SUNWAH KINGSWAY
新華滙富

**Sunwah Kingsway Capital Holdings Limited**
新 華 滙 富 金 融 控 股 有 限 公 司
(formerly known as SW Kingsway Capital Holdings Limited)
Incorporated in Bermuda with limited liability
Stock Code: 00188

5 consecutive years
商界展關懷
caringcompany 2006-11
Awarded by The Hong Kong Council of Social Service
香港社會服務聯會頒發

# 20 Years of Capital Markets Excellence

# Annual Report 2011

# Well-anchored Service Platform

We focus on where we excel. Our objective is to become the best local financial services provider in Hong Kong, creating value for local and international clients with passion and integrity.

| CLIENT SERVICES | | | | | PROPRIETARY |
|---|---|---|---|---|---|
| CORPORATE FINANCE AND CAPITAL MARKETS | | BROKERAGE | | ASSET MANAGEMENT | PROPRIETARY INVESTMENTS |
| Financial Advisory | Merger and Acquisition | Equities Trading | Electronic Trading | Direct Investment Vehicles | Securities Investment |
| IPO Sponsor | Corporate Restructuring | Futures & Commodities Trading | Research | Discretionary Portfolio Management | Pre-IPO Investments |
| Equity Capital Markets | | Margin Financing | Insurance Brokerage | | |

With 21 years in the capital markets, Sunwah Kingsway has expanded its reach into global securities markets including Hong Kong, China, North America, Europe and the rest of Asia. We have an extensive network of institutional investors and a successful track record of delivering a right mix of financial services to our clients globally.

Use of words including "Sunwah Kingsway", "the Group", or "We" in this Annual Report refer to Sunwah Kingsway Capital Holdings Limited and its subsidiaries.

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## Sunwah Kingsway is committed to the core values of integrity, teamwork, respect, responsibility and the pursuit of excellence.

*We believe that successful companies are built on these core values, the same ones that align and guide our thinking and actions in every area of our business. Our established core values have served our Group well and will continue to guide our growth into the future.*

# Chief Executive's Statement

Dear Friends and Shareholders

On behalf of the Board of Directors, I am pleased to present the annual report of Sunwah Kingsway Capital Holdings Limited for the financial year ended 30 June 2011 (the "Period").

After serving on the Board of the Company since its listing in 2000, I had the honour to be appointed the CEO effective October 2010. This is a very important milestone in my career with Sunwah Kingsway. The position comes with a lot of responsibilities to different stake holders and I will try my best to deliver the desired results.

The last financial year was a difficult one with the gradual deterioration in economic environment and business sentiments. The Hang Seng Index reached its post financial tsunami peak in November 2010. The re-emergence of the European sovereign debts crises and the downgrade of US sovereign debts credit rating by one of the major rating agencies recently added significant uncertainties to a market already filled with a lot of challenges.

I firmly believe that economy will undergo cycles and there is always room for quality service providers in the financial market. The Group has contracted to acquire a new property and we intend to use the property as our head office going forward. Furthermore, we have recruited a number of very experienced professionals to join our team and this will strengthen our service delivery capabilities. We have sponsored two IPO listings in July 2011 and with the additional resources, we hope to bring more quality companies to the Hong Kong capital market and provide more efficient brokerage services for our clients.

Sunwah Group has been a major shareholder of the Company for a long time and in order to strengthen the business association, we have changed our Company name to Sunwah Kingsway Capital Holdings Limited in September 2011. We have over 20 years of excellent services to our clients and we are now celebrating our 21 anniversary. We are proud of our great traditions and with the increased support from the Sunwah Group, management is determined to bring Sunwah Kingsway to a much higher level.

Finally, I would like to express my sincere thanks to all the staff for their continued support to the Group. I am most grateful to the valuable contribution from two departing Board members, Ms Rebecca Lau and Mr William Wu. I also extend a warm welcome to Ms Janice Kwan, who joined the Board in February 2011. Let us work together to bring Sunwah Kingsway to new heights.

**Choi Koon Ming Michael**
*Chief Executive Officer*

# Management Discussion and Analysis

## THE MARKET

After a quick recovery from the financial tsunami, the markets moved within a narrow range close to the post crisis high during our last financial year. With the tightening of credit in a number of emerging markets to reign in inflation, the developed markets outperformed the emerging markets due to the loose credit environment. However, the European debt crisis is proving to be more wide spread and prolonged than the original market perception and it will continue to affect the financial markets in the coming months, if not years. The downgrade of US government debt securities by one of the major rating agencies also created uncertainties in the markets. The market is now divided on whether the US will launch a new round of quantitative easing measures. At the other end, the PRC continues with its tightening measures in order to control inflation. The Hong Kong market is likely to be torn between all these different forces in the near future.

The Hang Seng Index closed at 22,398 at the end of June 2011, compared with 20,129 at the end of June 2010 and 23,035 at the end of December 2010. The average monthly turnover on the Main Board and GEM during the year ended 30 June 2011 ("FY2011") was approximately HK$1,532 billion, as compared to HK$1,349 billion for FY2010. Funds raised from IPOs on the Main Board in FY2011 amounted to HK$568 billion, doubled the HK$276 billion raised in FY2010.

## FINANCIAL HIGHLIGHTS

The Board is pleased to announce that the Group continued to perform well in FY2011. The profit for FY2011 was HK$47 million, as compared to HK$10 million for FY2010. Net gain on the disposal of financial assets and the remeasurement to fair value increased from HK$43 million for FY2010 to HK$65 million for FY2011, which was mainly attributed to the recovery in the stock market. Commission and fee income for our financial intermediary business increased from HK$81 million for FY2010 to HK$102 million for FY2011 due to the increase in market activities. The Group recovered an amount of HK$1.6 million and HK$1.2 million from accounts receivable on the disposal of investment and corporate finance advisory fee respectively. These receivables were partially written off in previous years and thus the Group recognised a reversal of impairment loss of HK$2.3 million in this year. General and administrative expenses were HK$121 million, increased from HK$96 million for FY2010. The increase was mainly due to higher staff costs (both basic and discretionary), in line with the better performance of the Group.

## BROKERAGE

Total revenue of the division was HK$73.6 million for FY2011, compared with HK$67.4 million for FY2010.

The average monthly turnover on equities increased by 8% to HK$1,091 billion, whilst the average monthly turnover on derivative warrants increased by 48% to HK$253 billion in FY2011. Being one of the liquidity providers of the Bank of East Asia for its derivative warrants issued since January 2011, we benefited by the increase in derivative warrants trading. However, the gross commission income decreased by 4% to HK$59.4 million in FY2011 due to keen competition from the major retail banks and other discount brokers.

The margin lending book has grown by 109% to HK$65 million at FY2011. Interest income from margin and IPO financing increased from HK$2.9 million in FY2010 to HK$5.6 million in FY2011. The growth was driven by an increased demand from the Group's corporate clients and high net worth clients. Our credit control department will cautiously handle the increased demand in margin loans during this volatile market.

Our research department hosted an Investors Conference in September 2010 and brought together 20 listed companies and the institutional investors in series of meetings to share the business strategies and latest information of those listed companies.

Sunwah Kingsway ranked in the top three in the category of Best Broker in Hong Kong by the Asiamoney Brokers Poll announced in November 2010. Sunwah Kingsway has enjoyed this honour for the last six consecutive years.

## CORPORATE FINANCE AND CAPITAL MARKETS

Total revenue of the division was HK$39.2 million for FY2011, representing a 144% increase over the same period last year.

The revival of the equity capital markets in FY2011 increased the corporate finance, underwriting and placing fee income for the division. The fee income generated from these activities increased by 126% to HK$34.2 million in FY2011 when compared with FY2010. The Group acted as the sponsor for the listing of Modern Education Group Limited on the Hong Kong Main Board in 2011. Modern Education Group Limited is one of the most reputable education firms providing after-school tutoring services in Hong Kong and it is the first education tutoring firm listed in Hong Kong. The Group also acted as underwriter of 3 IPO transactions and participated in 12 shares placing transactions, including placing of share in Xinyi Glass Holdings Limited, AV Concept Holdings Limited and underwriting of share in Milan Station Holdings Limited. The division will continue to provide a full range financial services to mid-cap players.

The division signed a settlement deed and agreed to receive a total sum of HK$1.2 million from a client for the settlement of the outstanding receivable of HK$6 million. The division provided a specific provision of HK$5.5 million in previous years and thus a reversal of impairment loss of HK$0.7 million was recognised in this year.

## ASSET MANAGEMENT

The division had no turnover in FY2011. The division is now approaching several private equity funds to provide asset management services. The division will contribute revenue to the Group in the coming year. The division is also looking for suitable investment opportunities to set up new private equity funds.

## INVESTMENT IN SECURITIES

The division had total revenue of HK$72 million for FY2011, compared with HK$51.7 million for FY2010.

The Hang Seng Index reached recent high of 24,989 in November 2010 from 19,778 in July 2010 and dropped to 22,398 at the end of June 2011. The division had captured the upward movement of the market and realised several investments in FY2011. The investment portfolio in Hong Kong listed shares shrank by 47% to HK$166 million and trading profit from listed equity securities increased by 33% to HK$57.3 million in FY2011.

The division invested in different investment products in FY2011 to diversify the investment portfolio to lower the concentration risk of individual stock and the market risk of the portfolio. The asset allocation of listed debt securities increased to 16% of total investment amount and the trading profit and interest income from debt securities and derivatives increased to HK$9 million in FY2011.

## STRUCTURED INVESTMENT

The division had total revenue of HK$1.4 million for FY2011, compared with negative turnover of HK$5 million for FY2010.

The investment team is very selective in choosing the right investment for the Group. We have only made one structured investment during the year. The Group is continuing negotiation with a number of potential investment targets. The result of the investments was recognised in other comprehensive income and accumulated in investments revaluation reserve.

## LIQUIDITY AND FINANCIAL RESOURCES

Total assets as at end of June 2011 were HK$885 million, of which approximately 88% were current in nature. Net current assets were HK$584 million, accounting for approximately 85% of the net assets of the Group as at end of June 2011.

The Group generally finances its operations from internal resources. Total borrowings of approximately HK$0.1 million at the end of June 2011 represented the finance lease obligations for office equipment. At the year end, the Group's gearing ratio, calculated as a percentage of total borrowings over shareholders' equity, was approximately 0.01%.

## CAPITAL STRUCTURE

In the first half year of FY2011, the Company completed the placement of 432,820,000 new shares and the placement of 216,410,000 warrants with net proceeds amounting to HK$106 million. As at 30 June 2011, the warrants have not been exercised by the warrant holders. However, should the warrants be exercised the expected net proceeds from the exercise of the warrants will be approximately HK$71 million.

## CHANGE IN BOARD COMPOSITION

In September 2010, The Company announced the resignation of Mr William Wai Leung Wu as an Executive Director and Chief Executive Officer and Mr Michael Koon Ming Choi was appointed as the Chief Executive Officer of the Company.

In November 2010, Ms Rebecca Yuk Fung Lau retired from office as a Non-Executive Director at the Annual General Meeting. The Board later announced that Ms Janice Wing Kum Kwan has been appointed as a Non-Executive Director of the Company with effect from 1 February 2011.

## FOREIGN EXCHANGE EXPOSURE

The Group's assets are mainly in Hong Kong and the PRC and most of the monetary assets and liabilities of the Group are denominated in HK$. As part of our investment monitoring, financial assets denominated in foreign currencies, including equity and debt investments, are monitored on a daily basis together with the changes in market value of these investments. Hedging instruments may be used as part of the overall investment strategy if deemed necessary by the investment managers. The Group purchased properties in the PRC for its own use. Because of the steady appreciation of RMB against HK$, the Group believes that there is no need to hedge these assets denominated in RMB. Management will monitor the situation closely and introduce suitable hedging measures if there are any adverse changes. The Group does not have other material exposure to fluctuation in exchange rates and no hedging instruments are used.

## EMPLOYMENT, TRAINING AND DEVELOPMENT POLICIES

As at 30 June 2011, the number of full time employees of the Group was 130 (2010: 137). The decrease was mainly due to the temporary staff turnover.

Remunerations and bonus are based on performance and are reviewed annually in conjunction with the annual employee performance appraisal. It also takes into consideration the results of the division to which the employee belongs and the Group as a whole.

The Group provides a full induction program and in-house training courses to all staff – particularly professionals registered with relevant regulatory bodies who must meet their mandatory continued professional training requirements.

A new option scheme was adopted by the Group on 10 November 2010. The scheme is available to directors, employees and consultants of the Group. Details of the scheme are set out in the section "Share options" of the Report of the Directors.

## CORPORATE GOVERNANCE

The Group is committed to conducting our business ethically and in a way that is transparent, accountable to shareholders and the community, and under the governance of an effective board.

As a listed company mainly engaged in regulated businesses, we believe our corporate governance practices are appropriately rigorous and of high standard. The Group reviews its practices on a regular basis to ensure that any new developments in the industry best practices are reviewed and considered by the Group.

As in previous years, a separate and detailed statement on our corporate governance practices is included under the heading "Corporate Governance Report".

## COMMUNITY

In line with our philosophy of being a responsible corporate citizen, the Group participated in various social services activities. Please refer to our Social Responsibility Report for further details.

# Social Responsibility Report

## Our Employees

The Group regards our employees as being our most valuable asset and critical to the overall delivery of our business strategies. Our vision has always been to create a workplace which nurtures the professional development of its employees while at the same time making the work environment an attractive place to work. We believe that these goals will help us attract, retain and develop the best and brightest in our industry. Through various initiatives, coordinated by the Human Resources Department, Sunwah Kingsway is committed to enhancing our employees' sense of belonging and strengthen staff relationships. These activities included the annual staff conference and annual dinner, a bowling competition and quarterly tea parties. The staff conference is an annual event which sets out the Company's overall business strategy and direction for the coming year. It also allows staff to participate in team building exercises and workshops. The bowling competition and tea parties gives the employees the opportunity to get acquainted with new staff members and converse among different departments in a relaxing atmosphere.

*Bowling competition*

As the Group's main business consists of activities licensed by the SFC, the Group provides free professional training for its SFC licensed staff. These educational seminars not only assist them in fulfilling their Continuing Professional Training requirements and to expand their knowledge and understanding of different investment products, but also enable our people to grow and succeed in their chosen fields.

## Investor Education

The promotion of investor awareness and protection of the interest of investors has always been, and continues to be, a top priority for the Group. Sunwah Kingsway understands that educating its clients on various financial products so that they can gain the necessary understanding, skills and knowledge regarding a particular product (including risks and rewards) is essential for the client to make informed financial decisions. The seminars hosted by Sunwah Kingsway not only helps protect the investing public but also enhances investor confidence in Hong Kong's financial system. This year, in-house seminar topics included understanding futures and options trading-in Gold and Oil; understanding stock options trading; and current economic trends.

## Community, Charity and Public Welfare

At Sunwah Kingsway, we recognise that our responsibilities involves more than helping our clients and shareholders become financially better off. We realise that an essential component of our corporate social responsibility is to care for the communities in which we operate. We endeavor to make a positive contribution to the underprivileged by supporting a wide range of socio-economic and educational initiatives. We are strongly aware of the needs of the community and support a number of activities during the year under review. Our accomplishments during the past year includes the following:

5 consecutive years
商界展關懷
caringcompany 2006-11
Awarded by The Hong Kong Council of Social Service
香港社會服務聯會頒發

**World Vision-Skip-A-Meal**

In conjunction with our long term partner, World Vision Hong Kong, Sunwah Kingsway is proud to once again participate, for a fifth consecutive year, in the "Skip-A-Meal" program to help fight worldwide hunger and poverty. Our employees enthusiastically skipped their lunch and donated the proceeds of that meal to World Vision. Sunwah Kingsway then matched employee donations on a dollar for dollar basis. We were honored to be named by World Vision as Highest Fundraiser-Second runner-up in full support of "Skip-A-Meal" 2011.


*Skip-A-Meal award*

**World Vision-Japan Earthquake and Tsunami Relief**

On 11 March 2011, a 9.0 magnitude earthquake struck Japan and triggered a massive tsunami along its northeast coast, sweeping away entire villages with walls of water over 30 feet high and causing a nuclear meltdown at one of Japan's nuclear power plants. In the wake of this disaster, World Vision was one of the first organisations to begin relief work by distributing emergency supplies and sending highly trained staff to assess and respond to the most urgent needs of the Japanese people. Sunwah Kingsway and its employees are committed to providing support to local and national relief agencies to help people with immediate needs. The Group immediately initiated a fund raising campaign, which was fully supported by all staff and channeled all donations to World Vision.

**Brotherhood Charity Foundation**

Hong Kong's elderly population is increasing at an alarming rate, with many of the elderly living alone. The goal of the Brotherhood Charity Foundation is to help feed and care for the elderly of Hong Kong and to assist them to live a dignified life. To this end, on a daily basis, the Brotherhood delivers hot meals to our senior citizens and distributes warm clothing and blankets during cold weather. Sunwah Kingsway was proud to support the worthy causes of the Brotherhood and was a Silver Sponsor at the Brotherhood's annual fundraising dinner.

*Brotherhood's annual fundraising dinner*

**HongKong Kowloon Charitable Foundation**

This year, we were excited to be involved in the establishment of the HongKong Kowloon Charitable Foundation Association Limited. The foundations main objective is to encourage awareness in respect of Hong Kong's underprivileged, to promote participation in volunteer services, to assist community groups and organisations to organise activities to promote community health development, and in cooperation with each other to create a harmonious community.

**Tsinghua University**

Our support for education is a key area of our corporate social responsibility. Previously we have supported the building of the new Hong Kong International Christian School and The Open Universities new campus. This year our donation went to the Tsinghua University Education Fund to support its underprivileged students.

# Corporate Governance Report

The Company is committed to sound corporate governance practices designed to promote greater transparency, investor confidence and the ongoing development of the Group, having always as its ultimate objective, the best long term interest of the Group and the enhancement of value for all shareholders. The Company also believes that sound corporate governance practices benefit the Group's employees and the community in which the Group operates.

## Code on Corporate Governance Practices

The Company has applied the principles and has complied with the code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 30 June 2011.

## Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the year under review and they have all confirmed that they have complied with the required standard set out in the Model Code.

## The Board of Directors

The Board currently comprises eight directors and the composition is set out as follows:

| | |
|---|---|
| Jonathan Koon Shum Choi | *Chairman* |
| Mary Yuk Sin Lam | *Deputy Chairman & Executive Director* |
| Michael Koon Ming Choi | *Chief Executive Officer & Executive Director* |
| Janice Wing Kum Kwan | *Non-Executive Director* |
| Lee G. Lam | *Non-Executive Director* |
| Robert Tsai To Sze | *Independent Non-Executive Director* |
| Stanley Kam Chuen Ko | *Independent Non-Executive Director* |
| Michael Wai Chung Wu | *Independent Non-Executive Director* |

The brief biographical details of the directors, including financial, business, family or other material or relevant relationships among members of the board, are set out in the "Biographical Details of Directors and Senior Management" section on pages 17 to 19.

There is a clear division of responsibilities between the Board and management. The Board is responsible for providing high-level guidance and effective oversight of the management while day-to-day management of the Group is delegated to the management team of each respective subsidiary. Generally speaking, the Board is responsible for:

- Formulating the Group's long term strategy and monitoring the implementation thereof;
- Approval of dividends;
- Reviewing and approving the interim and annual reports;
- Ensuring good corporate governance and compliance;
- Monitoring the performance of the management; and
- Reviewing and approving any material acquisition and disposal of assets and other material transactions.

The Board authorises the management to carry out the strategies that have been approved.

The Board meets at least four times a year and additional meetings are convened as and when the Board considers necessary. During the year, six board meetings were held and the principal businesses transacted included approving interim and final results and reports, assessing business performance and implementation and considering major and connected transactions. During the year, a Board of Directors' Conference was held to reaffirm directors' duties and responsibilities and update the directors on changes to the Listing Rules and SFC compliance matters. The attendance record of each director during the year ended 30 June 2011 is set out as follows:

| **Board Directors** | **Number of Board meetings attended/eligible to attend** |
|---|---|
| **Chairman** | |
| Jonathan Koon Shum Choi | 4/6 |
| **Executive Directors** | |
| Mary Yuk Sin Lam | 6/6 |
| Michael Koon Ming Choi | 6/6 |
| William Wai Leung Wu *(resigned on 30 September 2010)* | 1/1 |
| **Non-executive Directors** | |
| Janice Wing Kum Kwan *(appointed on 1 February 2011)* | 2/2 |
| Lee G. Lam | 5/6 |
| Rebecca Yuk Fung Lau *(retired on 10 November 2010)* | 1/1 |
| **Independent Non-executive Directors** | |
| Robert Tsai To Sze | 6/6 |
| Stanley Kam Chuen Ko | 6/6 |
| Michael Wai Chung Wu | 2/6 |

The non-executive directors (a majority of whom are independent) provide the Group with a wide range of expertise and experience.

The Company has complied with Rules 3.10(1) and (2) of the Listing Rules relating to the appointment of at least three independent non-executive directors and one of the independent non-executive directors has appropriate professional qualifications or accounting or related finance management expertise. Each of the independent non-executive directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive directors have met independence guidelines set out in Rule 3.13 of the Listing Rules.

### CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company separates the role of the Chairman and the Chief Executive Officer. Currently, Dr Jonathan Koon Shum Choi serves as the Chairman of the Board and Mr Michael Koon Ming Choi serves as the Chief Executive Officer.

The Chairman is responsible for the leadership of the Board and the Chief Executive Officer is responsible for the conduct of the Group's business, day-to-day operation, and implementing the Group's strategy with respect to the achievement of its business objectives with the assistance of the executive directors and senior management. The responsibilities of the Chairman and the Chief Executive Officer are clearly segregated.

