beginning of year | | **500,302,699** | 51,339,864 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **52,764,331** | 500,302,699 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | *24* | **34,544,376** | 306,960,699 |
| Time deposits with original maturity of less than three months when acquired | *24* | **50,510,400** | 193,342,000 |
| Cash and cash equivalents as stated in the consolidated statement of financial position | | **85,054,776** | 500,302,699 |
| Bank overdrafts | *27* | **(32,290,445)** | – |
| Cash and cash equivalents as stated in the consolidated statement of cash flows | | **52,764,331** | 500,302,699 |

# STATEMENT OF FINANCIAL POSITION

31 December 2009

| | Notes | 2009 HK$ | 2008 HK$ |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Interests in subsidiaries | *16* | **657,200,900** | 626,177,008 |
| CURRENT ASSETS | | | |
| Prepayments, deposits and other receivables | *22* | **1,488,617** | 774,164 |
| Tax recoverable | | **23,581** | 563,541 |
| Cash and cash equivalents | *24* | **4,549,350** | 4,441,232 |
| Total current assets | | **6,061,548** | 5,778,937 |
| CURRENT LIABILITIES | | | |
| Other payables and accruals | *26* | **3,037,390** | 2,709,204 |
| NET CURRENT ASSETS | | **3,024,158** | 3,069,733 |
| Net assets | | **660,225,058** | 629,246,741 |
| EQUITY | | | |
| Issued capital | *29* | **265,379,563** | 265,379,563 |
| Reserves | *30(b)* | **384,230,312** | 358,559,587 |
| Proposed final dividend | *11* | **10,615,183** | 5,307,591 |
| Total equity | | **660,225,058** | 629,246,741 |

**Feng Guorong**
*Director*

**Lee Man Chun Tony**
*Director*

# NOTES TO FINANCIAL STATEMENTS

31 December 2009

## 1. CORPORATE INFORMATION

Shenyin Wanguo (H.K.) Limited is a limited liability company incorporated in Hong Kong. The registered office of the Company is situated at 28th Floor, Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong.

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

- securities trading and investment holding
- securities broking and dealing
- securities financing and direct loans
- investment advisory services

The Company is a subsidiary of Shenyin Wanguo Holdings (B.V.I.) Limited, a company incorporated in the British Virgin Islands with limited liability. In the opinion of the directors, the ultimate holding company of the Company is Shenyin & Wanguo Securities Co., Ltd., which was established in the People's Republic of China (the "PRC").

## 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 (the "HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial instruments and certain equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") 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 2009. 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 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 subsidiary.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's 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* |
| HKFRS 2 Amendments | Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* |
| HKFRS 7 Amendments | Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments* |
| HKFRS 8 | *Operating Segments* |
| HKAS 1 (Revised) | *Presentation of Financial Statements* |
| HKAS 18 Amendments* | Amendments to Appendix to HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent* |
| HKAS 23 (Revised) | *Borrowing Costs* |
| 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* |
| HK(IFRIC)-Int 9 and HKAS 39 Amendments | Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives* |
| HK(IFRIC)-Int 13 | *Customer Loyalty Programmes* |
| HK(IFRIC)-Int 15 | *Agreements for the Construction of Real Estate* |
| HK(IFRIC)-Int 16 | *Hedges of a Net Investment in a Foreign Operation* |
| HK(IFRIC)-Int 18 | *Transfers of Assets from Customers* (adopted from 1 July 2009) |
| Improvements to HKFRSs (October 2008)** | Amendments to a number of HKFRSs |

* Included in *Improvements to HKFRSs 2009* (as issued in May 2009).

** The Group adopted all the improvements to HKFRSs issued in October 2008 except for the amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*, which is effective for annual periods beginning on or after 1 July 2009.

Other than as further explained below regarding the impact of the HKFRS 7 Amendments, HKFRS 8 and HKAS 1 (Revised), the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Cont'd)*

The principal effects of adopting these new and revised HKFRSs are as follows:

**(a) Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments***

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in note 36 to the financial statements.

**(b) HKFRS 8 *Operating Segments***

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14. These revised disclosures, including the related revised comparative information, are shown in note 4 to the financial statements.

**(c) HKAS 1 (Revised) *Presentation of Financial Statements***

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

| | |
|---|---|
| HKFRS 1 (Revised) | *First-time Adoption of Hong Kong Financial Reporting Standards*[1] |
| HKFRS 1 Amendments | Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*[2] |
| HKFRS 2 Amendments | Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*[2] |
| HKFRS 3 (Revised) | *Business Combinations*[1] |
| HKFRS 9 | *Financial Instruments*[6] |
| HKAS 24 (Revised) | *Related Party Disclosures*[5] |
| HKAS 27 (Revised) | *Consolidated and Separate Financial Statements*[1] |
| HKAS 32 Amendment | Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[3] |
| HKAS 39 Amendment | Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[1] |
| HK(IFRIC)-Int 14 Amendments | Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*[5] |
| HK(IFRIC)-Int 17 | *Distributions of Non-cash Assets to Owners*[1] |
| HK(IFRIC)-Int 19 | *Extinguishing Financial Liabilities with Equity Instruments*[4] |
| Amendments to HKFRS 5 included in *Improvements to HKFRSs* issued in October 2008 | Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary*[1] |
| HK Interpretation 4 (Revised in December 2009) | *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*[2] |

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 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.

### Associates

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

The Group's interests in associates were stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates was included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

### Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated statement of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

### Goodwill *(Cont'd)*

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

### 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 goodwill), 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.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill 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.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

**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 an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or any of its holding companies;

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

(f) 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 (d) or (e); or

(g) 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.

**Property, plant and equipment and depreciation**

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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:

| | |
|---|---|
| Buildings | 4% |
| Leasehold improvements | Over the lease terms |
| Furniture, fixtures and equipment | 15% – 33⅓% |
| Motor vehicles | 25% |

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

**Property, plant and equipment and depreciation** *(Cont'd)*

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

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

**Other assets**

Other assets, mainly representing deposits, are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the other assets are derecognised or impaired, as well as through the amortisation process.

**Intangible assets (other than goodwill)**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

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.

Intangible assets, which consist of the Stock and Futures Exchange trading rights, being the eligibility rights to trade on or through The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited 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 the Stock and Futures Exchange trading rights 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.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

### Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

### Investments and other financial assets

*Initial recognition and measurement*
Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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.

The Group's financial assets include other assets, available-for-sale investments, investments at fair value through profit or loss, accounts receivable, loans and advances, deposits and other receivables, bank balances held on behalf of customers and cash and cash equivalents.

*Subsequent measurement*
The subsequent measurement of financial assets depends on their classification as follows:

*Financial assets at fair value through profit or loss*
Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

**Investments and other financial assets** *(Cont'd)*

*Subsequent measurement (Cont'd)*
*Financial assets at fair value through profit or loss (Cont'd)*
Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. 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.

*Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in the income statement. The loss arising from impairment is recognised in the income statement.

*Available-for-sale financial investments*
Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity securities and club debentures. Equity investments classified as available for sale are those which are not classified as held for trading.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement and removed from the available-for-sale investment revaluation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity 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.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

**Investments and other financial assets** *(Cont'd)*

*Subsequent measurement (Cont'd)*
*Available-for-sale financial investments (Cont'd)*
The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the asset using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

**Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

### Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

**Impairment of financial assets** *(Cont'd)*

*Assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

*Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

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

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

**Financial liabilities**

*Initial recognition and measurement*

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include accounts payable, other payables, embedded derivative included in financial instruments and interest-bearing bank borrowings.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

**Financial liabilities** *(Cont'd)*

*Subsequent measurement*
The measurement of financial liabilities depends on their classification as follows:

*Financial liabilities at fair value through profit or loss*
Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities 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 interest charged on these financial liabilities.

*Loans and borrowings*
After initial recognition, interest-bearing bank borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in the income statement.

