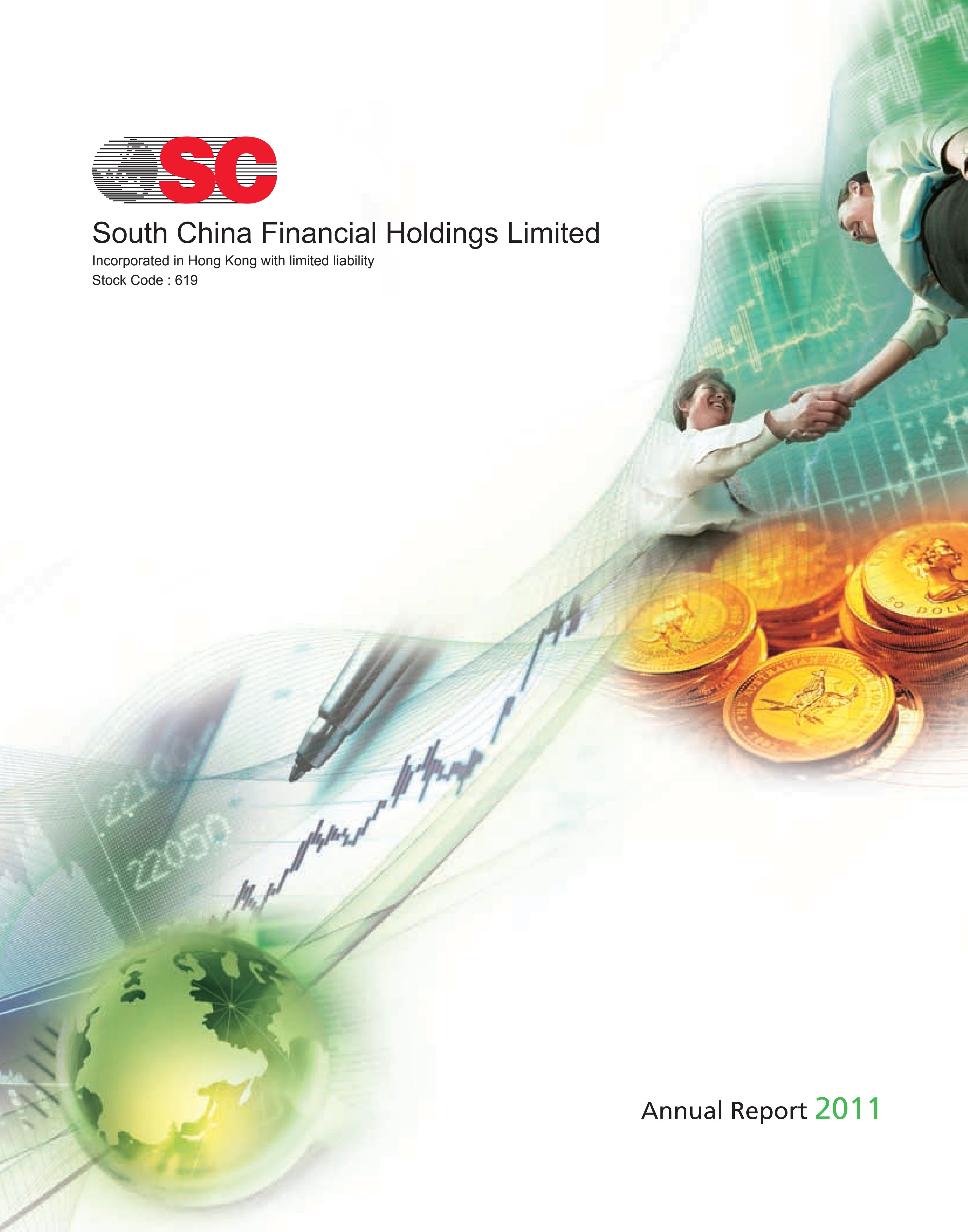
South China Financial Holdings Limited

Incorporated in Hong Kong with limited liability

Stock Code : 619



Annual Report 2011

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Ng Hung Sang (*Chairman*)
Mr. Richard Howard Gorges (*Vice-chairman*)
Ms. Cheung Choi Ngor (*Vice-chairman*)
Mr. Ng Yuk Yeung, Paul (*Vice-chairman*)
Mr. Chan Hing Wah (*Chief Executive Officer*)

Non-executive Director

Mr. Ng Tze Wai

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE*

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

(* A Remuneration and Nomination Committee comprising the above same members was established on 27 March 2012 to replace the original Remuneration Committee)

COMPANY SECRETARY

Mr. Tong Kai Wing

REGISTERED OFFICE

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

AUDITORS

Ernst & Young
Certified Public Accountants

BANKERS

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

SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
18th Floor, Fook Lee Commercial Centre
Town Place, 33 Lockhart Road
Wanchai, Hong Kong

STOCK CODE

619

WEBSITE

http://www.sctrade.com

Chairman's Statement and Management Discussion and Analysis

I am pleased to report the activities of South China Financial Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2011.

FINANCIAL SUMMARY

Hang Seng Index fell by 20% from 23,035 at the end of 2010 to 18,434 at the end of 2011. Dragged by this deterioration of the market performance, the Group recorded a loss of HK$162.1 million in the year ended 31 December 2011.

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2011 (2010: HK0.32 cent per share amounting to HK$16,092,000). No interim dividend was paid during the year ended 31 December 2011 (2010: HK0.15 cent per share amounting to HK$7,543,000).

BUSINESS REVIEW

Broking, trading and investment

Hit by the fierce competition in the market, revenue recorded for the broking business decreased from HK$70.7 million to HK$57.3 million although average daily market turnover increased slightly by 1% from HK$69.1 billion to HK$69.7 billion. Operating loss of HK$12.6 million for broking business was recorded for the year ended 31 December 2011.

Reflecting the severe downturn in the equity market and including unrealized fair value loss of HK$79.1 million, trading and investment incurred a loss of HK$128.3 million for the year as compared with a profit of HK$89.4 million for the last year.

Margin financing and money lending

Our loan and advance portfolio for margin financing and personal loan was HK$129.0 million as at 31 December 2011 as compared with HK$216.6 million as at the end of 2010. Due to the decreased average loan amount throughout the year, revenue decreased by 25% from HK$21.9 million to HK$16.5 million for the year ended 31 December 2011. Contribution from this segment was HK$2.2 million including net impairment provision for loans of HK$6.8 million.

Corporate advisory and underwriting

Revenue from our corporate advisory and underwriting business was HK$0.5 million and operating loss was HK$8.5 million for the year ended 31 December 2011.

LIQUIDITY AND FINANCIAL RESOURCES

The Group had obtained short term bank credit facilities which were reviewed on a yearly basis and a long term mortgage loan. The facilities for the share margin finance operations were secured by the securities of our margin clients and the Group. The facilities for the money lending operations were clean loans. All the outstanding credit facilities were guaranteed by the Company.

As at 31 December 2011, the Group's long term bank borrowings apart from those for share margin finance business and personal loan business amounted to HK$160.0 million (31 December 2010: HK$113.7 million), which, when related to the Group's equity of HK$317.3 million (31 December 2010: HK$498.2 million), represented a gearing ratio of approximately 50.4% (31 December 2010: 22.8%).

The Group had a cash balance of HK$125.8 million at the end of the year, an increase of 10% from the end of last year. The Group had sufficient working capital to meet its operational needs.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group had no significant exposure to fluctuations in exchange rates and any related hedges as at 31 December 2011.

CAPITAL STRUCTURE

The Group had no debt securities or capital instruments other than equity shares as at 31 December 2011.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

The Group had no material acquisitions and disposals of subsidiaries and associates for the year ended 31 December 2011.

CHARGES ON ASSETS

As at 31 December 2011, the Group's leasehold land and building were pledged to a bank for installment and revolving loan facilities.

CONTINGENT LIABILITIES

As at 31 December 2011, the Group had no material contingent liabilities.

INVESTMENTS

For the year ended 31 December 2011, the Group's portfolio of Hong Kong listed securities decreased mainly due to net addition offset by the revaluation loss during the year.

EMPLOYEES

As at 31 December 2011, the total number of employees of the Group was 181 (31 December 2010: 168). Employee's cost (including directors' emoluments) amounted to approximately HK$49 million for the year (2010: approximately HK$48 million).

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

PROSPECTS

The Group continues to be an active player in the market.

In view of the current economy and the political uncertainties, we anticipate fierce price competition to prevail with cut-throat pricing offers in 2012. We will continue to take a competitive stance at all fronts. While we are aggressive on pricing, we aim at providing the best values to our customers by constantly improving and expanding our service range, product offerings and customer services. We put great efforts to improve our operational efficiency which are backed by enhanced technical capabilities.

We will continue to maintain a high quality brand image and awareness amongst the consumers with well-orchestrated integrated marketing campaigns to hit home our strong competitive edges. We are committed to providing flexible and value added brokerage services to meet the needs of the sophisticated customers.

2012 is set for a year of expansion. We are diversifying and strengthening our business in the following areas: Corporate Finance, Equities Capital Markets, Derivatives Markets and Wealth Management.

To pave the way for a strong growth, we have made preparations during the last quarter of 2011 including the revamping of the corporate finance team, strengthening our network in conducting Equities Capital Markets (ECM) activities and enhancing our trading capabilities in a wide range of derivatives products. We have seen preliminary good signs on all these business areas and have the confidence to further developing these areas into major sources of revenue other than brokerage commission.

In addition, we have been making a major effort to develop wealth management business. In January 2012, South China Wealth Management Limited was incorporated to provide the platform for this purpose. In March 2012, we were accepted as a Member of the Professional Insurance Brokers Association. This grants us the licence to offer insurance products to clients. We are actively recruiting and expanding our sales teams and signing up products for sale. As of now, we have made available most of the Hong Kong registered fund products on our platform. We are in the process of signing up with several insurance companies to carry their financial planning and insurance products. We have been making good progress in the wealth management thus far.

All in all, we are confident that our expanded capabilities and improved operational efficiency will further enhance our client servicing and acquisition capabilities, expand our reach and access to greater investor communities and segments to create more business opportunities. It thereby leads us into a promising future with expanded revenue growth prospect.

APPRECIATION

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

Ng Hung Sang
Chairman

Hong Kong, 27 March 2012

Directors' Biographical Details

EXECUTIVE DIRECTORS

Mr. Ng Hung Sang, aged 62, is an Executive Director and the Chairman of the Company. Mr. Ng is actively involved in the overall corporate policies, strategic planning and business development of the Group. Mr. Ng is also an executive director and the chairman of South China Holdings Limited ("SCH"), South China (China) Limited ("SCC") and South China Land Limited ("SCL"). He holds a Master degree in marketing from Lancaster University in the United Kingdom and is a fellow member of the Chartered Institute of Management Accountants. Mr. Ng was appointed as a Director of the Company on 7 December 1988. Mr. Ng is the father of Mr. Ng Yuk Yeung, Paul, an Executive Director of the Company.

Mr. Richard Howard Gorges, aged 68, an Executive Director and a Vice-chairman of the Company and SCC, and an executive director of SCH and SCL. He holds a Master degree in law from Cambridge University in the United Kingdom. Mr. Gorges was appointed as a Director of the Company on 7 December 1988.

Ms. Cheung Choi Ngor, aged 58, is an Executive Director and a Vice-Chairman of the Company. She is also an executive director, the vice-chairman and chief executive officer of SCC, an executive director of SCH and an executive director, the compliance officer and an authorised representative of SCL. She holds a Master degree in business administration from University of Illinois in the United States of America. Ms. Cheung is a member of the National Committee of the Chinese People's Political Consultative Conference. Ms. Cheung was appointed as a Director of the Company on 7 December 1988.

Mr. Ng Yuk Yeung, Paul, aged 30, is an Executive Director and a Vice-Chairman of the Company. He is also an executive director and the chief executive officer of SCL. Mr. Ng graduated in law from Corpus Christi College, University of Cambridge (the "University") in the United Kingdom and is a Scholar of the University. Mr. Ng was appointed as a Director of the Company on 15 September 2003 and was appointed as a Vice-Chairman of the Company on 1 December 2010. He has been engaged in the financial services, tourism and media businesses for nine years. Mr. Ng is a son of Mr. Ng Hung Sang, the Chairman of the Company.

