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

（Stock Code 股份代號：218）

Annual Report 2012 年報

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Chu Xiaoming *(Chairman)*
Lu Wenqing
Guo Chun *(Chief Executive Officer)*
Lee Man Chun Tony

Non-executive Directors

Chang Pen Tsao
Zhang Lei

Independent Non-executive Directors

Ng Wing Hang Patrick
Kwok Lam Kwong Larry
Zhuo Fumin

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Wong Che Keung Leslie

PRINCIPAL BANKERS

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

AUDITORS

Ernst & Young

SOLICITORS

Fred Kan & Co.

REGISTERED OFFICE

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

SHARE REGISTRARS & TRANSFER OFFICE

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

WEBSITE

http://www.sywg.com.hk

CHAIRMAN'S STATEMENT

I hereby present to the shareholders the annual report of Shenyin Wanguo (H.K.) Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2012.

RESULTS

For the year ended 31 December 2012, the Group recorded a net profit attributable to shareholders of approximately HK$30 million, representing a decrease of 59.3% over 2011. The turnover decreased by 23.3% to approximately HK$294 million (2011: HK$383 million). The basic earnings per share decreased by 59.3% to HK5.68 cents as compared to HK13.94 cents for last year.

DIVIDEND

The board of directors (the "Board") of the Company has resolved to recommend the payment of a final dividend of HK1.5 cents per ordinary share in respect of 2012, to shareholders whose names appear on the register of members of the Company on 20 May 2013. The proposed dividend will be paid on or about 30 May 2013 subject to the approval of the shareholders at the forthcoming annual general meeting of the Company.

REVIEW OF MARKET IN 2012

Since the beginning of 2012, the Hong Kong market was deeply encumbered by the European debt crisis, along with the impact of economic growth slowdown in Chinese Mainland and the significant fluctuation trend of Hang Seng Index. In the first quarter, Hang Seng Index reached its high of 21,760 from 18,877. However, since the second quarter, with the deepening European debt crisis and the dipping of GDP growth in Chinese Mainland, the Hang Seng Index experienced a volatile downward trend and plunged into its low of 18,056 for the year on 4 June. In the third quarter, Hang Seng Index rebounded to its high of 20,896 in September from its low of 18,711 in July. Stimulated from many favourable factors like the launching of QE3 by the US Federal Reserve, the mitigation of the European debt crisis and market expectation on the bottoming out of the Chinese Mainland economy growth rate, Hang Seng Index picked up its upward trend again in the third quarter. In the fourth quarter, with promising market expectation and the influx of tremendous amount of international hot money into Hong Kong, the Hong Kong market continued its upward trend from the previous quarter with Hang Seng Index reaching its annual high of 22,150 in mid-November. Entering into December, Hang Seng Index maintained its high level of above 22,000 in most of the trading days, and reached its record high of 22,719 towards the end of the year. Based on the market trading volume, the average daily turnover of the Hong Kong Stock Exchange in 2012 was HK$53.9 billion, representing a decrease of 23% as compared with the average daily turnover of HK$69.7 billion in 2011.

In 2012, the overall economic growth of Chinese Mainland showed a slowing down trend. According to the information released by the National Bureau of Statistics, the annual growth rate of Chinese Mainland GDP was 7.8%. As compared with the two digits long-term growth rate in the past three decades, the Chinese Mainland economic growth rate recorded its lowest level in the past 11 years. In 2012, the Central Government implemented a proactive fiscal policy and a prudent monetary policy, actively took various measures to expand the domestic consumption demand, maintained a stable growth in investment, and facilitated a recovery growth in foreign trade export. In November last year, with the holding of the Eighteenth National Congress of the CPC, the replacement of collective leadership was completed smoothly. The market expected that the Chinese Mainland economy had bottomed out in the third quarter of last year. Affected by the above, the booming sentiment also returned to the Hong Kong stock market in the fourth quarter of last year.

CHAIRMAN'S STATEMENT *(Cont'd)*

REVIEW OF MARKET IN 2012 *(Cont'd)*

In 2012, net commission income and net interest income of the Group were decreased, whereas income from asset management and investment income from seed monies invested by the Group recorded a significant increase. As the turnover of Hong Kong stock market was shrunk in 2012, net commission income of the Group from the secondary market was decreased by 16.55% as compared with that of the previous year. Last year, the Hong Kong stock market was lack lustre with the reduced numbers of new listings, thus resulting in a decline of the margin loan business of the Group, with net interest income decreased by 7.03% as compared with that of the previous year. However, the investment banking business of the Group made good progress and had successfully sponsored DYNAM JAPAN HOLDINGS Co., Ltd., a Japanese company, listed on the Main Board. We also completed several placing and financial advisory projects for different Hong Kong listed companies. Income from investment banking business represented a slight increase from last year.

In 2012, the Group facilitated its business transformation according to market changes as well as the development strategy of its parent company. We established a wealth management centre for promoting various financial products including bonds, funds, overseas stocks and commodity futures to clients, thereby expanding its sources of income. Shenyin Wanguo (H.K.) Holdings Limited, the holding company of the Group, obtained the RQFII business qualifications approved by China Securities Regulatory Commission with a RQFII quota of RMB900 million approved by State Administration of Foreign Exchange, and it authorised Shenyin Wanguo Asset Management (Asia) Limited, a subsidiary of our Group, for its operation and management. After nearly a year of operation, our RQFII business was progressing well, and the size of the Group's asset management business had significantly expanded as compared with the previous year. In 2012, the Group completed the new online trading for U.S. stocks, Australian stocks and U.K. stocks, and increased many global bulk commodity futures trading product categories. Currently, the online trading platform of the Group has covered not only the spot and futures markets in Hong Kong, but the major stock markets in the United States, United Kingdom, and Australia. It also radiates into the world's major commodity futures markets with trading commodities categories including various bulk commodities such as precious metals, non-ferrous metals, energy and agricultural products, and soft commodities; and engages in cross-border, cross-market and cross-spot and futures comprehensive trade businesses. In 2012, the Group further integrated its institutional trading service platform, and the proportion of institutional trading services was further increased with satisfactory development and progress in such businesses.

In 2012, the Group established its new business operating processes to cope with its risk management needs for new businesses, and reviewed, amended and supplemented its corresponding internal control systems, of which it included bond trading, bond financing, and products sales etc. With a positive and serious attitude, the Group responded to the Securities and Futures Commission of Hong Kong in respect of the various issues relating to the monitoring and internal review aspects against the 4 licensed subsidiaries of the Company that were raised up during its routine inspection on such subsidiaries; and under the recommendations of the Securities and Futures Commission of Hong Kong, the Group took various measures to strengthen and improve its internal control systems, enhance its risk management and level of its internal control for compliance.

CHAIRMAN'S STATEMENT *(Cont'd)*

FUTURE PLAN & PROSPECTS

In 2013, the global economy will continue to be threatened by the national debt crisis in the Eurozone. The U.S. deficit issue is yet to be solved. In addition, certain problems like high unemployment rate, sluggish real estate market and lack of confidence of consumers and enterprises will continue to perplex the U.S. economy. The global financial market will continue to encounter a great deal of uncertainties in which they will exert pressure on the Hong Kong securities market.

From the economy of Chinese Mainland's perspective, the recent revival of A-share market had reflected that the overall economic bottoming out sign is confirmed by the market. The domestic market participants expect that, after the Chinese government session changes in March 2013, a new round of economic stimulating measures may be introduced in the future. By judging from its trend, the fast-growing period of Chinese Mainland economy is basically over, and economic structural adjustment will become the fundamental key of Chinese Mainland economic works during the next few years. According to the mindset of the Central Economic Work Conference, in 2013, the Central Government will continue to implement a proactive fiscal policy and a prudent monetary policy to maintain the continuity and stability of the macroeconomic policy. It can be expected that the economy of Chinese Mainland will maintain a relatively steady growth in which it will give a positive support for the securities market in Hong Kong in 2013. In general, the securities market in Hong Kong will probably continue to rally with occasional corrections in 2013.

In the coming year, in order to match with the development vision and objective proposed in the five-year plan by the parent company, the Group will adopt an operation principle of "accelerating transformation and innovation, improving system and mechanism, enhancing profitability and cultivating sustainable development competitiveness", pay close attention to changes in the most recent cross-border securities regulation policies from the CSRC, accelerate to promote the transformation of the three main businesses in securities brokerage, investment banking and asset management, make stable progress according to the new changes in Hong Kong market and the new trends of competition from counterparts, actively and positively explore new business model and profit model with emphasis on increasing operating income, enhancing net income level and improving profitability, thereby promoting the synergetic development of various businesses. For the retail business, the Group will continue to explore local market potential while co-operating with the parent company to develop the Chinese Mainland market businesses and proactively expand the wealth management business, develop various kinds of financial products such as fixed income products, overseas stocks and commodity futures. The Group will vigorously develop institutional sales business and further integrate and enhance overseas sales team to increase the proportion of institutional trade. For the assets management business, the Group intends to continue to apply new RQFII quota and issue new RQFII products to enhance its assets management product marketing capability. At the same time, the Group will continue to expand its assets management business in the nearby overseas market, such as South Korea, Japan, Singapore and Taiwan etc. In terms of the investment banking business, apart from focusing on its investment in placing activities, the Group will also be committed to develop the IPO sponsoring operation with a view to diversifying the income structure of this business as well as improving its profitability. While aggressively expanding all of its businesses, the Group will also persistently strengthen its risk management and improve its corporate governance mechanism so as to secure a healthy, sustainable and stable growth across the Group's businesses.

CHAIRMAN'S STATEMENT *(Cont'd)*

FUTURE PLAN & PROSPECTS *(Cont'd)*

All the time, the Group has actively participated in public welfare undertakings and organises staff donations to fund the education-aided project for mountainous regions under the "Sowers Action". The Sowers Action nominated the Group to participate in the "Caring Company" election organised by the Hong Kong Council of Social Service at the end of 2012 and the Group was awarded the honour of "Caring Company" in recognition of our fulfillment of the spirit as a good corporation and caring about the community.

Finally, I would like to take this opportunity to express my gratitude to Mr. Huang Gang, our director, who has resigned on 18 February 2013 for his valuable contributions to the Company.

Chu Xiaoming
Chairman

Hong Kong
8 March 2013

MANAGEMENT DISCUSSION & ANALYSIS OF PERFORMANCE

REVIEW OF OPERATIONS

Securities Broking

The securities brokerage business of the Group covered the stock and futures markets in Hong Kong, the B-share market in Chinese Mainland and other major stock markets like U.S., United Kingdom, Australia and Japan, as well as global major commodity futures markets. In 2012, the market turnover was generally light amid volatile Hang Seng Index. The average daily turnover of the Stock Exchange was decreased by 23% as compared with that of last year. Affected by the adverse factors in the market, the Group recorded a commission and brokerage income of HK$187 million from the primary and secondary markets in 2012, decreased by 20.1% as compared with HK$234 million of last year. Commission income from futures and options brokerage decreased by 20.9% as compared with that of last year. In respect of business expansion, during 2012, the Group made good progresses in promoting sales to overseas institutional clients with the proportion of institutional sales increasing, and the market share of the Group rose as compared with that of last year. The Group actively commenced its wealth management business and promoted the transformation of the brokerage business and achieved certain results.

Securities Financing

In 2012, by leveraging on its abundant financial resources, the Group commenced the margin loan business and actively expanded new businesses such as bond financing and B-share financing. However, as affected by the significant decline in both the trading volume of the Stock Exchange in 2012 and the raising of funds from the IPO, the Group recorded a net interest income of HK$75.43 million, representing a reduction of 7.03% as compared to HK$81.13 million for 2011.

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

Corporate Finance

Shenyin Wanguo Capital (H.K.) Limited ("Shenyin Wanguo Capital"), a wholly-owned subsidiary of the Company, is mainly engaged in financial consultancy and securities underwriting. In January and August 2012, Shenyin Wanguo Capital acted as the sponsor to ASR Holdings Limited and DYNAM JAPAN HOLDINGS Co., Ltd. for their respective listings on the Main Board of the Hong Kong Stock Exchange. Moreover, during 2012, Shenyin Wanguo Capital acted as the underwriter for various new issues and open offers, participated in a number of share placements, and was engaged as various financial advisers for 16 listed companies and completed a number of financial advisory assignments.

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

REVIEW OF OPERATIONS *(Cont'd)*

Securities Research

Our securities trading and broking businesses are supported by a securities research team of the Group. With the support of our parent company, which is one of the leading securities companies in Chinese Mainland, the Group has become a specialist in Chinese Mainland securities. A securities research team of the Group provides professional support for our securities trading and broking businesses and produces regular reports on Hong Kong and Chinese Mainland securities markets. The reports also cover macroeconomics, market strategy as well as analyses on the key Chinese Mainland companies listed on the Hong Kong, Shanghai and Shenzhen stock exchanges. The research team of the Group also prepares detailed industry and company analytical reports for circulation to our clients.

During 2012, together with our parent company, we invited about 30 investment analysts to participate in a total of 107 international roadshows organised by the Group and met with our clients in Asia, the U.S. and U.K. We believe that such activities were beneficial to the collaboration between our parent company and us and posed positive impact on the research and investment banking fronts.