*Derecognition of financial liabilities*
A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

**Income tax**

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

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

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

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

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

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

**Income tax** *(Cont'd)*

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

**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) realised fair value gains or losses on securities and futures contracts trading, on a trade date basis whilst unrealised fair value gains or losses, on change in fair value at the end of the reporting period;

(b) 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;

(c) commission and brokerage income, on a trade date basis;

(d) underwriting commission, when the obligation under the underwriting or sub-underwriting agreement has expired;

(e) income from the rendering of services, as the underlying services have been provided; and

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

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

### Employee benefits

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. The Group also retains its previous retirement scheme (the "ORSO Scheme") registered under the Occupational Retirement Scheme Ordinance as a top-up benefit for its employees.

Contributions are made based on a percentage of the employees' relevant income or basic salaries, whichever is greater, and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme and the ORSO Scheme. When the contribution exceeds the statutory maximum requirements, the excess contribution is credited as the employer's voluntary contribution to the ORSO Scheme. The employer's mandatory contributions vest fully with the employees when contributed into the MPF Scheme. The employer's voluntary contributions vest with the employees according to the vesting scale of the ORSO Scheme. Forfeited contributions in respect of employees who leave the Group before their contributions fully vest are available to the Group to offset its future voluntary contributions.

The assets of the MPF Scheme and the ORSO Scheme are held separately from those of the Group in independently administered funds.

### Dividends

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

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

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

### Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. 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 end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

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

## 3. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. 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.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 3. SIGNIFICANT ACCOUNTING ESTIMATES *(Cont'd)*

**Estimation uncertainty**

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

**(a) Impairment of goodwill**

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2009 was HK$57,632,404 (2008: HK$57,632,404). More details are given in note 17.

**(b) Fair value of unlisted financial instruments**

The unlisted financial instruments have been valued using a valuation technique based on assumptions and estimates including the discount rate, volatility and dividend yield, and hence they are subject to uncertainty. Estimating the value of the financial instruments requires the Group to make certain estimates and assumptions, further details of which are given in note 18.

**(c) Impairment of available-for-sale investments**

The Group classifies certain assets as available-for-sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement. During the year ended 31 December 2009, no impairment loss was recognised for any available-for-sale investment. During the year ended 31 December 2008, impairment loss of HK$30,192,357 was recognised for an available-for-sale investment. The aggregate carrying amount of the available-for-sale investments was HK$135,093,358 (2008: HK$157,754,773) at 31 December 2009.

## 4. OPERATING SEGMENT INFORMATION

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

(a) securities trading and investment holding;

(b) securities broking and dealing;

(c) securities financing and direct loans; and

(d) investment advisory services.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 4. OPERATING SEGMENT INFORMATION *(Cont'd)*

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of profit before tax.

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

Segment liabilities exclude tax payable and deferred tax liabilities as these liabilities are managed on a group basis.

| | Securities trading and investment holding<br>HK$ | Securities broking and dealing<br>HK$ | Securities financing and direct loans<br>HK$ | Investment advisory services<br>HK$ | Total<br>HK$ |
|---|---|---|---|---|---|
| **Year ended 31 December 2009** | | | | | |
| Segment revenue from external customers: | **39,494,145** | **262,273,001** | **41,800,670** | **11,674,922** | **355,242,738** |
| Segment results and profit before tax: | **26,690,479** | **36,096,860** | **31,783,049** | **(8,720,369)** | **85,850,019** |
| Segment assets | **399,948,320** | **2,622,246,657** | **689,193,639** | **26,717,080** | **3,738,105,696** |
| *Reconciliation:* | | | | | |
| Deferred tax assets | | | | | **2,442,770** |
| Tax recoverable | | | | | **368,549** |
| Unlisted club debentures included in financial instruments | | | | | **2,470,000** |
| Total assets | | | | | **3,743,387,015** |
| Segment liabilities | **23,704,731** | **2,549,389,083** | **144,839,490** | **2,847,795** | **2,720,781,099** |
| *Reconciliation:* | | | | | |
| Tax payable | | | | | **7,480,043** |
| Deferred tax liabilities | | | | | **66,030** |
| Total liabilities | | | | | **2,728,327,172** |
| Other segment information: | | | | | |
| Depreciation | **–** | **5,631,079** | **357,555** | **164,475** | **6,153,109** |
| Capital expenditure* | **–** | **3,584,503** | **384,912** | **122,592** | **4,092,007** |

* Capital expenditure consists of additions to property, plant and equipment.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 4. OPERATING SEGMENT INFORMATION *(Cont'd)*

| | Securities trading and investment holding HK$ | Securities broking and dealing HK$ | Securities financing and direct loans HK$ | Investment advisory services HK$ | Total HK$ |
|---|---|---|---|---|---|
| Year ended 31 December 2008 | | | | | |
| Segment revenue from external customers: | (53,853,206) | 210,714,396 | 47,397,018 | 18,623,596 | 222,881,804 |
| Segment results and profit before tax: | (47,091,747) | 26,561,375 | 41,997,660 | 558,962 | 22,026,250 |
| Segment assets | 291,571,995 | 2,028,697,539 | 195,222,692 | 25,981,964 | 2,541,474,190 |
| *Reconciliation:* | | | | | |
| Deferred tax assets | | | | | 3,036,770 |
| Tax recoverable | | | | | 8,739,296 |
| Unlisted club debentures included in financial instruments | | | | | 2,470,000 |
| Total assets | | | | | 2,555,720,256 |
| Segment liabilities | 17,601,377 | 1,533,847,111 | 14,458,592 | 3,961,890 | 1,569,868,970 |
| *Reconciliation:* | | | | | |
| Tax payable | | | | | 35,906,252 |
| Total liabilities | | | | | 1,605,775,222 |
| Other segment information: | | | | | |
| Depreciation | – | 5,361,131 | 247,318 | 276,483 | 5,884,932 |
| Capital expenditure* | – | 7,278,212 | 536,097 | 221,981 | 8,036,290 |

* Capital expenditure consists of additions to property, plant and equipment.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 4. OPERATING SEGMENT INFORMATION *(Cont'd)*

### Geographical information

#### (a) Revenue from external customers

| | **2009** | 2008 |
|---|---|---|
| | **HK$** | HK$ |
| Hong Kong | **344,939,703** | 210,765,859 |
| Mainland China | **9,427,503** | 11,766,332 |
| Other countries | **875,532** | 349,613 |
| | **355,242,738** | 222,881,804 |

The revenue information above is based on the location of the markets.

#### (b) Non-current assets

| | **2009** | 2008 |
|---|---|---|
| | **HK$** | HK$ |
| Hong Kong | **29,112,560** | 51,417,652 |
| Mainland China | **188,518,651** | 187,728,497 |
| | **217,631,211** | 239,146,149 |

The non-current asset information above is based on the location of assets and excludes deferred tax assets.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 5. REVENUE AND OTHER GAINS

An analysis of revenue, which is also the Group's turnover, and other gains is as follows:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$** | HK$ |
| **Revenue** | | |
| Financial services: | | |
| Commission and brokerage income | **260,593,055** | 188,991,018 |
| Interest income from securities financing and direct loans | **41,788,000** | 47,315,441 |
| Net fair value gains/(losses) on securities and futures contracts trading | **38,392,879** | (55,143,030) |
| Income from the rendering of services | **8,157,898** | 17,920,154 |
| | **348,931,832** | 199,083,583 |
| Others: | | |
| Bank interest income | **5,385,990** | 22,777,746 |
| Dividend income from: | | |
| Listed available-for-sale equity investments | **91,492** | 134,716 |
| Listed equity investments at fair value through profit or loss | **729,918** | 735,720 |
| Others | **103,506** | 150,039 |
| | **6,310,906** | 23,798,221 |
| | **355,242,738** | 222,881,804 |
| **Other gains** | | |
| Exchange gains, net | **1,319,074** | – |