Mr. Chan Hing Wah, aged 52, is an Executive Director and the Chief Executive Officer of the Company. He has over 25 years experience in the securities and futures industry. Prior to joining the Company, he has held senior positions of various reputable organizations including deputy chief executive officer of OSK Holdings (Hong Kong) Limited, head of securities services of Fubon Bank, managing director of South China Brokerage Company Limited (former name of the Company), chief executive officer of Hutchison CSFBdirect Limited, chief operating officer of Infocast Limited, director of Worldsec International Limited, chief operating officer of Hong Kong Futures Exchange Limited and director of HKFE Clearing Corporation Limited. Mr. Chan holds a Master's degree in Business Administration from the University of Hong Kong and is a member of the Hong Kong Securities Institute and was the chairman of the Hong Kong Association of Online Brokers. Mr. Chan was appointed as the Chief Executive Officer of the Company on 12 May 2011 and an Executive Director of the Company on 9 June 2011.

NON-EXECUTIVE DIRECTOR

Mr. Ng Tze Wai, aged 55, is a Non-executive Director of the Company. He graduated from The Chinese University of Hong Kong with a Bachelor's degree in Business Administration with honours, from the City Polytechnic of Hong Kong (now known as City University of Hong Kong) with a Bachelor's degree in Arts with honours in Accountancy and from The Hong Kong University of Science and Technology with a Master's degree in Business Administration. He is also an associate member of The Chartered Institute of Bankers and a fellow member of the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and an ordinary member of the Hong Kong Securities Institute. He was appointed as a part-time member of Central Policy Unit (January 2009 – December 2010), a member of the Banking and Finance Industry Training Board of Vocational Training Council (for the period from 1 April 2009 to 31 March 2011), a member of the Banking Industry Training Advisory Committee of the Education Bureau (with effect from 1 August 2010 for a period of two years). He is also a member of the Professional Accountants in Business Advisory Panel and of the Professional Accountants in Business Leadership Panel of HKICPA for 2009 and 2010 respectively. Mr. Ng has had 28 years of banking experience and led a Corporate Banking Department in Hang Seng Bank for about 10 years. Prior to joining the Company, he was the director & chief executive of Allied Banking Corporation (Hong Kong) Limited for about 6 years and was the vice-chairman of The DTC Association. Mr. Ng was appointed as an Executive Director of the Company on 8 November 2010, the Chief Executive Officer of the Company on 1 December 2010 until 12 May 2011, a Vice-chairman of the Company on 12 May 2011 until 17 January 2012 and re-designated as a Non-executive Director on 17 January 2012.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mrs. Tse Wong Siu Yin, Elizabeth, aged 54, is an Independent Non-executive Director of each of the Company, SCH and SCC. She is also the chairman of the Hong Kong Flower Retailers Association, the convenor of Youth Skills Competition in Floristry of Vocational Training Council and she received an award of the Hundred Outstanding Women Entrepreneur in China in 2009. Mrs. Tse holds a Bachelor degree of Science from the University of Western Ontario in Canada. Mrs. Tse was appointed as an Independent non-executive Director of the Company on 25 November 1992.

Hon. Raymond Arthur William Sears, Q.C., aged 79, a retired High Court Judge, holds a Master's degree in law from Cambridge University in the United Kingdom. He became a Queen's Counsel in 1975 and is a former vice-chairman of the Judicial Section of the International Bar Association. In the United Kingdom, he had been a leading Counsel in England to the Government and large Authorities on redevelopment and construction projects and to the General Medical Council. In 1986 and 1987, he was a Justice of the Supreme Court of Hong Kong and the Commissioner to the Sultan of Brunei, respectively. From 1994 to 1999, he was a Senior Civil High Court Judge. Mr. Sears was appointed as an Independent Non-executive Director of the Company on 24 March 2000.

Mr. Tung Woon Cheung, Eric, aged 41, is general manager of the finance department of Beijing Enterprises Holdings Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong; an executive director, the chief financial officer and company secretary of Beijing Enterprises Water Group Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong; the company secretary of Biosino Bio-technology and Science Incorporation, a company listed on the GEM Board of The Stock Exchange of Hong Kong. Mr. Tung graduated from York University, Toronto, Canada with a bachelor honours degree in administrative studies. He is a Certified Public Accountant of Hong Kong Institute of Certified Public Accountants and a U.S. Certified Public Accountant of The American Institute of Certified Public Accountants. Mr. Tung was appointed as an Independent Non-executive Director of the Company on 21 September 2004.

Directors' Report

The Directors of the Company submit their report and the audited consolidated financial statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries consist of securities, bullion, forex and commodities broking and trading, margin financing, money lending, provision of corporate advisory and underwriting services and investment holding.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 20 to 85 of this Annual Report.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2011 (2010: HK0.32 cent per share amounting to HK$16,092,000). No interim dividend was paid during the year ended 31 December 2011 (2010: HK0.15 cent per share amounting to HK$7,543,000).

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 86 of this Annual Report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTIONS

There were no changes in the Company's authorized share capital during the year. Details of movements in the Company's share capital and share options during the year are set out in notes 32 and 33 to the financial statements.

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

During the year ended 31 December 2011, the Company repurchased ordinary shares of the Company in the market through The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and details of which are as follows:

Month	**Number of ordinary shares repurchased**	**Highest price paid per share**	**Lowest price paid per share**	**Consideration**
		HK$	*HK$*	*HK$'000*
May 2011	500,000	0.107	0.107	54

The share repurchase was effected by the Board for the enhancement of shareholders' value.

The repurchased shares were cancelled during the year ended 31 December 2011 and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of shares of HK$41,000 was charged to retained profits. In accordance with section 49H of the Hong Kong Companies Ordinance, an amount equivalent to the par value of the shares cancelled was transferred from retained profits to the capital redemption reserve.

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 34 to the financial statements and in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2011, the Company had no reserves available for distribution.

DIRECTORS

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

Executive Directors:

Mr. Ng Hung Sang (*Chairman*)
Mr. Richard Howard Gorges (*Vice-chairman*)
Ms. Cheung Choi Ngor (*Vice-chairman*)
Mr. Ng Yuk Yeung, Paul (*Vice-chairman*)
Mr. Cheung Wai Kwok, Gary (*Managing Director*) (*Resigned on 9 June 2011*)
Mr. Chan Hing Wah (*appointed as Chief Executive Officer on 12 May 2011*) (*appointed as Executive Director on 9 June 2011*)

Non-executive Director:

Mr. Ng Tze Wai (*Acting as Chief Executive Officer until 12 May 2011*) (*Appointed as Vice-chairman on 12 May 2011*)
(*Acting as Executive Director until 17 January 2012*)
(*Re-designated as a Non-executive Director and resigned as Vice-chairman on 17 January 2012*)

Independent Non-executive Directors:

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

In accordance with article 99 of the Articles of Association of the Company, Mr. Chan Hing Wah will retire from office at the forthcoming annual general meeting. In accordance with article 116 of the Articles of Association of the Company, Mr. Richard Howard Gorges, Mr. Ng Yuk Yeung, Paul and Mrs. Tse Wong Siu Yin, Elizabeth will retire from office at the forthcoming annual general meeting. All the retiring Directors, being eligible, offer themselves for re-election.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") from each of the Independent Non-executive Directors namely, Mrs. Tse Wong Siu Yin, Elizabeth, Hon. Raymond Arthur William Sears, Q.C. and Mr. Tung Woon Cheung, Eric for the year ended 31 December 2011 and as at the date of this report, the Company continues to consider the Independent Non-executive Directors to be independent.

DIRECTORS' BIOGRAPHIES

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

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2011, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules, were as follows:

(a) The Company

(i) *Long positions in shares*

Name of Director	Capacity	Number of ordinary shares	Total number of ordinary shares	Approximate percentage of shareholding
Mr. Ng Hung Sang ("Mr. Ng")	Beneficial owner Interest of spouse Interest of controlled corporations	185,554,400 233,000,000 2,550,909,224 (Note a)	2,969,463,624	59.05%
Mr. Richard Howard Gorges ("Mr. Gorges")	Beneficial owner	12,174,000	12,174,000	0.24%
Ms. Cheung Choi Ngor ("Ms. Cheung")	Beneficial owner	10,000,000	10,000,000	0.20%
Hon. Raymond Arthur William Sears, Q.C.	Interest of spouse	200,000	200,000	0.00%

(ii) *Long positions in underlying shares*

Share option

Name of Director	Capacity	Number of underlying shares	Approximate percentage of shareholding
Mr. Gorges	Beneficial owner	Nil (note b)	0.00%
Ms. Cheung	Beneficial owner	Nil (note b)	0.00%
Mr. Ng Yuk Yeung, Paul ("Mr. Paul Ng")	Beneficial owner	Nil (note b)	0.00%

(b) Associated corporation

Long positions in shares

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

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

Notes:

(a) The 2,550,909,224 shares of the Company held by Mr. Ng through controlled corporations referred to above include 474,606,720 shares held by Bannock Investment Limited ("Bannock"), 501,292,800 shares held by Earntrade Investments Limited ("Earntrade"), 792,100,504 shares held by Fung Shing Group Limited ("Fung Shing"), 743,728,000 shares held by Parkfield Holdings Limited ("Parkfield"), 33,331,200 shares held by Ronastar Investments Limited ("Ronastar") and 5,850,000 shares held by Tek Lee Finance and Investment Corporation Limited ("Tek Lee"). Fung Shing, Parkfield and Ronastar are wholly-owned by Mr. Ng. Bannock is a wholly-owned subsidiary of Earntrade which is owned as to 60% by Mr. Ng, 20% by Mr. Gorges and 20% by Ms. Cheung, Tek Lee is an indirect subsidiary of South China Holdings Limited, which is controlled by Mr. Ng as to 73.72%.

(b) Please refer to details set out in section headed "Share Option Scheme".

(c) SCFC is a 98.81% owned subsidiary of the Company.

Save as disclosed above, as at 31 December 2011, none of the Directors or chief executives of the Company had registered any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

The Directors and employees of the Company and its subsidiaries are entitled to participate in the share option scheme of the Company. Particulars of the share option scheme of the Company are set out in note 33 to the financial statements. Details of the options granted by the Company to the Directors are set out under the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or any Associated Corporation" of this Annual Report.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

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

RETIREMENT BENEFIT PLAN

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of transactions during the year between the Group and other companies in which certain Directors of the Company have beneficial interests are set out in note 39 to the financial statements.

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

MANAGEMENT CONTRACTS

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

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

As at 31 December 2011, the following persons, other than the Directors and chief executives of the Company, had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of Part XV of SFO.

Long Position in shares

Name of shareholder	Capacity	Number of ordinary shares	Approximate Percentage of Shareholding
Earntrade	Beneficial owner and interest of controlled corporation	975,899,520 (Note a)	19.41%
Bannock	Beneficial owner	474,606,720 (Note a)	9.44%
Parkfield	Beneficial owner	743,728,000	14.79%
Fung Shing	Beneficial owner	792,100,504	15.75%
Mrs. Ng Lai King, Pamela ("Mrs. Ng")	Beneficial owner and interest of spouse	2,969,463,624 (Note b)	59.05%

Notes:

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

(b) Mrs. Ng is the beneficial owner of 233,000,000 shares and is the spouse of Mr. Ng, the Chairman and an Executive Director of the Company. By virtue of the SFO, Mrs. Ng is deemed to be interested in the 185,554,400 shares and 2,550,909,224 shares held by Mr. Ng beneficially and through controlled corporations respectively as disclosed under the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or Any Associated Corporation" above.

Save as disclosed above, as at 31 December 2011, no person, other than the Directors or chief executives whose interests are set out in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or any Associated Corporation", had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Details of the compliance by the Company with the Code on Corporate Governance Practices are set out on pages 14 to 17 of this Annual Report.