Asset Management

Shenyin Wanguo Asset Management (Asia) Limited ("SWAM"), a subsidiary of the Group, is engaged in asset management business. In March 2012, SWAM successfully launched two Hong Kong public mutual funds: "Shenyin Wanguo RMB Mainland Investment Fund" (RQFII Fund) and "Shenyin Wanguo China Policy Focus Fund" (CPF Fund). Despite great challenges in the financial market environment, the RQFII Fund of SWAM outperformed not only the benchmark index but also the average standard of comparable funds. By the end of 2012, the size of RQFII Fund has reached more than 90% of the approved RQFII quota. CPF Fund also demonstrated an outstanding performance. Not only had CPF Fund outperformed the benchmark index, it had also surpassed various competitors in the sector. A Taiwan public fund managed by SWAM as consultant also achieved outstanding performance in 2012.

CAPITAL STRUCTURE

During the year, there was no change to the share capital of the Company. As at 31 December 2012, the total number of the issued ordinary shares was 530,759,126 shares and total equity attributable to shareholders was approximately HK$1.2 billion.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 31 December 2012, the Group had a cash holding of HK$194 million and short-term marketable securities of HK$360 million. As at 31 December 2012, the Group's total unutilised banking facilities amounted to HK$536 million, of which HK$296 million could be drawn down without the need of notice nor completion of condition precedent.

As at 31 December 2012, the Group had outstanding short-term bank borrowings amounting to HK$615 million. The liquidity ratio (current assets to current liabilities) and gearing ratio (borrowings to net asset value) as at 31 December 2012 were 1.34 and 0.51 respectively.

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

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

SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITION AND DISPOSAL

During the year, the Group did not hold any significant investment and did not have any material acquisition or disposal.

CHARGES ON THE GROUP'S ASSET

No asset of the Group was subject to any charge as at 31 December 2012.

RISK MANAGEMENT

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

The management closely monitors the market condition so that precautionary measures will be taken to eliminate any risk that the Group may encounter. As at 31 December 2012, all advances to customers were margin financing and amounted to HK$1,152 million (2011: HK$573 million), of which 6% (2011: 9%) was attributable to corporate customers with the rest attributable to individual customers.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

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

CONTINGENT LIABILITIES

There were no material contingent liabilities as at 31 December 2012.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Except the future plans as disclosed in the paragraph of "Future Plan & Prospects" in the Chairman's Statement, the Group had no other future plans for material investments or capital assets as at 31 December 2012.

EMPLOYEES AND TRAINING

As at 31 December 2012, the total number of full-time employees was 219 (2011: 233). The total staff costs for the year (excluding directors' fees) amounted to approximately HK$111 million.

The Group is committed to professional training for its employees. In compliance with the relevant requirement of the Securities and Futures Commission, the Group had organised a Continuous Professional Training seminar in October 2012 for all licensed staff members.

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

CORPORATE SOCIAL RESPONSIBILITY

The Group has all along been committed to fulfilling corporate social responsibility. During the past years, the staff of the Group made voluntary donations and such donations were contributed to support an education-aided project for mountainous regions under the Sowers Action, which include the reconstruction of school buildings and dormitories, students living subsidies and training for teachers. In 2010, there were one school building and one dormitory in Guizhou and Yunnan named after the Group respectively, namely "Shenyin Wanguo SA-PH Dormitory" at Bajie Ethnic Primary School in Bajie Town, Sandu Shui Autonomous County, Guizhou Province and "Shenyin Wanguo SA-PH Primary School, Tatuo Village" in Yalian Town, Yongde County, Yunnan Province. By the end of 2010, the Group organised volunteers and together with the volunteers from Sowers Action, we inspected the conditions of school completion in Yongde County, Yunnan Province that we had provided assistance.

From 4 to 9 December 2012, the Group again organised volunteers group and went to Shuangjiang County, Yunnan Province to participate in the voluntary services in the mountainous regions under the Sowers Action in Chinese Mainland and inspected the education-aided project for mountainous regions sponsored by the Group – the reconstruction of a dormitory, a dining hall, and bathrooms at Qianbang Primary School in Mengmeng Town, Shuangjiang County, Lincang, Yunnan Province. It will be named as "Shenyin Wanguo SA-PH Student Dormitory" after the reconstruction.

Besides receiving testimonials from the Sowers Action, the Group was also being nominated for the election as a "Caring Company" organised by the Hong Kong Council of Social Service and was awarded the honour of "Caring Company" in recognition of our fulfillment of the spirit as a good corporation and caring about the community.

CORPORATE GOVERNANCE REPORT

To better the Company's transparency and accountability to the shareholders, the Company is, so far as practicable, committed to maintaining high standard of corporate governance. Save for the deviations from the Code Provisions A.4.1 and A.6.7 which are explained as below, the Company has met all the code provisions of Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the period from 1 January 2012 to 31 March 2012, and all the code provisions of Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules during the period from 1 April 2012 to 31 December 2012.

Code Provision A.4.1 specifies that non-executive directors should be appointed for a specific term, subject to re-election. In the first four months of 2012, the non-executive directors (including independent non-executive directors) of the Company were not appointed for specific terms, but each director is subject to retirement by rotation at least once every three years. In May 2012, the Company issued formal letter of appointment to each director (including non-executive director and independent non-executive director) pursuant to which each of them is appointed for a specific term, subject to retirement by rotation at least once every three years.

Code Provision A.6.7 specifies that independent non-executive directors and other non-executive directors should attend general meetings of the company and develop a balanced understanding of the views of shareholders. Due to other business engagements, a non-executive director and an independent non-executive director were unable to attend the annual general meeting of the Company held on 11 May 2012.

CORPORATE GOVERNANCE PRINCIPLES AND SHENYIN WANGUO'S PRACTICES:

A.1 The Board of Directors

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

The board should regularly review the contribution required from a director to perform his responsibilities to the issuer, and whether he is spending sufficient time performing them.

CORPORATE GOVERNANCE REPORT *(Cont'd)*

Four regular board meetings and one general meeting, being the 2012 annual general meeting held on 11 May 2012, were held by the Company in the financial year ended 31 December 2012. Attendance record of each individual director is as follows:

Name of Directors	Number of board meeting(s) attended/held	Number of general meeting(s) attended/held
Executive Directors		
Chu Xiaoming *(Chairman)*	4/4	1/1
Lu Wenqing	4/4	1/1
Guo Chun *(Chief Executive Officer)*	4/4	1/1
Lee Man Chun Tony	4/4	1/1
Ying Niankang *(resigned on 9 March 2012)*	1/1	–
Non-executive Directors		
Chang Pen Tsao	0/4	0/1
Authorised representative of Chang Pen Tsao	4/4	1/1
Huang Gang	3/4	0/1
Authorised representative of Huang Gang	1/4	–
Independent Non-executive Directors		
Ng Wing Hang Patrick	4/4	1/1
Kwok Lam Kwong Larry	3/4	1/1
Zhuo Fumin	2/4	0/1

Drafts of the agenda were sent to directors for comments before the meetings were held. They could include matters in the agenda for board meetings.

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

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

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

CORPORATE GOVERNANCE REPORT *(Cont'd)*

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

If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter shall be dealt with by a physical board meeting rather than a written resolution. Independent non-executive directors who, and whose associates, have no material interest in the transaction shall be present at that board meeting.

The Company has arranged appropriate insurance cover in respect of legal actions against its directors. The coverage and the amount insured under such policy are reviewed annually by the Company.

A.2 Chairman and Chief Executive

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

To ensure a balance of power and authority, the role of Chairman is separate from that of Chief Executive Officer. Mr. Chu Xiaoming acts as the Chairman. Mr. Lee Man Chun Tony acted as the Chief Executive Officer until he resigned on 9 March 2012, and Mr. Guo Chun acted as the Chief Executive Officer since then.

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

The Chairman ensured that all directors were properly briefed on issues arising at board meetings.

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

The Chairman ensured that the Board works effectively and performs its responsibilities, and that all key and appropriate issues are discussed by it in a timely manner. With the support of the Chief Executive Officer and the Company Secretary, all directors have been consulted about any matters proposed for inclusion in the agenda. The Chairman finally reviews and approves the agenda before the agenda for each board meeting is issued.

The Chairman ensured that the Board and the management of the Company are committed to the maintenance of good corporate governance practices and procedures.

CORPORATE GOVERNANCE REPORT *(Cont'd)*

Directors are encouraged to express their viewpoints to the Board's affairs and voice their concerns, if any, and are provided sufficient time for discussion of issues in the meetings and the Chairman directs discussions towards the emergence of a consensus view and then sum up discussions so that all directors understand what has been agreed.

During the financial year ended 31 December 2012, the Chairman held a meeting with the non-executive and independent non-executive directors without the presence of the executive directors.

The Chairman ensured that appropriate steps are taken to provide effective communication with shareholders and that their views were communicated to the Board as a whole. In March 2012, the Board has established a shareholders communication policy which is available on the Company's website.

A.3 Board Composition

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

During the financial year, the composition of the Board of the Company with their respective names and titles are set out below:

Executive Directors
Chu Xiaoming *(Chairman)*
Lu Wenqing
Guo Chun *(Chief Executive Officer)*
Lee Man Chun Tony
Ying Niangkang *(resigned on 9 March 2012)*

Non-executive Directors
Chang Pen Tsao
Huang Gang

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

Subsequent to the end of the reporting period, on 18 February 2013, Mr. Huang Gang resigned as a director of the Company and Mr. Zhang Lei was appointed as a director of the Company.

CORPORATE GOVERNANCE REPORT *(Cont'd)*

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

An updated list of the directors of the Company identifying their role and function and whether they are independent non-executive directors is maintained on the websites of the Hong Kong Exchanges and Clearing Limited ("HKEx") and the Company.

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

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

Since May 2012, all directors (including non-executive directors and independent non-executive directors) are appointed for a specific term, subject to retirement by rotation at least once every three years.

According to the Articles of Association of the Company, at each annual general meeting, one-third of the Directors for the time being or, if their number is not three or a multiple of three, then number nearest to but not less than one-third, shall retire from office by rotation, provided that every director shall be subject to retirement by rotation at least once every three years. Further, any director newly appointed shall hold office only until the first general meeting of the Company after his appointment and shall then be eligible for re-election.

In March 2012, the Board has established a nomination committee. The appointment of a new director is made on the recommendation by the Nomination Committee of the Company or by shareholders in a general meeting. The nomination procedures by shareholders are published in the website of the Company. All successful candidates must possess with the necessary skills, knowledge and experience which can help the Board to direct the Company's business. In addition, all candidates must be able to meet the criteria stipulated in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an independent non-executive director should also meet the independence criteria set out in Rules 3.13 of the Listing Rules. To further enhance accountability, any further re-appointment of an independent non-executive director who has served the Board for more than 9 years will be subject to a separate resolution to be approved by shareholders.

A.5 Nomination Committee

The Nomination Committee was established by the Company in March 2012. The functions of the Nomination Committee are mainly to review the structure, size and composition of the Board, to assess the independence of independent non-executive directors as well as to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors. Details of terms of reference of the Nomination Committee are published in the websites of HKEx and the Company.

CORPORATE GOVERNANCE REPORT *(Cont'd)*

The Nomination Committee comprises one executive director, Mr. Chu Xiaoming, and three independent non-executive directors, namely Mr. Ng Wing Hang Patrick, Mr. Kwok Lam Kwong Larry and Mr. Zhuo Fumin. Mr. Chu Xiaoming acts as the chairman of the Nomination Committee.

The Nomination Committee did not hold any meeting during the year ended 31 December 2012 but there was a written resolution from the members of the Nomination Committee in February 2013 to review and approve the recommendation to the Board on the appointment of a director.

The Nomination Committee was provided with sufficient resources to perform its duties and it can seek independent professional advice at the Company's expense if necessary.

A.6 Responsibilities of Directors

Principle: Every director must always know his responsibilities as a director of an issuer and its conduct, business activities and development. Given the essential unitary nature of the board, non-executive directors have the same duties of care and skill and fiduciary duties as executive directors.

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

The functions of non-executive directors have included the functions as specified in Code Provision A.6.2(a) to (d).

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for dealings in securities of the Company by the directors or relevant employees as defined in the Model Code. The Company made specific enquiry of all directors. According to their replies, all the directors complied with the requirements set out in the Model Code during the financial year ended 31 December 2012. The Company also complied with the other requirements stipulated in the Model Code.

CORPORATE GOVERNANCE REPORT *(Cont'd)*

Directors confirmed that they have complied with the Code Provision A.6.5 effective on 1 April 2012 on directors' training. During the year, all directors have participated in continuous professional development by the following means to develop and refresh their knowledge and skills and provided a record of training to the Company.

Name of Directors	**Training Received** *(Note)*
Executive Directors	
Chu Xiaoming *(Chairman)*	A, B, C
Lu Wenqing	A, B, C
Guo Chun *(Chief Executive Officer)*	A, B, C
Lee Man Chun Tony	A, B, C
Ying Niankang *(resigned on 9 March 2012)*	–
Non-Executive Directors	
Chang Pen Tsao	A, C, D, E
Huang Gang	A, B, E
Independent Non-Executive Directors	
Ng Wing Hang Patrick	A, B, C, E
Kwok Lam Kwong Larry	A
Zhuo Fumin	A, C, E

Note:

A Attending classes and/or seminars and/or forums
B Attending in-house briefings
C Giving talks at classes and/or seminars and/or forums
D Attending training relevant to the Company's business conducted by lawyers
E Reading materials relevant to the directors' duties and responsibilities

Each director is aware that he should give sufficient time and attention to the affairs of the Company. Upon reviewing (i) the annual confirmation of the number and nature of offices held in public companies or organisations and other significant commitments as well as time commitment given by each director; and (ii) the attendance rate of each director on board meetings and committee meetings, all directors have spent sufficient time in performing their responsibilities during the year.