The Chairman is also responsible for ensuring that all directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

### APPOINTMENT AND RE-ELECTION OF DIRECTORS

Pursuant to code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election and, pursuant to code provision A.4.2 of the CG Code, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

During the period under review, all non-executive directors of the Company were appointed for a specific term and subject to re-election pursuant to the Company's Bye-laws. Currently, Mr Michael Wai Chung Wu, Dr Lee G. Lam, Mr Robert Tsai To Sze and Mr Stanley Kam Chuen Ko have each been appointed for a specific term of three years. Additionally, the Chairman, Dr Jonathan Koon Shum Choi has also been appointed for a specific term of three years.

During the period under review, Mr Janice Wing Kum Kwan was appointed as a non-executive director to fill a causal vacancy created on the retirement of Ms Rebecca Yuk Fung Lau.

In accordance with clauses 86(2) and 87(1) of the Company's Bye-Laws, Ms Mary Yuk Sin Lam and Mr Robert Tsai To Sze will retire at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election. Mr Michael Wai Chung Wu has indicated that although eligible, he will not stand for re-election at the upcoming 2011 Annual General Meeting and will retire as a director with effect from the conclusion thereof.

## Board Committees

As an integral part of good corporate governance, the Board has established the following committees whose authority, functions, compositions and duties are set out below:

**(1) AUDIT COMMITTEE**

The Audit Committee has been established since 2000. During the year under review, it was comprised of three independent non-executive directors, in compliance with rule 3.21 of the Listing Rules and a non-executive director (who retired on 10 November 2010).

The Audit Committee's terms of reference includes those specific duties as set out in the code provision C.3.3 of the CG Code. Pursuant to its terms of reference, the Audit Committee is required, amongst other things, to consider and recommend to the Board the appointment, re-appointment and removal of the external auditors and to approve their remuneration, to review the interim and annual financial statements, to review the Group's financial controls, internal controls and risk management system and to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response. The Audit Committee should meet at least twice each year and when the need arises.

During the year ended 30 June 2011, two committee meetings were held, one to consider the annual results of the Group for the financial year ended 30 June 2010 including the discussion of internal controls report of several departments and one to consider the interim results of the Group for the six months ended 31 December 2010. The attendance record of each member during the year is set out as follows:

| **Committee members** | **Number of Committee meetings attended/eligible to attend** |
|---|---|
| Robert Tsai To Sze *(Chairman)* | 2/2 |
| Stanley Kam Chuen Ko | 2/2 |
| Michael Wai Chung Wu | 1/2 |
| Rebecca Yuk Fung Lau *(retired on 10 November 2010)* | 1/1 |

**(2) COMPENSATION COMMITTEE**

Pursuant to code provision B.1.1 of the CG Code, a majority of the members of the remuneration committee should be independent non-executive directors. During the year under review, in compliance with code provision B.1.1 of the CG Code, the Compensation Committee consisted of the Chairman and Deputy Chairman of the Board and three independent non-executive directors.

The Compensation Committee's terms of reference includes those specific duties as set out in the code provision B.1.3 of the CG Code. Pursuant to its terms of reference, the Compensation Committee is required, amongst other things, to review and recommend to the Board the compensation packages of the executive directors and senior management, to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time; to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company; and to ensure that no director is involved in deciding his/her own remuneration. The Compensation Committee should meet at least once a year and when the need arises.

Two committee meeting was held during the year ended 30 June 2011 to review the specific remuneration package of an executive director. The attendance record of each member is set out as follows:

| **Committee members** | **Number of Committee meetings attended/eligible to attend** |
|---|---|
| Stanley Kam Chuen Ko *(Chairman)* | 2/2 |
| Jonathan Koon Shum Choi | 1/2 |
| Robert Tsai To Sze | 2/2 |
| Mary Yuk Sin Lam | 2/2 |
| Michael Wai Chung Wu | 2/2 |

## (3) NOMINATION COMMITTEE

The Nomination Committee consists of the Chairman and Deputy Chairman of the Board and an independent non-executive director, who also acts as the chairman of the Nomination Committee.

The Nomination Committee's terms of reference includes those specific duties as set out in the code provision A.4.5 of the CG Code. Pursuant to its terms of reference, the Nomination Committee is required, amongst other things, to review the structure, size and composition of the Board and make recommendations for changes as necessary, to identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of individuals nominated for directorships, to assess the independence of independent non-executive directors, and to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors in particular the Chairman and the Chief Executive Officer. The Nomination Committee should meet at least once a year and when the need arises.

The Nomination Committee is responsible for identifying, recruiting and evaluating new nominees to the Board and the assessment of the qualifications of the directors. The criteria adopted to select and recommend candidates for directorship includes the candidate's experience, professional knowledge, integrity, time commitment and other statutory or regulatory requirements.

The Nomination Committee held two meeting during the year under review. One meeting to review the structure, size and composition of the Board and to review and assess the independence of the independent non-executive directors and one meeting to evaluate the qualifications of a proposed director nominee and make a recommendation to the Board. The attendance record of each member is set out as follows:

| Committee members | Number of Committee meeting attended/eligible to attend |
|---|---|
| Stanley Kam Chuen Ko *(Chairman)* | 2/2 |
| Jonathan Koon Shum Choi | 1/2 |
| Mary Yuk Sin Lam | 2/2 |

## (4) CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee has been established since 2005. During the year under review, it consisted of two independent non-executive directors and a non-executive director (who retired on 10 November 2010). The committee is responsible for reviewing and further developing the Group's corporate governance policies and principles and the implementation thereof. The Corporate Governance Committee meets once a year and when the need arises.

During the year ended 30 June 2011, the Corporate Governance Committee held one meeting to review the Company's corporate governance practices and to review the internal audit report. The attendance record of each member is set out as follows:

| Committee members | Number of Committee meeting attended/eligible to attend |
|---|---|
| Michael Wai Chung Wu *(Chairman)* | 1/1 |
| Stanley Kam Chuen Ko | 1/1 |
| Rebecca Yuk Fung Lau *(retired on 10 November 2010)* | 1/1 |

## OTHER COMMITTEES

### Risk Management Control Committees

The Group views the management of risk as integral to the Group's goal to achieve and maintain profitability. As mentioned before in recognition of the increasingly varied, complex and global nature of the financial services business, we continue to believe that risk management must be handled internally, but independently of the Group's core business activities. This is to protect the interest of all stakeholders and to manage our professional and legal obligations.

The Group's principle in relation to risk management is that where risk is assumed, it is within a calculated and controlled framework with continuous assessment and reporting. The process is multi-faceted covering market risk, credit risk, concentration risk and systems failure risk.

In order to monitor specific risks, an Investment Committee, an Investment Monitoring Committee, a Credit Committee and a Finance Committee were established with the objectives of identifying risks, continuously assessing, quantifying and managing risk, setting prudent credit limits and introducing regular reporting to senior management. With the assistance of the committees, the Board determines the overall risk management policies for the Group.

(a) Investment Committee

The Board has established the Investment Committee to manage the Group's investments and financial commitments. The Investment Committee (i) reviews and proposes to the Board for approval of the investment policies and guidelines, including policies and guidelines regarding asset class, asset allocation ranges, prohibited investments, and proposes proprietary investment limits for the Committee and the Group's Chief Investment Manager; (ii) reviews and approves the proposed proprietary investments which are above the investment limits set on the Chief Investment Manager; and (iii) reviews the investment performance of the various investment decisions made by the Chief Investment Manager.

The committee consists of the Chief Investment Manager and one executive director. The committee meets as required.

(b) Investment Monitoring Committee

In order to monitor the Group's proprietary trading activities, the Board has established an Investment Monitoring Committee to oversee these activities. Within parameters set by the Board, the committee monitors the policies and the maximum limits for the Group's proprietary trading, financial commitments and investment activities.

The committee currently consists of the Chief Administrative Officer ("CAO"), who acts as the Chairman, the Head of Compliance, the Head of Operations and the Assistant Financial Controller. The committee meets on a monthly basis and reports to the Board through the Chairman on a quarterly basis.

(c) Credit Committee

The role of the Credit Committee is to establish the procedures and guidelines for granting credit to the Group's brokerage clients, assessing credit risk and setting credit limits.

The committee currently consists of, among others, an executive director, three SFO Responsible Officers and the deputy managing director from the Group's Brokerage Division, the Chief Financial Officer ("CFO"), the CAO and the Head of Operations. The committee usually meets once a month.

(d) Finance Committee

The role of the Finance Committee is to minimise the Group's exposure to the credit risk arising from the Group's general loan financing operations and to set out the internal policies and guidelines under which loans are to be assessed and properly authorised.

The committee consists of two executive directors. The committee meets when the need arises.

## Accountability and Audit

### FINANCIAL REPORTING

The Board acknowledges that it is its responsibility to prepare financial statements of the Company for each financial period which give a true and fair view of the state of affairs of the Company and ensure that financial statements are prepared in accordance with statutory and regulatory requirements and applicable accounting standards. The Board also ensures the timely publication of the financial statements of the Company.

The Board confirms that, to the best of its knowledge and, having made appropriate enquiries, it considers that the Company has adequate resources to continue in operational existence for the foreseeable future and has prepared the financial statements on a going concern basis accordingly. Despite the removal of the requirement of a designated qualified accountant in the Listing Rules effective 1 January 2009, the Board continues to maintain the services of a team of suitably qualified accountants to oversee the Group's financial reports and other accounting related matters.

### INTERNAL CONTROLS

The Board recognises that constant changes taking place in the business environment call for periodic reviews of the system of internal controls. Well-managed internal controls enable effective and efficient operations, ensure the reliability of internal and external reporting and assist in the compliance with applicable laws and regulations.

The Board recognises that it has overall responsibility for the Group's system of internal controls and for reviewing its effectiveness. Pursuant to the Group's framework, senior management is primarily responsible for designing and implementing the policies and procedures of internal controls, while the Board and the Audit Committee oversee the actions of senior management and monitor the effectiveness of the controls previously established.

The Company's internal audit function is performed by the Legal and Compliance Department ("L&C"), which reports to the CAO. L&C has unrestricted access to review all aspects of the Group's business activities. The CAO reports directly to the Chief Executive Officer and has direct access to the Chairman of the Audit Committee. The tasks of L&C in respect of its internal audit functions include, (i) review and report on internal and operational controls, (ii) follow-up on the suggestions made by external auditors, (iii) ongoing monitoring and reviews on different operating cycles in the financial and brokerage industry, and (iv) special review of areas of concern identified by senior management. Throughout the financial year, L&C continually monitors various operational aspects of the Group's business activities and issues monthly compliance reports to senior management covering those activities.

All staff, including all executive directors, are subject to the provisions set out in the Company's Staff Handbook and Compliance Manual (collectively, the "Company Manuals"). The Company Manuals clearly set out the policies and procedures which apply to the Group's businesses and places staff under specific obligations as to duty, ethics, integrity and principles under which our businesses operate. Each core business division has its own operating manual which specifically outlines the respective division's operating procedures. Failure to comply with the policies and procedures as set out in the Company Manuals and/or the division operating manuals may result in disciplinary action, including dismissal from employment.

As previously noted, the Board has established the Investment Committee and the Investment Monitoring Committee to manage and monitor the Group's investments and financial commitments. Senior management, including two executive directors, the CFO and the CAO meet on a monthly basis to review detailed financial accounts of each material business division.

The CAO reviews and monitors the effectiveness of the Group's internal controls and reports its findings to the Audit Committee. However, internal controls can only provide reasonable, but not absolute, assurance against errors or deliberate attempts to defraud the Company. The Audit Committee reviews the findings and opinions of the CAO and holds discussions with the auditors in relation to the audit of the Group's financial statements and reports to the Board on such review. The Board has, through L&C and the Audit Committee, conducted a review of the effectiveness of material aspects of the Group's internal control system. Improvements to the system of internal controls have been identified and appropriate measures have been taken. Taking into the consideration of the review of the Audit Committee, the Board considered that there were no material weaknesses in the Group's internal control system that should be brought to the shareholders' attention.

### EXTERNAL AUDITORS

During the financial year and up to the date of this report, fees for auditing services and non-auditing services (including interim review, computer audit and report of agreed-upon procedures on on-going connected transactions) provided by the existing external auditor, Deloitte Touche Tohmatsu, for the year ended 30 June 2011 are HK$1,235,000 and HK$467,000 respectively.

## Risk Management

The Group's business, financial conditions and results of operations may be affected by risks and uncertainties pertaining to the Group's business. The factors explained below could cause the Group's financial condition or results of operations to differ materially from expected or historical results. There may be other risks in addition to those mentioned below that are unknown to the Group, or which may not be material now but could be material in the future.

### OPERATIONAL RISK AND INTEREST RATE RISK

The Group's results are affected by trends in the industry in which it operates, particularly, investment, brokerage, corporate finance and capital markets. Income from these operations is dependent upon interest rates, conditions in global investment and money markets and therefore there can be no assurance that changes in these conditions will not adversely affect the Group's financial conditions and results of operations.

### MARKET RISK

The Group operates in highly competitive and rapidly changeable markets. New market entrants, the intensification of price competition by existing competitors, product innovation or technical advancement could adversely affect the Group's financial conditions and result of operations. When the price of securities (listed or unlisted) decrease, it will adversely affect the value of our investment portfolio.

### CREDIT RISK

Credit risk arises from a number of areas. These include the possibility that a counter-party in a transaction may default during the settlement process. It also arises from lending, settlement, treasury, market making, proprietary trading, and other activities undertaken by the Group.

The Group's Finance and Credit Committees are responsible for establishing credit approval and monitoring procedures, which are in accordance with sound business practices, the requirements and provisions of the relevant ordinances, and where applicable, the codes or guidelines issued by the Securities and Futures Commission ("SFC").

Day-to-day credit management is performed by the Operations Department with reference to the aforementioned criteria including creditworthiness, collateral pledged, and risk concentration of the counter-parties. The Finance Committee and Credit Committee are responsible for review of guidelines on credit limits on a regular basis and approval of specific loans or advances if the amount exceeds our pre-set guideline.

### FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk to the Group's financial conditions and results of operations arising from movements of foreign exchange rates. The Group's foreign exchange risk primarily arises from currency exposures originating from its proprietary investments. Foreign exchange rates fluctuate in reaction to the macro-economic performances of different countries and fund flows between countries arising from trade or capital movements.

### IMPACT OF NEW LEGISLATION

The introduction of new legislation and rules by the Stock Exchange, SFC and other regulatory bodies in Hong Kong and overseas may induce change in market conditions that may adversely affect the operating results of the Company.

### POLICIES AND PROCEDURES

The Group has established policies and procedures for risk management which are reviewed regularly by the management to ensure the proper monitoring and control of all major risks arising from the Group's activities at all times. The Group's L&C together with Finance and Accounts Department and other control committees also perform regular reviews to supplement the various internal control measures adopted by the management and various divisions within the Group to ensure compliance with policies and procedures.

## Communication with Shareholders

The Board recognises the importance of good communication with shareholders. Information in relation to the Group is disseminated to shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars.

The general meetings of the Company provide a forum for exchange of views between the shareholders and the Board. The Chairman of the Board, the directors and senior management of the Company and where applicable, the independent non-executive directors, are available to answer questions at the shareholders' meeting.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors. Poll voting was adopted for all decisions to be made at all general meetings, in compliance with the 2009 amendments to the Listing Rules. Details of the poll voting procedures are included in all circulars to shareholders which call for a general meeting and are explained during the proceedings of the meeting.

The Company continues to enhance communications and relationships with its shareholders. Enquiries from shareholders are dealt with in an informative and timely manner.

To promote effective communication, the Company also maintains a website at www.kingswaygroup.com, where information and updates on the Group's business developments and operations and other information are posted, including all the regulatory announcements relating to the Company and the poll results on the business day following the shareholders' meeting (if any).

# Biographical Details of Directors and Senior Management

## CHAIRMAN

**Dr Jonathan Koon Shum Choi**, BBS, JP, aged 54, is the Chairman of the Group. He has been responsible for the overall strategic planning of the Group since 1995. Dr Choi is also Chairman of Sunwah International Limited, the parent company of the Company and a substantial shareholder of the Company pursuant to Part XV of the Securities and Futures Ordinance ("SFO"). Concurrently Dr Choi is the Chairman of the Sun Wah Group.

Apart from being a Member of the National Committee of the Chinese People's Political Consultative Conference of the People's Republic of China (the "PRC"), Dr Choi also holds a number of public positions which include the Chairman of the Hong Kong Chinese General Chamber of Commerce, an Economic Advisor to the President of the Chinese Academy of Sciences, PRC, a Council Member of the Hong Kong Trade Development Council, the Chairman of the Hong Kong-Vietnam Chamber of Commerce, the Chairman of the China-India Software Association, and the Chairman of China Hong Kong Israel Technology Center. Dr Choi is a Court/Council Member of a number of universities including United College of the Chinese University of Hong Kong, the Hong Kong University of Science and Technology, the Hong Kong Polytechnic University, the Fudan University, the Nanjing University and the Northeastern University in Liaoning. Dr Choi has extensive experience in the financial services business, food industry, real estate development, international trade, and technology. Dr Choi is the spouse of Ms Janice Wing Kum Kwan and elder brother of Mr Michael Koon Ming Choi. Since the end of the 2010/2011 Interim Period, Dr Choi has been appointed an Independent-Non-Executive Director of Hui Xian Asset Management Limited, the Manager of HK-listed Hui Xian Real Estate Investment Trust.

## EXECUTIVE DIRECTORS

**Ms Mary Yuk Sin Lam**, aged 57, was re-appointed as an Executive Director and appointed as Deputy Chairman of the Company in April 2006. She is also a director of a number of the Company's subsidiaries. Prior to her appointments, Ms Lam was the Group Managing Director-Brokerage of Kingsway Financial Services Group Limited ("KSFGL"). Currently Ms Lam is a Securities and Futures Commission ("SFC") licensed representative of KFSGL. Prior to joining the Group in 1995, Ms Lam had over 12 years of experience in securities dealing with various securities houses. Ms Lam is also a member of the Hong Kong Securities Institute. Ms Lam is a director of Sunwah International Limited, the parent company of the Company.

**Mr Michael Koon Ming Choi**, aged 43, is the Chief Executive Officer and an Executive Director of the Company. He is also a director of a number of the Company's subsidiaries. Mr Choi has extensive experience in the financing activities of corporate and property mortgage, real estate development and property investment prior to joining the Group in 1995. Mr Choi is a director of Sunwah International Limited, the parent company of the Company and a substantial shareholder of the Company pursuant to Part XV of the SFO. Mr Choi is the brother of Dr Jonathan Koon Shum Choi and the brother-in-law of Ms Janice Wing Kum Kwan.

## NON-EXECUTIVE DIRECTORS

**Dr Lee G. LAM**, aged 52, was appointed as a Non-Executive Director of the Company on 1 February 2007. He holds a Bachelor of Science in Mathematics and Sciences, a Master of Science in Systems Science, and a Master of Business Administration, all from the University of Ottawa in Canada, a Post-graduate Diploma in Public Administration from Carleton University in Canada, a Post-graduate Diploma in English and Hong Kong Law and a Bachelor of Law (Hons) from Manchester Metropolitan University in the U.K., a PCLL in law from the City University of Hong Kong, a Certificate in Professional Accountancy from the Chinese University of Hong Kong SCS, a Master of Law from the University of Wolverhampton in the U.K., and a Doctor of Philosophy from the University of Hong Kong. Dr Lam has over 29 years of multinational general management, strategy consulting, corporate governance, investment banking, and direct investment experience. He is Chairman of Monte Jade Science and Technology Association of Hong Kong, and serves as an independent or non-executive director of several publicly-listed companies in the Asia Pacific region. Having served as a Part-time Member of the Central Policy Unit of the Government of the Hong Kong Special Administrative Region for two terms, Dr Lam is a Member of the Jilin Province Committee of the Chinese People's Political Consultative Conference (and formerly a Specially-invited Member of the Zhejiang Province Committee), a Member of the Hong Kong Institute of Bankers, a Board Member of the East-West Center Foundation, a Member of the Young Presidents' Organisation, a Member of the Chief Executives Organisation, a Fellow of the Hong Kong Institute of Directors, a Fellow of the Hong Kong Institute of Arbitrators, a Member of the General Committee and the Corporate Governance Committee of the Chamber of Hong Kong Listed Companies, a Vice President of the Hong Kong Real Estate Association, a founding Board Member and the Honorary Treasurer of the Hong Kong–Vietnam Chamber of Commerce, and a visiting professor (in the subjects of corporate governance and investment banking) at the School of Economics & Management of Tsinghua University in Beijing. Since the end of the 2010/2011 Interim Period, Dr Lam has been appointed an Independent Non-Executive Director of TMC Life Science Berhad.

**Ms Janice Wing Kum Kwan**, aged 54, was appointed as Non-Executive Director of the Company with effect from 1 February 2011. Ms Kwan holds a bachelor degree of Law and Postgraduate Certificate in Laws awarded by the University of Hong Kong. She was admitted as a solicitor in Hong Kong in 1982 and has been in private practice since then. She also worked as an inhouse lawyer heading the legal department of an international bank and a listed company respectively during the period from 1986 to 1990. Now she is a consultant to Rowland Chow, Chan & Co., Solicitors & Notaries. Ms Kwan was also qualified as a solicitor in England and Wales, as an advocate in Singapore and as a barrister & solicitor in Victoria, Australia. She has been a China Attesting Officer appointed by the PRC government since 1993. She is specialised and experienced in intellectual property protection, transactions and litigation and has extensive experience in commercial, banking and conveyancing as well. She was the President of the Hong Kong Federation of Women Lawyers and is a Council member of the Federation till now.