MODEL CODE FOR SECURITIES TRANSACTIONS

Details of the compliance with the Model Code are set out on page 15 of this Annual Report.

CONNECTED TRANSACTIONS

There were no transactions to be disclosed as connected transactions in accordance with the requirements of the Listing Rules during the year ended 31 December 2011.

AUDIT COMMITTEE

The Company has established an Audit Committee with written terms of reference in compliance with the Listing Rules. The Audit Committee comprises three independent non-executive directors, namely Mr. Tung Woon Cheung, Eric (Chairman of the Audit Committee), Mrs. Tse Wong Siu Yin, Elizabeth and Hon. Raymond Arthur William Sears, Q.C.

The Audit Committee is satisfied with its review of the audit fee, the independence of the Auditors and recommended to the Board the re-appointment of the Auditors in 2012 at the forthcoming annual general meeting.

The Group's annual results for the year ended 31 December 2011 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2011, the aggregate turnover attributable to the Group's five largest customers accounted for less than 30% of the total turnover for the year. The Group is a provider of financial services and hence it is of no value to disclose details of the Group's suppliers.

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

AUDITORS

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

On behalf of the Board

Ng Hung Sang
Chairman

Hong Kong, 27 March 2012

Corporate Governance Report

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

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules throughout the year ended 31 December 2011 with exception to code provision E.1.2 that the Chairman of the Board did not attend the annual general meeting of the Company.

According to code provision E.1.2 of the CG Code, the Chairman of the Board shall attend the annual general meeting to answer questions. The Chairman of the Board was unable to attend the annual general meeting of the Company held on 31 May 2011. There were Executive Directors of the Company attending the annual general meeting in the absence of the Chairman to answer questions on the Group's businesses at the meeting. The Company will endeavour to ensure future compliance with code provision E.1.2.

BOARD COMPOSITION AND BOARD PRACTICES

As at 31 December 2011, the Board composed of 9 directors, including the Chairman, 4 Vice-chairmen and a Chief Executive Officer who are all Executive Directors, and 3 Independent Non-executive Directors. One-third of the Board is Independent Non-executive Directors. Their biographies and relevant relationships amongst them are set out in the Directors' Biographical Details on pages 6 to 7 of this Annual Report.

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

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

The Board has adopted a formal written procedure and policy for the appointment of new directors. When selecting potential candidates for directors, their skill, experience, expertise, devotion of time and conflicts of interests are the key factors for consideration. No nomination committee has been set up, and hence, the nomination and selection process are performed by the Board. The Board meets at least once a year in discussing whether the composition, size, structure of the Board is adequate. The Board met once in 2011 for the said purpose with all the Directors present.

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

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

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

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

The Board held four meetings in 2011:

	Attendance
Executive Directors	
Ng Hung Sang (*Chairman*)	3/4
Richard Howard Gorges (*Vice-chairman*)	4/4
Cheung Choi Ngor (*Vice-chairman*)	4/4
Ng Yuk Yeung, Paul (*Vice-chairman*)	4/4
Cheung Wai Kwok, Gary (*Managing Director*) (*Resigned on 9 June 2011*)	1/2
Ng Tze Wai (*Acting as Chief Executive Officer until 12 May 2011*) (*Appointed as Vice-chairman on 12 May 2011*) (*Re-designated as a Non-executive Director and resigned as Vice-chairman on 17 January 2012*)	4/4
Chan Hing Wah (*appointed as Chief Executive Officer on 12 May 2011*) (*appointed as Executive Director on 9 June 2011*)	2/2
Independent Non-executive Directors	
Tse Wong Siu Yin, Elizabeth	3/4
Raymond Arthur William Sears	4/4
Tung Woon Cheung, Eric	4/4

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

All Directors have confirmed, following specific enquiry by the Company, their compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors throughout the year ended 31 December 2011.

INTERNAL CONTROL

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

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

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

The IA Team monitors the internal control procedures and systems of the Group, reports findings and makes recommendations, if any, to Audit Committee on a regular interval. During the year, compliance on account opening procedures in accordance with the Account Opening guidelines as stated in the Credit Policies and Procedures Manual of the Group and the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission and client order recording procedures in accordance with the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission were reviewed and addressed in the internal control reports which were presented by the IA Team to the Audit Committee and the Board for review.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

The statement of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditors' Report on pages 18 and 19 of this Annual Report.

AUDITORS' REMUNERATION

For the year ended 31 December 2011, the Auditors of the Company received approximately HK$920,000 for audit service. No non-audit services were provided by the Auditors in 2011.

REMUNERATION COMMITTEE

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

The Remuneration Committee met once in December 2011 and was attended by all Committee members. The policies on the remuneration of Executive Directors were reviewed by the Remuneration Committee. Remuneration, including basic salaries, discretionary performance bonus and other emolument of the Executive Directors is based on skill, knowledge, involvement in the Company's affairs and performance of the individual Executive Directors with reference to the Company's performance and profitability, as well as industry practice. Granting share options is considered as one of the means for giving long-term incentive to and for retaining staff.

The directors' fees for all Directors are subject to shareholders' approval at general meeting. Remuneration packages of the Executive Directors are reviewed by the Remuneration Committee. Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties including attendance at board meetings and committee meetings.

AUDIT COMMITTEE

The Audit Committee comprises all Independent Non-executive Directors, Mr. Tung Woon Cheung, Eric (Chairman of the Audit Committee), Mrs. Tse Wong Siu Yin, Elizabeth and Hon. Raymond Arthur William Sears, Q.C. The principal duties of the Audit Committee in accordance with its terms of reference, which are substantially the same as the CG Code, include the review of the Group's financial reporting system and internal control procedures, review of financial information of the Group and review of the relationship with the Auditors of the Group.

The Audit Committee Members held two meetings in 2011 in which representatives of the management were present to review the interim and final results, the interim report and annual report and other financial and internal control matters. The Group's Auditors were present in one of the meetings.

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

The Audit Committee is satisfied with their review of the audit fees, the independence of the Auditors and recommended to the Board the re-appointment of the Auditors in 2012 at the forthcoming annual general meeting.

The Group's annual results for the year ended 31 December 2011 were reviewed by the Audit Committee.

Independent Auditors' Report

ERNST & YOUNG
安 永

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

We have audited the consolidated financial statements of South China Financial Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 20 to 85, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of 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 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.

Auditors' responsibility

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

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 auditors' judgement, 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 auditors consider internal control relevant to the entity's preparation of 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.

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

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 31 December 2011, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22nd Floor
CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong
27 March 2012

Consolidated Income Statement

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
REVENUE	5	**61,578**	192,343
Other income		**223**	330
Fair value gain on investment properties	15	–	6,900
Fair value gain/(loss) on financial assets at fair value through profit or loss		**(79,081)**	17,964
Gain/(loss) on disposal of available-for-sale investments		**(8,895)**	3,862
Impairment of loans and trade receivables, net		**(6,596)**	(1,951)
Other operating expenses		**(125,992)**	(127,392)
Profit/(loss) from operating activities		**(158,763)**	92,056
Finance costs	7	**(5,500)**	(3,392)
PROFIT/(LOSS) BEFORE TAX	6	**(164,263)**	88,664
Income tax credit/(expense)	10	**2,128**	(684)
PROFIT/(LOSS) FOR THE YEAR		**(162,135)**	87,980
Attributable to:			
Equity holders of the Company	11	**(162,136)**	87,977
Non-controlling interests		**1**	3
		(162,135)	87,980
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	13		
Basic and diluted		**(HK3.22cents)**	HK1.75cents

Details of the dividends paid and proposed for the year are disclosed in note 12 to the financial statements.

Consolidated Statement of Financial Position

31 December 2011

	Notes	**2011 HK$'000**	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**186,875**	190,888
Intangible assets	16	**836**	836
Available-for-sale investments	20	**21,795**	38,167
Other assets	17	**7,087**	6,962
Long term loans receivable	19	**495**	145
Long term deposits	24	**5,574**	–
Deferred tax assets	21	**–**	5
Total non-current assets		**222,662**	237,003
CURRENT ASSETS			
Financial assets at fair value through profit or loss	22	**246,787**	279,825
Loans receivable	19	**128,460**	216,492
Trade receivables	23	**100,420**	105,769
Other receivables, prepayments and deposits	24	**13,269**	10,169
Tax recoverable		**45**	–
Pledged time deposits	25	**5,500**	5,750
Cash held on behalf of clients	26	**414,648**	369,243
Cash and bank balances	25	**125,811**	114,140
Total current assets		**1,034,940**	1,101,388
CURRENT LIABILITIES			
Client deposits	27	**401,099**	363,920
Trade payables	28	**91,740**	94,779
Other payables and accruals	29	**8,132**	9,058
Tax payable		**11**	28
Interest-bearing bank borrowings	30	**272,737**	249,869
Total current liabilities		**773,719**	717,654
NET CURRENT ASSETS		**261,221**	383,734
TOTAL ASSETS LESS CURRENT LIABILITIES		**483,883**	620,737
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	30	**159,950**	113,726
Deferred tax liabilities	21	**6,669**	8,850
Total non-current liabilities		**166,619**	122,576
Net assets		**317,264**	498,161

Consolidated Statement of Financial Position

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	32	**125,708**	125,721
Reserves	34(a)	**190,984**	355,777
Proposed final dividend	12	**–**	16,092
		316,692	497,590
Non-controlling interests		**572**	571
Total equity		**317,264**	498,161

Richard Howard Gorges
Director

Cheung Choi Ngor
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

		Attributable to equity holders of the Company										
	Notes	**Issued capital** HK$'000	**Share premium account** HK$'000	**Capital redemption reserve** HK$'000	**Available-for-sale investment revaluation reserve** HK$'000	**Share option reserve** HK$'000	**Exchange fluctuation reserve** HK$'000	**Retained profits/ (accumulated losses)** HK$'000	**Proposed final dividend** HK$'000	**Total** HK$'000	**Non-controlling interests** HK$'000	**Total equity** HK$'000
At 1 January 2010		125,721	220,027	1,601	36,610	17,893	314	45,735	30,173	478,074	923	478,997
Profit for the year		–	–	–	–	–	–	87,977	–	87,977	3	87,980
Other comprehensive income/(loss) for the year		–	–	–	(33,548)	–	1,072	–	–	(32,476)	–	(32,476)
Total comprehensive income/(loss) for the year		–	–	–	(33,548)	–	1,072	87,977	–	55,501	3	55,504
Equity-settled share option arrangements	33	–	–	–	–	1,456	–	–	–	1,456	–	1,456
Transfer of share option reserve upon the forfeiture or expiry of share options		–	–	–	–	(7,568)	–	7,568	–	–	–	–
Acquisition of non-controlling interests		–	–	–	–	–	–	275	–	275	(355)	(80)
Final 2009 dividend paid		–	–	–	–	–	–	–	(30,173)	(30,173)	–	(30,173)
Interim 2010 dividend paid	12	–	–	–	–	–	–	(7,543)	–	(7,543)	–	(7,543)
Proposed final 2010 dividend	12	–	–	–	–	–	–	(16,092)	16,092	–	–	–
At 31 December 2010		125,721	220,027*	1,601*	3,062*	11,781*	1,386*	117,920*	16,092	497,590	571	498,161
At 1 January 2011		125,721	220,027	1,601	3,062	11,781	1,386	117,920	16,092	497,590	571	498,161
Loss for the year		–	–	–	–	–	–	(162,136)	–	(162,136)	1	(162,135)
Other comprehensive income/(loss) for the year		–	–	–	(4,588)	–	2,750	–	–	(1,838)	–	(1,838)
Total comprehensive income/(loss) for the year		–	–	–	(4,588)	–	2,750	(162,136)	–	(163,974)	1	(163,973)
Repurchase and cancellation of ordinary shares	32	(13)	–	13	–	–	–	(54)	–	(54)	–	(54)
Equity-settled share option arrangements	33	–	–	–	–	(778)	–	–	–	(778)	–	(778)
Transfer of share option reserve upon the forfeiture or expiry of share options		–	–	–	–	(7,818)	–	7,818	–	–	–	–
Final 2010 dividend paid		–	–	–	–	–	–	–	(16,092)	(16,092)	–	(16,092)
At 31 December 2011		125,708	220,027*	1,614*	(1,526)*	3,185*	4,136*	(36,452)*	–	316,692	572	317,264