A.7 Supply of and Access to Information

Principle: Directors should be provided in a timely manner with appropriate information in the form and quality to enable them to make an informed decision and perform their duties and responsibilities.

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

CORPORATE GOVERNANCE REPORT *(Cont'd)*

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

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

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

Principle: An issuer should disclose its directors' remuneration policy and other remuneration related matters. The procedure for setting policy on executive directors' remuneration and all directors' remuneration packages should be formal and transparent. Remuneration levels should be sufficient to attract and retain directors to run the issuer successfully without paying more than necessary. No director should be involved in deciding his own remuneration.

The Remuneration Committee of the Company was established in April 2005. The functions of the Remuneration Committee are mainly to review and make recommendations to the Board on the Company's policy and structure for all remunerations of directors and senior management. The terms of reference of the Remuneration Committee include the specific duties set out in Code Provision B.1.2(a) to (h), with appropriate modifications where necessary. Remuneration Committee has adopted the model according to B.1.2(c)(i) in its terms of reference, i.e. Remuneration Committee is delegated with responsibility to determine the remuneration packages of individual executive directors and senior management. Details of terms of reference of the Remuneration Committee are published in the HKEx's and Company's websites.

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

The Remuneration Committee held three meetings in the financial year ended 31 December 2012. The following is an attendance record of the meeting held by the Remuneration Committee for the financial year:

Name of Committee Members	Number of meeting(s) attended/held
Kwok Lam Kwong Larry *(Chairman)*	3/3
Ng Wing Hang Patrick	3/3
Zhuo Fumin	1/3

During the financial year, the Remuneration Committee reviewed and considered the remuneration policy, packages and fringe benefits of the directors and senior management of the Group. In addition, the Remuneration Committee also reviewed the remuneration policies of the Group and compared with companies of similar scale as benchmark. Furthermore, the Committee made recommendations to the Board for the reward system of the Group, the salary increment of employees in 2012 and the reward of the Chief Executive Officer for 2012. None of the directors of the Company participated in the determination of the remuneration of their own. The Remuneration Committee was satisfied with the current remuneration policy and packages of the Group.

CORPORATE GOVERNANCE REPORT *(Cont'd)*

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

The Remuneration Committee was provided with sufficient resources to perform its duties.

For the financial year ended 31 December 2012, the remuneration of the members of the senior management by band is set out below:

Remuneration bands	Number of senior management
Nil – HK$2,000,000	2
HK$2,000,001 – HK$4,000,000	2

Details of the directors' remuneration and five highest paid employees for the financial year ended 31 December 2012 as required to be disclosed pursuant to Appendix 16 of the Listing Rules are provided in notes 7 and 8 to the financial statements respectively.

C.1 Financial Reporting

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

Management provided sufficient explanation and information to the Board to enable it to make an informed assessment of financial and other information put before it for approval.

Management provided all members of the Board with monthly updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the Board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules.

Directors have acknowledged their responsibility for preparing accounts of the Company.

A statement by the external auditors about their reporting responsibilities is included in the Independent Auditors' Report on pages 37 to 38.

For the basis on which the Company generates or preserves value over the longer term and the strategy for delivery its objectives, please refer to "Chairman's Statement" on pages 3 to 6 and "Management Discussion & Analysis of Performance" on pages 7 to 10 respectively.

The Board presented a balanced, clear and understandable assessment of the Company in annual and interim reports and other financial disclosures required by the Listing Rules. It should also do so for reports to regulators and information disclosed under statutory requirements.

CORPORATE GOVERNANCE REPORT *(Cont'd)*

C.2 Internal Controls

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

The Internal Audit Department is charged with the responsibilities to evaluate whether there are sound and effective internal controls in place to safeguard the shareholders' investment and the Company's assets. Such evaluation covers all material controls, including financial, operational and compliance controls and risk management functions. Internal Audit Department reported twice during 2012 on significant findings on internal controls to the Audit Committee, which in turn reported to the Board accordingly. The Board found that as at the publication of this report and financial statements, the internal controls were sound and effective which safeguard the shareholders' and customers' interests and the assets of the Group.

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

C.3 Audit Committee

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

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

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

The Audit Committee held two meetings in the financial year ended 31 December 2012. The following is an attendance record of the meeting held by the Audit Committee for the financial year:

Name of Committee Members	**Number of meeting(s) attended/held**
Ng Wing Hang Patrick *(Chairman)*	2/2
Kwok Lam Kwong Larry	2/2
Zhuo Fumin	1/2

CORPORATE GOVERNANCE REPORT *(Cont'd)*

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

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

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

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

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

(5) performing corporate governance functions delegated by the Board.

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

The Board agreed with the Audit Committee's proposal for the re-appointment of Messrs. Ernst & Young as the Company's external auditors for 2013. The recommendation will be put forward for the approval of shareholders at the forthcoming annual general meeting.

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

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

During the financial year ended 31 December 2012, the remuneration paid to the external auditors, Messrs. Ernst & Young, was as below:

Nature of services	*HK$'000*
Audit services with recoverable expenses	1,980
Tax advisory services	175

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

In March 2012, the Audit Committee established an employee whistleblowing procedures on financial reporting improprieties of the Group. Under the employee whistleblowing procedures, the employees can report any concerns relating to the possible financial reporting improprieties to the chairman of Audit Committee.

CORPORATE GOVERNANCE REPORT *(Cont'd)*

D.1 Management Functions

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

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

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

Directors are clearly understood delegation arrangements in place. In May 2012, the Company issued formal letter of appointment to each director (including non-executive director and independent non-executive director) setting out the key terms and conditions of the appointment.

Matters reserved to be approved by the Board include:

(1) Appointment of directors;

(2) Business plans of the Company;

(3) Proposal for selection of external auditors;

(4) Financial statements and budgets;

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

(6) Formation of board committees.

D.2 Board Committees

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

Where board committees are established to deal with matters, the Board shall give them sufficiently clear terms of reference to enable them to perform their functions properly.

CORPORATE GOVERNANCE REPORT *(Cont'd)*

Apart from the Audit Committee (particulars are disclosed under C.3), Remuneration Committee (particulars are disclosed under B.1) and Nomination Committee (particulars are disclosed under A.5), the Board also established an Executive Committee and a Management Committee with specific terms of reference. The Executive Committee consists of all the executive directors and is responsible for formulating and reviewing the Company's important strategies on business and operations. The Management Committee consists of the Chief Executive Officer, deputy general manager(s), executive directors and chief operating officer. The Management Committee usually meets weekly for making policy and discussing issues relating to the Company's day-to-day management and business.

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

D.3 Corporate Governance Functions

The Board has delegated the responsibility for performing corporate governance functions to the Audit Committee, with the functions as specified in Code Provision D.3.1(a) to (e).

E.1 Effective Communication

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

At the annual general meeting held in 2012, a separate resolution was proposed by the Chairman for each substantially separate issue.

The chairman of the Board and the chairman of the Audit Committee, Remuneration Committee and Nomination Committee respectively attended the 2012 annual general meeting to answer questions of shareholders.

The external auditor, Messrs. Ernst & Young, attended the 2012 annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditing independence.

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

In March 2012, the Board has established a shareholders communication policy and was published in the Company's website. The policy is subject to review on a regular basis to ensure its effectiveness.

CORPORATE GOVERNANCE REPORT *(Cont'd)*

Pursuant to the disclosure requirements under the Listing Rules and Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules, the Company is required to disclose the following information on shareholders' rights:

Set out below are procedures by which shareholders of the Company may (a) convene an extraordinary general meeting; (b) put enquiries to the Board; (c) put forward proposals at shareholders' meetings; and (d) propose a person for election as a director. These procedures are generally governed by the Articles of Association and applicable laws, rules and regulations, which prevail over what is stated below in case of inconsistencies.

(a) How shareholders can convene an extraordinary general meeting

Pursuant to Article 67 of the Articles of Association of the Company, extraordinary general meetings shall be convened as provided by the Companies Ordinance.

Pursuant to Section 113 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), shareholder(s) holding not less than one-twentieth of the paid-up capital of the Company may request the Board to convene an extraordinary general meeting. The objects of the meeting must be stated in the related requisition deposited at the registered office of the Company.

(b) The procedures by which enquiries may be put to the board and sufficient contact details to enable these enquiries to be properly directed

Shareholders and other stakeholders may send their enquiries and concerns to the Board by addressing them to Company Secretary, whose contacts are listed below:

Address: 28/F, Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong
Email: co.sec@sywg.com.hk

(c) The procedures and sufficient contact details for putting forward proposals at shareholders' meetings

For including a resolution relating to other matters in a general meeting, shareholders are requested to follow the requirements and procedures as set out in Section 115A of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong).

The registered office of the Company is 28/F, Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong.

CORPORATE GOVERNANCE REPORT *(Cont'd)*

(d) *The procedures for shareholders to propose a person for election as a director*

Pursuant to Article 108 of the Articles of Association of the Company, if a shareholder wish to propose a person other than a retiring director for election as a director at a general meeting, notice in writing of the intention to propose that person for election as a director and notice in writing by that person of his willingness to be elected shall have been given to the Company during a period of not less than seven days commencing no earlier than the day after the dispatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date appointed for the meeting.

The Memorandum and Articles of Association of the Company is available on the HKEx's and Company's websites. During the year, there were no significant changes in the Company's constitutional documents.

E.2 Voting by Poll

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

Since the amendment of the Listing Rules with effect from 1 January 2009, all resolutions set out in the notice of general meetings of the Company have been conducted by poll.

To ensure that shareholders are familiar with the poll procedures at the 2012 annual general meeting, the Chairman explained the detailed procedures of poll voting.

The poll results of general meetings were published on the website of HKEx at http://www.hkexnews.hk and the Company's website at http://www.sywg.com.hk.

F. Company Secretary

Principle: The company secretary plays an important role in supporting the board by ensuring good information flow within the board and that board policy and procedures are followed. The company secretary is responsible for advising the board through the chairman and/or the chief executive on governance matters and should also facilitate induction and professional development of directors.

Mr. Wong Che Keung Leslie is the Chief Operating Officer and Company Secretary of the Group and has day-to-day knowledge of the Company's affairs. He reports to the Chairman and/or the Chief Executive Officer.

The appointment and removal of the Company Secretary is subject to the Board approval in accordance with the Articles of Association of the Company. Directors have access to the advice and services of the Company Secretary to ensure that board procedures, and all applicable rules and regulations, are followed.

Mr. Wong is aware of the requirement under Rule 3.29 of the Listing Rules and will comply with such requirement for the financial year commencing on 1 January 2013. The biographical details of Mr. Wong are set out on page 33 under the section headed "Biographical Details of the Directors of the Company and the Senior Management of the Group".

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 39 to 102.

The directors recommend the payment of a final dividend of HK1.5 cents per ordinary share in respect of the year to shareholders on the register of members on 20 May 2013. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the statement of financial position.

REPORT OF THE DIRECTORS *(Cont'd)*

FIVE YEAR FINANCIAL SUMMARY

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

	Year ended 31 December				
	2012 HK$	2011 HK$	2010 HK$	2009 HK$	2008 HK$
RESULTS					
REVENUE	**293,991,742**	383,312,131	513,699,858	355,242,738	222,881,804
Commission expenses	**(48,569,149)**	(64,701,935)	(94,535,231)	(91,920,767)	(65,432,036)
Employee benefit expenses	**(111,133,312)**	(117,497,668)	(118,437,426)	(85,979,793)	(48,193,878)
Depreciation expenses	**(9,361,278)**	(8,802,207)	(4,174,939)	(6,194,059)	(5,925,882)
Interest expenses for financial services operations	**(441,857)**	(1,507,632)	(1,149,424)	(352,328)	(915,792)
Fair value gains/(losses) on available-for-sale investments	**–**	–	–	8,874,201	(28,916,337)
Fair value gain on an unlisted financial instrument at fair value through profit or loss	**–**	–	–	825,270	46,304,649
Impairment loss of an available-for-sale investment	**(2,330,221)**	–	(1,641,540)	–	(30,192,357)
Other gains	**3,682,510**	980,464	1,481,256	1,319,074	–
Other expenses, net	**(94,028,435)**	(113,974,036)	(92,682,335)	(95,964,317)	(80,587,045)
Share of profits of associates	**–**	–	–	–	13,003,124
PROFIT BEFORE TAX	**31,810,000**	77,809,117	202,560,219	85,850,019	22,026,250
Income tax expense	**(1,648,515)**	(3,801,137)	(11,597,862)	(11,720,185)	(7,945,187)
PROFIT FOR THE YEAR	**30,161,485**	74,007,980	190,962,357	74,129,834	14,081,063
Attributable to:					
Owners of the Company	**30,151,847**	74,003,499	190,976,711	74,875,249	14,396,208
Non-controlling interests	**9,638**	4,481	(14,354)	(745,415)	(315,145)
	30,161,485	74,007,980	190,962,357	74,129,834	14,081,063

REPORT OF THE DIRECTORS *(Cont'd)*

FIVE YEAR FINANCIAL SUMMARY *(Cont'd)*

	As at 31 December				
	2012	2011	2010	2009	2008
	HK$	HK$	HK$	HK$	HK$
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**4,578,047,765**	3,373,060,361	3,652,780,863	3,743,387,015	2,555,720,256
TOTAL LIABILITIES	**(3,373,288,600)**	(2,186,333,956)	(2,482,819,829)	(2,728,327,172)	(1,605,775,222)
NON-CONTROLLING INTERESTS	**(2,633,521)**	(2,623,883)	(2,619,402)	(2,633,756)	(3,379,171)
	1,202,125,644	1,184,102,522	1,167,341,632	1,012,426,087	946,565,863

The above summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 27(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2012, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance, amounted to HK$50,737,105 of which HK$7,961,387 has been proposed as final dividend for the year. In addition, the Company's share premium account, in the amount of HK$314,739,683, may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$41,000.