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 6. PROFIT BEFORE TAX

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

| | Group 2009 HK$ | 2008 HK$ |
|---|---|---|
| Employee benefit expenses (including directors' remuneration – note 7): | | |
| Salaries and other staff costs | **81,548,347** | 44,266,480 |
| Retirement benefit scheme contributions | **4,778,223** | 4,615,158 |
| Less: Forfeited contributions | **(346,777)** | (687,760) |
| Net retirement benefit scheme contributions* | **4,431,446** | 3,927,398 |
| | **85,979,793** | 48,193,878 |
| Interest expenses for financial services operations on bank loans and overdrafts wholly repayable within five years | **352,328** | 915,792 |
| Minimum lease payments under operating leases in respect of land and buildings | **25,605,982** | 23,236,359 |
| Auditors' remuneration | **1,638,000** | 1,470,000 |
| Loss on disposal of items of property, plant and equipment | **–** | 454,789 |
| Net realised losses/(gains) on trading of listed equity investments and futures contracts | **(9,545,209)** | 2,886,376 |
| Gain on disposal of an available-for-sale investment | **(43,873)** | – |
| Fair value losses/(gains) on available-for-sale investments (transfer from other comprehensive income to the consolidated income statement upon disposal) | **(8,874,201)** | 28,916,337 |
| Foreign exchange differences, net | **(1,319,074)** | 1,082,211 |

* At 31 December 2009, the Group had forfeited contributions of HK$1,239 (2008: HK$199,014) available to reduce its contributions to the retirement benefit schemes in future years.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$** | HK$ |
| Fees | **714,000** | 582,000 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **4,002,977** | 2,897,207 |
| Retirement benefit scheme contributions | **261,600** | 253,200 |
| | **4,264,577** | 3,150,407 |
| | **4,978,577** | 3,732,407 |

### (a) Independent non-executive directors

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

| | **2009** | 2008 |
|---|---|---|
| | **HK$** | HK$ |
| Ng Wing Hang Patrick | **150,000** | 150,000 |
| Kwok Lam Kwong Larry | **150,000** | 150,000 |
| Zhuo Fumin | **150,000** | 150,000 |
| | **450,000** | 450,000 |

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 7. DIRECTORS' REMUNERATION *(Cont'd)*

### (b) Executive directors and non-executive directors

The remuneration paid to executive directors and non-executive directors during the year were as follows:

| | Fees | Salaries, allowances and benefits in kind | Retirement benefit scheme contributions | Total remuneration |
|---|---|---|---|---|
| | HK$ | HK$ | HK$ | HK$ |
| **2009** | | | | |
| Executive directors: | | | | |
| Feng Guorong | – | – | – | – |
| Lu Wenqing | – | – | – | – |
| Lee Man Chun Tony | – | **4,002,977** | **261,600** | **4,264,577** |
| Guo Chun | **132,000** | – | – | **132,000** |
| Ying Niankang | **132,000** | – | – | **132,000** |
| | **264,000** | **4,002,977** | **261,600** | **4,528,577** |
| Non-executive directors: | | | | |
| Chang Pen Tsao | – | – | – | – |
| Huang Gang | – | – | – | – |
| | – | – | – | – |
| | **264,000** | **4,002,977** | **261,600** | **4,528,577** |

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 7. DIRECTORS' REMUNERATION *(Cont'd)*

### (b) Executive directors and non-executive directors *(Cont'd)*

| | Fees HK$ | Salaries, allowances and benefits in kind HK$ | Retirement benefit scheme contributions HK$ | Total remuneration HK$ |
|---|---|---|---|---|
| 2008 | | | | |
| Executive directors: | | | | |
| Feng Guorong | – | – | – | – |
| Lu Wenqing | – | – | – | – |
| Lee Man Chun Tony | – | 2,897,207 | 253,200 | 3,150,407 |
| Guo Chun | 66,000 | – | – | 66,000 |
| Ying Niankang | 66,000 | – | – | 66,000 |
| | 132,000 | 2,897,207 | 253,200 | 3,282,407 |
| Non-executive directors: | | | | |
| Chang Pen Tsao | – | – | – | – |
| Huang Gang | – | – | – | – |
| | – | – | – | – |
| | 132,000 | 2,897,207 | 253,200 | 3,282,407 |

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

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2008: one) director, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining four (2008: four) non-director, highest paid employees for the year are as follows:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$** | HK$ |
| Salaries, allowances and benefits in kind | **5,177,387** | 5,502,250 |
| Bonuses | **1,208,000** | 258,000 |
| Retirement benefit scheme contributions | **442,800** | 477,600 |
| | **6,828,187** | 6,237,850 |

The number of the non-director, highest paid employees whose remuneration fell within the following bands is set out below:

| | Number of employees | |
|---|---|---|
| | **2009** | 2008 |
| HK$1,000,001 to HK$1,500,000 | **2** | 3 |
| HK$1,500,001 to HK$2,000,000 | **1** | – |
| HK$2,000,001 to HK$2,500,000 | **1** | 1 |
| | **4** | 4 |

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 9. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

| | **2009** | 2008 |
|---|---|---|
| | **HK$** | HK$ |
| Group: | | |
| Current – Hong Kong | | |
| Charge for the year | **11,412,480** | 7,757,222 |
| Underprovision in prior years | **3,393** | 3,306,059 |
| Overprovision in prior years | **(289,688)** | (81,324) |
| Deferred (note 19) | **594,000** | (3,036,770) |
| Total tax charge for the year | **11,720,185** | 7,945,187 |

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense for the year is as follows:

| | **2009** | 2008 |
|---|---|---|
| | **HK$** | HK$ |
| Profit before tax | **85,850,019** | 22,026,250 |
| Tax at the statutory tax rate of 16.5% (2008: 16.5%) | **14,165,253** | 3,634,331 |
| Adjustments in respect of current tax of previous periods | **(286,295)** | 3,224,735 |
| Profits attributable to associates | **–** | (2,145,515) |
| Income not subject to tax | **(1,149,249)** | (6,223,553) |
| Expenses not deductible for tax | **3,153,864** | 1,072,887 |
| Tax losses utilised from previous periods | **(6,365,617)** | (587,312) |
| Unrecognised deferred tax assets | **2,202,229** | 8,969,614 |
| Tax expense for the year | **11,720,185** | 7,945,187 |

The share of tax attributable to associates amounting to HK$3,771,835 for the year ended 31 December 2008 was included in "Share of profits of associates" in the consolidated income statement.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 10. PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2009 includes a profit of HK$41,593,499 (2008: loss of HK$42,915,047) which has been dealt with in the financial statements of the Company (note 30(b)).

## 11. DIVIDENDS

| | **2009** | 2008 |
|---|---|---|
| | **HK$** | HK$ |
| Interim – HK1 cent (2008: HK1.5 cents) per ordinary share | **5,307,591** | 7,961,388 |
| Proposed final – HK2 cents (2008: HK1 cent) per ordinary share | **10,615,183** | 5,307,591 |
| | **15,922,774** | 13,268,979 |

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

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

### (a) Basic earnings per share

The calculation of basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of HK$74,875,249 (2008: HK$14,396,208) and the 530,759,126 (2008: 530,759,126) ordinary shares in issue during the year.

### (b) Diluted earnings per share

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2009 and 2008 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 13. PROPERTY, PLANT AND EQUIPMENT

### Group

| | Buildings HK$ | Leasehold improvements HK$ | Furniture, fixtures and equipment HK$ | Motor vehicles HK$ | Total HK$ |
|---|---|---|---|---|---|
| **31 December 2009** | | | | | |
| At 1 January 2009: | | | | | |
| Cost | **2,047,500** | **19,353,402** | **30,548,156** | **3,500,229** | **55,449,287** |
| Accumulated depreciation | **(1,214,850)** | **(15,894,271)** | **(26,113,764)** | **(2,750,164)** | **(45,973,049)** |
| Net carrying amount | **832,650** | **3,459,131** | **4,434,392** | **750,065** | **9,476,238** |
| At 1 January 2009, net of accumulated depreciation | **832,650** | **3,459,131** | **4,434,392** | **750,065** | **9,476,238** |
| Additions | **–** | **724,866** | **3,367,141** | **–** | **4,092,007** |
| Depreciation provided during the year | **(81,900)** | **(3,085,791)** | **(2,695,305)** | **(290,113)** | **(6,153,109)** |
| At 31 December 2009, net of accumulated depreciation | **750,750** | **1,098,206** | **5,106,228** | **459,952** | **7,415,136** |
| At 31 December 2009: | | | | | |
| Cost | **2,047,500** | **12,514,141** | **26,918,816** | **3,500,229** | **44,980,686** |
| Accumulated depreciation | **(1,296,750)** | **(11,415,935)** | **(21,812,588)** | **(3,040,277)** | **(37,565,550)** |
| Net carrying amount | **750,750** | **1,098,206** | **5,106,228** | **459,952** | **7,415,136** |