* These reserve accounts comprise the consolidated reserves of HK$190,984,000 (2010: HK$355,777,000) in the consolidated statement of financial position.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
PROFIT/(LOSS) FOR THE YEAR		**(162,135)**	87,980
OTHER COMPREHENSIVE LOSS FOR THE YEAR	35	**(1,838)**	(32,476)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**(163,973)**	55,504
Attributable to:			
Equity holders of the Company		**(163,974)**	55,501
Non-controlling interests		**1**	3
		(163,973)	55,504

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**(164,263)**	88,664
Adjustments for:			
Finance costs	7	**5,500**	3,392
Dividend income from listed investments	5	**(2,725)**	(2,032)
Fair value gain on investment properties	15	**–**	(6,900)
Loss/(gain) on disposal of available-for-sale investments		**8,895**	(3,862)
Fair value loss/(gain) on financial assets at fair value through profit or loss		**79,081**	(17,964)
Equity-settled share option expense/(reversal)	6	**(778)**	1,456
Impairment of loans and trade receivables, net	6	**6,596**	1,951
Depreciation	6	**6,596**	5,896
Loss on disposal of items of property, plant and equipment	6	**–**	7
		(61,098)	70,608
Increase in financial assets at fair value through profit or loss		**(46,043)**	(70,065)
Decrease in loans receivable		**80,878**	10,877
Decrease/(increase) in trade receivables		**5,557**	(69,550)
Decrease/(increase) in other receivables, prepayments and deposits		**(8,273)**	4,153
Decrease/(increase) in cash held on behalf of clients		**(45,405)**	178,447
Increase in an amount due from a related company		**(401)**	(564)
Increase/(decrease) in client deposits		**37,179**	(177,733)
Increase/(decrease) in trade payables		**(3,039)**	49,674
Increase/(decrease) in other payables and accruals		**(926)**	332
Cash used in operations		**(41,571)**	(3,821)
Interest paid		**(5,500)**	(3,389)
Interest element on finance lease rental payments		**–**	(3)
Hong Kong profits tax refunded/(paid)		**(66)**	94
Overseas taxes paid		**(44)**	(35)
Net cash flows used in operating activities		**(47,181)**	(7,154)

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Net cash flows used in operating activities		**(47,181)**	(7,154)
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend income received from listed investments		**2,725**	2,032
Purchases of items of property, plant and equipment	14	**(2,581)**	(3,579)
Proceeds from disposal of available-for-sale investments		**2,889**	5,577
Proceeds from disposal of items of property, plant and equipment		**–**	27
Acquisition of non-controlling interests		**–**	(80)
Increase in other assets		**(125)**	(793)
Net cash flows from investing activities		**2,908**	3,184
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**7,128,290**	11,427,483
Repayment of bank loans		**(7,116,868)**	(11,360,089)
Capital element on finance lease rental payments		**–**	(102)
Advance from a director		**–**	45,000
Repayment made to a director		**–**	(45,000)
Repurchase and cancellation of ordinary shares		**(54)**	–
Dividends paid		**(16,092)**	(37,716)
Net cash flows from/(used in) financing activities		**(4,724)**	29,576
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(48,997)**	25,606
Cash and cash equivalents at beginning of year		**112,890**	86,220
Effect of foreign exchange rate changes, net		**2,748**	1,064
CASH AND CASH EQUIVALENTS AT END OF YEAR		**66,641**	112,890
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances as stated in the statement of financial position	25	**125,811**	114,140
Pledged time deposits with original maturity of less than three months when acquired	25	**5,500**	5,750
Bank overdrafts	30	**(64,670)**	(7,000)
Cash and cash equivalents as stated in the statement of cash flows		**66,641**	112,890

Statement of Financial Position

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	18	**160,900**	299,188
Subordinated loan to a subsidiary	31	**100,000**	100,000
Total non-current assets		**260,900**	399,188
CURRENT ASSETS			
Other receivables, prepayments and deposits	24	**449**	449
Cash and bank balances	25	**105**	125
Total current assets		**554**	574
CURRENT LIABILITIES			
Other payables	29	**48**	48
NET CURRENT ASSETS		**506**	526
TOTAL ASSETS LESS CURRENT LIABILITIES		**261,406**	399,714
NON-CURRENT LIABILITIES			
Amounts due to subsidiaries	18	**7,116**	7,127
Net assets		**254,290**	392,587
EQUITY			
Issued capital	32	**125,708**	125,721
Reserves	34(b)	**128,582**	250,774
Proposed final dividend	12	**–**	16,092
Total equity		**254,290**	392,587

Richard Howard Gorges
Director

Cheung Choi Ngor
Director

Notes to Financial Statements

31 December 2011

1. CORPORATE INFORMATION

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

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

- securities, commodities, bullion and forex broking and trading
- margin financing and money lending
- provision of corporate advisory and underwriting services
- investment holding

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investments and financial assets at fair value through profit and loss, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 Amendment	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 39 to the consolidated financial statements.

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations*: The amendment clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

(b) *(Continued)*

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the notes to the financial statements.

- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 Amendments	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assests*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[4]
HKFRS 9	*Financial Instruments*[6]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[5]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Further information about those changes that are expected to be relevant to the Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting, derecognition and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12 and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The Group expects to adopt HKAS 12 Amendments from 1 January 2012.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets *(Continued)*

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for the revalued asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Operating leases *(Continued)*

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

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial investments, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement. These net fair value changes do not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation as these instruments cannot be reclassified after initial recognition.

Loans and receivables

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

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

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

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

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Derecognition of financial assets

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets *(Continued)*

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Available-for-sale financial investments

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

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

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

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

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

Subsequent measurement

The subsequent measurement of loans and borrowings is as follows:

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

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

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Offsetting of financial instruments

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

Fair value of financial instruments

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

Cash and cash equivalents

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

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

Income tax

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

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

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

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

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

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

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

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

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

Employee benefits

Paid leave carried forward

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

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance in Hong Kong for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' relevant income and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes operated by the local municipal governments. These subsidiaries are required to contribute 16 to 44% of their payroll costs to the central pension schemes. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension schemes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Share-based payment transactions

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a trinomial model, further details of which are given in note 33 to the financial statements.

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

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

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Impairment of trade and loans receivables

The Group reviews its loan portfolios to assess whether there is any objective evidence that a loan receivable is impaired at least on a yearly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of trade and loans receivables before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methods and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The aggregate carrying amount of trade and loans receivable at 31 December 2011 was HK$229,375,000 (2010: HK$322,406,000). More details are given in notes 19 and 23 to the financial statements.

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

Estimation uncertainty

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

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profits will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2011 was HK$6,943,000 (2010: HK$5,135,000).

Impairment of available-for-sale financial investments

The Group classifies certain assets as available for sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement. At 31 December 2011, no impairment loss has been recognised for available-for-sale financial assets (2010: Nil). The carrying amount of available-for-sale financial assets at 31 December 2011 was HK$21,795,000 (2010: HK$38,167,000).

4. OPERATING SEGMENT INFORMATION

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

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

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

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

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

4. OPERATING SEGMENT INFORMATION *(Continued)*

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is measured consistently with the Group's profit/(loss) before tax except that interest income, finance costs relating to the Group's treasury function, head office and corporate expenses are excluded from such measurement.

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

Segment liabilities exclude interest-bearing bank borrowings, tax payable, deferred tax liabilities, and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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

Year ended 31 December 2011	Broking HK$'000	Trading and investment HK$'000	Margin financing and money lending HK$'000	Corporate advisory and underwriting HK$'000	Consolidated HK$'000
Segment revenue:					
Revenue from external customers	57,280	(12,783)	16,541	540	61,578
Segment results:	(12,550)	(128,316)	2,226	(8,492)	(147,132)
Reconciliation:					
Corporate and other unallocated expenses					(11,631)
Finance costs					(5,500)
Loss before tax					(164,263)
Segment assets:	563,768	304,555	178,270	23,691	1,070,284
Reconciliation:					
Corporate and other unallocated assets					187,318
Total assets					1,257,602
Segment liabilities:	489,965	86,743	124,388	799	701,895
Reconciliation:					
Corporate and other unallocated liabilities					238,443
Total liabilities					940,338
Other segment information:					
Fair value loss on financial assets at fair value through profit or loss	–	79,081	–	–	79,081
Impairment/(reversal of impairment) of loans and trade receivables, net	302	–	6,804	(510)	6,596
Depreciation	1,874	610	151	179	2,814
Capital expenditure*	1,758	567	123	133	2,581

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

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2010	Broking HK$'000	Trading and investment HK$'000	Margin financing and money lending HK$'000	Corporate advisory and underwriting HK$'000	Property investment HK$'000	Consolidated HK$'000
Segment revenue:						
Revenue from external customers	70,670	95,664	21,913	2,416	1,680	192,343
Segment results:	913	89,354	14,181	(7,189)	3,226	100,485
Reconciliation:						
Corporate and other unallocated expenses						(8,429)
Finance costs						(3,392)
Profit before tax						88,664
Segment assets:	516,612	343,268	283,999	3,040	–	1,146,919
Reconciliation:						
Corporate and other unallocated assets						191,472
Total assets						1,338,391
Segment liabilities:	457,219	12,003	172,988	195	51	642,456
Reconciliation:						
Corporate and other unallocated liabilities						197,774
Total liabilities						840,230
Other segment information:						
Fair value gain on investment properties	–	–	–	–	(6,900)	(6,900)
Fair value gain on financial assets at fair value through profit or loss	–	(17,964)	–	–	–	(17,964)
Impairment/(reversal of impairment) of loans and trade receivables, net	(75)	–	1,516	510	–	1,951
Depreciation	1,714	639	186	204	–	2,743
Loss on disposal of items of property, plant and equipment	–	–	7	–	–	7
Capital expenditure*	2,345	888	215	131	–	3,579

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

4. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

Non-current assets

	2011 HK$'000	2010 HK$'000
Hong Kong	**200,636**	198,578
Other countries	**231**	253
	200,867	198,831

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

5. REVENUE

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

An analysis of revenue is as follows:

	Group	
	2011 HK$'000	2010 HK$'000
Revenue		
Commission and brokerage income	**57,213**	68,779
Profit/(loss) on the trading of securities, forex, bullion and futures contracts	**(20,066)**	92,338
Interest income from loans receivable	**14,872**	21,463
Interest income from bullion and forex	**1,077**	406
Handling fee income	**2,394**	2,778
Rendering of services	**2,589**	2,447
Dividend income from listed investments	**2,725**	2,032
Gross rental income	**–**	1,680
Interest income from bank and financial institutions	**597**	265
Interest income on impaired loans and trade receivables	**177**	155
	61,578	192,343

6. PROFIT/(LOSS) BEFORE TAX

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

	Notes	Group 2011 HK$'000	Group 2010 HK$'000
Cost of services provided		**26,667**	29,297
Depreciation	14	**6,596**	5,896
Auditors' remuneration		**920**	850
Minimum lease payments under operating leases on land and buildings		**15,121**	17,332
Employee benefit expense (including directors' remuneration (note 8)):			
Pension scheme contributions		**1,802**	1,843
Less: Forfeited contributions		**(186)**	(76)
Net pension scheme contributions		**1,616**	1,767
Wages and salaries		**47,424**	46,140
Equity-settled share option expense/(reversal)		**(778)**	1,456
		48,262	49,363
Interest expense for margin financing and money lending operations:			
Bank loans and overdrafts wholly repayable within five years		**2,348**	3,313
Foreign exchange differences, net		**613**	(307)
Impairment of loans receivable, net	19	**6,804**	1,516
Impairment/(reversal of impairment) of trade receivables, net	23	**(208)**	435
Loss on disposal of items of property, plant and equipment		**–**	7
Rental income on investment properties less direct operating expenses of HK$614,000 in 2010		**–**	(1,066)

7. FINANCE COSTS

	Group 2011 HK$'000	Group 2010 HK$'000
Interest on:		
Bank loans wholly repayable over five years	**5,500**	3,228
Finance leases	**–**	3
Advance from a director	**–**	161
	5,500	3,392

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Fees	**310**	301
Other emoluments:		
Salaries, allowances and benefits in kind	**6,842**	4,533
Equity-settled share option expense/(reversal)	**(172)**	592
Pension scheme contributions	**115**	107
	6,785	5,232
	7,095	5,533

In prior years, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 33 to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

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

	2011	2010
	HK$'000	HK$'000
Hon. Raymond Arthur William Sears Q.C.	**100**	100
Mr. Tung Woon Cheung, Eric	**75**	75
Mrs. Tse Wong Siu Yin, Elizabeth	**75**	75
	250	250

There were no other emoluments payable to the independent non-executive directors during the year (2010: Nil).

8. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors

	Fees HK$'000	Salaries allowances and benefits in kind HK$'000	Equity-settled share option expense/ (reversal) HK$'000	Pension scheme contributions HK$'000
2011				
Executive directors:				
Mr. Ng Hung Sang	**10**	**–**	**–**	**–**
Mr. Richard Howard Gorges	**10**	**1,800**	**–**	**89**
Ms. Cheung Choi Ngor	**10**	**–**	**–**	**–**
Mr. Ng Yuk Yeung, Paul	**10**	**–**	**–**	**–**
Mr. Cheung Wai Kwok, Gary	**4**	**863**	**(172)**	**6**
Mr. Ng Tze Wai	**10**	**2,828**	**–**	**12**
Mr. Chan Hing Wah	**6**	**1,351**	**–**	**8**
	60	**6,842**	**(172)**	**115**
2010				
Executive directors:				
Mr. Ng Hung Sang	10	270	–	13
Mr. Richard Howard Gorges	10	1,474	–	68
Ms. Cheung Choi Ngor	10	230	–	11
Mr. Ng Yuk Yeung, Paul	10	–	–	–
Mr. Cheung Wai Kwok, Gary	10	1,920	592	12
Mr. Ng Tze Wai	1	639	–	3
	51	4,533	592	107

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2010: two), details of whose remuneration are disclosed in note 8 above. Details of the remuneration of the remaining two (2010: three) non-director, highest paid employees for the year are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,878**	4,094
Pension scheme contributions	**24**	29
	1,902	4,123

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

	Number of employees	
	2011	2010
Nil to HK$1,000,000	**2**	–
HK$1,000,001 to HK$1,500,000	**–**	2
HK$1,500,001 to HK$2,000,000	**–**	1
	2	3

10. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group has available tax losses carried forward to offset the assessable profits arising in Hong Kong. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2011	2010
	HK$'000	HK$'000
Current – Hong Kong		
Underprovision in prior year	**22**	–
Current – Elsewhere	**26**	35
Deferred (note 21)	**(2,176)**	649
Total tax charge/(credit) for the year	**(2,128)**	684

10. INCOME TAX *(Continued)*

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

	Group			
	2011		2010	
	HK$'000	**%**	HK$'000	%
Profit/(loss) before tax	**(164,263)**		88,664	
Tax at the statutory tax rate	**(27,103)**	**(16.5)**	14,630	16.5
Higher tax rates on profits/(loss) arising elsewhere	**(525)**	**(0.3)**	14	–
Adjustments in respect of current tax of previous periods	**22**	**–**	–	–
Income not subject to tax	**(272)**	**(0.2)**	(1,671)	(1.9)
Expenses not deductible for tax	**237**	**0.1**	1,092	1.2
Tax losses not recognised	**23,463**	**14.3**	535	0.6
Tax losses utilised from previous periods	**12**	**–**	(14,294)	(16.1)
Deferred tax not recognised	**2,038**	**1.3**	378	0.4
Tax charge/(credit) at the Group's effective rate	**(2,128)**	**(1.3)**	684	0.7

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

The consolidated loss attributable to equity holders of the Company for the year ended 31 December 2011 includes a loss of HK$121,373,000 (2010: a profit of HK$31,697,000) which has been dealt with in the financial statements of the Company (note 34(b)).

12. DIVIDENDS

	2011	2010
	HK$'000	HK$'000
Interim – Nil (2010: HK0.15 cents) per ordinary share	**–**	7,543
Proposed final – Nil (2010: HK0.32 cents) per ordinary share	**–**	16,092
	–	23,635

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

The calculation of basic earnings/(loss) per share amount is based on the loss for the year attributable to equity holders of the Company of HK$162,136,000 (2010: profit of HK$87,977,000) and the weighted average number of ordinary share of 5,028,501,623 (2010: 5,028,834,500) in issue during the year, as adjusted to reflect the repurchase and cancellation of shares during the year.

No adjustment had been made to the basic earnings/(loss) per share amount presented for the years ended 31 December 2011 and 31 December 2010 in respect of a dilution because the exercise price of the Company's share options was higher than the average market price of shares for both years.

14. PROPERTY, PLANT AND EQUIPMENT

	Group				
	Leasehold land and building under long term lease#	**Leasehold improvements**	**Furniture and equipment**	**Motor vehicles**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2011					
At 31 December 2010 and at 1 January 2011:					
Cost	**189,100**	**16,974**	**42,738**	**3,316**	**252,128**
Accumulated depreciation	**(4,572)**	**(15,075)**	**(38,277)**	**(3,316)**	**(61,240)**
Net carrying amount	**184,528**	**1,899**	**4,461**	**–**	**190,888**
At 1 January 2011, net of accumulated depreciation	**184,528**	**1,899**	**4,461**	**–**	**190,888**
Additions	**–**	**1,193**	**1,388**	**–**	**2,581**
Depreciation provided during the year	**(3,782)**	**(996)**	**(1,818)**	**–**	**(6,596)**
Exchange realignment	**–**	**–**	**2**	**–**	**2**
At 31 December 2011, net of accumulated depreciation	**180,746**	**2,096**	**4,033**	**–**	**186,875**
At 31 December 2011:					
Cost	**189,100**	**15,745**	**36,185**	**3,316**	**244,346**
Accumulated depreciation	**(8,354)**	**(13,649)**	**(32,152)**	**(3,316)**	**(57,471)**
Net carrying amount	**180,746**	**2,096**	**4,033**	**–**	**186,875**

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

	Group				
	Leasehold land and building under long term lease# HK$'000	Leasehold improvements HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 31 December 2010					
At 31 December 2009 and at 1 January 2010:					
Cost	141,900	15,620	41,032	3,316	201,868
Accumulated depreciation	(1,419)	(14,286)	(36,815)	(3,316)	(55,836)
Net carrying amount	140,481	1,334	4,217	–	146,032
At 1 January 2010, net of accumulated depreciation	140,481	1,334	4,217	–	146,032
Transfer from investment properties (note 15)	47,200	–	–	–	47,200
Additions	–	1,534	2,045	–	3,579
Disposal	–	–	(34)	–	(34)
Depreciation provided during the year	(3,153)	(969)	(1,774)	–	(5,896)
Exchange realignment	–	–	7	–	7
At 31 December 2010, net of accumulated depreciation	184,528	1,899	4,461	–	190,888
At 31 December 2010:					
Cost	189,100	16,974	42,738	3,316	252,128
Accumulated depreciation	(4,572)	(15,075)	(38,277)	(3,316)	(61,240)
Net carrying amount	184,528	1,899	4,461	–	190,888

At the end of the reporting period, the Group's leasehold land and building with a net book value of HK$180,746,000 (2010: HK$184,528,000) were pledged to secure general banking facilities granted to the Group (note 30).

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

15. INVESTMENT PROPERTIES

	Group	
	2011	2010
	HK$'000	HK$'000
Carrying amount at 1 January	**–**	40,300
Transfer to owner-occupied property (note 14)	**–**	(47,200)
Gain arising from fair value adjustment	**–**	6,900
Carrying amount at 31 December	**–**	–

On 1 September 2010, the Group transferred its investment properties of HK$47,200,000 to property, plant and equipment at fair value. The properties were revalued on that date by BMI Appraisals Limited, independent professionally qualified valuers, on an open market, existing use basis.

16. INTANGIBLE ASSETS

	Group	
	2011	2010
	HK$'000	HK$'000
Cost at 1 January and at 31 December, net of accumulated amortisation	**836**	836
At 1 January and 31 December:		
Cost	**1,619**	1,619
Accumulated amortisation	**(783)**	(783)
Net carrying amount	**836**	836

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

Pursuant to the restructuring of the Stock Exchange and the Hong Kong Futures Exchange Limited (the "Futures Exchange") effective on 6 March 2000, the Group received four Stock Exchange Trading Rights, five Futures Exchange Trading Rights and 10,187,500 ordinary shares of HK$1 each in Hong Kong Exchanges and Clearing Limited (the "HKEC Shares") in exchange for its four shares previously held in the Stock Exchange and five shares previously held in the Futures Exchange.

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

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

17. OTHER ASSETS

	Group	
	2011	2010
	HK$'000	HK$'000
Membership in Chinese Gold and Silver Exchange	**1,280**	1,280
Statutory deposits in respect of securities and commodities dealings	**5,807**	5,682
	7,087	6,962

Other assets are non-interest-bearing and have no fixed terms of repayment.

18. INTERESTS IN SUBSIDIARIES

	Company	
	2011	2010
	HK$'000	HK$'000
Unlisted shares, at cost	**192,484**	167,484
Amounts due from subsidiaries	**338,899**	379,981
	531,383	547,465
Impairment#	**(370,483)**	(248,277)
	160,900	299,188

An impairment was recognised for investment costs and amounts due from subsidiaries with carrying amounts of HK$136,600,000 (before deducting the impairment loss) (2010: HK$41,600,000) and HK$338,456,000 (before deducting the impairment loss) (2010: HK$379,538,000), respectively, as certain subsidiaries of the Company were persistently making losses.

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

	Company	
	2011	2010
	HK$'000	HK$'000
At 1 January	**248,277**	274,277
Impairment losses recognised	**122,289**	9,123
Impairment losses reversed	**(83)**	(35,123)
At 31 December	**370,483**	248,277

The balances with subsidiaries included in the Company's non-current assets and non-current liabilities are unsecured and interest-free. In the opinion of the directors, these balances are not repayable within twelve months from the end of the reporting period.

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Polyluck Trading Limited	Hong Kong	HK$2	100	Property investment
South China Bullion Company Limited	Hong Kong	HK$30,000,000	100	Bullion dealing
South China Capital Limited	Hong Kong	HK$20,000,000	100	Provision of corporate advisory services
South China Forex Limited	Hong Kong	HK$40,000,000	100	Forex dealing
South China Commodities Limited	Hong Kong	HK$35,000,000	100	Commodities broking
South China Finance Company Limited	Hong Kong	HK$1,000,000	100	Provision of loan financing
South China Finance and Management Limited	Hong Kong	HK$2	100	Share dealing and provision of management services
South China Finance (Nominees) Limited	Hong Kong	HK$2	100	Provision of nominee services
South China Financial Credits Limited	Hong Kong	HK$42,125,000	98.81	Money lending
South China Asset Management Limited	Hong Kong	HK$6,600,000	100	Asset management
South China Precious Metal Limited	Hong Kong	HK$2	100	Bullion broking
South China Research Limited	Hong Kong	HK$600,000	100	Research publication
South China Securities Limited	Hong Kong	HK$10,000,000	100	Securities broking, margin financing and provision of underwriting services

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Kingwise Secretarial Services Limited	Hong Kong	HK$2	100	Securities and futures trading
South China Finance Lease Holdings Limited	Hong Kong	HK$1	100	Investment holding
South China Securities (UK) Limited*	United Kingdom	GBP200,000	100	Securities broking
廣州南華四海咨詢有限公司**	The People's Republic of China ("PRC")/ Mainland China	HK$100,000	100	Provision of corporate advisory services
藍華投資咨詢(上海)有限公司**	PRC/Mainland China	US$100,000	100	Provision of corporate advisory services
Nanjing Southchina Leasing Co., Limited**	PRC/Mainland China	RMB100,000,000	100	Provision of loan financing

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

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

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

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

19. LOANS RECEIVABLE

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

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

	Group	
	2011	2010
	HK$'000	HK$'000
Loans receivable	**162,019**	242,022
Impairment	**(33,064)**	(25,385)
	128,955	216,637
Portion classified as current assets	**(128,460)**	(216,492)
Portion classified as non-current assets	**495**	145
Market value of collateral at 31 December	**507,330**	785,754

At the end of reporting period, certain listed equity securities provided by clients of approximately HK$190,077,000 (2010: HK$112,920,000) were pledged as collateral to banks to secure banking facilities granted to the Group (note 30).