Ms Kwan is a member of the Henan Committee of the Chinese People's Political Consultative Conference. She has been appointed by the HKSAR government to sit on various boards and panels including Committee on The Promotion of Civic Education, Board of Review (Inland Revenue Ordinance), Pensions Assessment Board, Employee's Compensation Insurance Levies Management Board and Committee on Employment Services of the Labour Department, etc. and Ms Kwan was awarded the Medal of Honour (MH) by the HKSAR in 2009. Ms Kwan is the spouse of Dr Jonathan Koon Shum Choi and sister-in-law of Mr Michael Koon Ming Choi.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr Robert Tsai To Sze**, aged 70, was appointed as an Independent Non-Executive Director in 2000. Mr Sze had worked in Price Waterhouse (now known as PricewaterhouseCoopers) Hong Kong for 25 years where he had been a partner for over 22 years. Mr Sze is a fellow member of The Institute of Chartered Accountants in England & Wales and a fellow member of the Hong Kong Institute of Certified Public Accountants. He is an independent non-executive director of a number of Hong Kong listed companies, Asia Satellite Telecommunications Holdings Limited, China Travel International Investment Hong Kong Limited, Dah Sing Banking Group Limited, Dah Sing Financial Holdings Limited, Hop Hing Group Holdings Limited, Min Xin Holdings Limited, QPL International Holdings Limited and Nanyang Holdings Limited.

**Mr Stanley Kam Chuen Ko**, aged 65, was appointed as an Independent Non-Executive Director in September 2004. Mr Ko has extensive experience and network in both Hong Kong and the PRC and he also serves actively in the Hong Kong community including being an Executive Committee Member of the Hong Kong Coalition of Service Industries where he was the former Chairman, a Director of The Link Management Limited and China National Aviation Corporation (Group) Ltd. Mr Ko is the Chairman of LARK International Holdings Limited and Jardine Airport Services Ltd.

**Mr Michael Wai Chung Wu**, aged 62, was appointed as an Independent Non-Executive Director in 2000 and was subsequently appointed as an Executive Director of the Company in December 2002. In January 2005 Mr Wu was re-designated as a Non-Executive Director. In January 2007 Mr Wu was further re-designated as an Independent Non-Executive Director. Mr Wu was formerly the Deputy Chairman of the Shanghai Stock Exchange and a Commissioner in the Strategy & Development Committee of the China Securities Regulatory Commission in the PRC. Prior to that, he was the Deputy Chairman, Chief Operating Officer and Executive Director of the SFC responsible for the Intermediaries Division, comprising the Licensing and Intermediaries Supervision Departments until his departure on 31st December 1997. Mr Wu is currently the CEO and the executive director of Tradelink Electronic Commerce Limited and an independent non-executive director of Shenzhen Investment Limited.

## CHIEF FINANCIAL OFFICER

**Mr Eric Kwok Keung Chan**, aged 48, was appointed as Chief Financial Officer (CFO) in April 2004 and is a director of a number of the Company's subsidiaries. Mr Chan is responsible for overseeing the Group's financial operations. Mr Chan is a fellow of the Association of Chartered Certified Accountants (UK) and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr Chan is also a member of the Hong Kong Securities Institute and a Certified International Investment Analyst. Mr Chan offers significant assurance and business advisory experience gained from working with the Hong Kong and Boston offices of PricewaterhouseCoopers for 14 years. Mr Chan joined the Group from his responsibilities as CFO and Company Secretary of a Hong Kong listed company with operations in nine countries and annual turnover of over HK$6 billion.

## CHIEF ADMINISTRATIVE OFFICER AND COMPANY SECRETARY

**Mr Vincent Wai Shun Lai**, aged 50, was appointed as the Company Secretary in November 2004 and is a director of a number of the Company's subsidiaries. Mr Lai is also the Chief Administrative Officer of the Company. Mr Lai is a qualified solicitor of the High Court of the Hong Kong Special Administrative Region and an Attorney at Law of the State of New York, USA. Immediately prior to joining the Company, Mr Lai worked in an international law firm that specialises in corporate finance, where he focused on listing and compliance matters involving various stock exchanges and regulators. Mr Lai holds a Juris Doctor degree from Union University-Albany Law School and a Bachelor of Science degree from the State University of New York at Albany. Mr Lai began his legal career as an Assistant District Attorney in the New York County District Attorney's office.

# Report of the Directors

The directors hereby submit their report together with the audited consolidated financial statements of Sunwah Kingsway Capital Holdings Limited (formerly known as SW Kingsway Capital Holdings Limited) for the year ended 30 June 2011.

## Principal activities

The principal activity of the Company is investment holding. The principal activities and other particulars of significant subsidiaries are set out in note 34 to the consolidated financial statements.

The analysis of the principal activities of the Group are set out in note 7 to the consolidated financial statements.

## Results and appropriations

The profit of the Group for the year ended 30 June 2011 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 32 to 90.

An interim dividend for the year ended 30 June 2011 of 0.33 HK cent per ordinary share was paid on 16 March 2011. The directors propose, subject to the approval of the shareholders at the forthcoming Annual General Meeting, the payment of a final dividend of 0.7 HK cent per ordinary share for the year.

## Five years financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 91 of the annual report.

## Reserves

Movements in the reserves of the Group during the year are set out in consolidated statement of changes in equity on the consolidated financial statements.

## Donations

Charitable and other donations made by the Group during the year amounted to HK$143,020 (2010: HK$65,759).

## Properties and equipment

Movements in properties and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

## Share capital

Details of the Company's share capital are set out in note 28 to the consolidated financial statements. During the year, the Company issued new shares and warrants through two shares placing and warrants placing transactions, details of which are set out in note 28 to the consolidated financial statements. The directors considered that the placing transactions represented good opportunities to raise addition funds to the Company while broadening the shareholders and capital base of the Company.

## Distributable reserves

The Company's reserves available for distribution to shareholders as at 30 June 2011 consisted of contributed surplus of HK$176,492,129 (2010: HK$199,229,696) and retained profits of HK$30,899,367 (2010: HK$48,422,963).

## Share options

Details of the share options granted by the Company are disclosed below pursuant to the requirements under Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"):

### (a) INFORMATION OF THE SHARE OPTION SCHEME

Details of the share option scheme (the "Scheme") approved by the shareholders of the Company on 10 November 2010, which became unconditional upon listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), are summarised as follows:

| | | | |
|---|---|---|---|
| (i) | Purpose of the Scheme | : | To provide incentives or rewards to Participants for their contribution to the Group and/or to enable the Group to recruit and retain high calibre employees and attract human resources that are valuable to the Group. |
| (ii) | Participants of the Scheme | : | (a) any full-time or part-time employee of any member of the Group; (b) any consultant or advisor of any member of the Group; (c) any director (including executive, non-executive or independent non-executive directors) of any member of the Group; (d) any substantial shareholder of the Group; or (e) any distributor, contractor, supplier, agent, customer, business partner or service provider of any member of the Group, to be determined absolutely by the Board. |
| (iii) | Maximum number of shares available for subscription | : | The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company adopted by the Group must not, in aggregate, exceed 10 per cent. of the shares in issue on the date of approval of the Scheme. |
| (iv) | Total number of shares available for issue under the Scheme | : | As at the date of this report, 225,822,390 shares (representing 6.13% of total issued share capital) are available for issue under the Scheme. |
| (v) | Maximum entitlement of each participant under the Scheme | : | Not more than 1% of the shares in issue in any 12-month period. |
| (vi) | Minimum period for which an option must be held before it can be exercised and the exercise period of the option | : | An option may be exercised in accordance with the terms of the Scheme at any time during a period as the Board may determine which will not be more than ten years from the date of grant of the option provided that only up to one-third of the option, can be exercised in any 12-month period. The Board may provide restrictions on the exercise of an option during the period an option may be exercised including, if appropriate, a minimum period for which an option must be held or a performance target which must be achieved before an option can be exercised. The minimum holding period and performance targets, if any, will be determined by the board at its absolute discretion on a case by case basis upon the grant of the relevant option and stated in the offer of grant of the option. |
| (vii) | Amount payable on acceptance of the option and the period within which payment must be made | : | Nominal amount of HK$1 upon acceptance of the option which must be within 28 days from the offer date. |

## Share options (Continued)

**(a) INFORMATION OF THE SHARE OPTION SCHEME (Continued)**

| | | |
|---|---|---|
| (viii) Basis of determining the exercise price | : | the exercise price of a share in respect of any particular option granted under the Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a business day; (ii) the average closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of a share on the date of grant of the option. |
| (ix) Remaining life of the Scheme | : | The Scheme will be expired on 9 November 2020. |

Note: For details of options granted to individual directors, please refer to the section "Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation" on page 23.

## Directors

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

**CHAIRMAN**
Jonathan Koon Shum Choi

**EXECUTIVE DIRECTORS**
Mary Yuk Sin Lam (Deputy Chairman)
Michael Koon Ming Choi (Chief Executive Officer)
William Wai Leung Wu (resigned on 30 September 2010)

**NON-EXECUTIVE DIRECTORS**
Janice Wing Kum Kwan (appointed on 1 February 2011)
Lee G. Lam
Rebecca Yuk Fung Lau (retired on 10 November 2010)

**INDEPENDENT NON-EXECUTIVE DIRECTORS**
Robert Tsai To Sze
Stanley Kam Chuen Ko
Michael Wai Chung Wu

The Company has received annual confirmations of independence from Mr Robert Tsai To Sze, Mr Stanley Kam Chuen Ko and Mr Michael Wai Chung Wu and as at the date of this report, still considers them to be independent.

## Biographical details of directors and senior management

Biographical details of directors and senior management are set out on pages 17 to 19.

## Directors' service contracts

No director proposed for re-election at the forthcoming Annual General Meeting has entered into any service agreements with any member of the Group which is not determinable within one year without payment of compensation, other than statutory compensation.

## Directors' interests in contracts

No contract of significance to which the Company, any of its holding companies, subsidiaries or fellow subsidiaries, was a party and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

## Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation

As at 30 June 2011, the interests and/or short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV the Hong Kong Securities and Futures Ordinance ("SFO")), as recorded in the register maintained under Section 352 of the SFO or as notified to the Company were as follows:

**(I) INTEREST IN LONG POSITIONS OF ORDINARY SHARES OF THE COMPANY**

| Name of director | Type of interest | **Number of ordinary shares in the Company | **% of total issued shares |
|---|---|---:|---:|
| Dr Jonathan Koon Shum Choi* | Corporate | 2,413,181,327 | 65.56% |
| Ms Mary Yuk Sin Lam | Personal | 7,500,000 | 0.20% |
| Mr Michael Wai Chung Wu | Personal | 2,514,000 | 0.07% |
| Mr Stanley Kam Chuen Ko | Personal | 1,200,000 | 0.03% |

* Dr Jonathan Koon Shum Choi is deemed to be interested in 2,413,181,327 ordinary shares by virtue of the SFO. Such interest in shares is also set out under the section "Substantial shareholders' interests and short positions in the shares and underlying shares of the Company" shown on page 27.

** Excludes interest in share options to acquire ordinary shares of the Company which is disclosed in section (IV) below.

## Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (Continued)

### (II) INTEREST IN LONG POSITIONS OF COMMON SHARES OF SUNWAH INTERNATIONAL LIMITED ("SIL"), THE ULTIMATE HOLDING COMPANY OF THE COMPANY

| Name of director | Personal interest | Corporate interest | Other interest | *Total number of common shares | *% of total issued shares |
|---|---|---|---|---|---|
| Dr Jonathan Koon Shum Choi ** | 10,653,096 | 51,044,214 *(Note 1)* | – | 61,697,310 | 66.8% |
| Ms Mary Yuk Sin Lam | 3,301,098 | – | 12,915,060 *(Note 2)* | 16,216,158 | 17.6% |
| Mr Michael Koon Ming Choi | 106,937 | – | – | 106,937 | 0.1% |
| Mr Stanley Kam Chuen Ko | 20,400 | – | – | 20,400 | <0.1% |

* Excludes interest in share options and convertible unsecured debentures to acquire common shares of SIL which are disclosed in section (V) and (VI), respectively.

** By virtue of his interest in SIL, Dr Jonathan Koon Shum Choi is deemed to be interested in the shares of the subsidiaries (including the Company as disclosed in section (I) above) of SIL under the SFO.

Notes:

(1) Of these, 36,966,159 shares are held by Sun Wah Capital Limited. Dr Jonathan Koon Shum Choi is deemed to be interested in these shares as he is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of Sun Wah Capital Limited.

The remaining 14,078,055 shares are held by Scarlet Red Limited. Dr Jonathan Koon Shum Choi is deemed to be interested in these shares as he is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of Scarlet Red Limited.

(2) Of these, 10,515,060 shares are held by Dynasty International Holdings Limited which is a wholly owned subsidiary of Global Fame Limited. Global Fame Limited is wholly owned by The WKC Lam Family Trust which is a discretionary trust with Ms Mary Yuk Sin Lam's two children as the beneficiaries. Ms Lam is a trustee of The WKC Lam Family Trust.

Of these, 2,400,000 shares are held by Abundant World Limited. Abundant World Limited is wholly owned by The Mary Lam Family Trust which is a discretionary trust with Ms Mary Yuk Sin Lam and her two children as the beneficiaries.

### (III) INTEREST IN LONG POSITIONS OF ORDINARY SHARES OF HK WEAVER GROUP LIMITED, A FELLOW SUBSIDIARY OF THE COMPANY

| Name of director | Type of interest | Number of ordinary shares | % of total issued shares |
|---|---|---|---|
| Ms Mary Yuk Sin Lam | Personal | 28,518 | 2.2% |
| Ms Mary Yuk Sin Lam | Other | 59,620 | 4.6% |
| Mr Michael Wai Chung Wu | Personal | 39,474 | 3.0% |

## Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (Continued)

### (IV) INTEREST IN SHARE OPTIONS TO ACQUIRE ORDINARY SHARES OF THE COMPANY

Pursuant to the new share option scheme adopted by the Company on 10 November 2010, the details of the Company's directors' and chief executive's interest in the options under the scheme as at 30 June 2011 are as follows:

| Name of director | Exercise Period | Date of options granted | Exercise price per share | At 1 July 2010 | Issued during the year | At 30 June 2011 |
|---|---|---|---|---|---|---|
| Dr Jonathan Koon Shum Choi* | 11/1/2011 to 10/1/2014 | 11/1/2011 | HK$0.345 | – | 30,000,000 | 30,000,000 |
| Mr Michael Koon Ming Choi** | 11/1/2011 to 10/1/2014 | 11/1/2011 | HK$0.345 | – | 30,000,000 | 30,000,000 |
| Ms Mary Yuk Sin Lam*** | 11/1/2011 to 10/1/2014 | 11/1/2011 | HK$0.345 | – | 10,000,000 | 10,000,000 |

* After the exercise of the options, Dr Jonathan Koon Shum Choi is deemed beneficial control a total of 2,443,181,327 shares.

** After the exercise of the options, Mr Michael Koon Ming Choi is deemed beneficial control a total of 30,000,000 shares.

*** After the exercise of the options, Ms Mary Yuk Sin Lam is deemed beneficial control a total of 17,500,000 shares.

### (V) INTEREST IN SHARE OPTIONS TO ACQUIRE COMMON SHARES OF SIL

Pursuant to the share option scheme operated by SIL, the details of the Company's directors' and chief executive's interest in the options under the scheme are as follows:

| Name of director | Exercise Period | Date of options granted | Exercise price per share | At 1 July 2010 | Issued during the year | At 30 June 2011 |
|---|---|---|---|---|---|---|
| Dr Jonathan Koon Shum Choi* | 15/12/2010 to 15/12/2015 | 15/12/2010 | C$0.55 | – | 3,000,000 | 3,000,000# |
| Mr Michael Koon Ming Choi** | 15/12/2010 to 15/12/2015 | 15/12/2010 | C$0.55 | – | 3,000,000 | 3,000,000# |
| Ms Mary Yuk Sin Lam*** | 15/12/2010 to 15/12/2015 | 15/12/2010 | C$0.55 | – | 200,000 | 200,000# |

* After the exercise of the options, Dr Jonathan Koon Shum Choi is deemed beneficial control a total of 64,697,310 shares.

** After the exercise of the options, Mr Michael Koon Ming Choi is deemed beneficial control a total of 3,106,937 shares.

*** After the exercise of the options, Ms Mary Yuk Sin Lam is deemed beneficial control a total of 16,416,158 shares.

\# On 19 September 2011, 1,722,250 options were cancelled, of which 833,350 was originally granted to Dr Jonathan Koon Shum Choi, 833,350 was originally granted to Mr Michael Koon Ming Choi and 55,550 was originally granted to Ms Mary Yuk Sin Lam.

## Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (Continued)

### (VI) INTEREST IN CONVERTIBLE UNSECURED DEBENTURES TO ACQUIRE COMMON SHARES OF SIL

| Name of director | Type of interest | Principal amount of debentures | Number of underlying shares | Note |
|---|---|---|---|---|
| Dr Jonathan Koon Shum Choi* | Corporate | C$4,500,000 | 8,181,818 | (a) |
| Mr Michael Koon Ming Choi** | Corporate | C$1,500,000 | 2,727,273 | (a) |

* The debentures are held by Sun Wah Capital Limited. Dr Jonathan Koon Shum Choi is deemed to be interested in these debentures as he is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of Sun Wah Capital Limited. After the conversion of the debentures, Dr Jonathan Koon Shum Choi is deemed beneficial control a total of 69,879,128 shares. After the exercise of the share options and the conversion of the debentures, Dr Jonathan Koon Shum Choi is deemed beneficial control a total of 72,879,128 shares.

** The debentures are held by Ideal Performance Limited, a company wholly owned by Mr Michael Koon Ming Choi who is deemed to be interested in these debentures. After the conversion of the debentures, Mr Michael Koon Ming Choi is deemed beneficial control a total of 2,834,210 shares. After the exercise of the share options and the conversion of the debentures, Mr Michael Koon Ming Choi is deemed beneficial control a total of 5,834,210 shares.

Note:

(a) The debentures originally bore interest at the rate of 9% per annum payable semi-annually, matured on 19 September 2011 and were convertible into common shares of SIL at any time prior to the close of business on the earlier of maturity and the business day immediately preceding the date fixed for redemption at a conversion price of C$0.80 per share. Subsequent to the amendments to the terms of the debentures dated 31 December 2010, the interest rate of the debentures was adjusted to 1% per annum payable semi-annually and the maturity date of debentures was extended until 19 September 2013. The conversion price of the debentures was adjusted to C$0.55 per share and resulted in an increase in the number of underlying shares on the conversion of the debentures for Dr Jonathan Koon Shum Choi and Mr Michael Koon Ming Choi from 5,625,000 shares to 8,181,818 shares and from 1,875,000 shares to 2,727,273 shares respectively.

Save as disclosed above, none of the directors and chief executive of the Company or any of their spouses or children under 18 years of age has interests or short positions in the shares, underlying shares or debentures of the Company and associated corporations as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Save as disclosed above, as at 30 June 2011, none of the directors and chief executive of the Company had any interests or short positions in the shares of the Company and its associated corporations as defined in the SFO, and none of the directors and chief executive of the Company or any of their spouses or children under 18 years of age had been granted any rights to subscribe for the shares of the Company, or had exercised any such rights during the year.

Save as disclosed above, at no time during the year was the Company or any of its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors or chief executive of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or any other body corporate.

## Substantial shareholders' interests and short positions in the shares and underlying shares of the Company

As at 30 June 2011, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests represent long positions in the shares of the Company.

| | | | Number of ordinary shares in the Company | | % of total issued shares | |
|---|---|---|---|---|---|---|
| | Name of shareholder | Country of incorporation | Direct interest | Deemed interest | | Notes |
| (1) | World Developments Limited | British Virgin Islands | 2,413,181,327 | – | 65.56% | (a) |
| (2) | Innovation Assets Limited | British Virgin Islands | – | 2,413,181,327 | 65.56% | (a) |
| (3) | SIL | Bermuda | – | 2,413,181,327 | 65.56% | (a) |
| (4) | Sun Wah Capital Limited | British Virgin Islands | – | 2,413,181,327 | 65.56% | (a) |
| (5) | Ideal Trade Investments Limited | British Virgin Islands | 364,640,884 | – | 9.9% | (b) |

Notes:

(a) These shares represent the same interest and are therefore duplicated amongst World Developments Limited, Innovation Assets Limited, SIL and Sun Wah Capital Limited. World Developments Limited is a wholly owned subsidiary of Innovation Assets Limited whose entire issued share capital is beneficially owned by SIL. Sun Wah Capital Limited beneficially owns approximately 40% of the issued share capital of SIL and therefore is deemed (by virtue of the SFO) to be interested in these 2,413,181,327 shares. Dr Jonathan Koon Shum Choi and his spouse, Ms Janice Wing Kum Kwan, beneficially owns or has control of more than one-third of the issued share capital of SIL and Sun Wah Capital Limited respectively and therefore is deemed (by virtue of the SFO) to be interested in these 2,413,181,327 shares.

(b) These shares represent the consideration shares to be issued to Ideal Trade Investments Limited upon completion pursuant to the conditional sale and purchase agreement entered into between Best Advisory Investments Limited, an indirect wholly-owned subsidiary of the Company, and Ideal Trade Investments Limited on 30 March 2011 relating to the sale and purchase of 10% of the entire issued share capital of VinaCapital Group Limited. Ms Choi Siu Ping is the sole shareholder of Ideal Trade Investments Limited and therefore is deemed (by virtue of the SFO) to be interested in these 364,640,884 shares.

Save as disclosed above, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had not been notified of any substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

## Management contracts

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

## Purchase, sale or redemption of shares

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

## Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's Bye-Laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## Major customers and suppliers

During the year, the Group earned less than 30% of its turnover from its 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.

## Related party and connected party transactions

Significant related party and connected party transactions entered into by the Group during the year are disclosed in note 33 to the consolidated financial statements.