REPORT OF THE DIRECTORS *(Cont'd)*

MAJOR CUSTOMERS AND SUPPLIERS

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

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

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

DIRECTORS

The directors of the Company during the year were:

Executive directors:
Chu Xiaoming *(Chairman)*
Lu Wenqing
Guo Chun *(Chief Executive Officer)*
Lee Man Chun Tony
Ying Niankang *(resigned on 9 March 2012)*

Non-executive directors:
Chang Pen Tsao
Huang Gang

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

Subsequent to the end of the reporting period, on 18 February 2013, Mr. Huang Gang resigned as a director of the Company and Mr. Zhang Lei was appointed as a director of the Company.

In accordance with Articles 95 and 104(A) of the Company's Articles of Association and in compliance with Code Provision A.4.3 of the Corporate Governance Code set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), Messrs. Zhang Lei, Lu Wenqing, Chang Pen Tsao, Zhuo Fumin, Ng Wing Hang Patrick and Kwok Lam Kwong Larry will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

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

REPORT OF THE DIRECTORS *(Cont'd)*

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

Executive directors

Chu Xiaoming, aged 50, was appointed as an Executive Director and the Chairman of the Company on 20 December 2010. He is also a Director, the Vice Chairman of the Board and President of Shenyin & Wanguo Securities Co., Ltd. (''SWSC"). Prior to joining SWSC, he was the General Manager of Zhonghai Trust Co., Ltd. Mr. Chu graduated from The University of Hong Kong with a master degree in Business Administration (International) in 2003 and obtained the qualification as Senior Economist issued by Industrial and Commercial Bank of China in 1994.

Lu Wenqing, aged 54, was appointed as a Non-executive Director of the Company in August 1996 and was re-designated as an Executive Director of the Company in September 2004. He is also the Vice President of Shenyin & Wanguo Securities Co., Ltd. He graduated from Shanghai University of Finance and Economics. He also holds a Master's Degree in Business Administration from The Asia (Macau) International Open University and W.P. Carey School of Business at Arizona State University. Prior to joining the former Shanghai Shenyin Securities Co., Ltd., he served as a senior officer in Shanghai Trust & Investment Corporation of the Industrial and Commercial Bank of China and as an attache' of the Chinese Embassy in Gabon.

Guo Chun, aged 48, was appointed as an Executive Director of the Company in May 2000 and as Chief Executive Officer of the Company on 9 March 2012. Mr. Guo began his career with the Industrial and Commercial Bank of China, Shanghai Branch in 1983. Other than the banking business, he has been working in the securities industry of the People's Republic of China (the "PRC") since 1987. He has 25 years' extensive experience in stockbroking and investment banking in the PRC. In 1990, he joined the former Shanghai Shenyin Securities Co., Ltd. and served as a regional superintendent in Shanghai. After the merger of Shanghai Shenyin Securities Co., Ltd. and Shanghai International Securities Co., Ltd., he was appointed as the Deputy Managing Director of Shenyin Wanguo (H.K.) Holdings Limited on secondment to Hong Kong in early 1997 and as the Managing Director of the International Business Division of Shenyin & Wanguo Securities Co., Ltd. from May 2008 to March 2012. He holds a Master's Degree in Business Administration from Murdoch University, Perth, Australia and an Executive Master of Business Administration degree from Arizona State University, USA.

Lee Man Chun Tony, aged 59, was appointed as an Executive Director of the Company in June 2000 and as Chief Executive Officer of the Company from July 2000 to 9 March 2012. He is an Associate of the Hong Kong Institute of Certified Public Accountants. He has more than 30 years' experience in accounting, finance and banking. He held senior positions with Standard Chartered Bank and Sanwa International Finance Ltd. before he joined the Group in 1995.

REPORT OF THE DIRECTORS *(Cont'd)*

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

Non-executive directors

Chang Pen Tsao, aged 73, is a Non-executive Director of the Company. He is the Founder of Taiwan International Securities Group, The Business Development Foundation of The Chinese Straits, Unitech Printed Circuit Board Corp., Ideal Bike Corp. and Fulltech Fiber Glass Corp. Unitech Printed Circuit Board Corp., Ideal Bike Corp. and Fulltech Fiber Glass Corp. are listed on the Taiwan Stock Exchange. Mr. Chang served as a Senator in Taiwan for 9 years and was the Chairman of Kwang Hua Securities Investment & Trust Co., Ltd. He has more than 40 years' experience in legal practice as a lawyer, prosecutor and district judge, as well as in business management, and has more than 20 years' experience in securities investment. He received his LL.B. Degree from Chung Hsin University, Taiwan in 1967.

Zhang Lei, aged 44, is a Non-executive Director of the Company. He graduated from Shanghai Jiaotong University as doctor of philosophy of Financial Management Engineering in 1997. Mr. Zhang has many years of experience in the securities industry. He has previously worked for Shenyin & Wanguo Securities Co., Ltd. as Deputy Manager of Client Asset Management Division and served as Member of the Board of Supervisor of Haitong Securities Company Limited from June 2007 to May 2011. Mr. Zhang joined Shanghai Industrial Investment (Holdings) Company Limited in July 2006, and currently serves as its Deputy General Manager of Finance & Planning Department. He also presently holds directorships in certain wholly owned subsidiaries of Shanghai Industrial Investment (Holdings) Company Limited.

Independent non-executive directors

Ng Wing Hang Patrick, aged 60, is an Independent Non-executive Director of the Company. He is a practising Certified Public Accountant in Hong Kong and is the Managing Director of Pan China (H.K.) CPA Limited, a certified public accountants firm in Hong Kong. He also serves as an Independent Non-executive Director of Far East Hotels and Entertainment Limited, which is listed on the Hong Kong Stock Exchange. Mr. Ng has been an Independent Non-executive Director of Rosan Resources Holdings Limited, formerly known as China CBM Group Limited as well as Dynamic Energy Holdings Limited, and Ming Kei Holdings Limited, which are listed on the Hong Kong Stock Exchange, until he resigned on 28 April 2010 and 26 June 2012 respectively.

Kwok Lam Kwong Larry, B.B.S., J.P., aged 57, is an Independent Non-executive Director of the Company. He is a practising solicitor in Hong Kong and is also qualified to practise as a solicitor in Australia, England and Wales and Singapore. He is also qualified as a Chartered Accountant in England and Wales and a CPA in Hong Kong and Australia. He graduated from the University of Sydney, Australia with Bachelor's Degrees in Economics and Laws as well as a Master's Degree in Laws. He is currently Chairman of the Transport Advisory Committee, Chairman of the Traffic Accident Victims Assistance Advisory Committee and a member of the Hospital Governing Committee of Kwai Chung Hospital/Princess Margaret Hospital.

REPORT OF THE DIRECTORS *(Cont'd)*

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

Independent non-executive directors *(Cont'd)*

Zhuo Fumin, aged 61, is an Independent Non-executive Director of the Company. He graduated from Shanghai Jiaotong University's Electrical Engineering School and holds a Master's Degree in Economics conferred by Fudan University. Mr. Zhuo has more than 40 years of experience in running joint stock companies and in corporate management and has extensive capital market experience. Mr. Zhuo currently serves as a General Partner in SIG Capital Limited and as Managing Partner in GGV Capital. He also serves as a Director of Daqo New Energy Corp. (a company listed on the New York Stock Exchange), an Independent Director of Focus Media Holding Ltd. (a company listed on the NASDAQ Stock Market), a Director of Grandhope Biotech Co., Ltd. (a company listed on the Shenzhen Stock Exchange), an Independent Director of China Enterprise Company Limited (a company listed on the Shanghai Stock Exchange), a Non-executive Director of Besunyun Holdings Company Limited (a company listed on the Hong Kong Stock Exchange) and an Independent Non-executive Director of SRE Group Limited (a company listed on the Hong Kong Stock Exchange).

Senior management

Bai Youge, aged 50, was appointed as Deputy General Manager of the Group in 2004. He used to be a non-practising member of the Chinese Institute of Certified Public Accountants and has previously worked for Arthur Andersen & Co. He joined the former Shanghai International Securities Co., Ltd. in 1994 as the Deputy General Manager of the Investment Bank Division. After the merger of Shanghai International Securities Co., Ltd. and Shanghai Shenyin Securities Co., Ltd. in 1996, he was appointed as the Deputy General Manager of the International Business and Brokerage Departments of Shenyin & Wanguo Securities Co., Ltd. respectively, and has over 10 years' experience in the securities field of the PRC. He graduated from Sichuan University in Mathematics and holds a Master's Degree in Economics from the Shanghai Academy of Social Sciences and a Master's Degree in Finance and Securities from the University of Reading in the United Kingdom.

Fu Xingyi, aged 50, has been appointed as the Deputy General Manager of the Group since November 2007. Mr. Fu was appointed as the Assistant to General Manager of the Group in 2004. He previously worked for the International Business Division, Investment Bank Division and Merger & Acquisition Division of Shenyin & Wanguo Securities Co., Ltd. and has more than 10 years' experience in corporate finance. He holds a Bachelor's Degree from Fudan University in Shanghai.

REPORT OF THE DIRECTORS *(Cont'd)*

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

Senior management *(Cont'd)*

Wong Che Keung Leslie, aged 48, is the Chief Operating Officer and Company Secretary of the Group. Besides company secretarial duties, Mr. Wong is also responsible for overseeing accounting, securities settlement, credit, treasury and information technology activities of the Group. Mr. Wong once served as the Head of Compliance of the Group and subsequently, a Director of Shenyin Wanguo Securities (H.K.) Limited and the Finance Director before succeeding to the current position of the Chief Operating Officer of the Group in 2010. Mr. Wong was appointed as the Company Secretary of the Group in December 2004. Prior to joining the Group in 1996, he has worked in the Securities and Futures Commission for 7 years and in the stockbroking and treasury field for a further 2 years. He is a Fellow of the Hong Kong Institute of Certified Public Accountants. He obtained his Bachelor's Degree in Economics at the University of Hong Kong and a Master's Degree in Business Administration at the Chinese University of Hong Kong. Mr. Wong was appointed as a member of the Cash Market Consultative Panel of Hong Kong Exchanges and Clearing Limited on 1 June 2012.

Ting Kay Loong, Willis, aged 51, is the Head of Corporate Finance of the Group. He has over 24 years of experience in the securities industry. Prior to joining the Group in 2006, he worked for several international financial institutions and listed companies in Hong Kong, responsible for capital market activities and equity investments. He holds a Bachelor of Economics Degree from Macquarie University, Australia and is a fellow member of the Australian Society of Certified Public Accountants.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN CONTRACTS

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

REPORT OF THE DIRECTORS *(Cont'd)*

DIRECTOR'S INTEREST IN SHARES

As at 31 December 2012, none of the directors and the chief executive of the Company was taken to be interested or deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Appendix 10 of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

At 31 December 2012, the interests of substantial shareholders, other than directors or chief executive of the Company, in the issued share capital of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long positions in the ordinary shares of the Company

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

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

Save as disclosed above, as at 31 December 2012, the Company had not been notified of any person who had interests or short positions in the shares or underlying shares of the Company, which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

REPORT OF THE DIRECTORS *(Cont'd)*

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The connected transactions and continuing connected transactions of the Company and the Group during the year are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules in note 30 to the financial statements.

The independent non-executive directors of the Company have reviewed and confirmed that the continuing connected transactions as set out in note 30 to the financial statements that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to/from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

SUFFICIENCY OF PUBLIC FLOAT

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

DIRECTOR'S INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, the following directors are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules:

Mr. Huang Gang, who resigned as a non-executive director of the Company on 18 February 2013, was a director of SIIC Asset Management Company Limited until his resignation on 25 September 2012. Mr. Zhang Lei, who was appointed as a non-executive director of the Company on 18 February 2013, is also a director of SIIC Asset Management Company Limited. SIIC Asset Management Company Limited is involved in the provision of asset management services.

REPORT OF THE DIRECTORS *(Cont'd)*

DIRECTOR'S INTERESTS IN A COMPETING BUSINESS *(Cont'd)*

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

AUDITORS

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

ON BEHALF OF THE BOARD

Chu Xiaoming
Chairman

Hong Kong
8 March 2013

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安 永

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

We have audited the consolidated financial statements of Shenyin Wanguo (H.K.) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 39 to 102, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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.