South China Financial Credits Limited, an 98.81% (2010: 98.81%) directly owned subsidiary of the Company as at 31 December 2011, has granted revolving loan facilities, each with limit of HK$80 million, to two related companies in which a substantial shareholder of the Company was also a substantial beneficial shareholder during the year ended 31 December 2009. The loan facilities are unsecured, interest-bearing at 5% per annum and repayable on demand. Such facilities are at similar terms to those offered to clients with similar characteristics. The maximum amounts of loans utilised during the year ended 31 December 2010 by each of these two companies were HK$2.2 million and HK$7.8 million, respectively. The outstanding balances have been fully settled during the year ended 31 December 2010. Interest income received from the loans to such companies amounted to HK$9,000 and HK$188,000, respectively, during the year ended 31 December 2010.

19. LOANS RECEIVABLE *(Continued)*

The loans receivable at the end of the reporting period are analysed by the remaining period to contractual maturity date as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Repayable:		
On demand	**126,752**	216,382
Within 3 months	**517**	–
3 months to 1 year	**1,191**	110
1 to 5 years	**495**	145
	128,955	216,637

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

	Group	
	2011	2010
	HK$'000	HK$'000
At 1 January	**25,385**	23,966
Impairment losses recognised (note 6)	**7,789**	2,651
Impairment losses reversed (note 6)	**(69)**	(1,135)
Amount written off as uncollectible, net	**(41)**	(97)
At 31 December	**33,064**	25,385
Recovery of loans receivable written off in previous year (note 6)	**(916)**	–

Included in the above provision for impairment of loans receivable is a provision for individually impaired loans receivable of HK$33,031,000 (2010: HK$25,385,000) and collectively impaired loans receivable of HK$33,000 (2010: Nil) as at 31 December 2011 with carrying amounts before provision of HK$40,908,000 (2010: HK$38,123,000) and HK$1,825,000 (2010: Nil), respectively. The individually impaired loans receivable relate to customers that were in default or delinquency in payments and only a portion of the receivables is expected to be recovered. The Group holds certain listed equity securities of clients as collateral over these individually impaired loans receivable.

19. LOANS RECEIVABLE *(Continued)*

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

	Group	
	2011	2010
	HK$'000	HK$'000
Neither past due nor impaired	**119,286**	203,899

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

20. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2011	2010
	HK$'000	HK$'000
Listed equity investments in Hong Kong, at fair value	**19,320**	36,222
Club debentures, at fair value	**2,475**	1,945
	21,795	38,167

During the year, the net loss in respect of the Group's available-for-sale investments recognised in other comprehensive loss amounted to HK$13,483,000 (2010: net loss of HK$29,686,000), and loss of HK$8,895,000 (2010: gain of HK$3,862,000) was reclassified from other comprehensive loss to the income statement for the year upon the disposal of certain available-for-sale investments.

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

21. DEFERRED TAX

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

Deferred tax liabilities

2011

	Group Loss available for offsetting against future taxable profits HK$'000	Depreciation allowance in excess of related depreciation HK$'000	Total HK$'000
At 1 January 2011	**(5,135)**	**13,985**	**8,850**
Deferred tax credited to the income statement during the year (note 10)	**(1,808)**	**(373)**	**(2,181)**
At 31 December 2011	**(6,943)**	**13,612**	**6,669**

2010

	Group Loss available for offsetting against future taxable profits HK$'000	Depreciation allowance in excess of related depreciation HK$'000	Revaluation of properties HK$'000	Total HK$'000
At 1 January 2010	(4,915)	2,845	10,271	8,201
Deferred tax charged/(credited) to the income statement during the year (note 10)	(220)	11,140	(10,271)	649
At 31 December 2010	(5,135)	13,985	–	8,850

Deferred tax assets

2011

	Group Depreciation in excess of related depreciation allowance HK$'000
At 1 January 2011	**5**
Deferred tax charged to income statement during the year (note 10)	**(5)**
At 31 December 2011	**–**

21. DEFERRED TAX *(Continued)*

Deferred tax assets *(Continued)*

2010

	Group Depreciation in excess of related depreciation allowance HK$'000
At 1 January 2010	4
Exchange realignment	1
At 31 December 2010	5

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

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Tax losses	**373,760**	237,242	**569**	591
Deductible temporary differences	**1,315**	1,473	**374**	407
	375,075	238,715	**943**	998

The above tax losses arising in Hong Kong are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of HK$9,804,000 (2010: HK$3,772,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of the these items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

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

At 31 December 2011, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. These subsidiaries remained loss making during the year and have recorded accumulated losses since 1 January 2008.

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

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2011	2010
	HK$'000	HK$'000
Listed equity investments in Hong Kong, at market value	**246,787**	279,825

The financial assets at the end of the reporting period were classified as held for trading, of which approximately HK$236,734,000 (2010: HK$202,540,000) were pledged to banks to secure banking facilities granted to the Group (note 30).

The market value of the Group's listed equity investments at the date of approval of these financial statements was approximately HK$259,973,000 (2010: HK$264,654,000).

23. TRADE RECEIVABLES

	Group	
	2011	2010
	HK$'000	HK$'000
Trade receivables	**102,649**	108,206
Impairment	**(2,229)**	(2,437)
	100,420	105,769

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

The Group allows a credit period up to the respective settlement dates of securities, forex, bullion and commodities transactions (normally two business days after the respective trade dates) or a credit period mutually agreed between the contracting parties. Each customer has a credit limit. The Group maintains strict control over its outstanding receivables and a credit control department has been established to monitor the potential credit risk. Overdue balances are reviewed regularly by senior management and are handled closely by the credit control department. The Group's trade receivables relate to a large number of diversified customers, and there is no significant concentration of credit risk. Overdue trade receivables bear interest by reference to the prime rate.

An aged analysis of the Group's trade receivables at the end of the reporting period, based on the settlement due date and net of provisions for impairment, is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Current to 90 days	**100,420**	105,769

23. TRADE RECEIVABLES *(Continued)*

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

	Group	
	2011	2010
	HK$'000	HK$'000
At 1 January	**2,437**	2,002
Impairment losses recognised (note 6)	**1,037**	510
Impairment losses reversed (note 6)	**(1,245)**	(75)
	2,229	2,437

Included in the provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$2,229,000 (2010: HK$2,437,000) with a carrying amount of HK$2,677,000 (2010: HK$2,648,000). The individually impaired trade receivables relate to customers that were in default or delinquency in payments. The Group holds certain listed equity securities of clients as collateral over these individually impaired trade receivables.

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

	Group	
	2011	2010
	HK$'000	HK$'000
Neither past due nor impaired	**95,999**	99,162
Less than 1 month past due	**1,106**	6,396
1 to 3 months past due	**1,102**	–
3 months to 1 year past due	**1,765**	–
	99,972	105,558

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

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

24. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**1,172**	954	**449**	449
Deposits	**13,456**	5,522	**–**	–
Other receivables	**4,215**	3,693	**–**	–
	18,843	10,169	**449**	449
Portion classified as current assets	**(13,269)**	(10,169)	**(449)**	(449)
Portion classified as non-current assets	**5,574**	–	**–**	–

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

Included in other receivables as at 31 December 2011 was HK$965,100 (2010: HK$563,900), an amount due from South China Media Limited, a director of which is also a director of the Company. The amount was unsecured, non-interest-bearing and has no fixed terms of repayment. The maximum outstanding balance during the year was HK$965,100.

25. CASH AND BANK BALANCES AND PLEDGED TIME DEPOSITS

		Group		Company	
		2011	2010	**2011**	2010
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Cash and bank balances		**125,811**	114,140	**105**	125
Time deposits		**5,500**	5,750	**–**	–
		131,311	119,890	**105**	125
Less: Pledged time deposits:					
Pledged for a guarantee provided to Hong Kong Exchanges and Clearing Limited for commodities dealings		**(5,000)**	(5,000)	**–**	–
Pledged for a guarantee provided to Hong Kong Exchanges and Clearing Limited for securities dealings		**(500)**	(500)	**–**	–
Pledged for bank overdraft facilities	30	**–**	(250)	**–**	–
		(5,500)	(5,750)	**–**	–
Cash and bank balances		**125,811**	114,140	**105**	125

At the end of the reporting period, cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$68,892,000 (2010: HK$19,033,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

25. CASH AND BANK BALANCES AND PLEDGED TIME DEPOSITS *(Continued)*

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. Bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

26. CASH HELD ON BEHALF OF CLIENTS

The Group maintains segregated trust accounts with licensed banks to hold securities, futures and forex clients' monies arising from its normal course of business. The Group has classified the clients' monies as "Cash held on behalf of clients" under the current assets section of the consolidated statement of financial position and recognised the corresponding accounts payable to respective clients on the grounds that the Group is liable for any loss or misappropriation of the clients' monies. The Group is not allowed to use the clients' monies to settle its own obligations.

27. CLIENT DEPOSITS

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

The client deposits are unsecured, bear interest at the bank deposit saving rate (2010: bank deposit saving rate) and are repayable on demand.

Included in client deposits are deposits from directors, the directors' close family members and companies in which certain directors have beneficial interests totalling HK$2,834,000 (2010: HK$5,326,000), which are subject to similar terms offered by the Group to its major clients.

28. TRADE PAYABLES

The Group's trade payables arose from securities, forex, bullion and commodities dealings.

An aged analysis of the Group's trade payables at the end of the reporting period, based on the settlement due date, is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Current to 30 days	**91,740**	94,779

The trade payables are non-interest-bearing and repayable on the settlement day of the relevant trades or upon demand from customers.

29. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other payables	**3,938**	5,186	**48**	48
Accruals	**4,194**	3,872	**–**	–
	8,132	9,058	**48**	48

Other payables are non-interest-bearing and have an average term of two months.

30. INTEREST-BEARING BANK BORROWINGS

	Group					
	2011			2010		
	Effective Contractual interest rate (%)	Maturity	HK$'000	Effective contractual interest rate (%)	Maturity	HK$'000
Current						
Bank overdrafts – secured	HIBOR + 2.5%	On demand	57,699	HIBOR + 1.5%	On demand	7,000
Bank overdrafts – unsecured	Prime rate + 0.375% to Prime rate + 0.5%	On demand	6,971	–	–	–
Bank loans – secured	HIBOR + 0.9% to HIBOR + 2.75%	2012	156,067	HIBOR + 0.9% to Prime rate – 2.75%	2011	171,274
Bank loans – unsecured	HIBOR + 1.5% to HIBOR + 4%	2012	52,000	HIBOR + 1.5% to HIBOR + 2.5%	2011	71,595
			272,737			249,869
Non-current						
Bank loans – secured	HIBOR + 2.25%	2013-2021	159,950	Prime rate – 2.75%	2012-2020	113,726
			432,687			363,595

	Group	
	2011 HK$'000	2010 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	272,737	249,869
In the second year	16,500	11,523
In the third to fifth years, inclusive	52,133	36,187
Beyond five years	91,317	66,016
	432,687	363,595

30. INTEREST-BEARING BANK BORROWINGS *(Continued)*

Notes:

(a) The Group's overdraft facilities amounting to HK$146,000,000 (2010: HK$151,250,000), of which HK$64,670,000 (2010: HK$7,000,000) had been utilised at the end of the reporting period, are guaranteed by the Company up to HK$139,000,000 (2010: HK$164,000,000). The loans were secured by the pledge of certain of the Group's listed equity investments and time deposits amounting to HK$112,951,000 (2010: HK$41,500,000) and Nil (2010: HK$250,000) (note 25) respectively.