Details of those transactions which also constitute connected transactions and are required to be disclosed under Chapter 14A of the Listing Rules are as follows:

(a) Security transactions between Kingsway Financial Services Group Limited ("Kingsway Financial") and each of the directors of the Group and their respective associates (the "Security Transactions")

Brokerage commission was received from the Group's directors and their respective associates in the ordinary course of the Group's business of dealing in securities, options, futures and commodities. Commission rates are set at the same level as those normally offered to third party clients or the applicable staff rate if the clients are directors or employees of the Group. The total brokerage commission received by the Group from any one director and their respective associates was less than HK$1 million.

(b) Margin financing transactions between Kingsway Financial, and each of the directors of the Group and their respective associates (the "Margin Financing Transactions")

Total loans for the purpose of subscribing to initial public offer of securities granted to any Group's director and their respective associates are less than HK$10 million. During the year, a director and an associate of a director were granted loans for subscribing initial public offers and the loan amounts exceeded HK$1 million. The maximum loan amount granted to the director and the respective associate was HK$10,000,000 and the interest received by the Group amounted to HK$3,112. The interest rates are set at the same level as those normally offered to third party clients or the applicable staff rate if the clients are directors or employees of the Group.

(c) Master services agreement between Kingsway Group Services Limited, Billion On Development Limited and Sunwah International Financial Services Limited (the "Master Services Transactions")

Sunwah International Financial Services Limited is a fellow subsidiary of the Group. Kingsway Group Services Limited and Billion On Development Limited entered into a master services agreement with Sunwah International Financial Services Limited to provide services on provision of office space, general cleaning, maintenance and upkeep of office space and administrative and accounting services on 1 June 2011. The master services agreement is in the ordinary course of business of the Group and on normal commercial terms and the terms are fair and reasonable. Total amounts received for the year ended 30 June 2011 by the Group was HK$1,176,660 which did not exceed the Annual Cap of HK$2,000,000.

## Related party and connected party transactions (Continued)

The Securities Transactions, Margin Financing Transactions and Master Services Transactions are hereinafter referred to as the "Transactions". The independent non-executive directors have reviewed the Transactions as disclosed above and confirmed that:

(1) the Transactions are:

  (i) entered into in the ordinary course of business of each of the companies of the Group;

  (ii) on normal commercial terms; and

  (iii) fair and reasonable so far as the shareholders of the Company are concerned.

(2) (i) the aggregate amount of the commission received by the Group in respect of the Securities Transactions for the year ended 30 June 2011 did not exceed HK$10 million;

  (ii) the aggregate amount of the loan granted and amount of interest charged by the Group in respect of the Margin Financing Transactions for the year ended 30 June 2011 did not exceed HK$10 million; and

  (iii) the aggregate amount of the services fee received by the Group in respect of the Master Services Transactions for the year ended 30 June 2011 did not exceed the Annual Cap for financial year ending 2011 of HK$2 million.

The auditors of the Company has reviewed the continuing connected transactions during the year as disclosed in note (c) above and reported the factual findings of these transactions:

(i) were approved by the board of directors of the Company; and

(ii) had been entered into in accordance with the agreements governing the transactions.

## Sufficiency of public float

According to the information that is publicly available to the Company and within the knowledge of the Board, the percentage of the Company's shares which are in the hands of the public exceeds 25% of the Company's total number of issued shares as at the date of this report, the latest practicable date to ascertain such information prior to the issue of this annual report.

## Corporate Governance

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 8 to 16.

## Directors' interest in competing business

Set out below is information disclosed pursuant to paragraph 8.10 of the Listing Rules:

(1) SIL and its subsidiaries, other than those in the Group ("Sunwah International Group"), are mainly engaged in direct and regional investments, the development, production and distribution of software products and the provision of technical services relating to the financial markets in Hong Kong and Asia Pacific countries, and the provision of other financial services in Australia and Canada. The Company has entered into a non-competition undertaking with SIL on 25 August 2000 ("the Sunwah International Undertaking"). According to the Sunwah International Undertaking, SIL shall not, and shall procure Sunwah International Group not to, among other things, engage in the provision of financial, advisory, stockbroking, financing, fund management and futures brokerage services relating to stocks and futures in Hong Kong. SIL has also undertaken not to, and will procure Sunwah International Group not to, apply for or obtain licenses to conduct such services in Hong Kong. In addition, investment in securities for the Group and the Sunwah International Group are performed independently from each other.

(2) The Company and Dr Jonathan Koon Shum Choi ("Dr Choi") entered into a non-competition undertaking ("the Choi's Undertaking") on 10 August 2000. According to the Choi's Undertaking, Dr Choi shall not, and shall procure the covenanters (as defined therein) not to, among other things, engage in the provision of financial, advisory, stockbroking, financing, fund management and futures broking services relating to stocks and futures in Hong Kong which may only be lawfully provided by a registered person (as defined therein) but excluding the provision of financial accommodation which does not fall within the definition of "Securities Margin Financing" for the purposes of the Hong Kong Securities Ordinance (which was repealed on 1 April 2003 and replaced by the SFO) in competition with the Group.

## Auditors

A resolution will be submitted to the forthcoming Annual General Meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

By order of the board

**Jonathan Koon Shum Choi**
*Chairman*

Hong Kong, 21 September 2011

# Independent Auditor's Report

**Independent auditor's report to the shareholders of Sunwah Kingsway Capital Holdings Limited (formerly known as SW Kingsway Capital Holdings Limited)**
*(Incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Sunwah Kingsway Capital Holdings Limited (formerly known as SW Kingsway Capital Holdings Limited) (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 32 to 90, which comprise the consolidated and Company's statements of financial position as at 30 June 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 consolidated financial statements.

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

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2011, 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 disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

21 September 2011

# Consolidated Income Statement

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

| | Notes | 2011 | 2010 |
|---|---|---|---|
| **Turnover** | | | |
| Net gain on disposal of financial assets/liabilities at fair value through profit or loss and remeasurement to fair value | 4 | $ 65,458,053 | $ 43,073,490 |
| Commission and fee income | 4 | 102,438,252 | 80,634,801 |
| Interest and dividend income | 4 | 13,446,975 | 7,390,646 |
| | | $ 181,343,280 | $ 131,098,937 |
| **Other income** | 5 | 4,680,823 | 863,910 |
| | | $ 186,024,103 | $ 131,962,847 |
| **Operating expenses** | | | |
| Commission expenses | | (17,080,923) | (20,346,221) |
| General and administrative expenses | | (121,360,275) | (95,766,052) |
| Finance costs | 6(a) | (421,030) | (804,658) |
| | | $ 47,161,875 | $ 15,045,916 |
| Loss on disposal of the disposal group | 8 | – | (957,115) |
| Impairment loss for the disposal group | 8 | – | (2,427,392) |
| Share of losses of associates | 17 | (437,670) | (170,016) |
| Share of losses of jointly controlled entities | | – | (1,074,716) |
| **Profit before tax** | 6 | $ 46,724,205 | $ 10,416,677 |
| Income tax (expense)/credit | 9(a) | (172,283) | 57,029 |
| **Profit for the year** | | $ 46,551,922 | $ 10,473,706 |
| **Attributable to:** | | | |
| Owners of the Company | 11 | $ 46,573,342 | $ 10,494,426 |
| Non-controlling interests | | (21,420) | (20,720) |
| **Profit for the year** | | $ 46,551,922 | $ 10,473,706 |
| **Basic earnings per share** | 13 | 1.3 cents | 0.3 cent |
| **Diluted earnings per share** | 13 | 1.3 cents | 0.3 cent |

# Consolidated Statement of Comprehensive Income

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

| | | 2011 | | 2010 |
|---|---|---|---|---|
| **Profit for the year** | **$** | **46,551,922** | $ | 10,473,706 |
| **Other comprehensive income/(expenses):** | | | | |
| Exchange differences arising on translation of financial statements of overseas subsidiaries | **$** | **(1,494,756)** | $ | (334,516) |
| Share of exchange differences arising on translation recognised by associates | | **30,632** | | (4,059) |
| Surplus on revaluation of land and buildings held for own use | | **7,348,004** | | 3,037,664 |
| Fair value changes on available-for-sale investments | | **1,781,299** | | – |
| **Other comprehensive income for the year** | **$** | **7,665,179** | $ | 2,699,089 |
| **Total comprehensive income for the year** | **$** | **54,217,101** | $ | 13,172,795 |
| **Total comprehensive income/(expenses) attributable to:** | | | | |
| Owners of the Company | **$** | **54,238,521** | $ | 13,193,515 |
| Non-controlling interests | | **(21,420)** | | (20,720) |
| **Total comprehensive income for the year** | **$** | **54,217,101** | $ | 13,172,795 |

# Consolidated Statement of Financial Position

*At 30 June 2011 (Expressed in Hong Kong dollars)*

| | Notes | 2011 | 2010 |
|---|---|---|---|
| **Non-current assets** | | | |
| Properties and equipment | 14 | **$ 32,748,874** | $ 26,955,547 |
| Intangible assets | 15 | **2,331,141** | 2,331,141 |
| Interests in associates | 17 | **30,709,686** | 31,116,724 |
| Available-for-sale investments | 18 | **25,645,747** | – |
| Other financial assets | 19 | **11,208,174** | 9,670,137 |
| | | **$ 102,643,622** | $ 70,073,549 |
| **Current assets** | | | |
| Available-for-sale investment | 18 | **$ 27,697,261** | $ – |
| Financial assets at fair value through profit or loss | 20 | **199,134,235** | 314,977,473 |
| Accounts, loans and other receivables | 21 | **310,616,354** | 274,063,690 |
| Amounts due from related companies | 22 | **–** | 17,804 |
| Cash and cash equivalents | 23 | **244,755,536** | 198,799,944 |
| | | **$ 782,203,386** | $ 787,858,911 |
| **Current liabilities** | | | |
| Accruals, accounts and other payables | 24 | **$ 196,769,638** | $ 296,383,976 |
| Bank loans | 25 | **–** | 757,938 |
| Obligations under finance leases | 26 | **55,569** | 629,492 |
| Current taxation | | **1,675,607** | 1,450,324 |
| | | **$ 198,500,814** | $ 299,221,730 |
| **Net current assets** | | **$ 583,702,572** | $ 488,637,181 |
| **Total assets less current liabilities** | | **$ 686,346,194** | $ 558,710,730 |
| **Non-current liabilities** | | | |
| Non-current bank loans | 25 | **$ –** | $ 3,275,788 |
| Non-current obligations under finance leases | 26 | **–** | 55,569 |
| Deferred tax liabilities | 27 | **252,199** | 305,199 |
| | | **$ 252,199** | $ 3,636,556 |
| **NET ASSETS** | | **$ 686,093,995** | $ 555,074,174 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 28 | **$ 368,104,391** | $ 324,822,391 |
| Reserves | | **317,851,435** | 230,092,194 |
| **Equity attributable to owners of the Company** | | **$ 685,955,826** | $ 554,914,585 |
| **Non-controlling interests** | | **138,169** | 159,589 |
| **TOTAL EQUITY** | | **$ 686,093,995** | $ 555,074,174 |

The consolidated financial statements on pages 32 to 90 were approved and authorised for issue by the Board of Directors on 21 September 2011 and signed on its behalf by:

**Mary Yuk Sin Lam**
*Director*

**Michael Koon Ming Choi**
*Director*

# Statement of Financial Position

*At 30 June 2011 (Expressed in Hong Kong dollars)*

| | Notes | 2011 | 2010 |
|---|---|---|---|
| **Non-current assets** | | | |
| Interests in subsidiaries | *16* | **$ 246,293,691** | $ 242,222,358 |
| Amount due from a subsidiary | *22* | **129,645,473** | 126,754,056 |
| | | **$ 375,939,164** | $ 368,976,414 |
| **Current assets** | | | |
| Prepayments and deposits | *21* | **$ 181,000** | $ 178,000 |
| Amounts due from subsidiaries | *22* | **188,517,301** | 154,957,230 |
| Cash and cash equivalents | | **109,051,689** | 80,773,058 |
| | | **$ 297,749,990** | $ 235,908,288 |
| **Current liabilities** | | | |
| Accruals, accounts and other payables | *24* | **$ 624,554** | $ 598,492 |
| **Net current assets** | | **$ 297,125,436** | $ 235,309,796 |
| **NET ASSETS** | | **$ 673,064,600** | $ 604,286,210 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | *28* | **$ 368,104,391** | $ 324,822,391 |
| Reserves | *30* | **304,960,209** | 279,463,819 |
| **TOTAL EQUITY** | | **$ 673,064,600** | $ 604,286,210 |

**Mary Yuk Sin Lam**
*Director*

**Michael Koon Ming Choi**
*Director*

# Consolidated Statement of Changes in Equity

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

| | Attributable to owners of the Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Special reserve | Capital reserve on consolidation | Share options reserve | Warrants reserve | Exchange reserve | Properties revaluation reserve | Investments revaluation reserve | Retained earnings | Total | Non-controlling interests | Total |
| At 1 July 2010 | $ 324,822,391 | $ 31,811,160 | $ 39,800,000 | $ 63,391,540 | $ – | $ – | $ (2,573,159) | $ 11,499,153 | $ – | $ 86,163,500 | $ 554,914,585 | $ 159,589 | $ 555,074,174 |
| Profit/(loss) for the year | $ – | $ – | $ – | $ – | $ – | $ – | $ – | $ – | $ – | $ 46,573,342 | $ 46,573,342 | $ (21,420) | $ 46,551,922 |
| Exchange differences arising on translation of financial statements of overseas subsidiaries | – | – | – | – | – | – | (1,494,756) | – | – | – | (1,494,756) | – | (1,494,756) |
| Share of exchange differences arising on translation recognised by associates | – | – | – | – | – | – | 30,632 | – | – | – | 30,632 | – | 30,632 |
| Surplus on revaluation of land and buildings held for own use | – | – | – | – | – | – | – | 7,348,004 | – | – | 7,348,004 | – | 7,348,004 |
| Fair value changes on available-for-sale investments | – | – | – | – | – | – | – | – | 1,781,299 | – | 1,781,299 | – | 1,781,299 |
| Total comprehensive income/(expenses) for the year | $ – | $ – | $ – | $ – | $ – | $ – | $ (1,464,124) | $ 7,348,004 | $ 1,781,299 | $ 46,573,342 | $ 54,238,521 | $ (21,420) | $ 54,217,101 |
| 2010 final dividend paid | $ – | $ – | $ – | $ – | $ – | $ – | $ – | $ – | $ – | $ (22,737,567) | $ (22,737,567) | $ – | $ (22,737,567) |
| 2011 Interim dividend paid | – | – | – | – | – | – | – | – | – | (12,147,445) | (12,147,445) | – | (12,147,445) |
| Shares issued | 43,282,000 | 62,462,758 | – | – | – | – | – | – | – | – | 105,744,758 | – | 105,744,758 |
| Warrants issued | – | – | – | – | – | 21,641 | – | – | – | – | 21,641 | – | 21,641 |
| Recognition of equity-settled share-based payments | – | – | – | – | 5,921,333 | – | – | – | – | – | 5,921,333 | – | 5,921,333 |
| At 30 June 2011 | $ 368,104,391 | $ 94,273,918 | $ 39,800,000 | $ 63,391,540 | $ 5,921,333 | $ 21,641 | $ (4,037,283) | $ 18,847,157 | $ 1,781,299 | $ 97,851,830 | $ 685,955,826 | $ 138,169 | $ 686,093,995 |
| At 1 July 2009 | $ 324,822,391 | $ 31,811,160 | $ 39,800,000 | $ 63,391,540 | $ – | $ – | $ (2,234,584) | $ 8,461,489 | $ – | $ 109,125,780 | $ 575,177,776 | $ 180,309 | $ 575,358,085 |
| Profit/(loss) for the year | $ – | $ – | $ – | $ – | $ – | $ – | $ – | $ – | $ – | $ 10,494,426 | $ 10,494,426 | $ (20,720) | $ 10,473,706 |
| Exchange differences arising on translation of financial statements of overseas subsidiaries | – | – | – | – | – | – | (334,516) | – | – | – | (334,516) | – | (334,516) |
| Share of exchange differences arising on translation recognised by associates | – | – | – | – | – | – | (4,059) | – | – | – | (4,059) | – | (4,059) |
| Surplus on revaluation of land and buildings held for own use | – | – | – | – | – | – | – | 3,037,664 | – | – | 3,037,664 | – | 3,037,664 |
| Total comprehensive income/(expenses) for the year | $ – | $ – | $ – | $ – | $ – | $ – | $ (338,575) | $ 3,037,664 | $ – | $ 10,494,426 | $ 13,193,515 | $ (20,720) | $ 13,172,795 |
| 2009 final dividend paid | $ – | $ – | $ – | $ – | $ – | $ – | $ – | $ – | $ – | $ (22,737,567) | $ (22,737,567) | $ – | $ (22,737,567) |
| 2010 interim dividend paid | – | – | – | – | – | – | – | – | – | (10,719,139) | (10,719,139) | – | (10,719,139) |
| At 30 June 2010 | $ 324,822,391 | $ 31,811,160 | $ 39,800,000 | $ 63,391,540 | $ – | $ – | $ (2,573,159) | $ 11,499,153 | $ – | $ 86,163,500 | $ 554,914,585 | $ 159,589 | $ 555,074,174 |

# Consolidated Statement of Cash Flows

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

| | | 2011 | | 2010 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Profit before tax | **$** | **46,724,205** | $ | 10,416,677 |
| Adjustments for: | | | | |
| Depreciation | | **2,674,989** | | 2,894,322 |
| Interest expense | | **421,030** | | 804,658 |
| Dividend income | | **(6,748,669)** | | (3,396,401) |
| Interest income | | **(6,698,306)** | | (3,994,245) |
| Share of losses of associates | | **437,670** | | 170,016 |
| Share of losses of jointly controlled entities | | **–** | | 1,074,716 |
| Impairment loss for the disposal group | | **–** | | 2,427,392 |
| Loss on disposal of the disposal group | | **–** | | 957,115 |
| Share-based payment expense | | **5,921,333** | | – |
| (Reversal of)/charge for impairment losses for accounts receivable | | **(2,242,917)** | | 501,707 |
| Effect of foreign exchange rate changes | | **(1,509,016)** | | (338,232) |
| Operating profit before changes in working capital | **$** | **38,980,319** | $ | 11,517,725 |
| Increase in other financial assets | | **(1,538,037)** | | (861,056) |
| Decrease/(increase) in financial assets at fair value through profit or loss | | **115,843,238** | | (92,317,201) |
| Increase in accounts, loans and other receivables | | **(33,840,607)** | | (88,079,477) |
| Decrease in amounts due from related companies | | **17,804** | | – |
| (Decrease)/increase in accruals, accounts and other payables | | **(99,609,368)** | | 179,641,674 |
| Cash generated from operations | **$** | **19,853,349** | $ | 9,901,665 |
| Interest received | | **5,687,948** | | 3,087,099 |
| Dividends received | | **5,840,673** | | 3,096,964 |
| Interest paid | | **(426,000)** | | (805,160) |
| Hong Kong Profits Tax paid | | **–** | | (2,484,633) |
| Net cash generated from operating activities | **$** | **30,955,970** | $ | 12,795,935 |

**Consolidated Statement of Cash Flows**

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

| | Note | 2011 | 2010 |
|---|---|---|---|
| **Investing activities** | | | |
| Payments for purchase of properties and equipment | | **$ (1,106,052)** | $ (1,336,817) |
| Return of capital from an associate | | **–** | 222,376 |
| Advance to jointly controlled entities | | **–** | (55,000,000) |
| Net proceeds from disposal of the disposal group | *8* | **–** | 193,426,097 |
| Payments of purchase of available-for-sale investments | | **(51,561,709)** | – |
| Dividend received from an available-for-sale investment | | **1,449,214** | – |
| Net cash (used in)/generated from investing activities | | **$ (51,218,547)** | $ 137,311,656 |
| **Financing activities** | | | |
| Repayment of bank loans | | **$ (59,033,726)** | $ (433,735,971) |
| Proceeds from new bank loans | | **55,000,000** | 383,000,000 |
| Repayment of obligations under finance leases | | **(629,492)** | (561,659) |
| Dividends paid to owners of the Company | | **(34,885,012)** | (33,456,706) |
| Net proceeds from issue of equity shares | | **105,744,758** | – |
| Net proceeds from issue of warrants | | **21,641** | – |
| Net cash generated from/(used in) financing activities | | **$ 66,218,169** | $ (84,754,336) |
| Net increase in cash and cash equivalents | | **$ 45,955,592** | $ 65,353,255 |
| Cash and cash equivalents at 1 July 2010/2009 | | **198,799,944** | 133,446,689 |
| Cash and cash equivalents at 30 June 2011/2010 | | **$ 244,755,536** | $ 198,799,944 |
| Analysis of the balances of cash and cash equivalents: | | | |
| Bank balances and cash | | **$ 244,755,536** | $ 198,799,944 |

# Notes to the Consolidated Financial Statements

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

## 1 Corporate information

At the special general meeting of the Company held on 12 September 2011, a special resolution was passed by the Shareholders to approve the change of name of the Company from "SW Kingsway Capital Holdings Limited" to "Sunwah Kingsway Capital Holdings Limited" and to adopt the chinese name "新華滙富金融控股有限公司". The Certificate of Incorporation on Change of Name and the Certificate of Secondary Name of the Company were both issued by the Register of Companies in Bermuda on 16 September 2011.

The Company was incorporated in Bermuda under the Companies Act as an exempted company with limited liability on 17 May 2000. Pursuant to a Group reorganisation completed on 10 August 2000 (the "Reorganisation") to rationalise the Company and its subsidiaries in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company issued shares in exchange for the entire share capital of SW Kingsway Capital Group Limited and thereby became the holding company of the Group. The Company's shares were successfully listed on the Stock Exchange on 15 September 2000. The address of the registered office and the principal place of business of the Company are disclosed in the Corporate Information of the annual report.

The principal activities of the Company and its significant subsidiary companies are disclosed in the Director's Report of the annual report and in note 34.