INDEPENDENT AUDITORS' REPORT *(Cont'd)*

To the shareholders of Shenyin Wanguo (H.K.) Limited *(Cont'd)*
(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 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
8 March 2013

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2012

	Notes	2012 HK$	2011 HK$
REVENUE	5	**293,991,742**	383,312,131
Commission expenses		**(48,569,149)**	(64,701,935)
Employee benefit expenses	6	**(111,133,312)**	(117,497,668)
Depreciation expenses	13	**(9,361,278)**	(8,802,207)
Interest expenses for financial services operations	6	**(441,857)**	(1,507,632)
Impairment loss of an available-for-sale investment	16	**(2,330,221)**	–
Other gains	5	**3,682,510**	980,464
Other expenses, net		**(94,028,435)**	(113,974,036)
PROFIT BEFORE TAX	6	**31,810,000**	77,809,117
Income tax expense	9	**(1,648,515)**	(3,801,137)
PROFIT FOR THE YEAR		**30,161,485**	74,007,980
Attributable to:			
Owners of the Company	10	**30,151,847**	74,003,499
Non-controlling interests		**9,638**	4,481
		30,161,485	74,007,980
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic and diluted		**HK5.68 cents**	HK13.94 cents

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	Notes	2012 HK$	2011 HK$
PROFIT FOR THE YEAR		**30,161,485**	74,007,980
OTHER COMPREHENSIVE INCOME/(LOSS)			
Available-for-sale investments:			
Changes in fair value		**546,897**	(4,166,697)
Reclassification adjustments for loss/(gain) included in the consolidated income statement			
– gain on disposal		**(144,587)**	–
– impairment loss	*16*	**2,330,221**	–
Income tax effect		**–**	–
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**2,732,531**	(4,166,697)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**32,894,016**	69,841,283
Attributable to:			
Owners of the Company	*10*	**32,884,378**	69,836,802
Non-controlling interests		**9,638**	4,481
		32,894,016	69,841,283

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 HK$	2011 HK$
NON-CURRENT ASSETS			
Property, plant and equipment	13	**17,047,853**	17,811,857
Stock and Futures Exchange trading rights	14	**4,211,831**	4,211,831
Other assets		**16,282,236**	16,989,494
Available-for-sale investments	16	**12,624,430**	12,595,080
Deferred tax assets	17	**877,503**	1,437,686
Total non-current assets		**51,043,853**	53,045,948
CURRENT ASSETS			
Investments at fair value through profit or loss	16	**360,020,854**	136,490,550
Accounts receivable	18	**478,246,702**	228,109,841
Loans and advances	19	**1,138,486,758**	560,272,894
Prepayments, deposits and other receivables	20	**15,886,779**	12,928,269
Tax recoverable		**5,225,274**	7,579,700
Bank balances held on behalf of customers	21	**2,335,223,269**	1,981,941,336
Cash and cash equivalents	22	**193,914,276**	392,691,823
Total current assets		**4,527,003,912**	3,320,014,413
CURRENT LIABILITIES			
Accounts payable	23	**2,692,540,606**	2,107,840,448
Other payables and accruals	24	**63,648,116**	75,724,789
Interest-bearing bank borrowings	25	**614,697,682**	–
Tax payable		**1,819,397**	2,400,066
Total current liabilities		**3,372,705,801**	2,185,965,303
NET CURRENT ASSETS		**1,154,298,111**	1,134,049,110
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,205,341,964**	1,187,095,058
NON-CURRENT LIABILITY			
Deferred tax liability	17	**582,799**	368,653
Net assets		**1,204,759,165**	1,186,726,405

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

31 December 2012

	Notes	**2012 HK$**	2011 HK$
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*26*	**265,379,563**	265,379,563
Reserves	*27(a)*	**928,784,694**	903,861,703
Proposed final dividend	*11*	**7,961,387**	14,861,256
		1,202,125,644	1,184,102,522
Non-controlling interests		**2,633,521**	2,623,883
Total equity		**1,204,759,165**	1,186,726,405

Chu Xiaoming
Director

Guo Chun
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

		Attributable to owners of the Company									
	Notes	Issued capital HK$	Share premium account HK$	Capital reserve HK$	Available-for-sale investment revaluation reserve HK$	General reserve HK$	Retained profits HK$	Proposed final dividend HK$	Total HK$	Non-controlling interests HK$	Total equity HK$
At 1 January 2011		265,379,563	314,739,683	15,043	1,843,532	138,611	537,456,879	47,768,321	1,167,341,632	2,619,402	1,169,961,034
Profit for the year		–	–	–	–	–	74,003,499	–	74,003,499	4,481	74,007,980
Other comprehensive income for the year: Change in fair value of available-for-sale investments, net of tax	*16*	–	–	–	(4,166,697)	–	–	–	(4,166,697)	–	(4,166,697)
Total comprehensive income for the year		–	–	–	(4,166,697)	–	74,003,499	–	69,836,802	4,481	69,841,283
Final 2010 dividend declared		–	–	–	–	–	–	(10,615,183)	(10,615,183)	–	(10,615,183)
Special 2010 dividend declared		–	–	–	–	–	–	(37,153,138)	(37,153,138)	–	(37,153,138)
Interim 2011 dividend	*11*	–	–	–	–	–	(5,307,591)	–	(5,307,591)	–	(5,307,591)
Proposed final 2011 dividend	*11*	–	–	–	–	–	(14,861,256)	14,861,256	–	–	–
At 31 December 2011 and 1 January 2012		265,379,563	314,739,683	15,043	(2,323,165)	138,611	591,291,531	14,861,256	1,184,102,522	2,623,883	1,186,726,405
Profit for the year		–	–	–	–	–	30,151,847	–	30,151,847	9,638	30,161,485
Other comprehensive income for the year: Change in fair value of available-for-sale investments, net of tax	*16*	–	–	–	2,732,531	–	–	–	2,732,531	–	2,732,531
Total comprehensive income for the year		–	–	–	2,732,531	–	30,151,847	–	32,884,378	9,638	32,894,016
Final 2011 dividend declared		–	–	–	–	–	–	(14,861,256)	(14,861,256)	–	(14,861,256)
Proposed final 2012 dividend	*11*	–	–	–	–	–	(7,961,387)	7,961,387	–	–	–
At 31 December 2012		265,379,563	314,739,683*	15,043*	409,366*	138,611*	613,481,991*	7,961,387	1,202,125,644	2,633,521	1,204,759,165

* These reserve accounts comprise the consolidated reserves of HK$928,784,694 (2011: HK$903,861,703) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 HK$	2011 HK$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**31,810,000**	77,809,117
Adjustments for:			
Bank interest income	5	**(25,113,797)**	(12,739,203)
Dividend income	5	**(1,224,095)**	(43,482,550)
Gain on disposal of an unlisted available-for-sale investment	5	**–**	(43,186,821)
Gain on disposal of a listed available-for-sale investment	5	**(144,587)**	–
Write-off of aged accounts payable	6	**(1,818,974)**	–
Write-off of aged other payables	6	**(318,018)**	–
Depreciation	13	**9,361,278**	8,802,207
Impairment loss of an available-for-sale investment	16	**2,330,221**	–
Loss/(gain) on disposals of items of property, plant and equipment	6	**(309,510)**	100
		14,572,518	(12,797,150)
Decrease/(increase) in other assets		**707,258**	(4,297,274)
Decrease/(increase) in investments at fair value through profit or loss		**(223,530,304)**	9,218,811
Decrease/(increase) in accounts receivable		**(250,136,861)**	306,843,976
Decrease/(increase) in loans and advances		**(578,213,864)**	324,899,220
Decrease/(increase) in prepayments, deposits and other receivables		**(2,958,510)**	2,239,523
Increase in bank balances held on behalf of customers		**(353,281,933)**	(75,535,568)
Increase/(decrease) in accounts payable		**586,519,132**	(204,599,329)
Decrease in other payables and accruals		**(11,758,655)**	(24,474,200)
Cash generated from/(used in) operations		**(818,081,219)**	321,498,009
Bank interest received		**25,113,797**	12,739,203
Dividends received from equity investments		**1,224,095**	43,482,550
Hong Kong profits tax refunded/(paid)		**1,051,473**	(15,724,639)
Overseas taxes paid		**(151,902)**	–
Net cash flows from/(used in) operating activities		**(790,843,756)**	361,995,123
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	13	**(8,785,045)**	(16,982,851)
Purchase of an available-for-sale investment		**–**	(3,941,120)
Proceeds from disposals of available-for-sale investments		**517,547**	43,186,821
Proceeds from disposals of items of property, plant and equipment		**497,281**	2,520
Net cash flows from/(used in) investing activities – page 45		**(7,770,217)**	22,265,370

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

Year ended 31 December 2012

	Notes	2012 HK$	2011 HK$
Net cash flows from/(used in) investing activities – page 44		(7,770,217)	22,265,370
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		553,000,000	–
Repayment of bank loans		–	(25,000,000)
Dividends paid		(14,861,256)	(53,075,912)
Net cash flows from/(used in) financing activities		538,138,744	(78,075,912)
NET INCREASE/(DECREASE) IN CASH AND EQUIVALENTS		(260,475,229)	306,184,581
Cash and cash equivalents at beginning of year		392,691,823	86,507,242
CASH AND CASH EQUIVALENTS AT END OF YEAR		132,216,594	392,691,823
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	89,729,276	121,757,823
Time deposits with original maturity of less than three months when acquired	22	104,185,000	270,934,000
Cash and cash equivalents as stated in the consolidated statement of financial position		193,914,276	392,691,823
Bank overdrafts	25	(61,697,682)	–
Cash and cash equivalents as stated in the consolidated statement of cash flows		132,216,594	392,691,823

STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 HK$	2011 HK$
NON-CURRENT ASSETS			
Interests in subsidiaries	*15*	**624,730,136**	647,146,091
CURRENT ASSETS			
Prepayments, deposits and other receivables	*20*	**1,762,070**	1,019,478
Tax recoverable		**168,179**	438,661
Cash and cash equivalents	*22*	**7,213,125**	3,484,562
Total current assets		**9,143,374**	4,942,701
CURRENT LIABILITIES			
Other payables and accruals	*24*	**3,017,159**	3,917,201
NET CURRENT ASSETS		**6,126,215**	1,025,500
Net assets		**630,856,351**	648,171,591
EQUITY			
Issued capital	*26*	**265,379,563**	265,379,563
Reserves	*27(b)*	**357,515,401**	367,930,772
Proposed final dividend	*11*	**7,961,387**	14,861,256
Total equity		**630,856,351**	648,171,591

Chu Xiaoming
Director

Guo Chun
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2012

1. CORPORATE INFORMATION

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

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

- securities trading and investment holding
- securities broking and dealing
- securities financing and direct loans
- corporate finance and asset management

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain financial instruments and equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012. 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 it results in a deficit balance.

A change in ownership interest of 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.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's 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*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

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	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans* [2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* [2]
HKFRS 9	*Financial Instruments* [4]
HKFRS 10	*Consolidated Financial Statements* [2]
HKFRS 11	*Joint Arrangements* [2]
HKFRS 12	*Disclosure of Interests in Other Entities* [2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance* [2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities* [3]
HKFRS 13	*Fair Value Measurement* [2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* [1]
HKAS 19 (2011)	*Employee Benefits* [2]
HKAS 27 (2011)	*Separate Financial Statements* [2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures* [2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* [3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine* [2]
Annual Improvements 2009–2011 Cycle	Amendments to a number of HKFRSs issued in June 2012 [2]

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

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The Group expects to adopt the amendments from 1 January 2013.

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 the income statement, 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 the income statement. 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 and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

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 addresses 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 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.

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment 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, HKAS 27 (2011), HKAS 28 (2011), and the subsequent amendments to these standards issued in July and December 2012 from 1 January 2013.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

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.

The HKAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to the income statement at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

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.

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to setoff" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

The *Annual Improvements to HKFRSs 2009-2011 Cycle* issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. The Group is in the process of making an assessment of the impact of these revised HKFRSs upon initial application and is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

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.

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 assets.

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

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

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

Related parties

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

(a) the party 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).

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

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

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 under finance leases	Over the lease terms
Buildings	4%
Leasehold improvements	Over the lease terms
Furniture, fixtures and equipment	15% – $33\frac{1}{3}$%
Motor vehicles	25%

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 including 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 sale proceeds and the carrying amount of the relevant asset.

Other assets

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

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

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

Intangible assets (other than goodwill)

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

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

Intangible assets, which consist of the Stock and Futures Exchange trading rights, being the eligibility rights to trade on or through The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited with indefinite useful lives, are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of the Stock and Futures Exchange trading rights is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

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 lessee, rentals payable under 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.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

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

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, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus 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. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, 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 them. 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.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

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

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

Subsequent measurement (Cont'd)

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 the income statement. The loss arising from impairment is recognised in the income statement.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and club debentures. 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.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement. 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.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

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

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

Subsequent measurement (Cont'd)

Available-for-sale financial investments (Cont'd)

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date at 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.

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.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

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

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is 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 through the use of an allowance account and 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 write-off is later recovered, the recovery is credited to the income statement.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

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

Impairment of financial assets *(Cont'd)*

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include accounts payable, other payables and certain accruals, and interest-bearing bank borrowings.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

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

Financial liabilities *(Cont'd)*

Subsequent measurement

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

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a 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.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

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

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised 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.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

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

Income tax *(Cont'd)*

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries, 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.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised 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 investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

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

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

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

Revenue recognition

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

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

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

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

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

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

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

Employee benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. The Group also retains its previous retirement scheme (the "ORSO Scheme") registered under the Occupational Retirement Scheme Ordinance as a top-up benefit for its employees.