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 13. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

Group

| | Buildings HK$ | Leasehold improvements HK$ | Furniture, fixtures and equipment HK$ | Motor vehicles HK$ | Total HK$ |
|---|---|---|---|---|---|
| 31 December 2008 | | | | | |
| At 1 January 2008: | | | | | |
| Cost | 2,047,500 | 15,591,585 | 28,638,006 | 2,744,482 | 49,021,573 |
| Accumulated depreciation | (1,132,950) | (13,583,227) | (24,033,917) | (2,491,540) | (41,241,634) |
| Net carrying amount | 914,550 | 2,008,358 | 4,604,089 | 252,942 | 7,779,939 |
| At 1 January 2008, net of accumulated depreciation | 914,550 | 2,008,358 | 4,604,089 | 252,942 | 7,779,939 |
| Additions | – | 4,755,320 | 2,525,223 | 755,747 | 8,036,290 |
| Disposals | – | (442,073) | (12,986) | – | (455,059) |
| Depreciation provided during the year | (81,900) | (2,862,474) | (2,681,934) | (258,624) | (5,884,932) |
| At 31 December 2008, net of accumulated depreciation | 832,650 | 3,459,131 | 4,434,392 | 750,065 | 9,476,238 |
| At 31 December 2008: | | | | | |
| Cost | 2,047,500 | 19,353,402 | 30,548,156 | 3,500,229 | 55,449,287 |
| Accumulated depreciation | (1,214,850) | (15,894,271) | (26,113,764) | (2,750,164) | (45,973,049) |
| Net carrying amount | 832,650 | 3,459,131 | 4,434,392 | 750,065 | 9,476,238 |

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 14. PREPAID LAND LEASE PAYMENTS

| | Group 2009 HK$ | 2008 HK$ |
|---|---|---|
| Carrying amount at 1 January | **1,440,075** | 1,481,025 |
| Recognised during the year | **(40,950)** | (40,950) |
| Carrying amount at 31 December | **1,399,125** | 1,440,075 |
| Current portion included in prepayments, deposits and other receivables | **(40,950)** | (40,950) |
| Non-current portion | **1,358,175** | 1,399,125 |

The leasehold land is held under long term leases and is situated in Hong Kong.

## 15. STOCK AND FUTURES EXCHANGE TRADING RIGHTS

| | Group HK$ |
|---|---|
| Cost and carrying amount at 1 January 2008, 31 December 2008, 1 January 2009 and 31 December 2009 | 4,211,831 |

## 16. INTERESTS IN SUBSIDIARIES

| | Company 2009 HK$ | 2008 HK$ |
|---|---|---|
| Unlisted shares, at cost | **206,066,150** | 201,066,150 |
| Due from subsidiaries | **617,867,387** | 554,218,002 |
| | **823,933,537** | 755,284,152 |
| Due to subsidiaries | **(71,593,929)** | (36,268,436) |
| | **752,339,608** | 719,015,716 |
| Impairment | **(95,138,708)** | (92,838,708) |
| | **657,200,900** | 626,177,008 |

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 16. INTERESTS IN SUBSIDIARIES *(Cont'd)*

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for amounts due from subsidiaries totalling HK$170,000,000 (2008: HK$170,000,000) which bore interest at rates ranging from the bank deposit savings rate to the prime rate (2008: bank deposit savings rate to the prime rate) per annum. The directors of the Company do not intend to demand settlement/proceed with the repayment of the amounts involved within one year after the end of the reporting period. The carrying amounts of these amounts due from/(to) subsidiaries approximate to their fair values.

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

| | Company | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$** | HK$ |
| At 1 January | **92,838,708** | 16,767,554 |
| Impairment losses recognised | **2,300,000** | 76,071,154 |
| At 31 December | **95,138,708** | 92,838,708 |

An impairment was recognised for certain subsidiaries with an aggregate carrying amount of HK$181,614,441 (before deducting the impairment loss) (2008: HK$191,593,866) because these subsidiaries have been making losses for years or had deficiency in assets at the end of the reporting period.

All of the principal subsidiaries, unless otherwise indicated, are incorporated and operate in Hong Kong. Details of the Company's principal subsidiaries at the end of the reporting period are as follows:

| Name | Nominal value of issued ordinary share capital | Percentage of equity attributable to the Company: Direct 2009 | Direct 2008 | Indirect 2009 | Indirect 2008 | Principal activities |
|---|---|---|---|---|---|---|
| Shenyin Wanguo Securities (H.K.) Limited | HK$130,000,000 | **100** | 100 | **–** | – | Securities broking and margin financing |
| Shenyin Wanguo Futures (H.K.) Limited | HK$13,000,000 | **100** | 100 | **–** | – | Futures and options broking |
| Shenyin Wanguo Capital (H.K.) Limited | HK$15,000,000 (2008: HK$10,000,000) | **100** | 100 | **–** | – | Corporate finance |

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 16. INTERESTS IN SUBSIDIARIES *(Cont'd)*

| Name | Nominal value of issued ordinary share capital | Percentage of equity attributable to the Company Direct | | Indirect | | Principal activities |
|---|---|---|---|---|---|---|
| | | **2009** | 2008 | **2009** | 2008 | |
| Shenyin Wanguo Asset Management (Asia) Limited | HK$1,000,000 | **–** | – | **100** | 100 | Provision of asset management services |
| Shenyin Wanguo Research (H.K.) Limited | HK$300,000 | **100** | 100 | **–** | – | Provision of securities research services |
| Shenyin Wanguo Strategic Investments (H.K.) Limited | HK$10,000 | **100** | 100 | **–** | – | Securities trading and investment holding |
| Shenyin Wanguo Finance (H.K.) Limited | HK$25,000,000 | **100** | 100 | **–** | – | Provision of financial services |
| Shenyin Wanguo Enterprises (H.K.) Limited | HK$15,000,000 | **100** | 100 | **–** | – | Provision of management and treasury services |
| Shenyin Wanguo Online Limited | HK$2 | **100** | 100 | **–** | – | Leasing of computer equipment |
| Shenyin Wanguo Trading (H.K.) Limited | HK$375,000 | **100** | 100 | **–** | – | Securities trading |
| Sparkle Well Limited | HK$2 | **100** | 100 | **–** | – | Property holding |
| Wealthy Limited | HK$2 | **100** | 100 | **–** | – | Property holding |
| Shenyin Wanguo (Holdings) Limited | HK$2 | **100** | 100 | **–** | – | Investment holding |

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 16. INTERESTS IN SUBSIDIARIES *(Cont'd)*

| Name | Nominal value of issued ordinary share capital | Percentage of equity attributable to the Company Direct 2009 | Direct 2008 | Indirect 2009 | Indirect 2008 | Principal activities |
|---|---|---|---|---|---|---|
| First Million Holdings Ltd* | US$1 | **100** | 100 | **–** | – | Investment holding |
| Crux Assets Limited* | US$1 | **–** | – | **100** | 100 | Investment holding |
| Shenyin Wanguo Nominees (H.K.) Limited | HK$1,000 | **–** | – | **100** | 100 | Provision of share custodian and nominee services |
| Shenyin Wanguo Online Broker (H.K.) Limited | HK$10,000,000 | **60** | 60 | **–** | – | Dormant |

* Incorporated in the British Virgin Islands

The above table lists the 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.

## 17. GOODWILL

| | **Group** HK$ |
|---|---|
| Cost and carrying amount at 1 January 2008, 31 December 2008 and 31 December 2009 | 57,632,404 |

**Impairment testing of goodwill**

Goodwill arising from the acquisition of a subsidiary has been allocated to the cash-generating unit of investment holding for impairment testing.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 17. GOODWILL *(Cont'd)*

**Impairment testing of goodwill** *(Cont'd)*

The recoverable amount of the goodwill has been determined based on a value in use calculation using cash flow projections based on the financial results of the prior year. The cash flow projections are discounted by the prevailing market rate of return of similar companies in the market adjusted with the specific risks relating to the cash-generating unit over the expected useful lives of the investment until the end of the joint venture period of the underlying investment. No growth rate has been taken into account in the cash flow projections as the Group considers that the growth rate cannot be reliably measured. Key assumptions used in the cash flow projections included financial forecasts of the relevant cash-generating unit and discount rates of 10% (2008: 4.2%).