The consolidated financial statements are presented in Hong Kong dollars, which is functional currency of the Company.

## 2 Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has applied a number of new and revised Standards, Amendments and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for annual periods beginning on or after 1 July 2010. The adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs 2010[1] |
| HKFRS 7 (Amendments) | Disclosures – Transfers of Financial Assets[2] |
| HKFRS 9 | Financial Instruments[5] |
| HKFRS 10 | Consolidated Financial Statements[5] |
| HKFRS 11 | Joint Arrangements[5] |
| HKFRS 12 | Disclosure of Interests in Other Entities[5] |
| HKFRS 13 | Fair Value Measurement[5] |
| HKAS 1 (Amendments) | Presentation of Items of Other Comprehensive Income[4] |
| HKAS 12(Amendments) | Deferred Tax: Recovery of Underlying Assets[3] |
| HKAS 19 (as revised in 2011) | Employee benefits[5] |
| HKAS 24 (as revised in 2009) | Related Party Disclosures[1] |
| HKAS 27 (as revised in 2011) | Separate Financial Statements[5] |
| HKAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures[5] |
| HK(IFRIC)-Int 14 (Amendments) | Prepayments of a Minimum Funding Requirement[1] |

1 Effective for annual periods beginning on or after 1 January 2011
2 Effective for annual periods beginning on or after 1 July 2011
3 Effective for annual periods beginning on or after 1 January 2012
4 Effective for annual periods beginning on or after 1 July 2012
5 Effective for annual periods beginning on or after 1 January 2013

## 2 Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

HKFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that the application of HKFRS 9 may have impact on amounts reported in respect of the Group's financial assets. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The directors anticipate that the application of the other new and revised standards and amendments will have no material impact on the results and the financial position of the Group.

# 3 Significant accounting policies

**(a) STATEMENT OF COMPLIANCE**

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for land and buildings held for own use, available-for-sale investments and financial assets/liabilities at fair value through profit or loss that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for services.

The principal accounting policies are set out below.

**(b) BASIS OF CONSOLIDATION**

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

**Allocation of total comprehensive income to non-controlling interests**

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

**Changes in the Group's ownership interests in existing subsidiaries**

Changes in the Group's ownership interest in a subsidiary that do not result in the Group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

## 3 Significant accounting policies (Continued)

### (b) BASIS OF CONSOLIDATION (Continued)

When the Group loses control over a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest determined and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

### (c) BUSINESS COMBINATIONS

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and liabilities assumed are recognised at their fair values at the acquisition date, except that:

– deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

– liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

– assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

## 3 Significant accounting policies (Continued)

### (c) BUSINESS COMBINATIONS (Continued)

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another Standard.

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest was disposal of.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

## 3 Significant accounting policies (Continued)

### (d) GOODWILL

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

Goodwill arising on acquisitions prior to 1 July 2001 continues to be held in reserves, and will be charged to the retained profits at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

### (e) INVESTMENTS IN ASSOCIATES

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in the associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

# 3 Significant accounting policies (Continued)

## (e) INVESTMENTS IN ASSOCIATES (Continued)

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

## (f) NON-CURRENT ASSETS HELD FOR SALE

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

## 3 Significant accounting policies (Continued)

### (g) INTANGIBLE ASSETS

The trading rights in the Stock Exchange, the B-Shares Special Seat of Shenzhen Stock Exchange, the B-Shares Tangible Trading Seat of Shanghai Stock Exchange and non-redeemable club memberships have indefinite useful lives and are recognised as intangible assets in the consolidated statement of financial position. They are carried at cost less impairment losses (see note 3(l)) and are tested for impairment annually and whenever there is an indication that the intangible assets may be impaired by comparing their recoverable amounts with their carrying amounts.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

### (h) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

### (i) FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

**Financial assets**

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale ("AFS") financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Financial assets at FVTPL*

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL on initial recognition. A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling in the near future, or it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking, or it is a derivative that is not designated and effective as a hedging instrument.

## 3 Significant accounting policies (Continued)

### (i) FINANCIAL INSTRUMENTS (Continued)

**Financial assets (Continued)**

*Financial assets at FVTPL (Continued)*

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise, or the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis, or it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables mainly comprise accounts and other receivables, secured margin loans, secured loans, deposits, bank balances and cash and are carried at amortised cost using the effective interest method, less any impairment losses, unless the effect of discounting would be immaterial. In such case, the receivables are stated at cost less impairment losses, if any.

*AFS financial assets*

AFS financial assets are non-derivatives that are either designated or not classified as loans and receivables or financial assets at FVTPL or held-to-maturity investments.

AFS financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investments revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

For AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period.

# 3 Significant accounting policies (Continued)

## (i) FINANCIAL INSTRUMENTS (Continued)

### Financial assets (Continued)

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an AFS equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment. For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, or breach of contract, such as default or delinquency in interest or principal payments, or it becoming probable that the borrower will enter bankruptcy or financial re-organisation, or the disappearance of an active market for that financial asset because of financial difficulties.

For accounts and loans receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts and loans receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When account or loan receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on AFS equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investments revaluation reserve. For AFS debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occuring after the recognition of the impairment loss.

# 3 Significant accounting policies (Continued)

## (i) FINANCIAL INSTRUMENTS (Continued)

**Financial liabilities and equity instruments**

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

*Financial liabilities at FVTPL*

Financial liabilities at FVTPL has two subcategories, including financial liabilities held for trading and those designated at FVTPL on initial recognition. A financial liability is classified as held for trading if it has been incurred principally for the purpose of repurchasing in the near future, or it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking, or it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

*Other financial liabilities*

Other financial liabilities (including bank loans and accounts and other payables) are subsequently measured at amortised cost using the effective interest method, unless the effect of discounting would be immaterial. In such case, the liabilities are stated at cost.

**Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## 3 Significant accounting policies (Continued)

### (j) PROPERTY AND EQUIPMENT

#### (i) Land and buildings held for own use

Land and buildings held for own use are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and accumulated impairment losses. Revaluations are performed with sufficient regularity to ensure that the carrying amounts do not differ materially from those that which would be determined using fair values at the end of the reporting period.

Any revaluation increase arising on the revaluation of such land and buildings held for own use is recognised in other comprehensive income, and accumulated in properties revaluation reserve except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation for such land and buildings held for own use is recognised in profit or loss to the extent that it exceeds the balance, if any, on the properties revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

#### (ii) Equipment

Equipment, comprising leasehold improvements, furniture and fixtures, office equipment and motor vehicles is stated at cost less accumulated depreciation and impairment losses, if any (see note 3(l)).

Equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of equipment is determined as the difference between the sales proceeds and the carrying amount of the asset is recognised in profit or loss.

#### (iii) Depreciation

Depreciation is recognised so as to write off the cost or fair value of property and equipment less their residual values, if any, using the straight-line method over their estimated useful lives as follows:

| | |
|---|---|
| Land and buildings held for own use | Shorter of the remaining lease terms or 50 years |
| Leasehold improvements | Shorter of the unexpired lease terms or 5 years |
| Furniture and fixtures | 20% |
| Office equipment | 20% |
| Motor vehicles | 20% |

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

## 3 Significant accounting policies (Continued)

### (k) LEASING

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Group as lessor*

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

*The Group as lessee*

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised as borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

## 3 Significant accounting policies (Continued)

### (l) IMPAIRMENT LOSSES ON TANGIBLE AND INTANGIBLE ASSETS OTHER THAN GOODWILL

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is indication that they may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

### (m) REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and sales related taxes. Income is recognised in the consolidated income statement on the following basis:

(i) Brokerage and commission income is recognised on a trade date basis when the relevant transactions are executed and related services are provided. Underwriting and sub-underwriting commission is recognised once the corresponding underwriting exposure has ceased. Corporate finance advisory, asset management, loan arrangement, secretarial and other service fees are recognised upon such services being rendered.

(ii) Interest income is recognised as it accrues using the effective interest method.

(iii) Dividend income from investments is recognised when the shareholder's right to receive payment have been established.

(iv) Payments received under operating leases net of any incentives paid to the lessee are recognised as rental income on a straight-line basis.

## 3 Significant accounting policies (Continued)

### (n) EMPLOYEE BENEFITS

#### (i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

#### (ii) Bonus plans

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus payments are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

#### (iii) Defined contribution pension plan obligations

The Group operates a defined-contribution pension scheme ("MPF Scheme") under the rules and regulations of the Hong Kong Mandatory Provident Fund ("MPF") Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. Payments to the MPF Scheme are charged as expense when employees have rendered service entitling them to the contributions and are reduced by contributions forfeited, if applicable, by those employees who leave the scheme prior to the contributions become fully vested.

#### (iv) Equity-settled share-based payments transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve). At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve. For share options that vest immediately at the date of grant, the fair value of the options granted is expensed immediately to profit or loss.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

## 3 Significant accounting policies (Continued)

### (o) TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

### (p) PROVISIONS

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle the obligation. Provision are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

## 3 Significant accounting policies (Continued)

### (q) FOREIGN CURRENCIES

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity in exchange reserve.

On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 July 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the exchange reserve.

**Notes to the Consolidated Financial Statements**

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

## 4 Turnover

The principal activities of the Group are investment in securities, securities broking and margin financing, provision of financial advisory services, asset management, money lending and other securities related financial services.

| | 2011 | 2010 |
|---|---|---|
| Net gain/(loss) on disposal of financial assets/liabilities at fair value through profit or loss and remeasurement to fair value | | |
| – equity securities | **$ 57,256,471** | $ 43,021,232 |
| – debt securities | **(742,739)** | – |
| – derivatives and others | **8,944,321** | 52,258 |
| | **$ 65,458,053** | $ 43,073,490 |
| Commission and fee income on | | |
| – stock, options, futures and commodities brokerage | **$ 59,400,852** | $ 61,939,420 |
| – underwriting and placements in equity capital markets | **17,846,801** | 7,820,575 |
| – corporate finance | **16,432,303** | 7,344,043 |
| – miscellaneous fee income | **8,758,296** | 3,530,763 |
| | **$ 102,438,252** | $ 80,634,801 |
| Interest and dividend income | | |
| – interest from | | |
| – bank deposits | **$ 323,898** | $ 170,223 |
| – margin and IPO financing | **5,551,197** | 2,915,868 |
| – debt securities | **821,651** | – |
| – others | **1,560** | 908,154 |
| – dividend from | | |
| – listed equity securities | **5,299,455** | 3,396,401 |
| – unlisted equity security | **1,449,214** | – |
| | **$ 13,446,975** | $ 7,390,646 |
| | **$ 181,343,280** | $ 131,098,937 |

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

## 5 Other income

| | 2011 | 2010 |
|---|---|---|
| Exchange gain (net) | **$ 1,835,835** | $ 343,961 |
| Reversal of impairment losses for accounts receivable (net) | **2,242,917** | – |
| Other income | **602,071** | 519,949 |
| | **$ 4,680,823** | $ 863,910 |

## 6 Profit before tax

Profit before tax is arrived at after charging:

| | 2011 | 2010 |
|---|---|---|
| **(a) Finance costs:** | | |
| Interest on: | | |
| – bank loans and overdrafts | **$ 374,738** | $ 690,625 |
| – obligations under finance leases | **46,109** | 113,940 |
| – other | **183** | 93 |
| | **$ 421,030** | $ 804,658 |
| **(b) Staff costs, including directors' remuneration:** | | |
| Salaries and other allowances | **$ 74,208,233** | $ 57,480,498 |
| Pension costs – defined contribution plan | **1,235,890** | 1,170,753 |
| Equity settled share-based payments | **5,921,333** | – |
| | **$ 81,365,456** | $ 58,651,251 |
| **(c) Other items:** | | |
| Impairment losses for accounts receivable (net) | **$ –** | $ 501,707 |
| Operating lease charges – land and buildings | **10,065,294** | 9,809,289 |
| Share of associate's taxation (credit)/expense | **(22,261)** | 44,150 |
| Depreciation | **2,674,989** | 2,894,322 |
| Auditors' remuneration | **1,636,808** | 1,574,717 |

## 7 Segment reporting

Information reported to the Board of Directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment performance focuses on types of services provided. For management purpose, the Group's activities are organised under the following operating segments:

| | | |
|---|---|---|
| Investment in securities | : | Investment in securities for treasury and liquidity management |
| Structured investment | : | Investment in structured deals including listed and unlisted equity, debt securities and investment properties |
| Brokerage | : | Provision of securities, option, futures and commodities brokerage services, margin and other financing, and other related services |
| Corporate finance and capital markets | : | Provision of financial advisory services to corporate clients in connection with the Listing Rules and acting as underwriting and placing agent in the equity capital market |
| Asset management | : | Provision of real estate services, asset management and related advisory services to private equity funds and private clients |
| Others | : | Provision of management, administrative and corporate secretarial services, inter-group loan financing and inter-group office leasing |

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3.

Inter-segment revenues are charged among segments at an agreed rate with reference to the rate normally charged to third party customers, the nature of services or the costs incurred.

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

## 7 Segment reporting (Continued)

| | 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Investment in securities | Structured investment | Brokerage | Corporate finance and capital markets | Asset management | Others | Consolidated |
| **Segmental income statement** | | | | | | | |
| Revenue from external customers | $ 71,876,865 | $ 1,449,233 | $ 70,508,275 | $ 36,640,823 | $ 82 | $ 868,002 | $ 181,343,280 |
| Inter-segment revenue | 392 | – | 2,518,062 | 1,912,266 | – | 24,202,052 | 28,632,772 |
| Other income | 74,959 | – | 525,752 | 664,419 | – | 3,415,693 | 4,680,823 |
| Segment revenue | $ 71,952,216 | $ 1,449,233 | $ 73,552,089 | $ 39,217,508 | $ 82 | $ 28,485,747 | $ 214,656,875 |
| Eliminations | | | | | | | (28,632,772) |
| Total income | | | | | | | $ 186,024,103 |
| Segment results | $ 60,630,528 | $ 457,115 | $ (10,603,834) | $ 4,421,894 | $ (191,694) | $ (7,552,134) | $ 47,161,875 |
| Share of losses of associates | $ – | $ (251,753) | $ (185,917) | $ – | $ – | $ – | (437,670) |
| Profit before tax | | | | | | | $ 46,724,205 |
| **Segment assets** | | | | | | | |
| Segment assets | $ 234,699,725 | $ 47,053,979 | $ 432,609,885 | $ 15,091,122 | $ 817,786 | $ 149,204,729 | $ 879,477,226 |
| Interests in associates | – | 18,147,227 | 12,562,459 | – | – | – | 30,709,686 |
| | | | | | | | $ 910,186,912 |
| Eliminations | | | | | | | (25,339,904) |
| Total assets | | | | | | | $ 884,847,008 |
| **Other segmental information** | | | | | | | |
| Depreciation | $ – | $ – | $ 892,709 | $ 93,550 | $ 281 | $ 1,688,449 | $ 2,674,989 |
| Addition to non-current assets | $ – | $ – | $ 999,240 | $ – | $ – | $ 106,812 | $ 1,106,052 |
| Impairment losses/(Reversal of impairment losses) for accounts receivable | $ – | $ – | $ 1,707 | $ (640,000) | $ – | $ (1,604,624) | $ (2,242,917) |
| Commission expenses | $ – | $ – | $ 15,631,373 | $ 1,449,550 | $ – | $ – | $ 17,080,923 |
| Interest expenses | $ 7,274 | $ 440 | $ 304,443 | $ – | $ – | $ 108,873 | $ 421,030 |
| Interest income | $ 841,367 | $ 19 | $ 5,823,539 | $ 295 | $ 82 | $ 33,004 | $ 6,698,306 |

**Notes to the Consolidated Financial Statements**

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

## 7 Segment reporting (Continued)

| | 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Investment in securities | Structured investment | Brokerage | Corporate finance and capital markets | Asset management | Others | Consolidated |
| **Segmental income statement** | | | | | | | |
| Revenue from external customers | $ 51,703,666 | $ (5,044,350) | $ 66,241,454 | $ 16,087,366 | $ 23,452 | $ 2,087,349 | $ 131,098,937 |
| Inter-segment revenue | 84 | – | 764,792 | – | – | 20,780,484 | 21,545,360 |
| Other income | (37) | – | 357,472 | 3,551 | – | 502,924 | 863,910 |
| Segment revenue | $ 51,703,713 | $ (5,044,350) | $ 67,363,718 | $ 16,090,917 | $ 23,452 | $ 23,370,757 | $ 153,508,207 |
| Eliminations | | | | | | | (21,545,360) |
| Total income | | | | | | | $ 131,962,847 |
| Segment results | $ 44,803,040 | $ (5,769,726) | $ (14,428,214) | $ (2,710,943) | $ (1,381,159) | $ (5,467,082) | $ 15,045,916 |
| Loss on disposal of the disposal group | $ – | $ (957,115) | $ – | $ – | $ – | $ – | (957,115) |
| Impairment loss for the disposal group | – | (2,427,392) | – | – | – | – | (2,427,392) |
| Share of (losses)/profits of associates | – | (133,948) | 116,291 | – | (152,359) | – | (170,016) |
| Share of losses of jointly controlled entities | – | (1,074,716) | – | – | – | – | (1,074,716) |
| Profit before tax | | | | | | | $ 10,416,677 |
| **Segment assets** | | | | | | | |
| Segment assets | $ 317,773,070 | $ – | $ 414,541,176 | $ 7,880,686 | $ 875,408 | $ 112,727,175 | $ 853,797,515 |
| Interests in associates | – | 18,368,348 | 12,748,376 | – | – | – | 31,116,724 |
| | | | | | | | $ 884,914,239 |
| Eliminations | | | | | | | (26,981,779) |
| Total assets | | | | | | | $ 857,932,460 |
| **Other segmental information** | | | | | | | |
| Depreciation | $ – | $ – | $ 1,005,401 | $ 94,774 | $ 6,076 | $ 1,788,071 | $ 2,894,322 |
| Addition to non-current assets | $ – | $ – | $ 976,890 | $ – | $ – | $ 359,927 | $ 1,336,817 |
| Impairment losses for accounts receivable | $ – | $ – | $ 1,707 | $ 500,000 | $ – | $ – | $ 501,707 |
| Commission expenses | $ – | $ – | $ 20,346,221 | $ – | $ – | $ – | $ 20,346,221 |
| Interest expenses | $ 48,744 | $ – | $ 476,505 | $ – | $ – | $ 279,409 | $ 804,658 |
| Interest income | $ 6 | $ – | $ 3,083,137 | $ 210 | $ 93 | $ 910,799 | $ 3,994,245 |

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

## 7 Segment reporting (Continued)

**Geographical information**

The Group's revenue from external customers and information about its non-current assets (excluding interests in associates, available-for-sale investments and other financial assets) by geographical location are detailed below:

| | Group | | | |
|---|---|---|---|---|
| | Turnover | | Non-current assets | |
| | **2011** | 2010 | **2011** | 2010 |
| Hong Kong | **$176,025,747** | $ 125,242,135 | **$ 4,719,822** | $ 5,570,139 |
| The People's Republic of China (the "PRC") | **3,738,990** | 4,811,661 | **30,360,193** | 23,716,549 |
| Other | **1,578,543** | 1,045,141 | **–** | – |
| | **$181,343,280** | $ 131,098,937 | **$ 35,080,015** | $ 29,286,688 |

## 8 Loss on disposal of/Impairment loss for the disposal group

On 26 November 2009, the Group entered into a share purchase agreement to dispose of the Group's interest in jointly controlled entity, Total Express Investments Limited ("Total Express"), and to assign the debts due from the jointly controlled entities. Total Express is the ultimate holding company of Overseas Billion Limited, Well Talent Limited and Luxury Development Limited which jointly held the entire interest in investment properties in the PRC. The Group's interest in Total Express had been classified as a disposal group held for sale and was measured at the lower of its carrying amount and fair value less cost to sell and an impairment loss of $2,427,392 was recognised. The disposal was completed in March 2010 with sale proceeds (less selling costs) of $193,426,097 and a loss on disposal of $957,115.

