Notes to Financial Statements

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1. CORPORATE INFORMATION

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

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

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

In the opinion of the directors, the parent and the ultimate holding company of the Group is South China Holdings Limited ("SCH"), which is incorporated in the Cayman Islands.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. 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 significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

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2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets
HK-Int 4	Lease-Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 23, 27, 33, 36, 37, HKFRS 2 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

In the prior year, the Group had early adopted HKAS 17 "Leases" and HKAS 40 "Investment property" in the consolidated financial statements for the year ended 31 December 2004.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

Notes to Financial Statements

31 December 2005

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 32 and HKAS 39 - Financial Instruments

(i) *Equity securities*

In prior years, the Group classified its investments in equity securities as long term investments, which were held for non-trading purposes and were stated at their fair values on an individual basis with gains and losses recognised as movements in the investment revaluation reserve. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of HK$13,975,000 are designated as available-for-sale financial assets under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment.

In prior years, the Group classified its investments in equity securities for trading purposes as short term investments, and were stated at their fair values on an individual basis with gains and losses recognised in the income statement. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of HK$66,694,000 are designated as financial assets at fair value through profit or loss under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised in the income statement.

The adoption of HKAS 39 has not resulted in any change in the measurement of these equity securities. Comparative amounts have been reclassified for presentation purposes.

(ii) *Loans receivable*

In prior years, interest income on loans receivable and interest expense on client deposits and bank borrowings were recognised on an accrual basis using the respective contract interest rates. The interest accrued on impaired loans were not taken as income but credited to a impairment accounts, which was offset against the appropriate items in the balance sheet.

Upon the adoption of HKAS 39, loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans receivable are carried at amortised cost using the effective interest method, less any impairment losses.

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31 December 2005

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(a) HKAS 32 and HKAS 39 - Financial Instruments (Continued)

(ii) Loans receivable (Continued)

The related interest and impairment are accounted for in the income statement. Interest income and expense are recognised using the effective interest method. The effective interest method is a method to allocate the interest over the expected life of the relevant financial assets and liabilities using the effective interest rate that exactly discounts estimated future cash payments and receipts through the expected life of the relevant financial assets and liabilities. The calculation of effective interest rates includes all fees, commissions and costs on client deposits and bank borrowings. Interest will continue to be recognised on impaired financial assets using the effective rate to discount the future cash flows for the purpose of measuring the impairment loss.

(iii) Impairment of loans receivable

Upon the adoption of HKAS 39, impairment allowances can be made on an individual assessed basis and a collective portfolio basis.

Individual impairment allowance applies to loans receivable that are individually significant and have objective evidence of impairment. In assessing the individual impairment, management estimates the present value of future cash flows which are expected to be received, taking into account the borrower's financial situation, the net realisable value of the underlying collateral or guarantees in favour of the Group. Each impaired asset is assessed on its merits and impairment allowance is measured as the difference between the loan's carrying value and the present value of the estimated future cash flows discounted at the loan's original effective interest rate.

Collective impairment allowances cover credit losses inherent in portfolios of loans receivable and other accounts with similar economic and risk characteristics where objective evidence for individual impaired items cannot yet be identified. In assessing the collective impairment, management makes assumptions both to define the way the Group assesses inherent losses and to determine the required input parameters, based on historical loss experience and current economic conditions.

The effects of the above are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

Notes to Financial Statements

31 December 2005

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(b) HKAS 38 - Intangible Assets

In prior years, 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 (the "Trading Rights"), were amortised on the straight-line basis over their estimated useful life of 10 years and was subject to impairment testing when there was any indication of impairment.

The adoption of HKAS 38 and HKAS 36 has resulted in the Group determining the useful lives of the Trading Rights as indefinite, commencing reviewing the useful lives of the Trading Rights, ceasing annual amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKAS 38, comparative amounts have not been restated.

(c) HK(SIC)-Int 21 - Income Taxes – Recovery of Revalued Non-depreciable Assets

In prior periods, deferred tax arising on the revaluation of investment properties was recognised based on the tax rate that would be applicable upon the sale of the investment properties.

Upon the adoption of HK(SIC)-Int 21, deferred tax arising on the revaluation of the Group's investment properties is determined depending on whether the properties will be recovered through use or through sale. The Group has determined that its investment properties will be recovered through use, and accordingly the profits tax rate has been applied to the calculation of deferred tax.