## 18. INVESTMENTS

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$** | HK$ |
| **Financial instruments** | | |
| Available-for-sale investments, at fair value: | | |
| Listed equity investments in Hong Kong^ | **4,563,848** | 2,980,864 |
| Host component of an unlisted hybrid financial instrument* | **–** | 24,244,399 |
| Unlisted club debentures | **2,470,000** | 2,470,000 |
| | **7,033,848** | 29,695,263 |
| Available-for-sale investment, at cost: | | |
| Unlisted equity investment# | **128,059,510** | 128,059,510 |
| Embedded derivative component of an unlisted hybrid financial instrument, at fair value* | **–** | (825,270) |
| | **135,093,358** | 156,929,503 |
| **Investments at fair value through profit or loss** | | |
| Listed equity investments in Hong Kong, at fair value^ | **44,621,930** | 45,333,925 |
| Unlisted investment funds, at fair value | **133,215,162** | 20,479,094 |
| | **177,837,092** | 65,813,019 |

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 18. INVESTMENTS *(Cont'd)*

* As at 31 December 2008, the hybrid financial instrument, which composed of a host component and an embedded derivative component, represented 662,868,061 convertible non-voting redeemable series C preference shares (the "Preference Shares") in Century City International Holdings Limited ("CCIH"). The Preference Shares were not freely transferable, nor entitled to any income distribution and were non-voting. The Preference Shares might be fully or partly converted into fully paid CCIH ordinary shares on the basis of one CCIH ordinary share for ten Preference Shares, subject to adjustment, in stages on or after 15 December 2006 pursuant to the terms of the Preference Shares, up to 15 December 2009 (the "Maturity Date"). CCIH had the right (the "Right") to redeem all or part of the Preference Shares at the rate of HK$0.15 for every Preference Share before the Maturity Date. The Right was classified as the embedded derivative component and was measured at fair value. The holders of the Preference Shares had no right to require CCIH to redeem or buy back the Preference Shares and the holders of the Preference Shares had pre-emptive rights should CCIH propose to issue new CCIH ordinary shares.

During the year ended 31 December 2009, these 662,868,060 Preference Shares were converted into 66,286,806 CCIH ordinary shares.

As at 31 December 2008, pursuant to the disclosure requirement of Section 129(1) of the Hong Kong Companies Ordinance, the Group held 81.6% of CCIH's issued convertible preference series C shares, which exceeded 20% of the nominal value of CCIH's issued shares of that class at that date. CCIH was incorporated in Bermuda.

^ The market values of the Group's listed equity investments at the end of the reporting period and at the date of approval of these financial statements were approximately HK$49,185,778 and HK$54,304,924, respectively.

\# This unlisted equity investment represented the Group's interest in 26.19% (2008: 26.19%) equity interest in The New China Hong Kong Highway Limited ("NCHK"), which was incorporated in the British Virgin Islands. NCHK held a 60% equity interest in Sichuan Chengmian Expressway Co., Ltd. ("SCECL"). In accordance with the terms of the revised joint venture agreement of SCECL dated 18 March 1994, NCHK is entitled to all of the net profit generated by SCECL from the date of registration of SCECL to 21 December 2003. Thereafter, NCHK is entitled to 60% and 50% of the net profit generated by SCECL for the periods from 22 December 2003 to 21 December 2008 and from 22 December 2008 to 21 December 2018, respectively. For the period from 22 December 2018 to the end of the joint venture period on 21 December 2024, NCHK is entitled to 40% of the net profit generated by SCECL. During the year ended 31 December 2008, there was a change of the controlling shareholder of the immediate controlling holding company of NCHK, a then associate of the Group, which resulted in the appointment of new directors of NCHK. As a result of these changes, the new directors of NCHK operate NCHK without regard to the views of the Group. Accordingly, the directors of the Company considered that the Group had lost its significant influence over NCHK since then and have reclassified the Group's interests in NCHK and SCECL at their aggregate carrying amount of HK$128,059,510 as an available-for-sale investment thereafter. The Group's share of profits of the associates up to the date of reclassifying the associates as an available-for-sale investment included in the consolidated income statement for the year ended 31 December 2008 was HK$13,003,124.

As at 31 December 2009, the carrying amount of this unlisted equity investment of HK$128,059,510 (2008: HK$128,059,510) was stated at cost because the range of reasonable fair value estimates is so significant that the directors are of the opinion that its fair value cannot be measured reliably.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 18. INVESTMENTS *(Cont'd)*

The investments at fair value through profit or loss at 31 December 2009 of HK$177,837,092 (2008: HK$65,813,019) were classified as held for trading.

During the year, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to HK$10,540,388 (2008: gross loss of HK$112,981,131) and net gain of HK$8,874,201 (2008: gross loss of HK$28,916,337) was reclassified from other comprehensive income upon disposal and recognised in the consolidated income statement for the year.

During the year, the fair value gain on the Group's embedded derivative component of an unlisted hybrid financial instrument recognised in the consolidated income statement amounted to HK$825,270 (2008: HK$46,304,649).

There had been a significant decline in the fair value of the host component of an unlisted hybrid financial instrument during the year ended 31 December 2008. The directors considered that such a decline indicated that the host component of an unlisted hybrid financial instrument had been impaired and an impairment loss of HK$30,192,357, which included a transfer from the available-for-sale investment revaluation reserve of HK$30,192,357, had been recognised in the consolidated income statement for the year ended 31 December 2008.

The fair values of the listed equity investments are based on quoted market prices. As at 31 December 2008, the fair value of the unlisted hybrid financial instrument had been estimated using a valuation technique based on assumptions and estimates including the discount rate, volatility and dividend yield. The valuation required the directors to make estimates about the expected future cash flows including expected future proceeds on subsequent realisation of the investments, which were discounted at the current rate of 0.25%. The directors believed that the estimated fair values resulting from the valuation technique, which were recorded in the consolidated statement of financial position, and the related changes in fair values, which were recorded in the consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated income statement, were reasonable, and that they were the most appropriate values as at 31 December 2008.

The valuation of the Preference Shares was subject to the limitations of the binomial option pricing model and the uncertainty in estimates used by the Group. The binomial option pricing model was modified for the features of the Preference Shares. Should the estimates including the volatility of underlying securities, risk-free interest rate and other factors relevant to the underlying securities be changed, there would be changes in the valuation of the Preference Shares and the fair value gains/(losses) recognised in the available-for-sale investment revaluation reserve and the consolidated income statement.

Management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model, and considered that the differences in fair values using less or more favourable assumptions are not significantly different from the carrying value.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 19. DEFERRED TAX

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

**Deferred tax assets**

| **Group** | **Deductible temporary differences** HK$ |
|---|---|
| At 1 January 2008 | – |
| Deferred tax credited to the consolidated income statement during the year (note 9) | 3,036,770 |
| At 31 December 2008 and 1 January 2009 | 3,036,770 |
| Deferred tax charged to the consolidated income statement during the year (note 9) | (594,000) |
| At 31 December 2009 | 2,442,770 |

**Deferred tax liabilities**

| **Group** | **Fair value change in available-for-sale investments** HK$ |
|---|---|
| At 1 January 2008 | 9,200,000 |
| Deferred tax credited to other comprehensive income during the year including a credit of HK$525,714 due to the effect of a change in tax rate | (9,200,000) |
| At 31 December 2008 and 1 January 2009 | – |
| Deferred tax charged to other comprehensive income during the year | 66,030 |
| At 31 December 2009 | 66,030 |

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 19. DEFERRED TAX *(Cont'd)*

The Group has tax losses arising in Hong Kong of HK$149,952,000 (2008: HK$175,185,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is uncertain whether sufficient future taxable profits will be available from these group companies against which the tax losses can be utilised.