## 9 Income tax in the consolidated income statement

**(a) INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT REPRESENTS:**

Hong Kong Profits Tax is calculated at 16.5% (2010: 16.5%) of the estimated assessable profits for the year. The charge for the year to Hong Kong Profits Tax has been relieved by approximately $365,368 as a result of tax losses brought forward from previous years.

| | **2011** | 2010 |
|---|---|---|
| **Current tax – Provision for Hong Kong Profits Tax** | | |
| Tax for the year | **$ 225,283** | $ – |
| **Deferred tax** | | |
| Tax for the year | **$ (53,000)** | $ (57,029) |
| Income tax expense/(credit) | **$ 172,283** | $ (57,029) |

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

## 9 Income tax in the consolidated income statement (Continued)

### (b) RECONCILIATION BETWEEN INCOME TAX EXPENSE/(CREDIT) AND ACCOUNTING PROFIT AT APPLICABLE TAX RATES:

| | 2011 | 2010 |
|---|---|---|
| Profit before tax | $ 46,724,205 | $ 10,416,677 |
| Add: Loss on disposal of the disposal group | – | 957,115 |
| Impairment loss for the disposal group | – | 2,427,392 |
| Share of losses of associates | 437,670 | 170,016 |
| Share of losses of jointly controlled entities | – | 1,074,716 |
| | $ 47,161,875 | $ 15,045,916 |
| Tax at the domestic income tax rate of 16.5% (2010: 16.5%) | $ 7,781,709 | $ 2,482,576 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | 563,706 | 594,647 |
| Tax effect of non-deductible expenses | 1,309,084 | 180,378 |
| Tax effect of non-taxable income | (1,703,827) | (603,217) |
| Tax effect of utilisation of tax losses not previously recognised | (9,373,700) | (5,728,711) |
| Tax effect of tax losses not recognised | 1,058,979 | 2,898,854 |
| Others | 536,332 | 118,444 |
| Income tax expense/(credit) | $ 172,283 | $ (57,029) |

## 10 Directors' and management's emoluments

### (a) DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Fees | Salaries, commissions and other allowances | Equity settled share-based payment | Bonuses *(Note)* | Retirement scheme contributions | Total |
| Jonathan Koon Shum Choi | $ 1,650,000 | $ – | $ 1,850,000 | $ – | $ – | $ 3,500,000 |
| Mary Yuk Sin Lam | – | 2,999,290 | 616,667 | 140,000 | 12,000 | 3,767,957 |
| Michael Koon Ming Choi | – | 1,890,000 | 1,850,000 | 4,544,297 | 72,000 | 8,356,297 |
| Janice Wing Kum Kwan | 83,333 | – | – | – | – | 83,333 |
| Lee G. Lam | 200,000 | – | – | – | – | 200,000 |
| Michael Wai Chung Wu | 200,000 | – | – | – | – | 200,000 |
| Robert Tsai To Sze | 200,000 | – | – | – | – | 200,000 |
| Stanley Kam Chuen Ko | 200,000 | – | – | – | – | 200,000 |
| William Wai Leung Wu | – | 855,600 | – | – | 3,000 | 858,600 |
| Rebecca Yuk Fung Lau | 72,283 | – | – | – | – | 72,283 |
| | $ 2,605,616 | $ 5,744,890 | $ 4,316,667 | $ 4,684,297 | $ 87,000 | $ 17,438,470 |

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

## 10 Directors' and management's emoluments (Continued)

### (a) DIRECTORS' EMOLUMENTS (Continued)

| | 2010 | | | | |
|---|---|---|---|---|---|
| | Fees | Salaries, commissions and other allowances | Bonuses *(Note)* | Retirement scheme contributions | Total |
| Jonathan Koon Shum Choi | $ 1,200,000 | $ – | $ – | $ – | $ 1,200,000 |
| Mary Yuk Sin Lam | – | 2,926,872 | 136,500 | 12,000 | 3,075,372 |
| William Wai Leung Wu | – | 3,021,810 | 1,978,250 | 12,000 | 5,012,060 |
| Michael Koon Ming Choi | – | 540,000 | – | 72,000 | 612,000 |
| Rebecca Yuk Fung Lau | 200,000 | – | – | – | 200,000 |
| Lee G. Lam | 200,000 | – | – | – | 200,000 |
| Michael Wai Chung Wu | 200,000 | – | – | – | 200,000 |
| Robert Tsai To Sze | 200,000 | – | – | – | 200,000 |
| Stanley Kam Chuen Ko | 200,000 | – | – | – | 200,000 |
| | $ 2,200,000 | $ 6,488,682 | $ 2,114,750 | $ 96,000 | $ 10,899,432 |

Note: The discretionary bonus is determined by reference to the Group and the individual performance during the year. Michael Koon Ming Choi was entitled to a contractual bonus calculated as a percentage of profits before tax of the Company.

There was no arrangement under which a director waived or agreed to waive any remuneration during the current and previous years.

### (b) MANAGEMENT'S EMOLUMENTS (EXCLUDING COMMISSIONS)

The five individuals whose emoluments (excluding commissions) were the highest in the Group for the year include 2 (2010: 1) directors whose emoluments (excluding commissions) received in their capacity as directors of the Company are reflected in the analysis presented above. The emoluments (excluding commissions) payable to the remaining 3 (2010: 4) individuals during the year are as follows:

| | **2011** | 2010 |
|---|---|---|
| Salaries, other allowances and benefits in kind | **$ 4,744,320** | $ 4,643,490 |
| Bonuses | **10,059,615** | 6,838,750 |
| Equity settled share-based payment | **1,106,666** | – |
| Retirement scheme contributions | **36,000** | 48,000 |
| | **$ 15,946,601** | $ 11,530,240 |

The emoluments are within the following bands:

| | **2011 Number of individuals** | 2010 Number of individuals |
|---|---|---|
| $2,000,001 – $2,500,000 | **–** | 2 |
| $2,500,001 – $3,000,000 | **–** | 1 |
| $3,500,001 – $4,000,000 | **1** | 1 |
| $4,000,001 – $4,500,000 | **1** | – |
| $8,000,001 – $8,500,000 | **1** | – |

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

## 11 Profit attributable to owners of the Company

The consolidated profit attributable to owners of the Company includes a loss of $5,376,151 (2010: $8,749,435) which has been dealt with in the financial statements of the Company.

## 12 Dividends

### (a) DIVIDENDS PAID AND PAYABLE TO OWNERS OF THE COMPANY ATTRIBUTABLE TO THE YEAR

| | 2011 | 2010 |
|---|---|---|
| Interim dividend paid of 0.33 cent per share (2010: 0.33 cent per share) | **$ 12,147,445** | $ 10,719,139 |
| Final dividend proposed after the end of the reporting period of 0.7 cent per share (2010: 0.7 cent per share) | **25,767,307** | 22,737,567 |
| | **$ 37,914,752** | $ 33,456,706 |

The final dividend proposed by the directors is subject to approval by the shareholders at the forthcoming general meeting.

### (b) DIVIDENDS RECOGNISED AS DISTRIBUTIONS DURING THE YEAR

| | 2011 | 2010 |
|---|---|---|
| Final dividend in respect of the previous financial year, approved and paid of 0.7 cent per share (2010: 0.7 cent per share) | **$ 22,737,567** | $ 22,737,567 |
| Interim dividend paid of 0.33 cent per share (2010: 0.33 cent per share) | **12,147,445** | 10,719,139 |
| | **$ 34,885,012** | $ 33,456,706 |

## 13 Earnings per share

The calculation of basic and diluted earnings per share attributable to owners of the Company is based on the following:

| | 2011 | 2010 |
|---|---|---|
| **Earnings** | | |
| Earnings for the purposes of basic and diluted earnings per share (Profit for the year attributable to owners of the Company) | **$ 46,573,342** | $ 10,494,426 |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share | **3,486,880,728** | 3,248,223,906 |

Note: The computation of diluted earning per share does not assume the exercise of the Company's share options and warrants because the exercise price of those share options and warrants was higher than the average market price for shares for 2011. There were no potential ordinary shares for prior year.

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

# 14 Properties and equipment

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Land and buildings held for own use | Leasehold improvements | Furniture and fixtures | Office equipment | Motor vehicles | Total |
| **Cost or valuation:** | | | | | | |
| At 1 July 2009 | $ 20,027,233 | $ 4,541,009 | $ 887,741 | $ 12,909,752 | $ 2,292,052 | $ 40,657,787 |
| Exchange adjustments | – | 20,895 | 321 | 4,793 | 11,270 | 37,279 |
| Additions | – | 249,324 | 1,157 | 1,086,336 | – | 1,336,817 |
| Disposals | – | (814,335) | – | – | – | (814,335) |
| Elimination on revaluation | (473,902) | – | – | – | – | (473,902) |
| Surplus on revaluation | 3,037,664 | – | – | – | – | 3,037,664 |
| At 30 June 2010 and 1 July 2010 | $ 22,590,995 | $ 3,996,893 | $ 889,219 | $ 14,000,881 | $ 2,303,322 | $ 43,781,310 |
| Exchange adjustments | – | 45,934 | 1,287 | 19,807 | 45,241 | 112,269 |
| Additions | – | – | 13,430 | 1,092,622 | – | 1,106,052 |
| Elimination on revaluation | (585,479) | – | – | – | – | (585,479) |
| Surplus on revaluation | 7,348,004 | – | – | – | – | 7,348,004 |
| At 30 June 2011 | $ 29,353,520 | $ 4,042,827 | $ 903,936 | $ 15,113,310 | $ 2,348,563 | $ 51,762,156 |
| **Accumulated depreciation and impairment** | | | | | | |
| At 1 July 2009 | $ – | $ 3,844,147 | $ 615,088 | $ 8,595,269 | $ 2,131,611 | $ 15,186,115 |
| Exchange adjustments | – | 19,628 | 223 | 3,882 | 9,830 | 33,563 |
| Charge for the year | 473,902 | 393,627 | 86,800 | 1,892,699 | 47,294 | 2,894,322 |
| Elimination on revaluation | (473,902) | – | – | – | – | (473,902) |
| Disposals | – | (814,335) | – | – | – | (814,335) |
| At 30 June 2010 and 1 July 2010 | $ – | $ 3,443,067 | $ 702,111 | $ 10,491,850 | $ 2,188,735 | $ 16,825,763 |
| Exchange adjustments | – | 40,329 | 1,052 | 16,402 | 40,226 | 98,009 |
| Charge for the year | 585,479 | 211,207 | 79,993 | 1,776,939 | 21,371 | 2,674,989 |
| Elimination on revaluation | (585,479) | – | – | – | – | (585,479) |
| At 30 June 2011 | $ – | $ 3,694,603 | $ 783,156 | $ 12,285,191 | $ 2,250,332 | $ 19,013,282 |
| **Carrying values:** | | | | | | |
| At 30 June 2011 | $ 29,353,520 | $ 348,224 | $ 120,780 | $ 2,828,119 | $ 98,231 | $ 32,748,874 |
| At 30 June 2010 | $ 22,590,995 | $ 553,826 | $ 187,108 | $ 3,509,031 | $ 114,587 | $ 26,955,547 |
| Representing: | | | | | | |
| Cost | $ – | $ 4,042,827 | $ 903,936 | $ 15,113,310 | $ 2,348,563 | $ 22,408,636 |
| Valuation | 29,353,520 | – | – | – | – | 29,353,520 |
| At 30 June 2011 | $ 29,353,520 | $ 4,042,827 | $ 903,936 | $ 15,113,310 | $ 2,348,563 | $ 51,762,156 |
| Representing: | | | | | | |
| Cost | $ – | $ 3,996,893 | $ 889,219 | $ 14,000,881 | $ 2,303,322 | $ 21,190,315 |
| Valuation | 22,590,995 | – | – | – | – | 22,590,995 |
| At 30 June 2010 | $ 22,590,995 | $ 3,996,893 | $ 889,219 | $ 14,000,881 | $ 2,303,322 | $ 43,781,310 |

**Notes to the Consolidated Financial Statements**

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

## 14 Properties and equipment (Continued)

The Group's interest in land and buildings held for own use represents two buildings and a carparking space located in the PRC which are held on a medium lease of less than 50 years. The land and buildings held for own use were revalued at 30 June 2011 by RHL Appraisal Limited, an independent firm of chartered surveyors employed by the Group, on the basis of open market value. The revaluation surplus of $7,348,004 (2010: $3,037,664) was credited to the properties revaluation reserve. If land and buildings held for own use had not been revalued, they would have been included in these consolidated financial statements at historical cost less accumulated depreciation of $11,095,689 (2010: $11,360,957).

At the end of the reporting period, the net book value of office equipment held under finance leases of the Group was $42,707 (2010: $555,189). At the end of the lease term, the Group has an option to purchase the leased equipment at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals. The finance leases was matured in July 2011.

No land and buildings held for own use was pledged for bank loan at 30 June 2011. The Group had pledged land and buildings held for own use with carrying value of $22,280,900 to secure the bank loans amounting to $4,033,726 at 30 June 2010.

## 15 Intangible assets

| | Group | | | |
|---|---|---|---|---|
| | **Membership of Chinese Gold & Silver Exchange Society** | **Club memberships** | **Exchange trading rights** | **Total** |
| **Cost** | | | | |
| At 1 July 2009, 30 June 2010, 1 July 2010 and 30 June 2011 | $ 280,000 | $ 590,000 | $ 1,554,670 | $ 2,424,670 |
| **Impairment** | | | | |
| At 1 July 2009, 30 June 2010, 1 July 2010 and 30 June 2011 | $ – | $ 70,000 | $ 23,529 | $ 93,529 |
| **Carrying amount** | | | | |
| **At 30 June 2011** | **$ 280,000** | **$ 520,000** | **$ 1,531,141** | **$ 2,331,141** |
| At 30 June 2010 | $ 280,000 | $ 520,000 | $ 1,531,141 | $ 2,331,141 |

## 16 Interests in subsidiaries

| | Company | |
|---|---|---|
| | **2011** | 2010 |
| Unlisted shares, at cost | **$ 275,293,691** | $ 271,222,358 |
| Less: Impairment loss | **(29,000,000)** | (29,000,000) |
| | **$ 246,293,691** | $ 242,222,358 |

Particulars of the significant subsidiaries of the Group are set out in note 34.

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

## 17 Interests in associates

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| Carrying amount of unlisted associates | **$ 30,709,686** | $ 31,116,724 |

The following list contains only the particulars of significant associates, all of which are unlisted corporate entities, which principally affected the results or assets of the Group:

| Name | Form of business structure | Place of incorporation/ operations | Principal activities | Particulars of issued shares | Interest indirectly held | |
|---|---|---|---|---|---|---|
| | | | | | **2011** | 2010 |
| KCG Capital Holdings Limited | Incorporated | British Virgin Islands | Investment holding | 20,000,000 ordinary shares of $1 each | **30%** | 30% |
| KCG Securities Asia Limited | Incorporated | Hong Kong | Securities brokerage | 20,000,000 ordinary shares of $1 each | **30%** | 30% |
| Sinochem Kingsway Capital Inc. | Incorporated | Cayman Islands | Investment holding | 100,000 ordinary shares of $0.1 each | **30%** | 30% |

Summarised financial information of associates:

| | Assets | Liabilities | Net Assets | Revenue | Loss |
|---|---|---|---|---|---|
| **2011** | | | | | |
| 100 per cent | **$ 306,083,401** | **$ 203,717,780** | **$ 102,365,621** | **$ 8,061,945** | **$ (1,458,901)** |
| Group's effective interest | **$ 91,825,020** | **$ 61,115,334** | **$ 30,709,686** | **$ 2,418,584** | **$ (437,670)** |
| 2010 | | | | | |
| 100 per cent | $ 264,250,766 | $ 160,528,354 | $ 103,722,412 | $ 10,648,662 | $ (363,574) |
| Group's effective interest | $ 79,275,230 | $ 48,158,506 | $ 31,116,724 | $ 3,194,605 | $ (170,016) |

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

## 18 Available-for-sale investments

| | Notes | Group 2011 | | 2010 | |
|---|---|---|---|---|---|
| Unlisted investments: | | | | | |
| – Investment funds at fair value | *(a)* | $ | **25,645,747** | $ | – |
| – Equity security at fair value | *(b)* | | **27,697,261** | | – |
| | | $ | **53,343,008** | $ | – |
| Analysed for reporting purposes as: | | | | | |
| Non-current assets | | $ | **25,645,747** | $ | – |
| Current assets | | | **27,697,261** | | – |
| | | $ | **53,343,008** | $ | – |

*Notes:*

(a) The fair values of the unlisted investment funds are based on the net asset values of the investment funds reported to the Trustee by the administrators as of the end of the reporting period.

(b) The unlisted equity security is measured at fair value by using its initial public offering price as the price was already fixed as at 30 June 2011 and the security was listed on the main board of the Stock Exchange on 4 July 2011.

## 19 Other financial assets

| | Group 2011 | | 2010 | |
|---|---|---|---|---|
| Statutory deposits | $ | **7,139,586** | $ | 5,479,091 |
| Other deposits and receivables | | **4,068,588** | | 4,191,046 |
| | $ | **11,208,174** | $ | 9,670,137 |

## 20 Financial assets at fair value through profit or loss

| | Note | Group 2011 | | 2010 | |
|---|---|---|---|---|---|
| Held for trading investments include: | | | | | |
| Listed equity securities, at quoted bid price | | | | | |
| – in Hong Kong | | $ | **166,415,403** | $ | 314,977,473 |
| Listed debt securities, at quoted price | | | | | |
| – in Hong Kong | | | **7,745,400** | | – |
| – outside Hong Kong | | | **24,823,432** | | – |
| | | $ | **198,984,235** | $ | 314,977,473 |
| Unlisted investments, at fair value | | | | | |
| – derivative instruments | *(a)* | $ | **150,000** | $ | – |
| | | $ | **199,134,235** | $ | 314,977,473 |

*Note:*

(a) Fair value of unlisted options issued by a listed company is determined using a Black – Scholes model. The expected volatility is based on the historic volatility, and calculated based on the contractual life of share options. The options provide the right to the Group to purchase 30,000,000 shares of this listed company at an exercise price of $0.16 per share and will be expired on 17 January 2013.

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

## 21 Accounts, loans and other receivables

| | | Group | | Company | |
|---|---|---|---|---|---|
| | *Notes* | **2011** | 2010 | **2011** | 2010 |
| **Accounts and loans receivables** | | | | | |
| Amounts due from brokers and clearing houses | *(a)* | **$ 152,808,334** | $ 171,658,135 | **$ –** | $ – |
| Amounts due from margin clients | *(b)* | **65,084,880** | 31,079,627 | **–** | – |
| Amounts due from cash clients | *(c)* | **43,160,763** | 70,106,839 | **–** | – |
| Other accounts receivable | *(d)* | **9,614,044** | 7,782,943 | **–** | – |
| | | **$ 270,668,021** | $ 280,627,544 | **$ –** | $ – |
| Less: Impairment losses | | **(3,617,490)** | (9,135,136) | **–** | – |
| | | **$ 267,050,531** | $ 271,492,408 | **$ –** | $ – |
| **Prepayments, deposits and other receivables** | *(e)* | **43,565,823** | 2,571,282 | **181,000** | 178,000 |
| | | **$ 310,616,354** | $ 274,063,690 | **$ 181,000** | $ 178,000 |

*Notes:*

(a) Amounts due from brokers and clearing houses are required to be settled on the settlement date determined under the relevant market practices or exchange rules.

The Group maintains clients' monies arising from the ordinary course of business of dealing in options and futures contracts in trust with The SEHK Options Clearing House Limited ("SEOCH") and HKFE Clearing Corporation Limited ("HKFECC"). At 30 June 2011, the Group held $5,116,250 (2010: $2,875,405) with SEOCH and $10,105,939 (2010: $5,105,050) with HKFECC in trust for clients which were not dealt with in these consolidated financial statements.

(b) Margin clients of the brokerage division are required to pledge securities collateral to the Group in order to obtain the credit facilities for securities trading. The amount of credit facilities granted to them is determined based on a discount on the value of securities accepted by the Group. At 30 June 2011, the total market value of securities pledged as collateral in respect of the loans to margin clients was approximately $588 million (2010: $202 million). The amounts due from margin clients are repayable on demand and bear interest at commercial rates.

(c) There are no credit terms granted to cash clients of the brokerage division except for re-financing of IPO subscriptions. They are required to settle their securities trading balances on the settlement date determined under the relevant market practices or exchange rules.

(d) The balance included an amount of Nil (2010: $80,000) receivable from an associate arising from normal business transactions.

(e) At 30 June 2011, the balance included a deposit of $40,000,000 placed in the escrow account of an international law firm to provide funding proof of a client. As further described in note 37(d), a partner of the law firm of which the escrow account is being deposited has been arrested by the Hong Kong Police and charged with theft and forgery with respect to monies in the escrow account. The matter is being handled by the Group's legal advisors. Based on the opinion of the Group's legal advisors, no impairment loss is recognised as at 30 June 2011.

**Notes to the Consolidated Financial Statements**

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

## 21 Accounts, loans and other receivables (Continued)

The ageing analysis of accounts and loans receivables that were past due at the end of the reporting period but not impaired is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | **2010** |
| Within one month past due | **$ 2,586,500** | $ 180,612 | **$ –** | $ – |
| More than one month and within three months past due | **1,321,067** | 727,410 | **–** | – |
| More than three months past due | **405,343** | 676,009 | **–** | – |
| | **$ 4,312,910** | $ 1,584,031 | **$ –** | $ – |

The ageing analysis of accounts and loans receivables net of impairment losses based on invoice/advance/trade date is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | **2010** |
| Current and within one month | **$ 262,737,621** | $ 269,908,377 | **$ –** | $ – |
| More than one month and within three months | **2,907,567** | 700,612 | **–** | – |
| More than three months | **1,405,343** | 883,419 | **–** | – |
| | **$ 267,050,531** | $ 271,492,408 | **$ –** | $ – |

The movements in the allowance for impairment for the Group were as follows:

| | **Amounts due from margin clients** | **Loans receivable** | **Other accounts receivable** | **Total** |
|---|---|---|---|---|
| At 1 July 2009 | $ 3,578,575 | $ 1,214,505 | $ 5,054,854 | $ 9,847,934 |
| Amounts written off as uncollectible | – | (1,214,505) | – | (1,214,505) |
| Impairment losses recognised on receivables | 1,707 | – | 500,000 | 501,707 |
| At 30 June 2010 and 1 July 2010 | $ 3,580,282 | $ – | $ 5,554,854 | $ 9,135,136 |
| Amounts written off as uncollectible | – | – | (4,895,035) | (4,895,035) |
| Amounts recovered during the year | – | – | 1,620,306 | 1,620,306 |
| Impairment losses recognised on receivables | 1,708 | – | 75,681 | 77,389 |
| Impairment losses reversed | – | – | (2,320,306) | (2,320,306) |
| At 30 June 2011 | $ 3,581,990 | $ – | $ 35,500 | $ 3,617,490 |

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

## 21 Accounts, loans and other receivables (Continued)

Impairment losses in respect of accounts, loans and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against accounts, loans and other receivables directly.

Impairments of accounts, loans and other receivables are made in the consolidated income statement after proper review by the senior management, based on the latest status of the receivables, and the latest announced or available information about the underlying collateral held.

## 22 Amounts due from subsidiaries and related companies

The non-current amount due from a subsidiary is unsecured, interest free and will not be repayable within 12 months.

The amounts due from subsidiaries and related companies are unsecured, repayable on demand and interest-free except for an amount due from a subsidiary of $158,832,000 (2010: $81,689,809) bearing interest at 1% above HIBOR. The Company assesses at the reporting date whether or not there is objective evidence that the amounts due from subsidiaries and related companies are impaired and no impairment was noted.