The effects of the above changes are summarised in note 2.4 to the financial statements. The change has been adopted retrospectively from the earliest period presented and comparative amounts have been restated.

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2.3 IMPACT OF 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, to these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK (IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 "Financial Reporting in Hyper Inflationary Economies"

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will incorporates the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

The HKAS 21 Amendment requires exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation to be recognised initially in a separate component of equity in the consolidated financial statements, irrespective of the currency of the monetary item and of whether the monetary item results from a transaction with the reporting entity or any of its subsidiaries.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

Notes to Financial Statements

31 December 2005

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

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5 and HK(IFRIC)-Int 6 and HK (IFRIC) - Int 7 do not apply to the activities of the Group. HK(IFRIC)-Int 6 and HK (IFRIC) - Int 7 shall be applied for annual periods beginning on or after 1 December 2005 and 1 March 2006, respectively.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

	Effect of adopting			
At 1 January 2005	**HKASs 32# and 39***	**HKAS 39***	**HKAS 39* Individual impairment/ collective impairment assessment on loans receivable**	
Effect of new policies (Increase/(decrease))	**Change in classification of equity investments**	**Amortisation on loans receivable**		**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Assets				
Available-for-sale financial assets	13,975	—	—	13,975
Long term investments	(13,975)	—	—	(13,975)
Loans receivable	—	(1,317)	(1,817)	(3,134)
Financial assets at fair value through profit or loss	66,694	—	—	66,694
Short term investments	(66,694)	—	—	(66,694)
				(3,134)
Liabilities/equity				
Investment revaluation reserve	(2,249)	—	—	(2,249)
Available-for-sale financial assets revaluation reserve	2,249	—	—	2,249
Minority interest	—	(34)	(47)	(81)
Accumulated losses	—	(1,283)	(1,770)	(3,053)
				(3,134)

* *Adjustments taken effect prospectively from 1 January 2005*

\# *Adjustments/presentation taken effect retrospectively*

Notes to Financial Statements

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2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) Effect on the consolidated balance sheet (Continued)

At 31 December 2005	Effect of adopting					
	HKASs 32 and 39	HKAS 39	HKAS 39 Individual impairment/ collective	HK(SIC)-Int 21	HKAS 38	
Effect of new policies (Increase/(decrease))	Change in classification of equity investments	Amortisation on loans receivable	impairment assessment on loans receivable	Deferred tax on revaluation of investment properties	Discontinuation of amortisation of intangible assets	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets						
Intangible assets	—	—	—	—	162	162
Available-for-sale financial assets	12,345	—	—	—	—	12,345
Long term investments	(12,345)	—	—	—	—	(12,345)
Loan receivable	—	(1,427)	2,553	—	—	1,126
Financial assets at fair value through profit or loss	58,195	—	—	—	—	58,195
Short term investments	(58,195)	—	—	—	—	(58,195)
						1,288
Liabilities/equity						
Deferred tax liabilities	—	—	—	(4,320)	—	(4,320)
Investment revaluation reserve	(68)	—	—	—	—	(68)
Available-for-sale financial assets revaluation reserve	68	—	—	—	—	68
Minority interest	—	(37)	66	—	—	29
Accumulated losses	—	(1,390)	2,487	4,320	162	5,579
						1,288

Notes to Financial Statements

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2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) Effect on the balances of equity at 1 January 2005 and 2004.

	Effect of adopting			
Effect of new policies (Increase/(decrease))	**HKAS 39 Designation of available-for-sale financial assets**	**HKAS 39 Amortisation on loans receivable**	**HKAS 39 Individual impairment/ collective impairment assessment on loans receivable**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
1 January 2005				
Investment revaluation reserve	(2,249)	—	—	(2,249)
Available-for-sale financial assets revaluation reserve	2,249	—	—	2,249
Minority interest	—	(34)	(47)	(81)
Accumulated losses	—	(1,283)	(1,770)	(3,053)
				(3,134)

The changes in accounting policies has had no impact to the balance of equity at 1 January 2004.