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

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

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

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

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.

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 prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference 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 prevailing 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.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

3. SIGNIFICANT ACCOUNTING ESTIMATES

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

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.

(a) Fair value of unlisted financial instruments

The unlisted financial instruments have been valued using a valuation technique based on assumptions and estimates including the interest rate, discount rate, volatility and dividend yield, and hence they are subject to uncertainty. Estimating the value of the financial instruments requires the Group to make certain estimates and assumptions, further details of which are given in note 16.

(b) Impairment of available-for-sale investments

The Group classifies certain assets as available for sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement. During the year ended 31 December 2012, impairment loss of HK$2,330,221 (2011: Nil) was recognised for an available-for-sale investment. The aggregate carrying amount of the available-for-sale investments was HK$12,624,430 (2011: HK$12,595,080) at 31 December 2012.

4. OPERATING SEGMENT INFORMATION

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

(a) securities trading and investment holding;

(b) securities broking and dealing;

(c) securities financing and direct loans; and

(d) corporate finance and asset management.

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 a measure of profit/(loss) before tax.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

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

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

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

	Securities trading and investment holding HK$	Securities broking and dealing HK$	Securities financing and direct loans HK$	Corporate finance and asset management HK$	Total HK$
Year ended 31 December 2012					
Segment revenue from external customers	9,231,808	164,989,293	75,873,519	43,897,122	293,991,742
Segment results and profit before tax	(51,741,682)	18,883,379	62,279,384	2,388,919	31,810,000
Segment assets	392,986,125	2,987,116,416	1,143,750,139	45,622,308	4,569,474,988
Reconciliation:					
Deferred tax assets					877,503
Tax recoverable					5,225,274
Unlisted club debentures included in financial instruments					2,470,000
Total assets					4,578,047,765
Segment liabilities	22,838,428	2,717,733,958	624,439,614	5,874,404	3,370,886,404
Reconciliation:					
Deferred tax liability					582,799
Tax payable					1,819,397
Total liabilities					3,373,288,600
Other segment information:					
Depreciation	–	8,744,781	–	616,497	9,361,278
Capital expenditure*	–	8,176,731	–	608,314	8,785,045

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

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

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

	Securities trading and investment holding HK$	Securities broking and dealing HK$	Securities financing and direct loans HK$	Corporate finance and asset management HK$	Total HK$
Year ended 31 December 2011					
Segment revenue from external customers	43,900,289	235,207,309	69,920,850	34,283,683	383,312,131
Segment results and profit before tax	29,578,080	(8,861,472)	56,416,039	676,470	77,809,117
Segment assets	154,608,736	2,605,169,664	566,129,209	35,665,366	3,361,572,975
Reconciliation:					
Deferred tax assets					1,437,686
Tax recoverable					7,579,700
Unlisted club debentures included in financial instruments					2,470,000
Total assets					3,373,060,361
Segment liabilities	38,250,176	2,130,882,013	10,012,336	4,420,712	2,183,565,237
Reconciliation:					
Deferred tax liability					368,653
Tax payable					2,400,066
Total liabilities					2,186,333,956
Other segment information:					
Depreciation	–	8,145,214	345,754	311,239	8,802,207
Capital expenditure*	–	15,693,877	84,440	1,204,534	16,982,851

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

Geographical information

The Group's operations are substantially located in Hong Kong and substantially all non-current assets of the Group are located in Hong Kong. Therefore, no further analysis of geographical information is presented.

Information about major customers

As no customer of the Group has individually accounted for over 10% of the Group's total revenue during the year, no information about major customers is presented.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

5. REVENUE AND OTHER GAINS

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

	Group	
	2012 HK$	2011 HK$
Revenue		
Financial services:		
Commission and brokerage income	**186,535,948**	233,923,507
Interest income from securities financing and direct loans	**50,759,722**	69,901,348
Net fair value gains/(losses) on securities and futures contracts trading	**6,175,743**	(43,220,098)
Income from the rendering of services	**23,814,935**	23,166,942
	267,286,348	283,771,699
Others:		
Gain on disposal of an unlisted available-for-sale investment#	**–**	43,186,821
Gain on disposal of a listed available-for-sale investment	**144,587**	–
Bank interest income	**25,113,797**	12,739,203
Dividend income from:		
Unlisted available-for-sale equity investment#	**–**	42,798,176
Listed available-for-sale equity investments	**140,303**	189,524
Listed equity investments at fair value through profit or loss	**1,083,792**	494,850
Others	**222,915**	131,858
	26,705,394	99,540,432
	293,991,742	383,312,131
Other gains		
Write-off of aged accounts payable	**1,818,974**	–
Write-off of aged other payables	**318,018**	–
Exchange gains, net	**1,545,518**	980,464
	3,682,510	980,464

\# There was a certain amount of equity interest in The New China Hong Kong Highway Limited ("NCHK Shares") placed in the Court of First Instance of Hong Kong ("Court") pending the judgement of the legal proceedings against the Group by two plaintiffs before the year ended 31 December 2011.

According to an agreement dated 31 March 2011 signed by the solicitors on behalf of the Group and the plaintiffs, respectively, and a third party purchaser of the NCHK Shares ("Purchaser"), the NCHK Shares placed in the Court were sold to the Purchaser at a consideration of HK$43,186,821 and the sales proceeds were then placed with the Court.

On 17 October 2011, the Group received a total amount of HK$85,984,997 from the Court which included the proceeds from the disposal of the NCHK Shares of HK$43,186,821 and dividends paid on the NCHK Shares of HK$42,798,176 upon the settlement of the legal proceedings ruled in favour of the Group by the Court in October 2011. Accordingly, such proceeds and dividends were recognised in the consolidated income statement as gain on disposal of unlisted available-for-sale investment and dividend income from unlisted available-for-sale equity investment, respectively, during the year ended 31 December 2011.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

6. PROFIT BEFORE TAX

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

	Group	
	2012 **HK$**	2011 HK$
Employee benefit expenses (including directors' remuneration – note 7):		
Salaries and other staff costs	**105,402,379**	112,786,295
Retirement benefit scheme contributions	**6,693,789**	5,983,333
Less: Forfeited contributions	**(962,856)**	(1,271,960)
Net retirement benefit scheme contributions*	**5,730,933**	4,711,373
	111,133,312	117,497,668
Interest expenses for financial services operations on bank loans and overdrafts wholly repayable within five years	**441,857**	1,507,632
Minimum lease payments under operating leases in respect of land and buildings	**30,061,040**	30,713,597
Auditors' remuneration	**1,980,000**	1,985,000
Loss/(gain) on disposals of items of property, plant and equipment	**(309,510)**	100
Net realised losses/(gains) on trading of listed equity investments and futures contracts	**638,597**	(2,616,387)
Gain on disposal of an unlisted available-for-sale investment	**–**	(43,186,821)
Gain on disposal of a listed available-for-sale investment	**(144,587)**	–
Impairment loss of an available-for-sale investment	**2,330,221**	–
Write-off of aged accounts payable	**(1,818,974)**	–
Write-off of aged other payables	**(318,018)**	–
Foreign exchange gain, net	**(1,545,518)**	(980,464)

* At 31 December 2012, the Group had forfeited contributions of HK$48,998 (2011: HK$899) available to reduce its contributions to the retirement benefit schemes in future.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

7. DIRECTORS' REMUNERATION

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

	Group	
	2012	2011
	HK$	HK$
Fees	**450,000**	2,950,000
Other emoluments:		
Salaries, allowances and benefits in kind	**6,139,044**	6,695,123
Retirement benefit scheme contributions	**261,600**	261,600
	6,400,644	6,956,723
	6,850,644	9,906,723

(a) Independent non-executive directors

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

	2012	2011
	HK$	HK$
Ng Wing Hang Patrick	**150,000**	250,000
Kwok Lam Kwong Larry	**150,000**	250,000
Zhuo Fumin	**150,000**	250,000
	450,000	750,000

There were no other emoluments payable to the independent non-executive directors during the year (2011: Nil).

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

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

(b) Executive directors and non-executive directors

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

	Fees HK$	Salaries, allowances and benefits in kind HK$	Retirement benefit scheme contributions HK$	Total remuneration HK$
2012				
Executive directors:				
Chu Xiaoming	–	–	–	–
Lu Wenqing	–	–	–	–
Guo Chun^	–	2,096,824	–	2,096,824
Lee Man Chun Tony^	–	3,929,220	261,600	4,190,820
Ying Niankang*	–	113,000	–	113,000
	–	6,139,044	261,600	6,400,644
Non-executive directors:				
Chang Pen Tsao	–	–	–	–
Huang Gang#	–	–	–	–
	–	–	–	–
	–	6,139,044	261,600	6,400,644

* Ying Niankang resigned as an executive director of the Company on 9 March 2012.

^ On 9 March 2012, Guo Chun was appointed as the Chief Executive Officer of the Company and Lee Man Chun Tony resigned as the Chief Executive Officer of the Company.

Subsequent to the end of the reporting period, on 18 February 2013, Huang Gang resigned as a non-executive director of the Company.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

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

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

	Fees HK$	Salaries, allowances and benefits in kind HK$	Retirement benefit scheme contributions HK$	Total remuneration HK$
2011				
Executive directors:				
Chu Xiaoming	–	–	–	–
Lu Wenqing	–	–	–	–
Guo Chun	1,000,000	–	–	1,000,000
Lee Man Chun Tony[@]	–	6,695,123	261,600	6,956,723
Ying Niankang	1,000,000	–	–	1,000,000
	2,000,000	6,695,123	261,600	8,956,723
Non-executive directors:				
Chang Pen Tsao	100,000	–	–	100,000
Huang Gang	100,000	–	–	100,000
	200,000	–	–	200,000
	2,200,000	6,695,123	261,600	9,156,723

@ Lee Man Chun Tony was the Chief Executive Officer of the Company during the year ended 31 December 2011.

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

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2011: one) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration for the year of the remaining three (2011: four) non-directors, highest paid employees are as follows:

	Group	
	2012	2011
	HK$	HK$
Salaries, allowances and benefits in kind	**7,232,000**	11,603,308
Bonuses	**1,300,000**	1,441,205
Retirement benefit scheme contributions	**372,550**	317,157
	8,904,550	13,361,670

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

	Number of employees	
	2012	2011
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,000,001 to HK$2,500,000	**–**	1
HK$2,500,001 to HK$3,000,000	**1**	–
HK$3,000,001 to HK$3,500,000	**2**	1
HK$5,500,001 to HK$6,000,000	**–**	1
	3	4

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

9. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction in which the Group operates.

	2012 HK$	2011 HK$
Group:		
Current – Hong Kong		
Charge for the year	**1,574,285**	6,841,454
Underprovision in prior years	**–**	7,738
Overprovision in prior years	**(897,708)**	(4,114,493)
Current – Elsewhere	**197,609**	174,771
Deferred (note 17)	**774,329**	891,667
Total tax charge for the year	**1,648,515**	3,801,137

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

	2012 HK$	2011 HK$
Profit before tax	**31,810,000**	77,809,117
Tax at the statutory tax rate of 16.5% (2011: 16.5%)	**5,248,650**	12,838,504
Adjustments in respect of current tax of previous periods	**(897,708)**	(4,106,755)
Income not subject to tax	**(5,826,074)**	(17,887,298)
Expenses not deductible for tax	**1,011,059**	4,556,712
Effect of different tax rates of companies operating in other jurisdictions	**–**	50,626
Tax losses from previous periods utilised	**(280,517)**	(703,899)
Deductible temporary differences not recognised	**2,393,105**	9,053,247
Tax expense for the year at the Group's effective rate	**1,648,515**	3,801,137

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

10. PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company for the year ended 31 December 2012 includes a loss of HK$2,453,984 (2011: profit of HK$871,514) which has been dealt with in the financial statements of the Company (note 27(b)).