## 23 Cash and cash equivalents

The Group maintains segregated clients' accounts with licensed banks to hold clients' monies arising from normal business transactions in connection with the Group's brokerage activities. As at 30 June 2011, segregated clients' accounts not otherwise dealt with in these consolidated financial statements amounted to $445,140,395 (2010: $373,323,289).

## 24 Accruals, accounts and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | **2010** |
| **Accounts payable (current and within one month)** | | | | |
| Amounts due to brokers and clearing houses | **$ 45,464** | $ 33,272,450 | **$ –** | $ – |
| Clients' accounts payable (net of bank and clearing house balances in segregated clients' accounts) | **162,042,152** | 238,970,330 | **–** | – |
| Others | **6,285,593** | 5,027,902 | **–** | – |
| | **$ 168,373,209** | $ 277,270,682 | **$ –** | $ – |
| **Other creditors and accruals** | **28,396,429** | 19,113,294 | **624,554** | 598,492 |
| | **$ 196,769,638** | $ 296,383,976 | **$ 624,554** | $ 598,492 |

**Notes to the Consolidated Financial Statements**

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

## 25 Bank loans

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| Secured bank loans | **$ –** | $ 4,033,726 |

The bank loans are repayable as follows:

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| Within one year | **$ –** | $ 757,938 |
| More than one year, but not exceeding two years | **–** | 781,752 |
| More than two years, but not exceeding five years | **–** | 2,378,461 |
| After five years | **–** | 115,575 |
| | **$ –** | $ 4,033,726 |
| Less: Amount due after one year shown under non-current liabilities | **–** | (3,275,788) |
| | **$ –** | $ 757,938 |

The Group fully repaid the bank loans to reduce the finance costs during the year.

Some of the Group's banking facilities are subject to the fulfillment of covenants relating to certain of the Group's statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 35. As at 30 June 2011, none of the covenants relating to drawn down facilities had been breached.

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

## 26 Obligations under finance leases

At 30 June 2011 and 2010, the Group had obligations under finance leases repayable as follows:

| | **30 June 2011** | |
|---|---|---|
| | **Present value of the minimum lease payments** | **Total minimum lease payments** |
| Within one year | **$ 55,569** | **$ 56,300** |
| Less: Total future interest expenses | | **(731)** |
| Present value of lease obligations | | **$ 55,569** |

| | 30 June 2010 | |
|---|---|---|
| | Present value of the minimum lease payments | Total minimum lease payments |
| Within one year | $ 629,492 | $ 675,600 |
| After one year but within two years | 55,569 | 56,300 |
| | $ 685,061 | $ 731,900 |
| Less: Total future interest expenses | | (46,839) |
| Present value of lease obligations | | $ 685,061 |

## 27 Deferred taxation

### (a) DEFERRED TAX LIABILITIES RECOGNISED

The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

| | **Accelerated depreciation** |
|---|---|
| At 1 July 2009 | $ 362,228 |
| Credited to consolidated income statement | (57,029) |
| At 30 June 2010 and 1 July 2010 | $ 305,199 |
| Credited to consolidated income statement | (53,000) |
| At 30 June 2011 | $ 252,199 |

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

## 27 Deferred taxation (Continued)

### (b) DEFERRED TAX ASSETS NOT RECOGNISED

In accordance with the accounting policy set out in note 3(o), the Group has not recognised deferred tax assets in respect of cumulative tax losses of $321 million (2010: $372 million) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses will not expire under current tax regulation.

## 28 Share capital

Pursuant to the share placing agreements, the subscription agreements and the warrants placing agreements dated 23 November 2010 and 17 December 2010, the immediate holding company of the Company, World Developments Limited, placed 324,820,000 and 108,000,000 Company's shares ("Placing Shares") of $0.1 each to independent third party placees at a price of $0.238 per share and $0.265 per share respectively. At the same time, it subscribed 324,820,000 and 108,000,000 Company's new shares of $0.1 each at a price of $0.238 per share and $0.265 per share respectively. One warrant for each two Placing Shares purchased by the placees was offered at $0.0001 per warrant and a total of 162,410,000 and 54,000,000 warrants were offered for application. As at 30 June 2011, 162,410,000 and 54,000,000 warrants were placed and are exercisable at any time during a period from 1 December 2010 to 30 November 2011 and from 28 December 2010 to 27 December 2011 respectively. Each warrant carries the right to subscribe for one Company's share at an exercise price of $0.33 per share subject to certain anti-dilutive adjustments. At 30 June 2011, the Company had outstanding warrants with an aggregate subscription price of $71,415,300 (2010: Nil) and no warrant was exercised during the year.

In order to accommodate future expansion and growth, the Company increased the authorised share capital from $400,000,000 to $1,000,000,000 by the creation of 6,000,000,000 new shares to rank pari passu with the existing shares in all respects during the year.

| | **2011** | | 2010 | |
|---|---|---|---|---|
| | **No. of shares** | **Amount** | No. of shares | Amount |
| Authorised: | | | | |
| Ordinary shares of $0.1 each | | | | |
| At 1 July 2010/2009 | **4,000,000,000** | **$ 400,000,000** | 4,000,000,000 | $ 400,000,000 |
| Increase in authorised shares | **6,000,000,000** | **600,000,000** | – | – |
| At 30 June 2011/2010 | **10,000,000,000** | **$ 1,000,000,000** | 4,000,000,000 | $ 400,000,000 |
| Issued and fully paid: | | | | |
| At 1 July 2010/2009 | **3,248,223,906** | **$ 324,822,391** | 3,248,223,906 | $ 324,822,391 |
| Shares issued | **432,820,000** | **43,282,000** | – | – |
| At 30 June 2011/2010 | **3,681,043,906** | **$ 368,104,391** | 3,248,223,906 | $ 324,822,391 |

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

## 28 Share capital (Continued)

**Capital management**

The Group's objective for capital management is to safeguard the Group's ability to continue as a going concern, to enhance shareholder value and to match the business funding needs. The Group manages its capital structure and makes adjustments to it in line with the changes in economic conditions and business strategies by adjusting the dividend payout ratio, returning capital to shareholders or issuing new shares. During the years ended 30 June 2011 and 2010, the Group consistently followed the objectives and applied the policies and process on managing capital.

The Company is not subject to externally imposed capital requirements. Certain subsidiaries of the Company are subject to regulatory imposed capital and liquid capital requirements (Note 35). These subsidiaries complied with those requirements at all times during both the current and prior financial years.

The Group monitors capital using a target gearing ratio of 0-25%, which is total borrowings divided by the shareholders' equity. Total borrowings comprise of bank borrowings and obligations under finance leases. Shareholders' equity comprises all components of equity attributable to the owners of the Company. The gearing ratio at year-end was as follows:

| | **2011** | 2010 |
|---|---|---|
| Total bank borrowings | **$ –** | $ 4,033,726 |
| Total obligations under finance leases | **55,569** | 685,061 |
| Total borrowings | **$ 55,569** | $ 4,718,787 |
| Equity attributable to owners of the Company | **$ 685,955,826** | $ 554,914,585 |
| Gearing ratio | **Below 1%** | 1% |

## 29 Equity settled share-based transactions

The Company has a share option scheme which was adopted on 10 November 2010 whereby the directors of the Company are authorised, at their discretion, to invite full-time employees, including executive directors of the Company and its subsidiaries, to take up options to subscribe for shares of the Company. Details of the share option scheme are disclosed under the section "Share Options" in the report of the directors.

Details of the options granted are as follows:

| Date of grant | Vesting period | Exercise period | Number of share options | Exercise price | Fair value at grant date |
|---|---|---|---|---|---|
| 11/01/2011 | 11/01/2011 – 11/01/2013 | 11/01/2011 – 10/01/2014 | 99,000,000 | $ 0.345 | $ 0.09-0.14 |

The options granted is vested at the beginning of each year and only up to one-third of the options can be exercised in any 12-month period.

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

## 29 Equity settled share-based transactions (Continued)

The fair value of the options granted on 11 January 2011 was $11,550,000. The Group recognised the total expense of $5,921,333 for the year ended 30 June 2011 (2010: $Nil) in relation to share options granted by the Company. The fair value was determined using the Black-Scholes pricing model. Expected volatility was based on the historical volatility, and calculated based on the expected life of the share options. The expected life used in the model has been adjusted, based on the management's best estimate. Expected dividend yield was based on historical dividends. Risk-free rate was based on the approximate yields to maturity of Hong Kong Exchange Fund Note.

The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

**Inputs into the model**

| | |
|---|---|
| Grant date share price | $ 0.345 |
| Exercise price | $ 0.345 |
| Expected volatility | 57.9% – 76.4% |
| Expected life | 1.5 years – 2.5 years |
| Expected dividend yield | 2.99% |
| Risk-free rate | 0.42% – 0.74% |

The following table discloses movements of the Company's share options held by directors and employees during the year.

| | Outstanding at 1 July 2010 | Granted during the year | Exercised during the year | Forfeited during the year | Expired during the year | Outstanding at 30 June 2011 |
|---|---|---|---|---|---|---|
| Directors | – | 70,000,000 | – | – | – | 70,000,000 |
| Employees | – | 29,000,000 | – | – | – | 29,000,000 |
| | – | 99,000,000 | – | – | – | 99,000,000 |
| Exercisable at the end of the year | | | | | | 33,000,000 |
| Weighted average exercise price | $ – | $ 0.345 | $ – | $ – | $ – | $ 0.345 |

No share option outstanding during the prior year.

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

# 30 Reserves

### THE COMPANY

| | Contributed surplus | Share premium | Share options reserve | Warrants reserve | Retained profits | Total |
|---|---|---|---|---|---|---|
| At 1 July 2009 | $ 199,229,696 | $ 31,811,160 | $ – | $ – | $ 90,629,104 | $ 321,669,960 |
| Loss for the year | – | – | – | – | (8,749,435) | (8,749,435) |
| Dividend paid | | | | | | |
| – 2009, final | – | – | – | – | (22,737,567) | (22,737,567) |
| – 2010, interim | – | – | – | – | (10,719,139) | (10,719,139) |
| At 30 June 2010 | $ 199,229,696 | $ 31,811,160 | $ – | $ – | $ 48,422,963 | $ 279,463,819 |
| At 1 July 2010 | $ 199,229,696 | $ 31,811,160 | $ – | $ – | $ 48,422,963 | $ 279,463,819 |
| Loss for the year | – | – | – | – | (5,376,151) | (5,376,151) |
| Shares issued (Note) | – | 59,814,579 | – | – | – | 59,814,579 |
| Recognition of equity-settled share-based payments | – | – | 5,921,333 | – | – | 5,921,333 |
| Warrants issued | – | – | – | 21,641 | – | 21,641 |
| Dividends paid | | | | | | |
| – 2010, final | (22,737,567) | – | – | – | – | (22,737,567) |
| – 2011, interim | – | – | – | – | (12,147,445) | (12,147,445) |
| At 30 June 2011 | $ 176,492,129 | $ 91,625,739 | $ 5,921,333 | $ 21,641 | $ 30,899,367 | $ 304,960,209 |

Note: The Company paid commission fee to its subsidiary for the share placing transactions.

## 30 Reserves (Continued)

The movement in the Group's reserves has been disclosed in the consolidated statement of changes in equity and the nature and purpose of reserves of the Group and the Company is as follows:

**Share premium**

The application of share premium account is governed by Section 40 of the Companies Act 1981 of Bermuda.

**Special reserve**

The special reserve of the Group represents the difference between the aggregate of the nominal value and the share premium of the shares of SW Kingsway Capital Group Limited at the date of acquisition by the Company and the nominal value of the shares of the Company issued for the acquisition at the time of the Reorganisation on 10 August 2000.

**Capital reserve on consolidation**

The capital reserve on consolidation of the Group represents negative goodwill arising from acquisitions prior to 1 July 2001.

**Share options reserve**

The share options reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share based payments.

**Warrants reserve**

The warrants reserve is comprised of the fair value of the actual number of unexercised warrants at the grant date.

**Exchange reserve**

The exchange reserve has been set up and will be dealt with in accordance with the accounting policies adopted for foreign currency translation.

**Properties revaluation reserve**

The properties revaluation reserve was set up to deal with the surplus or deficit arising from the revaluation of land and buildings held for own use.

**Investments revaluation reserve**

The investments revaluation reserve was set up to deal with the fair value changes arising from available-for-sale investments.

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

## 30 Reserves (Continued)

### Retained profits

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| 2010 proposed final dividend | **$ –** | $ 22,737,567 | **$ –** | $ – |
| 2011 proposed final dividend | **25,767,307** | – | **–** | – |
| Others | **72,084,523** | 63,425,933 | **30,899,367** | 48,422,963 |
| | **$ 97,851,830** | $ 86,163,500 | **$ 30,899,367** | $ 48,422,963 |

### Contributed surplus

The contributed surplus of the Company represents the difference of $271,022,350 between the fair value of the shares of the subsidiary acquired pursuant to the Reorganisation on 10 August 2000 over the nominal value of the Company's shares issued in exchange, net of $39,712,470 which was capitalised as a result of the bonus issue and dividend paid amounting to $54,817,751 in prior years.

Under the Companies Act 1981 of Bermuda, a company may make distributions to its shareholders out of contributed surplus in accordance with section 54 thereof.

## 31 Contingent liabilities

| | Company | |
|---|---|---|
| | **2011** | 2010 |
| Guarantees for banking facilities to subsidiaries | **$ 273,200,000** | $ 238,233,726 |
| Other guarantees to a subsidiary | **13,000,000** | 13,000,000 |
| Total | **$ 286,200,000** | $ 251,233,726 |

## 32 Commitments

### (a) CAPITAL COMMITMENTS

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| Contracted but not provided for – equipment | **$ 859,504** | $ 1,531,820 |

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

## 32 Commitments (Continued)

### (b) COMMITMENTS UNDER OPERATING LEASES AS LESSEE

As at 30 June 2011 and 2010, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

| | Land and buildings | |
|---|---|---|
| | **2011** | 2010 |
| Not later than 1 year | **$ 10,519,008** | $ 10,492,236 |
| Later than 1 year and not later than 5 years | **–** | 10,492,236 |
| | **$ 10,519,008** | $ 20,984,472 |

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for lease term of 2 to 3 years. The Group does not have an option to purchase the leased assets at the expiry of the leased period.

### (c) OTHER COMMITMENT

As at 30 June 2011, the Group entered into several underwriting agreements in relation to the IPO and right issue of certain companies and had a gross commitment of approximately $45 million (2010: $6 million).

## 33 Related party and connected party transactions

In addition to the transactions and balances disclosed elsewhere in these consolidated financial statements, the Group entered into the following material related party and connected party transactions.

### (a) KEY MANAGEMENT PERSONNEL REMUNERATION

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 10(a), is as follows:

| | **2011** | 2010 |
|---|---|---|
| Fees | **$ 2,605,616** | $ 2,200,000 |
| Salaries, commissions and other allowance | **9,102,490** | 9,527,202 |
| Bonuses | **5,384,297** | 2,387,750 |
| Equity settled share-based payment | **4,648,667** | – |
| Retirement scheme contributions | **111,000** | 120,000 |
| | **$ 21,852,070** | $ 14,234,952 |

Total remuneration is included in "staff costs" (see note 6(b)).

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

# 33 Related party and connected party transactions (Continued)

## (b) OTHERS

The following is a summary of significant related party and connected party (as defined in the Listing Rules) transactions which were carried out in the normal course of the Group's business:

| | *Notes* | **2011** | 2010 |
|---|---|---|---|
| Brokerage commission earned on securities, options, futures and commodities dealing | *(a)* | | |
| – fellow subsidiaries | | **$ 19,461** | $ 10,075 |
| – associates | | **–** | 23,209 |
| – non-controlling interest of a non-wholly owned subsidiary | | **3,623,580** | 3,495,368 |
| – Group's directors and their close family members | | **514,470** | 501,483 |
| Common office expenses recharged | *(b)* | | |
| – an associate | | **–** | 121,180 |
| – a fellow subsidiary | | **550,660** | – |
| Consultancy and management fees received | *(c)* | | |
| – a fellow subsidiary | | **626,000** | 780,000 |
| – an associate | | **70,000** | 103,360 |
| – jointly controlled entities | | **–** | 154,000 |
| Secretarial fee earned | *(d)* | | |
| – fellow subsidiaries | | **169,999** | 162,930 |
| – associates | | **16,320** | 16,320 |
| – jointly controlled entities | | **–** | 27,410 |
| – companies controlled by a Group's director | | **13,260** | 6,630 |
| Interest income – jointly controlled entities | *(e)* | **–** | 907,146 |

Notes:

(a) Commission rates are set at the same level as those normally offered to third party clients or the applicable staff rate if the clients are directors or employees of the Group.

(b) The allocation of office overheads and rental expenses is primarily based on the percentage of floor area occupied by each company.

(c) The fees mainly comprised a fixed monthly charge as agreed between the parties involved.

(d) The fee was charged at rates similar to those normally charged to third party clients.

(e) Interest rates are set at the same level as those normally offered to third party clients.

**Notes to the Consolidated Financial Statements**

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

## 34 Particulars of significant subsidiaries

The following is a list of the significant subsidiaries as at 30 June 2011:

| Name | Place of incorporation/ operations | Issued and fully paid share capital | Principal activities | % of ordinary shares held by the Company Directly | | Indirectly | |
|---|---|---|---|---|---|---|---|
| | | | | **2011** | 2010 | **2011** | 2010 |
| Bill Lam & Associates Limited | Hong Kong | Ordinary shares $20 | Provision of corporate services | **–** | – | **100%** | 100% |
| Billion On Development Limited | Hong Kong | Ordinary shares $10,000 | Property holding | **–** | – | **100%** | 100% |
| Kingsway Asset Management Group Limited | British Virgin Islands | Ordinary share US$1 | Investment holding | **–** | – | **100%** | 100% |
| Festival Developments Limited | British Virgin Islands | Ordinary share US$1 | Investment holding | **100%** | 100% | **–** | – |
| Kingsway Capital Limited | Hong Kong | Ordinary shares $10,779,002 | Provision of financial advisory services | **–** | – | **100%** | 100% |
| Kingsway China Investments Limited | Hong Kong/People's Republic of China | Ordinary shares $2 | Investment holding | **–** | – | **100%** | 100% |
| Kingsway Financial Services Group Limited | Hong Kong | Ordinary shares $300,000,000 | Securities, options and futures brokerage | **–** | – | **100%** | 100% |
| Kingsway Gold Bullion Limited | Hong Kong | Ordinary shares $6,000,000 | Gold bullion brokerage | **–** | – | **100%** | 100% |
| Kingsway Group Services Limited | Hong Kong | Ordinary shares $100,000 | Provision of management services | **–** | – | **100%** | 100% |
| Kingsway Insurance Services Limited | Hong Kong | Ordinary share $1 | Provision of insurance services | **–** | – | **100%** | 100% |
| Kingsway Lion Spur Technology Limited | British Virgin Islands/ Hong Kong | Ordinary share US$1 | Securities investment | **–** | – | **100%** | 100% |
| Kingsway Real Estate Services Limited | Hong Kong | Ordinary share $1 | Provision of real estate services | **–** | – | **100%** | 100% |

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

## 34 Particulars of significant subsidiaries (Continued)

| Name | Place of incorporation/ operations | Issued and fully paid share capital | Principal activities | % of ordinary shares held by the Company Directly 2011 | Directly 2010 | Indirectly 2011 | Indirectly 2010 |
|---|---|---|---|---|---|---|---|
| Sunwah Capital Holdings Limited | Hong Kong | Ordinary share $1 | Property holdings | **–** | – | **100%** | – |
| Kingsway SBF Investment Management Company Limited | British Virgin Islands/ Hong Kong | Ordinary shares US$3,100 | Provision of investment advisory services | **–** | – | **51%** | 51% |
| Kingsway SW Asset Management Limited | British Virgin Islands/ Hong Kong | Ordinary shares US$375,000 | Provision of investment advisory services | **–** | – | **100%** | 100% |
| Kingsway SW Finance Limited | Hong Kong | Ordinary shares $50,000 | Provision of loan services and financing | **–** | – | **100%** | 100% |
| Kingsway SW Futures Limited | Hong Kong | Ordinary shares $8,000,000 | Securities investment | **–** | – | **100%** | 100% |
| SW Kingsway Capital Group Limited | British Virgin Islands | Ordinary shares US$38,750,000 | Investment holding | **100%** | 100% | **–** | – |
| Primo Results Limited | Hong Kong | Ordinary share $1 | Investment holding | – | – | **100%** | – |
| Best Advisory Investments Limited | British Virgin Islands | Ordinary share US$1 | Investment holding | – | – | **100%** | – |

## 35 Financial instruments

The financial assets of the Group and the Company include financial assets at fair value through profit or loss, available-for-sale investments, and loans and receivables excluding prepayments. The carrying amounts of which are set out in the consolidated statement of financial position and the correspondence disclosure notes. The financial liabilities of the Group represent the accounts and other payables are set out in note 35(b).

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk, price risk, foreign exchange risk and interest rate risk. These risks are limited by the Group's financial management policies and practices described below.

### (a) CREDIT RISK

Credit risk arises from a number of areas. These include the possibility that a counterparty in a transaction may default during the settlement process. It also arises from lending, settlement, treasury, market making, proprietary trading and other activities undertaken by the Group.

# 35 Financial instruments (Continued)

### (a) CREDIT RISK (CONTINUED)

The Group's Finance and Credit Committees are responsible for establishing the credit approval and monitoring procedures, which are in accordance with sound business practices, the requirements and provisions of the relevant ordinances, and where applicable, the codes or guidelines issued by the Hong Kong Securities and Futures Commission.