Notes to Financial Statements

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2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(Continued)*

(c) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004

	Effect of adopting				
	HKAS 39	HKAS 39	HK(SIC)-Int 21	HKAS 38	
Effect of new policies	**Amortisation on loans and receivables**	**Individual impairment/ collective impairment assessment on loans receivable**	**Deferred tax on revaluation of investment properties**	**Discontinuation of amortisation of intangible assets**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2005					
Decrease/(increase) in impairment of loans receivable	(110)	—	—	—	(110)
Decrease/(increase) in other operating expenses	—	4,370	—	162	4,532
Decrease/(increase) in tax	—	—	(4,320)	—	(4,320)
Total increase/(decrease) in profit	(110)	4,370	(4,320)	162	102
Increase/(decrease) in basic earnings per share	(0.002) cent	0.09 cent	(0.089) cent	0.003 cent	0.002 cent
Increase/(decrease) in diluted earnings per share	N/A	N/A	N/A	N/A	N/A

The changes in accounting policies has had no impact to the consolidated income statement for the year ended 31 December 2004.

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is a company 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.

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 assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets, financial assets and investment property), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as 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, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however 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 impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Notes to Financial Statements

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is a member of the key management personnel of the Group or its parent;

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

(d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c); or

(e) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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 improvements	Over the lease terms
Furniture and equipment	10% to 25%
Motor vehicles	20%

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

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

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

Investment property

An investment property is interests in land and buildings (including the leasehold interest under an operating lease for property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of an investment property are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Intangible assets

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amoritsation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

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

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 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.

Notes to Financial Statements

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

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

Investments and other financial assets

Applicable to the year ended 31 December 2004:

The Group classified its equity investments, other than subsidiaries, as long term investments and short term investments.

Long term investments

Long term investments are non-trading investments in listed equity securities intended to be held on a long term basis and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis.

The gains or losses arising from changes in the fair value of a security are dealt with as movements in the investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the investment revaluation reserve, together with the amount of any further impairment, is charged to the income statement in the period in which the impairment arises.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement in the period in which they arise.

Applicable to the year ended 31 December 2005:

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Applicable to the year ended 31 December 2005:

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase 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.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

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

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using 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

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets (applicable to the year ended 31 December 2005)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost 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 been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed 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, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Available-for-sale financial assets

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 profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets (applicable to the year ended 31 December 2005)

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

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. 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.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

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 profit or loss.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which 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 balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period 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.

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

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

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

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

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

***Income tax** (Continued)*

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

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

Revenue recognition

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

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

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

(c) from the rendering of services, on the stage of completion of the transaction, provided that the costs involved can be measured reliably. The stage of completion of a transaction associated with the rendering of services is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction;

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

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

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

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

Employee benefits

Paid leave carried forward

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

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

No provision has been made in respect of the possible future long service payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Company.

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Share option scheme

Share-based payment transactions

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

The cost of Equity-settled Transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 34. In valuing Equity-settled Transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("Market Conditions"), if applicable.

The cost of Equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "Vesting Date"). The cumulative expense recognised for Equity-settled Transactions at each balance sheet date until the Vesting Date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a Market Condition, which are treated as vesting irrespective of whether or not the Market Condition is satisfied, provided that all other performance conditions are satisfied.

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested on 1 January 2005 and to those granted on or after 1 January 2005.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, 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.

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 are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries, are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, 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

31 December 2005

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Impairment of available-for-sale financial assets

The Group determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. The carrying amount of available-for-sale financial assets at 31 December 2005 was HK$12,345,000 (2004: HK$13,975,000). More details are given in note 19.

Estimation uncertainty

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

Impairment of loans receivable

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methods and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any difference between loss estimates and actual loss experience. The carry amount of loans receivable at 31 December 2005 was HK$159,805,000 (2004:HK$179,785,000). More details are given in note 20.

Notes to Financial Statements

31 December 2005

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributable to the segments based on the location of the customers, and assets are attributable to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Hong Kong, and over 90% of the Group's assets are located in Hong Kong.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the services they provide. Each of the Group's business segments represents a strategic business unit that offers services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

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

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

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

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

(e) the property investment segment engages in property rental; and

(f) the corporate and others segment comprises corporate income, expense, asset and liability items.

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

Notes to Financial Statements

31 December 2005

4. SEGMENT INFORMATION *(Continued)*

The following tables represent revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2005 and 2004.