At 31 December 2009, there was no significant unrecognised deferred tax liability (2008: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted due to the availability of double tax relief.

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

## 20. ACCOUNTS RECEIVABLE

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$** | HK$ |
| Accounts receivable | **646,067,497** | 205,578,456 |
| Less: Impairment | **(21,920,819)** | (21,920,819) |
| | **624,146,678** | 183,657,637 |

Save for the credit period allowed by the Group, the accounts receivable shall be due on the settlement day of the respective securities and futures contracts transactions. In view of the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. Overdue accounts receivable from cash clients of HK$79,199,057 (2008: HK$51,050,060) bear interest at interest rates with reference to the prime rate.

An aged analysis of accounts receivable as at the end of the reporting period, based on the trade day, is as follows:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$** | HK$ |
| Within 1 month | **607,473,618** | 173,406,238 |
| 1 to 2 months | **8,284,129** | 308,027 |
| 2 to 3 months | **2,597,441** | 2,380,426 |
| Over 3 months | **27,712,309** | 29,483,765 |
| | **646,067,497** | 205,578,456 |

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 20. ACCOUNTS RECEIVABLE *(Cont'd)*

Included in the provision for impairment of accounts receivable is a provision for individually impaired accounts receivable of HK$21,920,819 (2008: HK$21,920,819) with a carrying amount before provision of HK$21,920,819 (2008: HK$21,920,819). The individually impaired accounts receivable relate to customers that were in default or delinquency in payments and the receivables are not expected to be recovered. Although the Group does not hold any collateral or other credit enhancements over these balances, the Group is allowed to dispose of the securities deposited by the customers with the Group to settle any overdue amounts.

The aged analysis of the accounts receivable that are not considered to be impaired is as follows:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$** | HK$ |
| Neither past due nor impaired | **566,868,440** | 154,528,397 |
| Less than 1 month past due | **43,425,202** | 18,906,909 |
| 1 to 3 months past due | **8,164,535** | 3,465,029 |
| Over 3 months past due | **5,688,501** | 6,757,302 |
| | **624,146,678** | 183,657,637 |

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 or covered by securities deposited with the Group.

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.

Included in the accounts receivable balance as at 31 December 2009 is a broker receivable amount due from the ultimate holding company of HK$5,955,027 (2008: HK$7,510,926) which arose from securities dealing transactions. This balance is unsecured, interest-free and repayable on the settlement day of the relevant transactions.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 21. LOANS AND ADVANCES

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$** | HK$ |
| Loans and advances to customers: | | |
| Secured | **696,656,260** | 202,119,565 |
| Unsecured | **2,212,158** | 2,212,158 |
| | **698,868,418** | 204,331,723 |
| Less: Impairment | **(13,173,022)** | (13,173,022) |
| | **685,695,396** | 191,158,701 |

Customers are required to provide collateral to the Group for the loans and advances granted. As at 31 December 2009, the total market value of securities pledged by customers to the Group as collateral in respect of the above loans and advances to customers was HK$2,751,166,300 (2008: HK$830,381,948), of which a total market value of HK$271,485,000 (2008: Nil) of such collateral was pledged with banks to secure certain of the Group's overdrafts and bank loans (note 27) as at 31 December 2009. The Group is allowed to dispose of the collateral in settlement of the customers' obligation to maintain the agreed level of margin and any other liability of the customers due to the Group. The Group is allowed to deposit the collateral with an authorised institution as collateral for financial accommodation provided to the Group according to the applicable legislations and regulations.

In view of the fact that the Group's loans and advances relate to a large number of diversified customers, there is no significant concentration of credit risk. Loans and advances to margin clients of HK$685,540,902 (2008: HK$191,004,207) bear interest at interest rates with reference to the prime rate.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 21. LOANS AND ADVANCES *(Cont'd)*

The maturity profile of the loans and advances to customers at the end of the reporting period is analysed by the remaining period after the end of the reporting period to the contractual maturity date as follows:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$** | HK$ |
| Repayable on demand | **685,540,902** | 191,004,207 |
| Undated | **13,327,516** | 13,327,516 |
| | **698,868,418** | 204,331,723 |

Included in the above provision for impairment of loans and advances is a provision for individually impaired loans and advances of HK$13,173,022 (2008: HK$13,173,022) with a carrying amount before provision of HK$13,327,516 (2008: HK$13,327,516). The individually impaired loans and advances relate to customers that were in default or delinquency in payments and only a portion of the loans and advances is expected to be recovered. The remaining balances of loans and advances that were not impaired relate to a large number of diversified customers for whom there was no recent history of default or secured by securities collateral pledged by the customers to the Group.

## 22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **HK$** | HK$ | **HK$** | HK$ |
| Prepayments | **7,727,523** | 2,956,067 | **209,133** | 205,033 |
| Deposits and other receivables | **3,141,781** | 4,953,771 | **1,279,484** | 569,131 |
| | **10,869,304** | 7,909,838 | **1,488,617** | 774,164 |

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.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 23. BANK BALANCES HELD ON BEHALF OF CUSTOMERS

The Group maintains segregated trust accounts with licensed banks to hold clients' monies in accordance with the relevant legislation. The Group has classified in the consolidated statement of financial position, the clients' monies as bank balances held on behalf of customers in the current assets section and recognised the corresponding accounts payable to the respective customers in the current liabilities section. The Group is allowed to retain some or all of the interest on the clients' monies. The Group is not allowed to use the clients' monies to settle its own obligations.

## 24. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **HK$** | HK$ | **HK$** | HK$ |
| Cash and bank balances | **34,544,376** | 306,960,699 | **4,549,350** | 4,441,232 |
| Time deposits | **50,510,400** | 193,342,000 | **–** | – |
| | **85,054,776** | 500,302,699 | **4,549,350** | 4,441,232 |

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 week and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

## 25. ACCOUNTS PAYABLE

An aged analysis of accounts payable, based on the trade day, as at the end of the reporting period is as follows:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$** | HK$ |
| Within 1 month | **2,508,232,995** | 1,503,625,709 |

Included in the accounts payable balance as at 31 December 2009 was a broker payable amount due to the ultimate holding company of the Company of HK$51,031,736 (2008: HK$4,703,508) which arose from securities dealing transactions. This balance is unsecured, interest-free and payable on the settlement day of the relevant transactions.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 25. ACCOUNTS PAYABLE *(Cont'd)*

Included in the accounts payable balance as at 31 December 2009 represented the amount of segregated client money held on behalf of an intermediate holding company of the Company of HK$16,847,778 (2008: HK$14,834,896) which also arose from securities dealing transactions. This balance is unsecured, bears interest at the bank deposit savings rate (2008: bank deposit savings rate) per annum and is payable on request.

Except for the accounts payable to clients of HK$1,825,906,934 (2008: HK$1,289,268,273), which bear interest at the bank deposit savings rate (2008: bank deposit savings rate) per annum, the remaining accounts payable are non-interest-bearing.

## 26. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|---|---|---|---|---|
| | **2009 HK$** | 2008 HK$ | **2009 HK$** | 2008 HK$ |
| Other payables | **7,053,339** | 4,958,275 | **1,043,535** | 978,991 |
| Accruals | **64,332,935** | 59,078,986 | **1,993,855** | 1,730,213 |
| | **71,386,274** | 64,037,261 | **3,037,390** | 2,709,204 |

Other payables are non-interest-bearing and have an average term of within one month.

## 27. INTEREST-BEARING BANK BORROWINGS

### Group

| | **2009** | | | 2008 | | |
|---|---|---|---|---|---|---|
| | **Effective interest rate** | **Maturity** | **HK$** | Effective interest rate | Maturity | HK$ |
| **Current** | | | | | | |
| Bank overdrafts – secured | **Hong Kong Interbank offered rate ("HIBOR") +1%** | **On demand** | **32,290,445** | – | – | – |
| Bank loans – secured | **HIBOR+1% to HIBOR+1.75%** | **2010** | **102,000,000** | – | – | – |
| | | | **134,290,445** | | | – |

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 27. INTEREST-BEARING BANK BORROWINGS *(Cont'd)*

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$** | HK$ |
| Analysed into: | | |
| Bank loans and overdrafts repayable within one year or on demand | **134,290,445** | – |

*Notes:*

(a) The Group's bank overdrafts are secured by the pledge of certain marketable securities pledged by customers to the Group as collateral amounting to HK$118,125,000 (2008: Nil) as at 31 December 2009 (note 21).