Day-to-day credit management is performed by the Operations Department with reference to the aforementioned criteria including creditworthiness, collateral pledged and risk concentration of the counterparties. The Finance Committee and Credit Committee are responsible for review of guidelines on credit limits on a regular basis and approval of specific loans or advances if the amount exceeds our pre-set guideline.

Accounts, loans and other receivables consist of amounts due from brokers, clearing houses, clients, term loans and other receivable items. In respect of advances to clients, the Group generally requires collateral from clients before advances are granted. Collateral normally takes the form of listed securities or cash deposits. Amounts due from brokers are treated as lower credit risk as counterparties are reputable financial institutions. In view of the aforementioned and the fact that the Group's accounts, loans and other receivables relate to a large number of diversified customers and counterparties, the Group does not have any significant concentration of credit risk.

The credit risk on listed debt securities is limited because the issuers are companies listed in Hong Kong and Japan. Investment in unlisted derivative financial instruments are governed by whether the issuers have good credit ratings. The latest financial position of the issuers will be reported to senior management for considering of the credit risk of these investments.

The maximum exposure to credit risk without taking account of any collateral held or other credit enhancements is represented by the carrying value of each financial asset. Except for the financial guarantees given by the Company as set out in note 31, the Group does not provide any other guarantees which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of corporate guarantee at the end of the reporting period is disclosed in note 31.

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. 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, senior management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over the receivables that were past due but not impaired.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from accounts, loans and receivables are set out in note 21.

The Company's credit risk is primarily attributable to amounts due from subsidiaries. The Company manages this risk by assessing the financial positions of subsidiaries on a regular basis.

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

## 35 Financial instruments (Continued)

### (b) LIQUIDITY RISK

The Group manages its liquidity position to ensure the Group maintains a prudent and adequate liquidity ratio, in strict accordance with statutory requirements. This is achieved by the management, comprising the Chief Financial Officer and the Assistant Financial Controller monitoring the liquidity position of the Group on a daily basis to ensure the availability of sufficient liquid funds to meet all obligations and compliance with the statutory requirements such as the Hong Kong Securities and Futures (Financial Resources) Rules applying to various licensed subsidiaries.

The following table details the maturities analysis at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates) and the earliest date the Group can be required to pay:

| | | | Group | | | | |
|---|---|---|---|---|---|---|---|
| | Carrying amount | Repayment on demand or within one month | More than one month but within three months | More than three months but within one year | More than one year but within five years | Over five years | Total undiscounted cash flows |
| **As 30 June 2011** | | | | | | | |
| Accounts and other payables | **$ 168,844,127** | **$ 168,844,127** | **$ –** | **$ –** | **$ –** | **$ –** | **$ 168,844,127** |
| Finance lease obligations | **55,569** | **56,300** | **–** | **–** | **–** | **–** | **56,300** |
| | **$ 168,899,696** | **$ 168,900,427** | **$ –** | **$ –** | **$ –** | **$ –** | **$ 168,900,427** |
| As 30 June 2010 | | | | | | | |
| Accounts and other payables | $ 278,590,079 | $ 278,590,079 | $ – | $ – | $ – | $ – | $ 278,590,079 |
| Bank loans | 4,033,726 | 72,444 | 144,889 | 652,000 | 3,367,091 | 117,102 | 4,353,526 |
| Finance lease obligations | 685,061 | 56,300 | 112,600 | 506,700 | 56,300 | – | 731,900 |
| | $ 283,308,866 | $ 278,718,823 | $ 257,489 | $ 1,158,700 | $ 3,423,391 | $ 117,102 | $ 283,675,505 |

There is no financial liabilities held by the Company at the end of the reporting period and thus no maturities analysis to be provided.

The Company's policy is to regularly monitor its liquidity requirements including amounts due to subsidiaries, dividend payments to shareholders and payments of accrued expenses to ensure that sufficient reserves of cash is maintained to satisfy its contractual and foreseeable obligations as they fall due. The financial guarantee contracts in note 31 represent the maximum amounts that could be required to be paid on demand if the guarantees were called upon in entirely.

## 35 Financial instruments (Continued)

### (c) PRICE RISK

The Group is exposed to price changes arising from investments classified as financial assets at fair value through profit or loss and available-for-sales investments.

The Group's listed equity investments and listed debt securities are mainly listed on the Stock Exchange of Hong Kong and the Singapore Exchange Securities Trading Limited respectively. Decisions to buy or sell trading securities are rested with assigned investment managers and governed by specific investment guidelines. The Board has set up the Investment Monitoring Committee ("IMC") for the purposes of independently monitoring the positions of its proprietary trading activities involving equities and derivatives. In addition to the IMC, the Group's exposures are closely monitored by the Finance Department and senior management on a daily basis and are measured on a "mark-to-market" basis. The Group's various proprietary trading activities are reported monthly to senior management for review.

For sensitivity analysis purpose of listed equity investments, it is assumed that the market price of the Tracker Fund of Hong Kong increased/decreased in line with the movement of the Hang Seng Index. The risk exposure was quantified by comparing the Group's portfolio beta to the beta of Tracker Fund of Hong Kong. Assuming a 10% upward/downward movement in the Hang Seng Index with all other variables held constant at the end of the reporting period, the Group's profit before tax would have increased/decreased by an estimated $11,133,000 (2010: $38,603,000).

For listed debt securities, it is assumed that the yield of individual debt increased/decreased by 50 basis points and all other variables held constant at the end of the reporting period, the Group's profit before tax would have an estimated decrease/increase of $591,000.

For unlisted investment funds and equity security, it is assumed that the unit price of the funds and the share price of the equity security increased/decreased by 10% and all other variables held constant at the end of the report period, the Group's investments revaluation reserve would have an estimated increase/decrease of $5,334,000.

### (d) FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk to earnings or capital arising from movements of foreign exchange rates. Foreign exchange risk is monitored by the Finance Department and senior management on a daily basis. Monetary assets are measured daily on a "mark-to-market" basis. Non-current assets are revalued regularly using the market exchange rates. Overall positions are reported monthly to senior management for review.

The Group's foreign exchange risk primarily arises from currency exposures originating from its proprietary investments and deposits at banks. Principal brokerage and lending operations are mainly carried out in local currency to obviate foreign exchange risk. Accordingly, the Group has no significant exposure to foreign exchange fluctuations on accounts and loans receivables.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets and liabilities denominated in a currency other than the functional currency of the entity to which they relate.

# 35 Financial instruments (Continued)

## (d) FOREIGN EXCHANGE RISK (CONTINUED)

| | USD | RMB | TWD | CAD | Others |
|---|---|---|---|---|---|
| **At 30 June 2011** | | | | | |
| Other financial assets | **$ 390,763** | **$ 145,378** | **$ –** | **$ –** | **$ –** |
| Available-for-sales investments | **25,645,747** | **–** | **–** | **–** | **–** |
| Financial assets at fair value through profit or loss | **20,741,035** | **4,082,397** | **–** | **–** | **–** |
| Accounts, loans and other receivables | **9,923,997** | **58,266** | **493,124** | **–** | **331,611** |
| Cash and cash equivalents | **3,649,324** | **2,905,762** | **–** | **3,388,179** | **35,599** |
| Accounts and other payables | **(203,052)** | **(2,938)** | **(302,361)** | **–** | **–** |
| Net exposure arising from recognised assets and liabilities | **$ 60,147,814** | **$ 7,188,865** | **$ 190,763** | **$ 3,388,179** | **$ 367,210** |

| | USD | RMB | TWD | CAD | Others |
|---|---|---|---|---|---|
| At 30 June 2010 | | | | | |
| Other financial assets | $ 390,763 | $ 274,546 | $ – | $ – | $ – |
| Accounts, loans and other receivables | 105,043,086 | 59,172 | 4,914,447 | – | 28,661 |
| Cash and cash equivalents | 1,391,270 | 383,224 | – | 182,192 | 198,250 |
| Accounts and other payables | (104,594,621) | (304,284) | (4,902,604) | – | (41,086) |
| Bank loans | (3,073,494) | – | – | – | – |
| Net exposure arising from recognised assets and liabilities | $ (842,996) | $ 412,658 | $ 11,843 | $ 182,192 | $ 185,825 |

An analysis of the estimated change in the Group's profit before tax in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of reporting date is presented in the following table.

| | **2011** | | 2010 | |
|---|---|---|---|---|
| | **Increase/(decrease) in exchange rates** | **Effect on profit before tax** | Increase/(decrease) in exchange rates | Effect on profit before tax |
| Renminbi, RMB | **+5%** | **359,443** | +5% | 20,633 |
| | **–5%** | **(359,443)** | –5% | (20,633) |
| Canadian Dollar, CAD | **+5%** | **169,409** | +5% | 9,110 |
| | **–5%** | **(169,409)** | –5% | (9,110) |

The above analysis assumes the change in foreign exchange rates had occurred at the end of reporting date and had been applied to each of the Group entities' exposure to currency risk in existence at that date while all other variables remains constant. The stated changes also represent management's assessment of reasonably possible changes in foreign exchange rates until the end of the next reporting period. The Hong Kong Dollar and the United States Dollar peg are assumed to stay materially unaffected by any fluctuation in United States Dollar against other currencies.

## 35 Financial instruments (Continued)

### (e) INTEREST RATE RISK

Interest rate risk primarily results from timing differences in the re-pricing of interest bearing assets, liabilities and commitments. The Group's interest rate risk exposure arises mainly from bank balances, margin financing, short-term bank loans and other lending activities undertaken. The short-term bank loans are mainly utilised for re-financing customers' borrowings which the Group has the legal capacity to quickly recall the margin loans or re-price the loans to an appropriate level. Interest rates paid by the Group are managed by the Finance Department with the aim of maximising the spread of interest consistent with liquidity and funding obligations.

Assuming that the Hong Kong market interest rates had been 50 basis points (2010: 50 basis points) higher and all other variables held constant at the end of the reporting period, the Group's profit before tax would have an estimated increase of $1,531,000 (2010: $1,111,000).

The Company is exposed to interest rate risk only to the extent that it earns interest on banks deposits and loans to a subsidiary. Assuming that the Hong Kong market interest rates had been 50 basis points (2010: 50 basis points) higher and all other variables held constant at the end of the reporting period, the Company's loss before tax would have an estimated decrease of $1,339,000 (2010: $404,000).

## 36 Fair value of financial instruments

All financial instruments are stated at fair value or carried at amounts not materially different from their fair values as at 30 June 2011 and 2010.

The fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively. The fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input. The fair value of debt securities and investment funds are calculated using quoted prices and net asset values. For an option-based derivative, the fair value is estimated using the Black-Scholes model.

Financial instruments that are measured subsequent to initial recognition at fair value were grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

*For the year ended 30 June 2011 (Expressed in Hong Kong dollars)*

## 36 Fair value of financial instruments (Continued)

| | 2011 Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Available-for-sale investments | | | | |
| – Unlisted investment funds | $ – | $ 25,645,747 | $ – | $ 25,645,747 |
| – Unlisted equity security | – | 27,697,261 | – | 27,697,261 |
| Financial assets at fair value through profit or loss | | | | |
| – Listed equity securities | 166,415,403 | – | – | 166,415,403 |
| – Listed debt securities | 32,568,832 | – | – | 32,568,832 |
| – Unlisted derivatives | – | 150,000 | – | 150,000 |
| | $ 198,984,235 | $ 53,493,008 | $ – | $ 252,477,243 |

At 30 June 2010, the only financial instruments of the Group carried at fair value were financial assets at fair value through profit or loss of $314,977,473 listed on the Stock Exchange and were fall into Level 1. There were no transfers between Level 1 and 2 in the current and prior years.

## 37 Key sources of estimation uncertainty

In preparing these consolidated financial statements, management is required to exercise significant judgements in the selection and application of accounting principles, including making estimates and assumptions. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affect only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The following are 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.

**(a) FAIR VALUE OF FINANCIAL ASSETS/LIABILITIES**

For financial assets/liabilities held at fair value through profit or loss, the fair value is principally based on their quoted market prices at the end of the reporting period. For unlisted investment funds, the fair values are based on the net asset values of the investment funds reported to the Trustee by the administrators. Judgment is required when determining whether the quoted market prices and net asset values can reflect the fair value of the financial assets. For unlisted equity security, the fair value is based on its initial public offering price that was already fixed as at 30 June 2011. The investment is subject to 6 months lock-up period and there was no active market as at 30 June 2011. For unquoted derivatives, the fair value is significantly affected by the combination of the valuation methodologies employed, the parameters used and, if required, the underlying sample chosen. The valuation methodologies adopted by the Group is discussed in note 36.

**(b) IMPAIRMENT ALLOWANCES ON LOANS AND RECEIVABLES**

The Group periodically reviews its loan portfolios to assess whether impairment allowances exist. In determining whether impairment allowances should be recorded in the consolidated income statement, the Group has individually evaluated each loan account for impairment after taking into account the value of each client account's underlying collateral and the latest financial position of those borrowers in default of settlement. Details of the impairment allowances are disclosed in note 21.

## 37 Key sources of estimation uncertainty (Continued)

**(c) INCOME TAX**

The Group's tax losses are mainly from a subsidiary engaging in proprietary trading activities. At the end of each reporting period and based primarily on the performance of the Hong Kong financial market, the Group estimates whether there will be sufficient future profits or taxable temporary differences available so that deferred tax assets should be recognised. No deferred tax assets will be recognised if the future profit streams are unpredictable. Details of the deferred tax are disclosed in note 27.

**(d) MONIES HELD IN AN ESCROW ACCOUNT**

During the current financial reporting period, the Group has deposited an amount of $40 million (the "Escrow Funds") into an escrow account maintained by an international law firm pursuant to the terms of an escrow agreement dated 28 March 2011. As has been widely reported, a partner of the law firm has been arrested by the Hong Kong Police and charged with theft and forgery with respect to monies held in escrow account. The Group has been informed that the law firm has arranged for an external forensic examination to be conducted on its escrow account and no determination of the Group's demand for return of the Escrow Funds will be made until the forensic examination is completed. The Group's legal advisors have reviewed the documentary evidence in respect of the escrow agreement, have analysed the legal duties and obligations of the law firm arising from the terms of the escrow agreement and have analysed the legal and professional duties and obligations of the law firm arising from the receipt of the Escrow Funds (which were client monies and held on trust). In the event the Group's demand for repayment of the Escrow Funds is denied, the Group's legal advisors are of the opinion that the Group has good grounds to succeed in a potential legal claim against the law firm for the return of the Escrow Funds. Accordingly, the Group has not recognised any impairment loss as at 30 June 2011.

As of the reporting date, the management of the Group considered that the Escrow Funds will be recoverable in full from the law firm within the next twelve months. Should the Group resort to take legal action to recover the Escrow Funds, in which case the timing of recovering this amount may be longer than twelve months and the Group may not eventually recover the Escrow Funds in full if the law firm fails to honour the terms of the escrow agreement. The management of the Group currently consider such eventual outcome is not likely but continue to closely monitor the developments of this matter.

## 38 Parent and ultimate holding company

At 30 June 2011, the directors consider the parent of the Group to be World Developments Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use. The directors consider the ultimate holding company of the Group to be Sunwah International Limited, which is incorporated in Bermuda and listed on the Toronto Stock Exchange.

## 39 Events after the reporting period

On 30 March 2011, the Group entered into a conditional agreement with a vendor to acquire 10% of the entire issued share capital of VinaCapital Group Limited for a consideration of $149 million. The Group terminated this transaction on 1 September 2011.

On 8 August 2011, the Group entered into the provisional agreement with a third party vendor to acquire a property for a purchase price of $206,312,000. The Property comprises the entire 7th Floor of Tower One, Lippo Centre, No. 89 Queensway, Hong Kong and will be used as the Group's offices. The transaction is expected to be completed on or before 19 January 2012.

# Five Years Financial Summary

*(Expressed in Hong Kong dollars)*

| | 2007<br>'000 | 2008<br>'000 | 2009<br>'000 | 2010<br>'000 | **2011**<br>**'000** |
|---|---|---|---|---|---|
| **Results** | | | | | |
| Turnover | $ 412,077 | $ 32,254 | $ 67,818 | $ 131,099 | **$ 181,343** |
| Profit/(loss) attributable to owners of the Company | $ 207,537 | $ (107,512) | $ (61,240) | $ 10,494 | **$ 46,573** |
| Basic earnings/(loss) per share (cents) | 6.4 | (3.3) | (1.9) | 0.3 | **1.3** |
| Dividends paid and payable to owners of the Company attributable to the year | $ 33,457 | $ 34,106 | $ 33,457 | $ 33,457 | **$ 37,915** |
| **Assets and liabilities** | | | | | |
| Total assets | $ 2,070,524 | $ 913,730 | $ 752,414 | $ 857,932 | **$ 884,847** |
| Total liabilities | $(1,178,534) | $ (214,585) | $ (177,056) | $ (302,858) | **$ (198,753)** |
| Net assets attributable to owners of the Company | $ 808,491 | $ 671,354 | $ 575,178 | $ 554,915 | **$ 685,956** |

# Directory of Licensed Subsidiaries and Affiliates

## Licensed Subsidiaries of Sunwah Kingsway Capital Holdings Limited

**Kingsway Financial Services Group Limited**

Licensed Corporation of the Hong Kong Securities and Futures Commission

Exchange Participant of The Stock Exchange of Hong Kong

Broker Participant of Hong Kong Securities Clearing Company Limited

Exchange Participant of Hong Kong Futures Exchange

Participant of HKFE Clearing Corporation Limited

Options Trading Exchange Participant of SEHK

SEOCH Direct Clearing Participant

Lead Underwriter and Securities Broker licence for B-Shares of Shenzhen and Shanghai Stock Exchanges granted by the China Securities Regulatory Commission

B-Shares Special Seat Holder of Shenzhen Stock Exchange

B-Shares Tangible Trading Seat Holder of Shanghai Stock Exchange

B-Shares Special Clearing Participant of China Securities Depository and Clearing Corporation Limited – Shenzhen Branch

B-Shares Clearing Participant of China Securities Depository and Clearing Corporation Limited – Shanghai Branch

**Kingsway Capital Limited**

Licensed Corporation of the Hong Kong Securities and Futures Commission

Main Board and GEM Board Sponsor of The Stock Exchange of Hong Kong

**Kingsway SW Asset Management Limited**

Licensed Corporation of the Hong Kong Securities and Futures Commission

**Kingsway SW Finance Limited**

Money Lender registered with the HKSAR Government

**Kingsway SBF Investment Management Company Limited**

Licensed Corporation of the Hong Kong Securities and Futures Commission

## Affiliated & Overseas Offices

**Canada**

– Kingsway Capital of Canada Inc.
Suite 1200, 8 King Street East, Toronto, Ontario, Canada M5C 1B5

**China**

– Kingsway Financial Services Group Ltd. – Beijing Representative Office

– Beijing Kingsway Financial Consultancy Limited
Room 801, Building A, Beijing Fortune Plaza,
No. 7 Dongsanhuan Zhong Road, Chaoyang District,
Beijing, 100020, PRC

– Shanghai Kingsway Financial Consultancy Limited
Room 702B, Officer Tower, Jinmao Tower,
88 Century Avenue, Pudong, Shanghai 200121, PRC

– Shenzhen Kingsway Financial Consultancy Limited
701, Tower A, Aerospace Skyscraper,
4019 Shennan Road, Futian District, Shenzhen,
518048, PRC

## Ultimate Holding Company

**Sunwah International Limited**

A listed company on the Toronto Stock Exchange

# Corporate Information

## General Information

**CHAIRMAN**

Jonathan Koon Shum Choi

**EXECUTIVE DIRECTORS**

Mary Yuk Sin Lam *(Deputy Chairman)*
Michael Koon Ming Choi *(Chief Executive Officer)*

**NON-EXECUTIVE DIRECTORS**

Janice Wing Kum Kwan
Lee G. Lam

**INDEPENDENT NON-EXECUTIVE DIRECTORS**

Robert Tsai To Sze
Stanley Kam Chuen Ko
Michael Wai Chung Wu

## Legal Advisors to the Company

*As to Hong Kong Law:*
MinterEllison
15th Floor, Hutchison House,
10 Harcourt Road, Central, Hong Kong

Clifford Chance
28th Floor, Jardine House,
One Connaught Place, Central, Hong Kong

*As to Bermuda Law:*
Conyers Dill & Pearman
2901 One Exchange Square,
8 Connaught Place, Central, Hong Kong

## Auditor

Deloitte Touche Tohmatsu
35th Floor, One Pacific Place,
88 Queensway, Hong Kong

## Registered Office

Clarendon House,
2 Church Street,
Hamilton HM 11, Bermuda

## Head Office and Principal Place of Business

5th Floor, Hutchison House,
10 Harcourt Road, Central,
Hong Kong

## Company Secretary

Vincent Wai Shun Lai

## Authorised Representatives

Michael Koon Ming Choi
Vincent Wai Shun Lai

## Bermuda Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre,
11 Bermudiana Road, Pembroke HM08,
Bermuda

## Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Room 1712-1716, 17th Floor,
Hopewell Centre, 183 Queen's Road East,
Hong Kong

## Principal Bankers

Standard Chartered Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited

## Composition of Board Committees

**AUDIT COMMITTEE**

Robert Tsai To Sze *(Chairman)*
Stanley Kam Chuen Ko
Michael Wai Chung Wu

**NOMINATION COMMITTEE**

Stanley Kam Chuen Ko *(Chairman)*
Jonathan Koon Shum Choi
Mary Yuk Sin Lam

**COMPENSATION COMMITTEE**

Stanley Kam Chuen Ko *(Chairman)*
Jonathan Koon Shum Choi
Mary Yuk Sin Lam
Robert Tsai To Sze
Michael Wai Chung Wu

**CORPORATE GOVERNANCE COMMITTEE**

Michael Wai Chung Wu *(Chairman)*
Stanley Kam Chuen Ko

SUNWAH KINGSWAY
新華滙富

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