Year ended 31 December 2005	Broking	Trading and investment	Margin financing and money lending	Corporate advisory and underwriting	Property investment	Corporate and others	Eliminations	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:								
Sales to external customers	65,630	6,778	35,109	9,821	2,877	979	—	121,194
Intersegment sales	—	—	3,020	—	—	—	(3,020)	—
Total	65,630	6,778	38,129	9,821	2,877	979	(3,020)	121,194
Segment results	(5,121)	(13,245)	4,441	(1,317)	31,256	(5,055)	—	10,959
Finance costs								(2,358)
Profit before tax								8,601
Tax								(4,392)
Profit for the year								4,209
Assets and liabilities								
Segment assets	293,898	70,951	232,747	5,864	155,644	6,015		765,119
Unallocated assets								9,882
Total assets								775,001
Segment liabilities	246,978	148	121,385	325	76,436	961		446,233
Unallocated liabilities								5,977
Total liabilities								452,210
Other segment information:								
Depreciation and amortisation	1,566	86	503	296	22	173	—	2,646
Capital expenditure	1,460	112	216	280	37	—	—	2,105
Changes in fair value of an investment property	—	—	—	—	30,000	—	—	30,000
Impairment of loans receivable	1,909	—	9,242	—	—	—	—	11,151

Notes to Financial Statements

31 December 2005

4. SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2004	Broking	Trading and investment	Margin financing and money lending	Corporate advisory and underwriting	Property investment	Corporate and others	Eliminations	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:								
Sales to external customers	73,960	18,558	31,248	8,325	3,696	1,560	—	137,347
Intersegment sales	—	—	7,745	—	—	—	(7,745)	—
Total	73,960	18,558	38,993	8,325	3,696	1,560	(7,745)	137,347
Segment results	6,202	28,422	6,903	(1,632)	41,771	(7,569)	—	74,097
Finance costs								(1,142)
Profit before tax								72,955
Tax								(4,352)
Profit for the year								68,603
Assets and liabilities								
Segment assets	353,209	81,184	242,585	3,118	125,953	25,382	(1,862)	829,569
Unallocated assets								2,790
Total assets								832,359
Segment liabilities	288,903	2,120	192,027	333	39,997	747	(1,862)	522,265
Unallocated liabilities								1,683
Total liabilities								523,948
Other segment information:								
Depreciation and amortisation	3,017	171	750	167	17	188	—	4,310
Capital expenditure	1,926	117	95	122	12	129	—	2,401
Reversal of impairment of long term investment reversed in the income statement	—	3,220	—	—	—	—	—	3,220
Changes in fair value of investment property	—	—	—	—	41,000	—	—	41,000
Reversal of impairment/ (Impairment) of loans receivable	290	1	(7,720)	—	—	1	—	(7,428)

Notes to Financial Statements

31 December 2005

5. TURNOVER AND OTHER REVENUE

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

An analysis of turnover and other revenue is as follows:

	GROUP	
	2005	2004
	HK$'000	HK$'000
Turnover		
Commission and brokerage income	**64,150**	72,834
Profit on trading of securities, bullion and futures contract, net	**5,855**	18,194
Dividend income from listed investments	**925**	362
Interest income from loans receivable	**27,805**	29,965
Interest income from bank and financial institutions	**6,583**	899
Rendering of services	**9,453**	7,009
Gross rental income	**2,176**	2,690
	116,947	131,953
Other revenue		
Handling fee income	**1,831**	1,735
Interest income from an amount due from an intermediate holding company	**953**	1,444
Others	**1,463**	2,215
	4,247	5,394

Notes to Financial Statements

31 December 2005

6. PROFIT BEFORE TAX

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

	Notes	GROUP 2005 HK$'000	GROUP 2004 HK$'000
Cost of services provided		**26,709**	24,812
Depreciation	14	**2,646**	4,148
Amortisation of intangible assets	16	**—**	162
Auditors' remuneration		**839**	737
Minimum lease payments under operating leases on land and buildings		**8,820**	7,653
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment property		**962**	947
Employee benefits expense (including directors' remuneration (note 8)):			
Pension scheme contributions		**1,647**	1,639
Less: Forfeited contributions		**(104)**	(402)
Net pension benefits contributions	(a)	**1,543**	1,237
Wages and salaries		**47,031**	39,405
		48,574	40,642
Interest expense for margin financing and money lending operations:			
Bank loans and overdrafts		**6,636**	3,899
Loan from ultimate holding company		**—**	115
Clients		**—**	104
		6,636	4,118
Gains on disposal of items of property, plant and equipment, net		**(23)**	(1)
Foreign exchange differences, net		**(1,541)**	(2,714)