11. DIVIDENDS

	2012 HK$	2011 HK$
Interim – Nil (2011: HK1 cent per ordinary share)	**–**	5,307,591
Proposed final – HK1.5 cents (2011: HK2.8 cents) per ordinary share	**7,961,387**	14,861,256
	7,961,387	20,168,847

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

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

The calculation of basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of HK$30,151,847 (2011: HK$74,003,499) and 530,759,126 (2011: 530,759,126) ordinary shares in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during those years.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings HK$	Leasehold improvements HK$	Furniture, fixtures and equipment HK$	Motor vehicles HK$	Total HK$
31 December 2012					
At 31 December 2011 and at 1 January 2012:					
Cost	4,095,000	23,447,832	34,162,626	2,228,454	63,933,912
Accumulated depreciation	(2,190,825)	(15,417,975)	(26,316,290)	(2,196,965)	(46,122,055)
Net carrying amount	1,904,175	8,029,857	7,846,336	31,489	17,811,857
At 1 January 2012, net of accumulated depreciation	1,904,175	8,029,857	7,846,336	31,489	17,811,857
Additions	–	55,380	8,729,665	–	8,785,045
Disposals	–	(2,941)	(184,830)	–	(187,771)
Depreciation provided during the year	(122,850)	(4,365,943)	(4,840,996)	(31,489)	(9,361,278)
At 31 December 2012, net of accumulated depreciation	1,781,325	3,716,353	11,550,175	–	17,047,853
At 31 December 2012:					
Cost	4,095,000	23,497,722	39,734,298	2,228,454	69,555,474
Accumulated depreciation	(2,313,675)	(19,781,369)	(28,184,123)	(2,228,454)	(52,507,621)
Net carrying amount	1,781,325	3,716,353	11,550,175	–	17,047,853

The Group's leasehold land and buildings included in property, plant and equipment with a net carrying amount of HK$1,781,325 (2011: HK$1,904,175) are situated in Hong Kong and are held under a long term lease.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

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

Group

	Leasehold land and buildings HK$	Leasehold improvements HK$	Furniture, fixtures and equipment HK$	Motor vehicles HK$	Total HK$
31 December 2011					
At 1 January 2011:					
Cost	4,095,000	13,859,918	30,536,239	2,228,454	50,719,611
Accumulated depreciation	(2,067,975)	(12,334,179)	(24,675,596)	(2,008,028)	(41,085,778)
Net carrying amount	2,027,025	1,525,739	5,860,643	220,426	9,633,833
At 1 January 2011, net of accumulated depreciation	2,027,025	1,525,739	5,860,643	220,426	9,633,833
Additions	–	10,935,697	6,047,154	–	16,982,851
Disposals	–	–	(2,620)	–	(2,620)
Depreciation provided during the year	(122,850)	(4,431,579)	(4,058,841)	(188,937)	(8,802,207)
At 31 December 2011, net of accumulated depreciation	1,904,175	8,029,857	7,846,336	31,489	17,811,857
At 31 December 2011:					
Cost	4,095,000	23,447,832	34,162,626	2,228,454	63,933,912
Accumulated depreciation	(2,190,825)	(15,417,975)	(26,316,290)	(2,196,965)	(46,122,055)
Net carrying amount	1,904,175	8,029,857	7,846,336	31,489	17,811,857

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

14. STOCK AND FUTURES EXCHANGE TRADING RIGHTS

	Group HK$
Cost and carrying amount at 1 January 2011, 31 December 2011, 1 January 2012 and 31 December 2012	4,211,831

15. INTERESTS IN SUBSIDIARIES

	Company	
	2012 HK$	2011 HK$
Unlisted shares, at cost	**228,066,150**	228,066,150
Due from subsidiaries	**647,653,739**	618,676,901
	875,719,889	846,743,051
Due to subsidiaries	**(155,851,045)**	(104,458,252)
	719,868,844	742,284,799
Impairment#	**(95,138,708)**	(95,138,708)
	624,730,136	647,146,091

\# An impairment was recognised for certain unlisted investments and receivables with an aggregate carrying amount of HK$473,206,344 (before deducting the impairment loss) (2011: HK$221,275,540 (before deducting the impairment loss)) because these subsidiaries have been making losses for years or had deficiency in assets at the end of the reporting period. There was no change in the impairment account during the current and prior years.

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for an amount due from a subsidiary totalling HK$170,000,000 (2011: HK$170,000,000) which bears interest at a rate of prime rate, less 3% (2011: prime rate, less 3%) per annum. The directors of the Company do not intend to demand settlement/proceed with the repayment of the amounts involved within one year after the end of the reporting period.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

15. INTERESTS IN SUBSIDIARIES *(Cont'd)*

All of the principal subsidiaries, unless otherwise indicated, are incorporated and operate in Hong Kong. Particulars of the principal subsidiaries are as follows:

Name	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company Direct 2012	Direct 2011	Indirect 2012	Indirect 2011	Principal activities
Shenyin Wanguo Securities (H.K.) Limited	HK$130,000,000	**100**	100	**–**	–	Securities broking and margin financing
Shenyin Wanguo Futures (H.K.) Limited	HK$30,000,000	**100**	100	**–**	–	Futures and options broking
Shenyin Wanguo Capital (H.K.) Limited	HK$20,000,000	**100**	100	**–**	–	Corporate finance
Shenyin Wanguo Asset Management (Asia) Limited	HK$10,000,000	**–**	–	**100**	100	Provision of asset management services
Shenyin Wanguo Research (H.K.) Limited	HK$300,000	**100**	100	**–**	–	Provision of securities research services
Shenyin Wanguo Strategic Investments (H.K.) Limited	HK$10,000	**100**	100	**–**	–	Securities trading and investment holding
Shenyin Wanguo Finance (H.K.) Limited	HK$25,000,000	**100**	100	**–**	–	Provision of financial services
Shenyin Wanguo Enterprises (H.K.) Limited	HK$15,000,000	**100**	100	**–**	–	Provision of management and treasury services
Shenyin Wanguo Online Limited	HK$2	**100**	100	**–**	–	Leasing of computer equipment

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

15. INTERESTS IN SUBSIDIARIES *(Cont'd)*

Name	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company Direct		Indirect		Principal activities
		2012	2011	**2012**	2011	
Shenyin Wanguo Trading (H.K.) Limited	HK$375,000	**100**	100	**–**	–	Securities trading
Sparkle Well Limited	HK$2	**100**	100	**–**	–	Property holding
Wealthy Limited	HK$2	**100**	100	**–**	–	Property holding
Shenyin Wanguo (Holdings) Limited	HK$2	**100**	100	**–**	–	Investment holding
First Million Holdings Ltd*	US$1	**100**	100	**–**	–	Investment holding
Crux Assets Limited*	US$1	**–**	–	**100**	100	Investment holding
Shenyin Wanguo Nominees (H.K.) Limited	HK$1,000	**–**	–	**100**	100	Provision of share custodian and nominee services
Shenyin Wanguo Online Broker (H.K.) Limited	HK$10,000,000	**60**	60	**–**	–	Dormant

* Incorporated in the British Virgin Islands

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

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

16. INVESTMENTS

	Group	
	2012	2011
	HK$	HK$
Available-for-sale investments, at fair value		
Listed equity investments in Hong Kong	**2,558,532**	2,922,464
Unlisted equity investment	**7,595,898**	7,202,616
Unlisted club debentures	**2,470,000**	2,470,000
	12,624,430	12,595,080
Investments at fair value through profit or loss		
Listed equity investments in Hong Kong, at fair value	**39,207,508**	23,029,802
Unlisted investment funds, at fair value	**320,813,346**	113,460,748
	360,020,854	136,490,550

The investments at fair value through profit or loss at 31 December 2012 of HK$360,020,854 (2011: HK$136,490,550) were classified as held for trading.

During the year, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to HK$546,897 (2011: gross loss of HK$4,166,697), of which HK$144,587 (2011: Nil) was reclassified from other comprehensive income to the consolidated income statement for the year.

There was a prolonged decline in the fair value of an unlisted equity investment classified as an available-for-sale investment during the year. The directors considered that such a decline indicates that the unlisted equity investment was impaired and an impairment loss of HK$2,330,221 (2011: Nil), which represented a reclassification from other comprehensive income of HK$2,330,221 (2011: Nil), has been recognised in the consolidated income statement for the year.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

17. DEFERRED TAX

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

Deferred tax assets

Group	**Deductible temporary differences** HK$
At 1 January 2011	1,960,700
Deferred tax charged to the consolidated income statement during the year (note 9)	(523,014)
At 31 December 2011 and 1 January 2012	1,437,686
Deferred tax charged to the consolidated income statement during the year (note 9)	(560,183)
At 31 December 2012	877,503

Deferred tax liability

Group	**Accelerated tax depreciation** HK$
At 1 January 2011	–
Deferred tax charged to the consolidated income statement during the year (note 9)	368,653
At 31 December 2011 and 1 January 2012	368,653
Deferred tax charged to the consolidated income statement during the year (note 9)	214,146
At 31 December 2012	582,799

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

17. DEFERRED TAX *(Cont'd)*

The Group has tax losses arising in Hong Kong of HK$207,480,000 (2011: HK$194,676,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is uncertain whether sufficient future taxable profits will be available from these group companies against which the tax losses can be utilised.

At 31 December 2012, there was no significant unrecognised deferred tax liability (2011: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted due to the availability of double tax relief.

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

18. ACCOUNTS RECEIVABLE

	Group	
	2012	2011
	HK$	HK$
Accounts receivable	**500,016,585**	249,879,724
Less: Impairment	**(21,769,883)**	(21,769,883)
	478,246,702	228,109,841

Save for the credit period allowed by the Group, the accounts receivable shall be due on the settlement day of the respective securities and futures contracts transactions. In view of the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. Although the Group does not hold any collateral or other credit enhancements over its accounts receivable balances, the Group is allowed to dispose of the securities deposited by the customers with the Group to settle any overdue amounts. Overdue accounts receivable from cash clients of HK$96,299,771 (2011: HK$111,666,265) bear interest at interest rates with reference to the prime rate (2011: with reference to the prime rate).

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

18. ACCOUNTS RECEIVABLE *(Cont'd)*

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

	Group	
	2012	2011
	HK$	HK$
Within 1 month	**421,491,715**	157,896,391
1 to 2 months	**4,084,693**	52,778,765
2 to 3 months	**1,603,466**	1,034,757
Over 3 months	**72,836,711**	38,169,811
	500,016,585	249,879,724

Included in the provision for impairment of accounts receivable is a provision for individually impaired accounts receivable of HK$21,769,883 (2011: HK$21,769,883) with a carrying amount before provision of HK$21,769,883 (2011: HK$21,769,883). The individually impaired accounts receivable relate to customers that were in default or delinquency in payments and the receivables are not expected to be recovered.

The aged analysis of the accounts receivable that are not individually nor collectively considered to be impaired is as follows:

	Group	
	2012	2011
	HK$	HK$
Neither past due nor impaired	**403,716,814**	138,213,460
Less than 1 month past due	**17,892,562**	23,694,145
1 to 3 months past due	**5,739,588**	49,802,379
Over 3 months past due	**50,897,738**	16,399,857
	478,246,702	228,109,841

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default or are covered by securities deposited with the Group.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

18. ACCOUNTS RECEIVABLE *(Cont'd)*

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

Included in the accounts receivable balance as at 31 December 2012 is a broker receivable amount due from the ultimate holding company of HK$12,887,538 (2011: HK$2,399,663) which arose from securities dealing transactions. This balance is unsecured, interest-free and repayable on the settlement day of the relevant transactions.

19. LOANS AND ADVANCES

	Group	
	2012	2011
	HK$	HK$
Loans and advances to customers:		
Secured	**1,149,447,622**	571,233,758
Unsecured	**2,212,158**	2,212,158
	1,151,659,780	573,445,916
Less: Impairment	**(13,173,022)**	(13,173,022)
	1,138,486,758	560,272,894

Customers are required to provide collateral to the Group for the loans and advances granted. As at 31 December 2012, the total market value of the securities pledged by customers to the Group as collateral in respect of the above loans and advances to customers was HK$3,023,378,943 (2011: HK$1,697,062,711), of which a total market value of HK$719,449,500 (2011: Nil) of such collateral was pledged with banks to secure certain of the Group's overdrafts and bank loans (note 25) as at 31 December 2012. The Group is allowed to dispose of the collateral in settlement of the customers' obligation to maintain the agreed level of margin and any other liability of the customers due to the Group. The Group is allowed to deposit the collateral with an authorised institution as collateral for financial accommodation provided to the Group according to the applicable legislations and regulations.

In view of the fact that the Group's loans and advances relate to a large number of diversified customers, there is no significant concentration of credit risk. Loans and advances to margin clients of HK$1,138,332,264 (2011: HK$560,118,400) bear interest at interest rates with reference to the prime rate (2011: with reference to the prime rate).

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

19. LOANS AND ADVANCES *(Cont'd)*

The Group's loans and advances to customers are repayable on demand at the end of the reporting period.

There were no movements in the provision for impairment during the years ended 31 December 2012 and 2011.

Included in the provision for impairment of loans and advances is a provision for individually impaired loans and advances of HK$13,173,022 (2011: HK$13,173,022) with an aggregate carrying amount before provision of HK$13,327,516 (2011: HK$13,327,516). The individually impaired loans and advances relate to customers that were in default or delinquency in payments and only a portion of the loans and advances is expected to be recovered. The remaining balances of loans and advances that were not impaired relate to a large number of diversified customers for whom there was no recent history of default or are secured by securities collateral pledged by the customers to the Group.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2012 HK$	2011 HK$	**2012 HK$**	2011 HK$
Prepayments	**4,816,812**	4,554,260	**178,300**	174,200
Deposits and other receivables	**11,069,967**	8,374,009	**1,583,770**	845,278
	15,886,779	12,928,269	**1,762,070**	1,019,478

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.

21. BANK BALANCES HELD ON BEHALF OF CUSTOMERS

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

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2012	2011	**2012**	2011
	HK$	HK$	**HK$**	HK$
Cash and bank balances	**89,729,276**	121,757,823	**7,213,125**	3,484,562
Time deposits	**104,185,000**	270,934,000	**–**	–
	193,914,276	392,691,823	**7,213,125**	3,484,562

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

23. ACCOUNTS PAYABLE

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

	Group	
	2012	2011
	HK$	HK$
Within 1 month	**2,692,540,606**	2,107,840,448

Included in the accounts payable balance as at 31 December 2012 was a broker payable amount due to the ultimate holding company of the Company of HK$12,213,668 (2011: HK$544,126) which arose from securities dealing transactions. This balance is unsecured, interest-free and payable on the settlement day of the relevant transactions.

Included in the accounts payable balance as at 31 December 2012 was the amount of segregated client money held on behalf of an intermediate holding company of the Company of HK$164,183 (2011: HK$288,930) which arose from securities dealing transactions. This balance is unsecured, bears interest at the bank deposit savings rate and is payable on demand.