In addition, the Company guaranteed the bank overdrafts up to HK$40,000,000 (2008: Nil) as at 31 December 2009.

(b) Certain of the Group's bank loans are secured by the pledge of certain marketable securities pledged by customers to the Group as collateral amounting to HK$153,360,000 (2008: Nil) as at 31 December 2009 (note 21).

In addition, the Company guaranteed the bank loans up to HK$102,000,000 (2008: Nil) as at 31 December 2009.

(c) Certain of the Group's unutilised banking facilities are secured by guarantees given by the Company.

(d) All borrowings are denominated in Hong Kong dollars.

(e) The carrying amounts of the Group's borrowings approximate to their fair values.

## 28. OTHER PAYABLES

Other payables are non-interest-bearing and the carrying amount of other payables approximates to their fair value.

## 29. SHARE CAPITAL

| | Company | |
|---|---|---|
| | **Number of ordinary shares of HK$0.50 each** | **HK$** |
| Authorised: | 2,000,000,000 | 1,000,000,000 |
| Issued and fully paid: | | |
| At 31 December 2008 and 31 December 2009 | 530,759,126 | 265,379,563 |

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 30. 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 37 of the financial statements.

The Group's general reserve represents prior year appropriations of profits which are distributable to the shareholders.

The Group's exchange fluctuation reserve represented the share of the exchange fluctuation reserve of the associates which was reclassified as an available-for-sale investment during the year ended 31 December 2008.

### (b) Company

| | *Note* | **Share premium account** HK$ | **General reserve** HK$ | **Retained profits** HK$ | **Total** HK$ |
|---|---|---|---|---|---|
| At 1 January 2008 | | 314,739,683 | 656,293 | 99,347,637 | 414,743,613 |
| Total comprehensive income for the year | | – | – | (42,915,047) | (42,915,047) |
| Interim 2008 dividend | *11* | – | – | (7,961,388) | (7,961,388) |
| Proposed final 2008 dividend | *11* | – | – | (5,307,591) | (5,307,591) |
| At 31 December 2008 and 1 January 2009 | | **314,739,683** | **656,293** | **43,163,611** | **358,559,587** |
| Total comprehensive income for the year | | **–** | **–** | **41,593,499** | **41,593,499** |
| Interim 2009 dividend | *11* | **–** | **–** | **(5,307,591)** | **(5,307,591)** |
| Proposed final 2009 dividend | *11* | **–** | **–** | **(10,615,183)** | **(10,615,183)** |
| At 31 December 2009 | | **314,739,683** | **656,293** | **68,834,336** | **384,230,312** |

The Company's general reserve represents prior year appropriations of profits which are distributable to the shareholders.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

**Major non-cash transactions**

(a) During the year, available-for-sale investments with an aggregate fair value of HK$33,143,403 (2008: HK$25,520,421) were reclassified as investments at fair value through profit or loss upon the conversion of 662,868,060 (2008: 662,868,060) Preference Shares into 66,286,806 (2008: 66,286,806) CCIH ordinary shares.

(b) During the year ended 31 December 2008, interests in associates of a carrying amount of HK$128,059,510 were reclassified as an available-for-sale investment.

## 32. CONTINGENT LIABILITIES

As at 31 December 2009, the banking facilities granted to the subsidiaries subject to the guarantees given to the banks by the Company were HK$1,329,500,000 (2008: HK$522,000,000), of which HK$134,290,445 (2008: Nil) was utilised.

## 33. COMMITMENTS

### (a) Capital commitments

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$** | HK$ |
| Contracted, but not provided for the purchases of furniture, fixtures and equipment | **953,671** | 1,218,531 |

### (b) Operating lease commitments as a lessee

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

At 31 December 2009, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$** | HK$ |
| Within one year | **25,018,954** | 24,251,756 |
| In the second to fifth years, inclusive | **10,278,931** | 23,240,178 |
| | **35,297,885** | 47,491,934 |

At 31 December 2009, the Company did not have any significant commitments (2008: Nil).

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 34. RELATED PARTY TRANSACTIONS

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:

**(a)** The Group paid brokerage commissions totalling HK$4,375,861 (2008: HK$5,074,105) to the ultimate holding company of the Company during the year. The brokerage commissions were based on mutually agreed terms with reference to the commission rate and conditions similar to those offered to other customers by the ultimate holding company.

**(b)** The Group paid research fees totalling HK$5,150,000 (2008: HK$3,150,000) to a subsidiary of the ultimate holding company of the Company during the year. The research fees were charged in accordance with the respective agreements signed between the Group and that related company.

**(c)** The Group received brokerage commission income totalling HK$122,974 (2008: HK$19,734) from an intermediate holding company of the Company which was charged on a commission rate and conditions similar to those offered to other customers of the Group.

**(d)** Compensation of key management personnel of the Group:

| | **2009** | 2008 |
|---|---|---|
| | **HK$** | HK$ |
| Short term employee benefits | **17,787,388** | 14,123,946 |
| Post-employment benefits | **1,221,000** | 1,230,900 |
| | **19,008,388** | 15,354,846 |

Further details of directors' emoluments are included in note 7 to the financial statements.

**(e)** Outstanding balances with related parties

Details of the Group's accounts receivable and accounts payable with the ultimate holding company and an intermediate holding company of the Company as at the end of the reporting period are included in notes 20 and 25 to the financial statements, respectively.

Except for item (d), the above transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 35. FINANCIAL INSTRUMENTS BY CATEGORY

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

**2009** **Group**

**Financial assets**

| | Financial assets at fair value through profit or loss – held for trading HK$ | Loans and receivables HK$ | Available-for-sale financial assets HK$ | Total HK$ |
|---|---|---|---|---|
| Other assets | – | 11,920,307 | – | 11,920,307 |
| Available-for-sale investments included in financial instruments | – | – | 135,093,358 | 135,093,358 |
| Investments at fair value through profit or loss | 177,837,092 | – | – | 177,837,092 |
| Accounts receivable | – | 624,146,678 | – | 624,146,678 |
| Loans and advances | – | 685,695,396 | – | 685,695,396 |
| Financial assets included in prepayments, deposits and other receivables | – | 3,141,781 | – | 3,141,781 |
| Bank balances held on behalf of customers | – | 1,939,341,239 | – | 1,939,341,239 |
| Cash and cash equivalents | – | 85,054,776 | – | 85,054,776 |
| | 177,837,092 | 3,349,300,177 | 135,093,358 | 3,662,230,627 |

**Financial liabilities**

| | Financial liabilities at amortised cost HK$ |
|---|---|
| Accounts payable | 2,508,232,995 |
| Other payables | 13,924,724 |
| Interest-bearing bank borrowings | 134,290,445 |
| | 2,656,448,164 |

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 35. FINANCIAL INSTRUMENTS BY CATEGORY *(Cont'd)*

2008 Group

Financial assets

| | Financial assets at fair value through profit or loss – held for trading HK$ | Loans and receivables HK$ | Available-for-sale financial assets HK$ | Total HK$ |
|---|---|---|---|---|
| Other assets | – | 9,497,048 | – | 9,497,048 |
| Available-for-sale investments included in financial instruments | – | – | 157,754,773 | 157,754,773 |
| Investments at fair value through profit or loss | 65,813,019 | – | – | 65,813,019 |
| Accounts receivable | – | 183,657,637 | – | 183,657,637 |
| Loans and advances | – | 191,158,701 | – | 191,158,701 |
| Financial assets included in prepayments, deposits and other receivables | – | 4,953,771 | – | 4,953,771 |
| Bank balances held on behalf of customers | – | 1,355,956,147 | – | 1,355,956,147 |
| Cash and cash equivalents | – | 500,302,699 | – | 500,302,699 |
| | 65,813,019 | 2,245,526,003 | 157,754,773 | 2,469,093,795 |