Note:

(a) At 31 December 2005, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2004: Nil)

Notes to Financial Statements

31 December 2005

7. FINANCE COSTS

	GROUP	
	2005	2004
	HK$'000	HK$'000
Interest on:		
Bank loan, overdrafts and other loans		
wholly repayable within five years	**2,321**	1,087
Finance leases	**37**	55
	2,358	1,142

8. DIRECTORS' REMUNERATION

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

	GROUP	
	2005	2004
	HK$'000	HK$'000
Fees	**196**	167
Other emoluments:		
Salaries, allowances and benefits in kind	**5,196**	4,765
Discretionary bonus	**8,000**	—
Pension scheme contributions	**204**	188
	13,400	4,953
	13,596	5,120

Notes to Financial Statements

31 December 2005

8. DIRECTORS' REMUNERATION *(Continued)*

(a) Independent non-executive directors

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

	2005 HK$'000	2004 HK$'000
Hon. Raymond Arthur William Sears, Q.C.	66	66
Mr. Tung Woon Cheung	50	14
Ms. Wong Siu Yin, Elizabeth	20	20
	136	100

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

Notes to Financial Statements

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8. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and non-executive directors

2005	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Pension scheme contributions	Total remuneration
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors:					
Mr. Ng Hung Sang	10	1,200	3,000	60	4,270
Mr. Richard Howard Gorges	10	1,020	2,500	51	3,581
Ms. Cheung Choi Ngor	10	1,020	2,500	51	3,581
Mr. Chan Hing Wah	10	1,259	—	12	1,281
Mr. Ng Chun Sang	10	697	—	30	737
Mr. Ng Yuk Yeung, Paul	10	—	—	—	10
	60	5,196	8,000	204	13,460
2004					
Executive directors:					
Mr. Ng Hung Sang	10	1,080	—	54	1,144
Mr. Richard Howard Gorges	10	920	—	46	976
Ms. Cheung Choi Ngor	10	920	—	46	976
Mr. Chan Hing Wah	10	1,238	—	12	1,260
Mr. Ng Chun Sang	10	607	—	30	647
Mr. Ng Yuk Yeung, Paul	10	—	—	—	10
	60	4,765	—	188	5,013
Non-executive director:					
Mr. Tan Boon Seng (resigned on 21 September 2004)	7	—	—	—	7
	7	—	—	—	7
	67	4,765	—	188	5,020

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

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors (2004: no directors), details of whose remuneration are disclosed in note 8 above. Details of the remuneration of the remaining one (2004: five) non-director, highest paid employees for the year are as follows:

	GROUP	
	2005	2004
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**13,934**	8,125
Pension scheme contributions	**181**	580
	14,115	8,705

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

	Number of employees	
	2005	2004
	HK$'000	HK$'000
Nil - HK$1,000,000	**—**	—
HK$1,000,001 - HK$1,500,000	**1**	2
HK$1,500,001 - HK$2,000,000	**—**	2
HK$2,000,001 - HK$2,500,000	**—**	—
HK$2,500,001 - HK$3,000,000	**—**	1
	1	5

Notes to Financial Statements

31 December 2005

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) 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 countries in which the Group operates, based on existing legislation, practices and interpretations in respect thereof.

	GROUP	
	2005	2004
	HK$'000	HK$'000
Current – Hong Kong		
Charge for the year	**—**	3,000
Overprovision in prior years	**(14)**	—
Current – elsewhere	**90**	152
Deferred (note 21)	**4,316**	1,200
Total tax charge for the year	**4,392**	4,352

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax credit or expense at the effective tax rates, and a reconciliation of the statutory tax rates to the effective tax rates are as follows:

	GROUP			
	2005		2004	
	HK$'000	**%**	HK$'000	%
Profit before tax	**8,601**		72,955	
Tax at the statutory tax rate	**1,505**	**17.5**	12,767	17.5
Higher tax rates on profits arising elsewhere	**(27)**	**(0.3)**	86	0.1
Income not subject to tax	**(1,382)**	**(16.1)**	(8,201)	(11.2)
Expenses not deductible for tax	**256**	**3.0**	917	1.3
Tax losses not recognised	**6,724**	**78.2**	344	0.5
Tax losses utilised from previous periods	**(2,684)**	**(31.2)**	(1,561)	(2.1)
Tax charge at the Group's effective rate	**4,392**	**51.1**	4,352	6.1

Notes to Financial Statements

31 December 2005

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

The loss from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company was loss of HK$19,430,000 (2004: profit of HK$123,060,000)(note 35(b)).

12. DIVIDENDS

	2005	2004
	HK$'000	HK$'000
Proposed final – Nil (2004: 0.20 HK cent) per ordinary share	**—**	9,724

13. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit for the year attributable to equity holders of the Company of HK$4,109,000 (2004: HK$68,576,000) and the 4,861,990,940 (2004: 4,861,990,940) ordinary shares in issue during the year.

No diluted earnings per share has been presented because the exercise price of the Company's warrants was higher than average market price for shares for the year ended 31 December 2005.

Diluted earnings per share has not been presented as the outstanding warrants had no dilutive effect on the basic earnings per share for the year.

Notes to Financial Statements

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14. PROPERTY, PLANT AND EQUIPMENT

	GROUP			
	Leasehold improvements	**Furniture and equipment**	**Motor vehicles**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2005				
At 31 December 2004 and at 1 January 2005:				
Cost	16,634	34,849	3,316	54,799
Accumulated depreciation	(15,104)	(31,427)	(3,316)	(49,847)
Net carrying amount	1,530	3,422	—	4,952
At 1 January 2005, net of accumulated depreciation	1,530	3,422	—	4,952
Additions	492	1,613	—	2,105
Disposals	—	(15)	—	(15)
Depreciation provided during the year	(624)	(2,022)	—	(2,646)
Exchange realignment	(1)	(4)	—	(5)
At 31 December 2005, net of accumulated depreciation	1,397	2,994	—	4,391
At 31 December 2005:				
Cost	16,941	36,208	3,316	56,465
Accumulated depreciation	(15,544)	(33,214)	(3,316)	(52,074)
Net carrying amount	1,397	2,994	—	4,391

Notes to Financial Statements

31 December 2005

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

	GROUP			
	Leasehold improvements	**Furniture and equipment**	**Motor vehicles**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2004				
At 1 January 2004:				
Cost	16,252	33,102	3,316	52,670
Accumulated depreciation	(14,362)	(28,243)	(3,316)	(45,921)
Net carrying amount	1,890	4,859	—	6,749
At 1 January 2004, net of accumulated depreciation	1,890	4,859	—	6,749
Additions	354	2,047	—	2,401
Disposals	—	(57)	—	(57)
Depreciation provided during the year	(716)	(3,432)	—	(4,148)
Exchange realignment	2	5	—	7
At 31 December 2004, net of accumulated depreciation	1,530	3,422	—	4,952
At 31 December 2004:				
Cost	16,634	34,849	3,316	54,799
Accumulated depreciation	(15,104)	(31,427)	(3,316)	(49,847)
Net carrying amount	1,530	3,422	—	4,952

The net book value of the Group's property, plant and equipment held under finance leases included in furniture and equipment at 31 December 2005 amounted to HK$82,000 (2004: HK$326,000).

Notes to Financial Statements

31 December 2005

15. INVESTMENT PROPERTY

	GROUP	
	2005	2004
	HK$'000	HK$'000
Carrying amount at 1 January	**125,000**	84,000
Gain from a fair value adjustment	**30,000**	41,000
Carrying amount at 31 December	**155,000**	125,000

The Group's investment property is situated in Hong Kong and is held under a long term lease. At the balance sheet date, the investment property was pledged to a bank to secure banking facilities granted to the Group (note 31).

The Group's investment property was revalued on 31 December 2005 by BMI Appraisals Limited, independent professional valuers, on an open market, existing use basis. The investment property is leased to third parties under operating lease arrangements, details of which are included in note 38 to the financial statements.