Except for the accounts payable to clients of HK$2,005,969,578 (2011: HK$1,830,837,636), which bear interest at the bank deposit savings rate per annum, the remaining accounts payable are non-interest-bearing.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

24. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012	2011	**2012**	2011
	HK$	HK$	**HK$**	HK$
Other payables	**32,363,917**	36,405,439	**1,033,945**	1,234,596
Accruals	**31,284,199**	39,319,350	**1,983,214**	2,682,605
	63,648,116	75,724,789	**3,017,159**	3,917,201

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

25. INTEREST-BEARING BANK BORROWINGS

Group

	2012			2011		
	Effective interest rate	**Maturity**	**HK$**	Effective interest rate	Maturity	HK$
Current						
Bank overdrafts – secured	**Hong Kong Inter-bank Offered Rate ("HIBOR") +1.5%**	**On demand**	**61,697,682**	–	–	–
Bank loans – secured	**HIBOR+1.3% to HIBOR+1.5%**	**2013 or on demand**	**553,000,000**	–	–	–
			614,697,682			–

	Group	
	2012	2011
	HK$	HK$
Analysed into:		
Bank loans and overdrafts repayable within one year or on demand	**614,697,682**	–

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

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

Notes:

(a) The Group's bank overdrafts were secured by the pledge of certain marketable securities pledged by customers to the Group as collateral amounting to HK$164,358,500 (2011: Nil) as at 31 December 2012 (note 19).

In addition, the Company had guaranteed the bank overdrafts up to HK$120,000,000 (2011: Nil) as at 31 December 2012.

(b) Certain of the Group's bank loans were secured by the pledge of certain marketable securities pledged by customers to the Group as collateral amounting to HK$555,091,000 (2011: Nil) as at 31 December 2012 (note 19).

In addition, the Company had guaranteed the bank loans up to HK$720,000,000 (2011: Nil) as at 31 December 2012.

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

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

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

26. SHARE CAPITAL

	Company	
	Number of ordinary shares of HK$0.50 each	HK$
Authorised:	2,000,000,000	1,000,000,000
Issued and fully paid:		
At 31 December 2011 and 31 December 2012	530,759,126	265,379,563

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

27. 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 43 of the financial statements.

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

(b) Company

	Note	**Share premium account** HK$	**General reserve** HK$	**Retained profits** HK$	**Total** HK$
At 1 January 2011		314,739,683	656,293	71,832,129	387,228,105
Total comprehensive income for the year		–	–	871,514	871,514
Interim 2011 dividend	*11*	–	–	(5,307,591)	(5,307,591)
Proposed final 2011 dividend	*11*	–	–	(14,861,256)	(14,861,256)
At 31 December 2011 and 1 January 2012		**314,739,683**	**656,293**	**52,534,796**	**367,930,772**
Total comprehensive loss for the year		**–**	**–**	**(2,453,984)**	**(2,453,984)**
Proposed final 2012 dividend	*11*	**–**	**–**	**(7,961,387)**	**(7,961,387)**
At 31 December 2012		**314,739,683**	**656,293**	**42,119,425**	**357,515,401**

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

28. CONTINGENT LIABILITIES

As at 31 December 2012, the banking facilities granted to the subsidiaries subject to the guarantees given to the banks by the Company were HK$1,867,500,000 (2011: HK$1,567,500,000), of which HK$439,697,682 (2011: Nil) was utilised.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

29. COMMITMENTS

(a) Capital commitments

	Group	
	2012	2011
	HK$	HK$
Contracted, but not provided for the purchases of furniture, fixtures and equipment	**345,000**	3,371,950

(b) Operating lease commitments as a lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years (2011: one to four years).

At 31 December 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2012	2011
	HK$	HK$
Within one year	**29,891,175**	29,102,115
In the second to fifth years, inclusive	**11,062,124**	25,307,638
	40,953,299	54,409,753

At 31 December 2012, the Company did not have any significant commitments (2011: Nil).

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

30. RELATED PARTY TRANSACTIONS

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

(a) The Group paid brokerage commissions totalling HK$1,313,157 (2011: HK$1,818,132) to the ultimate holding company of the Company during the year. The brokerage commissions were based on mutually agreed terms with reference to the commission rate and conditions similar to those offered to other customers by the ultimate holding company.

(b) The Group paid research fees totalling HK$7,650,000 (2011: HK$12,330,000) to a subsidiary of the ultimate holding company of the Company during the year. The research fees were charged in accordance with the agreement signed between the Group and that related company.

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

	2012 HK$	2011 HK$
Short term employee benefits	**31,951,568**	26,949,059
Post-employment benefits	**1,612,792**	1,252,040
	33,564,360	28,201,099

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

(d) Outstanding balances with related parties

Details of the Group's accounts receivable and accounts payable with the ultimate holding company and an intermediate holding company of the Company as at the end of the reporting period are included in notes 18 and 23 to the financial statements, respectively.

The transactions mentioned in (a) and (b) above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

31. 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:

2012 **Group**

Financial assets

	Financial assets at fair value through profit or loss – held for trading HK$	Loans and receivables HK$	Available-for-sale financial assets HK$	Total HK$
Other assets	–	16,282,236	–	16,282,236
Available-for-sale investments	–	–	12,624,430	12,624,430
Investments at fair value through profit or loss	360,020,854	–	–	360,020,854
Accounts receivable	–	478,246,702	–	478,246,702
Loans and advances	–	1,138,486,758	–	1,138,486,758
Financial assets included in prepayments, deposits and other receivables	–	11,069,967	–	11,069,967
Bank balances held on behalf of customers	–	2,335,223,269	–	2,335,223,269
Cash and cash equivalents	–	193,914,276	–	193,914,276
	360,020,854	4,173,223,208	12,624,430	4,545,868,492

Financial liabilities

	Financial liabilities at amortised cost HK$
Accounts payable	2,692,540,606
Financial liabilities included in other payables and accruals	22,183,758
Interest-bearing bank borrowings	614,697,682
	3,329,422,046

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

31. FINANCIAL INSTRUMENTS BY CATEGORY *(Cont'd)*

2011 **Group**

Financial assets

	Financial assets at fair value through profit or loss – held for trading HK$	Loans and receivables HK$	Available-for-sale financial assets HK$	Total HK$
Other assets	–	16,989,494	–	16,989,494
Available-for-sale investments	–	–	12,595,080	12,595,080
Investments at fair value through profit or loss	136,490,550	–	–	136,490,550
Accounts receivable	–	228,109,841	–	228,109,841
Loans and advances	–	560,272,894	–	560,272,894
Financial assets included in prepayments, deposits and other receivables	–	8,374,009	–	8,374,009
Bank balances held on behalf of customers	–	1,981,941,336	–	1,981,941,336
Cash and cash equivalents	–	392,691,823	–	392,691,823
	136,490,550	3,188,379,397	12,595,080	3,337,465,027

Financial liabilities

	Financial liabilities at amortised cost HK$
Accounts payable	2,107,840,448
Financial liabilities included in other payables and accruals	27,442,581
	2,135,283,029

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

31. FINANCIAL INSTRUMENTS BY CATEGORY *(Cont'd)*

Financial assets

	Company	
	Loans and receivables	
	2012 HK$	2011 HK$
Due from subsidiaries	**647,653,739**	618,676,901
Financial assets included in prepayments, deposits and other receivables	**1,583,770**	845,278
Cash and cash equivalents	**7,213,125**	3,484,562
	656,450,634	623,006,741

Financial liabilities

	Financial liabilities at amortised cost	
	2012 HK$	2011 HK$
Due to subsidiaries	**155,851,045**	104,458,252
Financial liabilities included in other payables and accruals	**3,017,159**	3,917,201
	158,868,204	108,375,453

32. 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)

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

32. FAIR VALUE HIERARCHY *(Cont'd)*

As at 31 December 2012 and 2011, the Group held the following financial instruments measured at fair value:

Assets measured at fair value:

As at 31 December 2012

	Level 1 HK$	**Level 2 HK$**	**Total HK$**
Available-for-sale investments:			
Listed equity investments in Hong Kong	**2,558,532**	**–**	**2,558,532**
Unlisted equity investment	**–**	**7,595,898**	**7,595,898**
Unlisted club debentures	**–**	**2,470,000**	**2,470,000**
Investments at fair value through profit or loss:			
Listed equity investments in Hong Kong, at fair value	**39,207,508**	**–**	**39,207,508**
Unlisted investment funds, at fair value	**–**	**320,813,346**	**320,813,346**
	41,766,040	**330,879,244**	**372,645,284**

As at 31 December 2011

	Level 1 HK$	Level 2 HK$	Total HK$
Available-for-sale investments:			
Listed equity investments in Hong Kong	2,922,464	–	2,922,464
Unlisted equity investment	–	7,202,616	7,202,616
Unlisted club debentures	–	2,470,000	2,470,000
Investments at fair value through profit or loss:			
Listed equity investments in Hong Kong, at fair value	23,029,802	–	23,029,802
Unlisted investment funds, at fair value	–	113,460,748	113,460,748
	25,952,266	123,133,364	149,085,630

The Company did not have any financial instruments measured at fair value as at 31 December 2012 (2011: Nil).

During the years ended 31 December 2012 and 2011, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's operating segments include securities trading and investment holding, securities broking and dealing, securities financing and direct loans, corporate finance and asset management.

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

Interest rate risk

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

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

		Group	
	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** HK$	**Increase/ (decrease) in equity*** HK$
2012			
Hong Kong dollar	**25**	**2,348,293**	**–**
Hong Kong dollar	**(25)**	**(2,348,293)**	**–**
2011			
Hong Kong dollar	25	2,653,640	–
Hong Kong dollar	(25)	(2,653,640)	–

* Excluding retained profits

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

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

Foreign currency risk

The Group's securities broking and dealing business is primarily conducted in the stock markets of Hong Kong and the B-share markets of Mainland China, which are denominated in Hong Kong dollars or United States dollars. As the Hong Kong dollar is pegged to the United States dollar, the Group's exposure to foreign currency risk is minimal. The Group's revenue denominated in currencies other than Hong Kong dollars and United States dollars constituted approximately 2% (2011: 1%) of the total revenue only and the Group's exposure to foreign currency risk is insignificant.

Credit risk

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

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

Further quantitative data in respect of the Group's exposure to credit risk arising from accounts receivable and loans and advances are disclosed in notes 18 and 19 to the financial statements, respectively.

Liquidity risk

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

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

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

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

Liquidity risk *(Cont'd)*

The Group's borrowings from banks during the year are for the provision of financing and loans to customers for their purchases and continuous holding of securities. The maturity of bank borrowings of the Group usually ranges from overnight to one month, where the borrowings 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 is able to be realised in the market within a reasonable period of time.

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

2012		**Group**	
	On demand HK$	**Less than 1 year HK$**	**Total HK$**
Accounts payable	**2,459,290,339**	**233,250,267**	**2,692,540,606**
Financial liabilities included in other payables and accruals	**–**	**22,183,758**	**22,183,758**
Interest-bearing bank borrowings	**614,912,739**	**–**	**614,912,739**
	3,074,203,078	**255,434,025**	**3,329,637,103**

2011		Group	
	On demand HK$	Less than 1 year HK$	Total HK$
Accounts payable	2,025,322,280	82,518,168	2,107,840,448
Financial liabilities included in other payables and accruals	–	27,442,581	27,442,581
	2,025,322,280	109,960,749	2,135,283,029

Included in interest-bearing bank borrowings were certain of the Group's bank loans in the amount of HK$553,000,000 (2011: Nil), of which the loan agreements contain repayment on demand clauses giving the banks the unconditional right to call in the loans at any time. Therefore, for the purpose of the above maturity profile, the amounts are classified as "on demand".

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

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

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group was exposed to equity price risk arising from individual equity investments classified as held-for-trading investments (note 16) and available-for-sale investments (note 16) as at 31 December 2012.

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

		Group	
	Increase/ (decrease) in fair value %	**Increase/ (decrease) in profit before tax** HK$	**Increase/ (decrease) in equity*** HK$
2012			
Investments listed in Hong Kong:			
– Available-for-sale	**1**	**–**	**25,585**
	(1)	**–**	**(25,585)**
– Held-for-trading	**1**	**392,075**	**–**
	(1)	**(392,075)**	**–**
Unlisted investments:			
– Available-for-sale	**1**	**–**	**75,959**
	(1)	**–**	**(75,959)**
– Investment funds	**1**	**3,208,133**	**–**
	(1)	**(3,208,133)**	**–**
2011			
Investments listed in Hong Kong:			
– Available-for-sale	1	–	29,225
	(1)	–	(29,225)
– Held-for-trading	1	230,298	–
	(1)	(230,298)	–
Unlisted investments:			
– Available-for-sale	1	–	72,026
	(1)	–	(72,026)
– Investment funds	1	1,134,607	–
	(1)	(1,134,607)	–

* Excluding retained profits

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2012

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

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. Certain subsidiaries of the Group are regulated by the Securities and Futures Commission (the "SFC") and are required to comply with certain minimum capital requirements according to the rules of the SFC. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 2011.

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

Group	**2012** **HK$**	2011 HK$
Interest-bearing bank borrowings	**614,697,682**	–
Total equity	**1,204,759,165**	1,186,726,405
Gearing ratio	**51.0%**	0%

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 8 March 2013.

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