Financial liabilities

| | Financial liabilities at fair value through profit or loss HK$ | Financial liabilities at amortised cost HK$ | Total HK$ |
|---|---|---|---|
| Embedded derivative included in financial instruments | 825,270 | – | 825,270 |
| Accounts payable | – | 1,503,625,709 | 1,503,625,709 |
| Other payables | – | 7,164,275 | 7,164,275 |
| | 825,270 | 1,510,789,984 | 1,511,615,254 |

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 35. FINANCIAL INSTRUMENTS BY CATEGORY *(Cont'd)*

**Financial assets**

| | Company | |
|---|---|---|
| | **2009** | 2008 |
| | **Loans and receivables** | Loans and receivables |
| | **HK$** | HK$ |
| Financial assets included in prepayments, deposits and other receivables | **1,279,484** | 569,131 |
| Cash and cash equivalents | **4,549,350** | 4,441,232 |
| | **5,828,834** | 5,010,363 |

**Financial liabilities**

| | **2009** | 2008 |
|---|---|---|
| | **Financial liabilities at amortised cost** | Financial liabilities at amortised cost |
| | **HK$** | HK$ |
| Other payables | **1,043,535** | 978,991 |

## 36. FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 36. FAIR VALUE HIERARCHY *(Cont'd)*

As at 31 December 2009, the Group held the following financial instruments measured at fair value:

| | Level 1<br>HK$ | Level 2<br>HK$ | Total<br>HK$ |
|---|---|---|---|
| Available-for-sale investments: | | | |
| Listed equity investments in Hong Kong | 4,563,848 | – | 4,563,848 |
| Unlisted club debentures | – | 2,470,000 | 2,470,000 |
| Investments at fair value through profit or loss | 175,364,168 | 2,472,924 | 177,837,092 |
| | 179,928,016 | 4,942,924 | 184,870,940 |

The Company did not have any financial instruments measured at fair value as at 31 December 2009.

During the year ended 31 December 2009, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

## 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's business segments include securities trading and investment holding, securities broking and dealing, securities financing and direct loans and investment advisory services.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

### Interest rate risk

The Group's borrowings from banks during the year are for the provision of financing and loans to customers. 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 Hong Kong dollar prime rate. As the Hong Kong dollar prime rate basically changes in line with the HIBOR, the Group's exposure to the risk of changes in market interest rates is minimal.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

### Interest rate risk *(Cont'd)*

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

| | | Group | |
|---|---|---|---|
| | **Increase/ (decrease) in basis points** | **Increase/ (decrease) in profit before tax** HK$ | **Increase/ (decrease) in equity*** HK$ |
| **2009** | | | |
| Hong Kong dollar | **25** | **1,822,713** | **–** |
| Hong Kong dollar | **(25)** | **(1,822,713)** | **–** |
| 2008 | | | |
| Hong Kong dollar | 25 | 1,915,508 | – |
| Hong Kong dollar | (25) | (1,915,508) | – |

* Excluding retained profits

### Foreign currency risk

The Group's securities broking and dealing business is primarily conducted in the stock markets of Hong Kong and the B-share markets of Mainland China, which are denominated in Hong Kong dollars or United States dollars. As Hong Kong dollar is also pegged with the United States dollar, the Group's exposure to foreign currency risk is minimal. The Group's revenue denominated in currencies other than Hong Kong dollars and United States dollars constituted approximately 1% (2008: 1%) of the total revenue only and the Group's exposure to foreign currency risk is insignificant.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

### Credit risk

The Group has put in place a well-established credit policy governing the granting of credit limit to customers. Customers are generally required to deposit their securities with the Group as collateral to their borrowings. The credit department is responsible for assisting the directors in formulating the credit policy of the Group, monitoring the credit risks of customers with reference to the realisable values of the collaterals, managing the concentration of credit risk by customers and recommending measures to the directors for granting credit facilities which exceed the authority limits of the credit department. There are no significant concentrations of credit risk within the Group as it relates to a large number of diversified customers.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, bank balances held on behalf of customers, available-for-sale investments, investments at fair value through profit or loss, other assets, deposits and other receivables, arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

Further quantitative data in respect of the Group's exposure to credit risk arising from accounts receivable and loans and advances are disclosed in notes 20 and 21 to the financial statements, respectively.

### Liquidity risk

There is a constant need of funding for the settlement of securities transactions and for the provision of financing and loans to the customers. The source of funding is either from the Group's own capital or borrowings from financial institutions, if necessary.

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., accounts receivable) 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.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

### Liquidity risk *(Cont'd)*

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

| **2009** | **Group** | | | |
|---|---|---|---|---|
| | **On demand** | **Less than 1 year** | **1 to 5 years** | **Total** |
| | HK$ | HK$ | HK$ | HK$ |
| Accounts payable | **2,098,617,347** | **409,615,648** | **–** | **2,508,232,995** |
| Other payables | **–** | **7,053,339** | **6,871,385** | **13,924,724** |
| Interest-bearing bank borrowings | **32,290,445** | **102,064,423** | **–** | **134,354,868** |
| | **2,130,907,792** | **518,733,410** | **6,871,385** | **2,656,512,587** |

| 2008 | Group | | | |
|---|---|---|---|---|
| | On demand | Less than 1 year | 1 to 5 years | Total |
| | HK$ | HK$ | HK$ | HK$ |
| Accounts payable | 1,380,719,328 | 122,906,381 | – | 1,503,625,709 |
| Other payables | – | 4,958,275 | 2,206,000 | 7,164,275 |
| | 1,380,719,328 | 127,864,656 | 2,206,000 | 1,510,789,984 |

### Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group was exposed to equity price risk arising from individual equity investments classified as held-for-trading investments (note 18) and available-for-sale investments (note 18) as at 31 December 2009.

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

**Equity price risk** *(Cont'd)*

The following table demonstrates the sensitivity to every 1% change in the fair values of the equity investments or the underlying instrument of the unlisted hybrid financial instrument, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period. For the purpose of this analysis, for the available-for-sale equity investments the impact is deemed to be on the available-for-sale investment revaluation reserve and no account is given for factors such as impairment which might impact the consolidated income statement.

| | | Group | |
|---|---|---|---|
| | **Increase/ (decrease) in fair value** | **Increase/ (decrease) in profit before tax** | **Increase/ (decrease) in equity*** |
| | % | HK$ | HK$ |
| **2009** | | | |
| Investments listed in Hong Kong: | | | |
| – Available-for-sale | **1** | **–** | **45,638** |
| | **(1)** | **–** | **(45,638)** |
| – Held-for-trading | **1** | **446,219** | **–** |
| | **(1)** | **(446,219)** | **–** |
| Unlisted investment funds | **1** | **1,332,152** | **–** |
| | **(1)** | **(1,332,152)** | **–** |
| 2008 | | | |
| Investments listed in Hong Kong: | | | |
| – Available-for-sale | 1 | – | 29,809 |
| | (1) | – | (29,809) |
| – Held-for-trading | 1 | 453,339 | – |
| | (1) | (453,339) | – |
| Unlisted investment funds | 1 | 204,791 | – |
| | (1) | (204,791) | – |
| Unlisted hybrid financial instrument: | | | |
| – Available-for-sale | 1 | – | 242,444 |
| | (1) | – | (242,444) |
| – Embedded derivative classified as financial liability | 1 | (17,069) | – |
| | (1) | 23,698 | – |

* Excluding retained profits

# NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2009

## 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

### Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. 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. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 31 December 2008.

The Group monitors capital using a gearing ratio, which is interest-bearing bank borrowings divided by total equity. The gearing ratio is reviewed and assessed regularly by the board of directors. The gearing ratios as at the ends of the reporting periods were as follows:

| **Group** | **2009**<br>**HK$** | 2008<br>HK$ |
|---|---|---|
| Interest-bearing bank borrowings | **134,290,445** | – |
| Total equity | **1,015,059,843** | 949,945,034 |
| Gearing ratio | **13.2%** | 0% |

## 38. COMPARATIVE AMOUNTS

Certain comparative amounts have been revised and presented to conform with the current year's presentation and accounting treatment.

## 39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 12 March 2010.

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