(b) Certain of the Group's bank loans are secured by the Group's leasehold land and building situated in Hong Kong, which had a carrying value at the end of the reporting period of approximately HK$180,746,000 (2010: HK$184,528,000) (note 14).

In addition, listed equity investments belonging to the Group and clients totalling approximately HK$245,183,000 (2010: HK$315,460,000) were pledged to banks to secure banking facilities granted to subsidiaries of the Group at the end of the reporting period (notes 19 and 22).

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

31. SUBORDINATED LOAN TO A SUBSIDIARY

The Company's subordinated loan to a subsidiary, South China Securities Limited, is unsecured, bears interest at a rate of 2% below the Hong Kong dollar prime rate (2010: 2% below the Hong Kong dollar prime rate) per annum, and is repayable on a date as agreed between the Company and the subsidiary, subject to the overriding provision of the subordinated loan agreement that, if the subsidiary becomes insolvent or unable to meet the liquid capital requirements set out in the Hong Kong Securities and Futures (Financial Resources) Rules, the repayment of the loan will be subordinated to the prior repayment of all other creditors of the subsidiary. In the opinion of the directors, the balance is not repayable within one year.

32. SHARE CAPITAL

Shares

	2011 **HK$'000**	2010 HK$'000
Authorised:		
8,000,000,000 (2010: 8,000,000,000) ordinary shares of HK$0.025 each	**200,000**	200,000
Issued and fully paid:		
5,028,334,500 (2010: 5,028,834,500) ordinary shares of HK$0.025 each	**125,708**	125,721

During the year ended 31 December 2011, the Company repurchased 500,000 ordinary shares from the market at an average price at HK$0.107 per share at a consideration of HK$54,000. All the ordinary shares repurchased were cancelled during the year ended 31 December 2011 and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of the ordinary shares of HK$41,000 was charged to retained profits. In accordance with Section 49H of the Hong Kong Companies Ordinance, an amount equivalent to the par value of the ordinary shares cancelled was transferred to the capital redemption reserve as set out in the consolidated statement of changes in equity.

33. SHARE OPTION SCHEME

The directors and employees of the Company and its subsidiaries are entitled to participate in the share option scheme operated by the Company (the "Share Option Scheme"). Details of the Share Option Scheme are as follows:

(1) Purpose of the Share Option Scheme

In order to provide incentives or rewards to the participants for their contribution to the Group and to enable the Group to attract and retain employees of appropriate qualifications and with necessary experience to work for the Group and any entity in which any member of the Group holds any equity interest (the "Invested Entity"), the shareholders of the Company approved the adoption of the Share Option Scheme at the annual general meeting held on 31 May 2002.

(2) Participants of the Share Option Scheme

According to the Share Option Scheme, the board may, at its absolute discretion, grant options to any person belonging to any of the following classes of participants to subscribe for shares:

(i) any executive director, employee or proposed employee (whether full time or part time) of any member of the Group or any Invested Entity or substantial shareholder;

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

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

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

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

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

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

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

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

33. SHARE OPTION SCHEME *(Continued)*

(3) Total number of shares available for issue under the Share Option Scheme

The maximum number of shares in respect of which share options may be granted shall not exceed 10% of the shares issue as at the date of approval of the Share Option Scheme, i.e., a total of 486,193,674 shares.

As at 31 December 2011, the total number of shares available for issue pursuant to the grant of further share options under the Share Option Scheme was 427,693,668, representing approximately 8.51% of the issued share capital of the Company as at the date of this Annual Report.

(4) Maximum entitlement of each participant

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme to each participant in any 12-month period must not exceed 1% of the issued share capital of the Company for the time being unless otherwise approved by the shareholders of the Company, if applicable.

(5) Period within which the shares must be taken up under an option

The board may, at its absolute discretion, determine the period during which a share option may be exercised, and such period should expire no later than 10 years from the date of grant. The board may also provide restrictions on the exercise of a share option during the period a share option may be exercised.

(6) Minimum period, if any, for which an option must be held before it can be exercised

There is no specific requirement under the Share Option Scheme that an option must be held for any minimum period before it can be exercised, but the terms of the Share Option Scheme provide that the board has the discretion to impose a minimum period at the time of grant to any particular option.

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

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

(8) Basis of determining the exercise price of the option

The exercise price is determined by the board, and shall be at least the highest of: (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of offer; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares.

33. SHARE OPTION SCHEME *(Continued)*

(9) Remaining life of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which it became unconditional on 28 June 2002.

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

	2011 Weighted average exercise price HK$ per share	2011 Number of options '000	2010 Weighted average exercise price HK$ per share	2010 Number of options '000
At 1 January	**0.136**	**215,667**	0.138	329,667
Granted during the year	**–**	**–**	–	–
Lapsed during the year	**0.134**	**(186,667)**	0.140	(114,000)
Cancelled during the year	**–**	**–**	–	–
At 31 December	**0.155**	**29,000**	0.136	215,667

No share options were exercised during the years ended 31 December 2011 and 2010.

Particulars and movements during the year of the outstanding share options granted under the Share Option Scheme were as follows:

	Number of share options							
Name or category of participant	Outstanding as at 1 January 2011	Granted during the year	Lapsed during the year	Reclassified (Note a)	Outstanding as at 31 December 2011	Date of grant of share options (Note b)	Exercise period of share options	Exercise price per share (Note c) HK$
Directors								
Ms. Cheung Choi Ngor	10,000,000	–	(10,000,000)	–	–	16 Mar 06	16 Mar 09 – 15 Mar 11	0.128
Mr. Richard Howard Gorges	10,000,000	–	(10,000,000)	–	–	16 Mar 06	16 Mar 09 – 15 Mar 11	0.128
Mr. Ng Yuk Yeung, Paul	10,000,000	–	(10,000,000)	–	–	16 Mar 06	16 Mar 09 – 15 Mar 11	0.128
	6,666,666	–	(6,666,666)	–	–	26 Apr 06	26 Apr 09 – 25 Apr 11	0.128
Mr. Cheung Wai Kwok, Gary	16,666,667	–	–	(16,666,667)	–	26 Jun 09	26 Jun 10 – 25 Jun 12	0.128
(resigned on 9 June 2011)	16,666,667	–	–	(16,666,667)	–	26 Jun 09	26 Jun 11 – 25 Jun 13	0.128
	16,666,666	–	–	(16,666,666)	–	26 Jun 09	26 Jun 12 – 25 Jun 14	0.128
Sub-total	86,666,666	–	(36,666,666)	(50,000,000)	–			

33. SHARE OPTION SCHEME *(Continued)*

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

Name or category of participant	Number of share options: Outstanding as at 1 January 2011	Granted during the year	Lapsed during the year	Reclassified (Note a)	Outstanding as at 31 December 2011	Date of grant of share options (Note b)	Exercise period of share options	Exercise price per share (Note c) HK$
Others	14,000,000	–	(14,000,000)	–	–	16 Mar 06	16 Mar 09 – 15 Mar 11	0.128
In aggregate	6,666,666	–	(6,666,666)	–	–	26 Apr 06	26 Apr 09 – 25 Apr 11	0.128
	2,000,000	–	(2,000,000)	–	–	12 Apr 07	12 Apr 09 – 11 Apr 11	0.161
	2,000,000	–	–	–	2,000,000	12 Apr 07	12 Apr 10 – 11 Apr 12	0.161
	500,000	–	(500,000)	–	–	23 Apr 07	23 Apr 09 – 22 Apr 11	0.161
	500,000	–	–	–	500,000	23 Apr 07	23 Apr 10 – 22 Apr 12	0.161
	4,000,000	–	(4,000,000)	–	–	10 Jul 07	10 Jul 09 – 9 Jul 11	0.172
	4,000,000	–	(2,500,000)	–	1,500,000	10 Jul 07	10 Jul 10 – 9 Jul 12	0.172
	16,666,667	–	(33,333,334)	16,666,667	–	26 Jun 09	26 Jun 10– 25 Jun 12	0.128
	16,666,667	–	(33,333,334)	16,666,667	–	26 Jun 09	26 Jun 11– 25 Jun 13	0.128
	16,666,666	–	(33,333,332)	16,666,666	–	26 Jun 09	26 Jun 12– 25 Jun 14	0.128
	2,000,000	–	–	–	2,000,000	5 Aug 09	5 Aug 10 – 4 Aug 12	0.128
	2,000,000	–	–	–	2,000,000	5 Aug 09	5 Aug 11 – 4 Aug 13	0.128
	2,000,000	–	–	–	2,000,000	5 Aug 09	5 Aug 12 – 4 Aug 14	0.128
Sub-total	89,666,666	–	(129,666,666)	50,000,000	10,000,000			
Employees								
In aggregate	17,833,329	–	(17,833,329)	–	–	12 Apr 07	12 Apr 09 – 11 Apr 11	0.161
	17,833,342	–	(666,668)	–	17,166,674	12 Apr 07	12 Apr 10 – 11 Apr 12	0.161
	1,000,000	–	(1,000,000)	–	–	17 Apr 07	17 Apr 09 – 16 Apr 11	0.161
	1,000,000	–	–	–	1,000,000	17 Apr 07	17 Apr 10 – 16 Apr 12	0.161
	833,334	–	(833,334)	–	–	23 Apr 07	23 Apr 09 – 22 Apr 11	0.161
	833,332	–	–	–	833,332	23 Apr 07	23 Apr 10 – 22 Apr 12	0.161
	39,333,337	–	(20,333,331)	–	19,000,006			
	215,666,669	–	(186,666,663)	–	29,000,006			

Notes:

a. Due to resignation, a director holding options under the Scheme had been reclassified. Consequently, 50,000,000 options were re-classified from "Directors" to "Others".

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

From the date of grant of share options	**Exercisable percentage**
Within 12 months	Nil
13th month to 36th month	33 1/3%
25th month to 48th month	33 1/3%
37th month to 60th month	33 1/3%

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

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

33. SHARE OPTION SCHEME *(Continued)*

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

At the end of the reporting period, the Company had 29,000,006 share options outstanding under the Share Option Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 29,000,006 additional ordinary shares of the Company and additional share capital of HK$725,000 and share premium of HK$3,763,000 (before issue expenses).

No share option was granted during the year (2010: Nil). The Group reversed a share option expense of HK$778,000 (2010: recognition of share option expense of HK$1,456,000) during the year ended 31 December 2011.

The fair value of equity-settled share options granted in prior years was estimated as at the date of grant using a trinomial model, taking into account the terms and conditions upon which the options were granted.

34. RESERVES

(a) Group

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

(b) Company

	Notes	Share premium account HK$'000	Capital redemption reserve HK$'000	Share option reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2010		220,027	1,601	17,893	1,735	241,256
Total comprehensive income for the year	11	–	–	–	31,697	31,697
Equity-settled share option arrangements	33	–	–	1,456	–	1,456
Interim 2010 dividend	12	–	–	–	(7,543)	(7,543)
Proposed final 2010 dividend	12	–	–	–	(16,092)	(16,092)
Transfer of share options reserve upon the forfeiture or expiry of share options		–	–	(7,568)	7,568	–
At 31 December 2010 and at 1 January 2011		220,027	1,601	11,781	17,365	250,774
Total comprehensive loss for the year	11	–	–	–	(121,373)	(121,373)
Equity-settled share option arrangements	33	–	–	(778)	–	(778)
Repurchase of shares		–	–	–	(41)	(41)
Transferred from retained profits/ (accumulated losses) on cancellation of repurchased shares		–	13	–	(13)	–
Transfer of share options reserve upon the forfeiture or expiry of share options		–	–	(7,818)	7,818	–
At 31 December 2011		220,027	1,614	3,185	(96,244)	128,582

34. RESERVES *(Continued)*

(b) Company *(Continued)*

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

35. OTHER COMPREHENSIVE LOSS FOR THE YEAR

	Group	
	2011	2010
	HK$'000	HK$'000
Changes in fair value of available-for-sale financial assets	**(13,483)**	(29,686)
Reclassification adjustment for loss/(gain) on disposal	**8,895**	(3,862)
Exchange differences on translation of foreign operations	**2,750**	1,072
	(1,838)	(32,476)

36. PLEDGE OF ASSETS

Details of the Group's bank loans and overdrafts which are secured by the assets of the Group are included in note 30 to the financial statements.

37. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements are as follows:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in connection with banking facilities granted to subsidiaries	**–**	–	**1,020,006**	924,010

At the end of the reporting period, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$432,687,000 (2010: HK$363,595,000).

38. OPERATING LEASE ARRANGEMENTS

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

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Within one year	**21,103**	17,820
In the second to fifth years, inclusive	**29,961**	4,072
	51,064	21,892

39. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	**2011** HK$'000	2010 HK$'000
Commission and brokerage income received from:	(i)		
Directors and companies in which certain directors have beneficial interests*		**1,078**	2,091
Interest income arising from margin financing received from:	(ii)		
Directors and companies in which certain directors have beneficial interests*		**52**	1,786
Interest income from revolving facilities received from:	(iii)		
Companies in which certain directors have beneficial interests*		**–**	196
Interest expense paid to a director	(iv)	**–**	161

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

39. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

Notes:

(i) Commission and brokerage income related to the Group's securities broking business and the rate was calculated by reference to commission and brokerage fees charged to third parties.

(ii) Interest income related to the Group's margin financing business and the amount was calculated based on the Hong Kong dollar prime rate (2010: based on the Hong Kong dollar prime rate) per annum which is similar to the rate offered to the Group's major clients.

(iii) Interest income in the prior year related to the Group's money lending business and was calculated at 5% per annum, which was similar to the rate offered to clients with similar characteristic.

(iv) Interest expense in the prior year related to an advance from a director and was calculated at prime rate.

(b) Compensation of key management personnel of the Group:

The executive directors and the non-executive directors are the key management personnel to the Group. Details of their remuneration are disclosed in note 8 to the financial statements.

(c) Outstanding balances with related parties:

Details of the Group's balances with affiliates at the end of the reporting period are included in notes 19, 24 and 27 to the financial statements.

40. FINANCIAL INSTRUMENTS BY CATEGORY

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

2011 **Group**

Financial assets

	Financial assets at fair value through profit or loss – held for trading HK$'000	Available-for-sale investments HK$'000	Loans and receivables HK$'000	Total HK$'000
Other assets	–	–	7,087	7,087
Available-for-sale investments	–	21,795	–	21,795
Loans receivable	–	–	128,955	128,955
Trade receivables	–	–	100,420	100,420
Financial assets at fair value through profit or loss	246,787	–	–	246,787
Financial assets included in other receivables, prepayments and deposits (note 24)	–	–	17,671	17,671
Pledged time deposits	–	–	5,500	5,500
Cash held on behalf of clients	–	–	414,648	414,648
Cash and bank balances	–	–	125,811	125,811
	246,787	21,795	800,092	1,068,674

2011 **Group**

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Client deposits	401,099
Trade payables	91,740
Financial liabilities included in other payables and accruals (note 29)	3,938
Interest-bearing bank borrowings	432,687
	929,464

40. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

2010 Group

Financial assets

	Financial assets at fair value through profit or loss – held for trading HK$'000	Available-for-sale investments HK$'000	Loans and receivables HK$'000	Total HK$'000
Other assets	–	–	6,962	6,962
Available-for-sale investments	–	38,167	–	38,167
Loans receivable	–	–	216,637	216,637
Trade receivables	–	–	105,769	105,769
Financial assets at fair value through profit or loss	279,825	–	–	279,825
Financial assets included in other receivables, prepayments and deposits (note 24)	–	–	9,215	9,215
Pledged time deposits	–	–	5,750	5,750
Cash held on behalf of clients	–	–	369,243	369,243
Cash and bank balances	–	–	114,140	114,140
	279,825	38,167	827,716	1,145,708

2010 Group

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Client deposits	363,920
Trade payables	94,779
Financial liabilities included in other payables and accruals (note 29)	5,186
Interest-bearing bank borrowings	363,595
	827,480

40. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

Company

Financial assets

	Loans and receivables	
	2011	2010
	HK$'000	HK$'000
Due from subsidiaries	**443**	151,024
Subordinated loan to a subsidiary	**100,000**	100,000
Cash and bank balances	**105**	125
	100,548	251,149

Company

Financial liabilities

	Financial liabilities at amortised cost	
	2011	2010
	HK$'000	HK$'000
Due to subsidiaries (note 18)	**7,116**	7,127
Financial liabilities included in other payables and accruals (note 29)	**48**	48
	7,164	7,175

41. FAIR VALUE AND FAIR VALUE HIERARCHY

At the end of the reporting period, the carrying amounts of the Group's and the Company's financial assets and liabilities approximated to their fair values.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and bank balances, the current portion of pledged deposits, trade and loans receivables, client deposits, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amount due from a related company and interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the non-current portion of interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

The fair values of listed equity investments are based on quoted market prices.

41. FAIR VALUE AND FAIR VALUE HIERARCHY *(Continued)*

Fair value hierarchy

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

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

At the end of the reporting period, the financial instruments measured at fair value held by the Group were classified as level 1 (2010: level 1).

During the year, there were no transfers into or out of Level 3 fair value measurements (2010: Nil). The Company did not have any financial assets measured at fair value as at 31 December 2011 (2010: Nil).

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk and equity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

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

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

	Group	
	Change in basis point	**Change in profit/(loss) before tax** HK$'000
2011		
Hong Kong dollar	**50**	**2,163**
2010		
Hong Kong dollar	50	1,818

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

Credit risk

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

The Group's concentration of credit risk is mainly in Hong Kong by geographical location. The Group's credit risk exposure is spread over a number of counterparties and customers. Hence, it has no significant concentration of credit risk by a single debtor.

Further quantitative data in respect of the Group's exposure to credit risk arising from loans and trade receivables are disclosed in notes 19 and 23 to the financial statements, respectively.

Liquidity risk

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

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans.

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

Group			**2011**			
	On demand HK$'000	**Less than 3 months HK$'000**	**3 to less than 12 months HK$'000**	**1 to 5 years HK$'000**	**Over 5 years HK$'000**	**Total HK$'000**
Client deposits	**401,099**	**–**	**–**	**–**	**–**	**401,099**
Interest-bearing bank borrowings	**256,670**	**5,112**	**15,336**	**81,793**	**97,150**	**456,061**
Trade payables	**–**	**91,740**	**–**	**–**	**–**	**91,740**
Other payables	**–**	**3,938**	**–**	**–**	**–**	**3,938**
	657,769	**100,790**	**15,336**	**81,793**	**97,150**	**952,838**

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

Liquidity risk *(Continued)*

Group	2010					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Client deposits	363,920	–	–	–	–	363,920
Interest-bearing bank borrowings	238,000	4,087	10,478	55,882	69,865	378,312
Trade payables	–	94,779	–	–	–	94,779
Other payables	–	5,186	–	–	–	5,186
	601,920	104,052	10,478	55,882	69,865	842,197

Company	**2011**			
	On demand	**Less than 3 months**	**Over 1 year**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Due to subsidiaries (note 18)	**–**	**–**	**7,116**	**7,116**
Other payables	**48**	**–**	**–**	**48**
Guarantees given to banks in connection with facilities granted to subsidiaries	**432,687**	**–**	**–**	**432,687**
	432,735	**–**	**7,116**	**439,851**

Company	2010			
	On demand	Less than 3 months	Over 1 year	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Due to subsidiaries (note 18)	–	–	7,127	7,127
Other payables	–	48	–	48
Guarantees given to banks in connection with facilities granted to subsidiaries	363,595	–	–	363,595
	363,595	48	7,127	370,770

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

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group was exposed to equity price risk arising from individual equity investments classified as financial assets at fair value through profit or loss (note 22) and available-for-sale investments (note 20) at the end of the reporting period. The Group's listed investments are listed on the Hong Kong Stock Exchange and are valued at quoted market prices at the end of the reporting period.

The market equity index for the following Hong Kong Stock Exchange, at the close of business of the nearest trading day in the year to the end of the reporting period, and its respective highest and lowest points during the year were as follows:

	31 December 2011	**High/low 2011**	31 December 2010	High/low 2010
Hong Kong – Hang Seng Index	**18,434**	**24,420/ 16,250**	23,035	24,964/ 18,986

The following table demonstrates the sensitivity to every 10% change in the fair value of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period.

	Carrying amount of equity investments HK$'000	**Change in profit before tax** HK$'000	**Change in equity*** HK$'000
2011			
Investments listed in:			
Hong Kong – Available-for-sale	**19,320**	**–**	**1,932**
– Held-for-trading	**246,787**	**24,679**	**–**
2010			
Investments listed in:			
Hong Kong – Available-for-sale	36,222	–	3,622
– Held-for-trading	279,825	27,983	–

* Excluding retained profits

Capital management

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

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

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

Capital management *(Continued)*

Certain subsidiaries of the Group are regulated by the Securities and Futures Commission (the "SFC") and are required to comply with certain minimum capital requirements according to the rules of the SFC. The Group has established a legal and compliance department which is operated by experienced internal qualified lawyers and compliance officers and is monitored by management. The principal roles of the legal and compliance department are to monitor the daily financial status and to review internal control of the Group regularly to ensure the Company's regulated subsidiaries are in compliance with related regulations. No changes were made in the objectives, policies or processes for managing capital during the two years ended 31 December 2011 and 2010.

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

Group

	2011	2010
	HK$000	HK$000
Interest-bearing bank borrowings	**432,687**	363,595
Less: Cash and bank balances	**(125,811)**	(114,140)
Net debt	**306,876**	249,455
Capital	**317,264**	498,161
Capital and net debt	**624,140**	747,616
Gearing ratio	**49.2%**	33.4%

43. MAJOR NON-CASH TRANSACTIONS

(i) During the year ended 31 December 2010, the Group transferred certain of its investment properties of HK$47,200,000 to property, plant and equipment.

(ii) During the year ended 31 December 2010, the Group transferred certain of its financial assets at fair value through profit or loss of HK$22,960,000 to available-for-sale investments.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2012.

Five Year Financial Summary

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

RESULTS

	Year ended 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**61,578**	192,343	146,808	93,679	285,952
Profit/(loss) before tax	**(164,263)**	88,664	116,842	(192,033)	209,319
Tax	**2,128**	(684)	(2,919)	5,569	(9,775)
Profit/(loss) for the year	**(162,135)**	87,980	113,923	(186,464)	199,544
Attributable to:					
Equity holders of the Company	**(162,136)**	87,977	113,896	(186,451)	199,536
Non-controlling interests	**1**	3	27	(13)	8
	(162,135)	87,980	113,923	(186,464)	199,544

	Year ended 31 December				
	2011	2010	2009	2008	2007
Earnings/(loss) per share (HK cents):					
Basic	**(3.22)**	1.75	2.26	(3.71)	3.98
Diluted	**(3.22)**	1.75	2.26	(3.71)	3.83
Dividend per share (HK cents)	**–**	0.47	0.60	0.04	1.00

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**1,257,602**	1,338,391	1,384,434	890,088	1,386,995
TOTAL LIABILITIES	**(940,338)**	(840,230)	(905,437)	(562,019)	(847,837)
NON-CONTROLLING INTERESTS	**(572)**	(571)	(923)	(896)	(994)
	316,692	497,590	478,074	327,173	538,164