Details of the Group's investment property are as follows:

Location	Existing use
26th Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong.	Office rental

Notes to Financial Statements

31 December 2005

16. INTANGIBLE ASSETS

	GROUP	
	2005 HK$'000	2004 HK$'000
Cost at 1 January, net of accumulated amortisation	836	998
Accumulated amortisation provided during the year	—	162
At 31 December	836	836
At 31 December:		
Cost	1,619	1,619
Accumulated amortisation	783	783
Net carrying amount	836	836

Pursuant to the restructuring of the Stock Exchange and the Hong Kong Futures Exchange (the "Future Exchange"), effective on 6 March 2001, the Group received four Stock Exchange Trading Rights, five Futures Exchange Trading Rights and 10,187,500 ordinary shares of HK$1 each in Hong Kong Exchanges and Clearing Limited (the "HKEC Shares") in exchange for its four shares previously held in the Stock Exchange and five shares previously held in the Futures Exchange.

The carrying costs of the previously held shares in the Stock Exchange and the Futures Exchange have been apportioned to the Stock Exchange Trading Rights, the Futures Exchange Trading Rights and the HKEC Shares on the basis of their respective estimated fair values on 6 March 2001.

The Stock Exchange Trading Rights and the Futures Exchange Trading Rights have been classified as intangible assets as above and treated under the accounting policy as set out in note 2.5 to the financial statements.

17. OTHER ASSETS

	GROUP	
	2005 HK$'000	2004 HK$'000
Membership in Chinese Gold and Silver Exchange	1,280	1,280
Statutory deposits in respect of securities and commodities dealings	4,236	4,319
Club debentures	360	360
	5,876	5,959

The carrying amounts of the Group's other assets approximate to their fair values.

Notes to Financial Statements

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18. INTERESTS IN SUBSIDIARIES

	COMPANY	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**100,904**	100,894
Amounts due from subsidiaries	**466,870**	489,882
Amounts due to subsidiaries	**(856)**	(857)
	566,918	589,919
Impairment	**(296,500)**	(265,500)
	270,418	324,419

The amounts due from and to subsidiaries included in the Company's non-current assets are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from and to subsidiaries approximate to their fair values.

Particulars of the principal subsidiaries are as follows:

Name of company	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company 2005	2004	Principal activities
Polyluck Trading Limited	Hong Kong	HK$2	**100**	100	Property investment
South China Capital Limited	Hong Kong	HK$2	**100**	100	Provision of corporate advisory services
South China Commodities Limited	Hong Kong	HK$10,000,000	**100**	100	Commodities broking
South China Finance Company Limited	Hong Kong	HK$1,000,000	**100**	100	Provision of loan financing

Notes to Financial Statements

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18. INTERESTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company 2005	2004	Principal activities
South China Finance and Management Limited	Hong Kong	HK$2	**100**	100	Shares dealing and provision of management services
South China Finance (Nominees) Limited	Hong Kong	HK$2	**100**	100	Provision of nominee services
South China Financial Credits Limited	Hong Kong	HK$42,125,000	**97.4**	97.4	Money lending
South China Fund Management Limited	Hong Kong	HK$600,000	**100**	100	Asset management
South China Precious Metal Limited	Hong Kong	HK$2	**100**	100	Bullion broking
South China Research Limited	Hong Kong	HK$600,000	**100**	100	Research publication
South China Securities Limited	Hong Kong	HK$10,000,000	**100**	100	Securities broking, margin financing and underwriting
South China Securities (UK) Limited*	United Kingdom	GBP200,000	**100**	100	Securities broking
廣州南華四海諮詢有限公司 **	People's Republic of China/Mainland China	HK$100,000	**100**	—	Provision of corporate advisory services

Notes to Financial Statements

31 December 2005

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company 2005	2004	Principal activities
南又華投資諮詢(上海)有限公司 **	People's Republic of China/Mainland China	US$150,000	**100**	—	Provision of corporate advisory services

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

** 廣州南華四海諮詢有限公司 and 南又華投資咨詢(上海)有限公司 are established during the year and registered as a wholly-foreign-owned enterprises under PRC law.

Except for Polyluck Trading Limited, 廣州南華四海諮詢有限公司 and 南又華投資諮詢（上海）有限公司 , all principal subsidiaries are directly held by the Company.

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

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS/LONG TERM INVESTMENTS

	GROUP	
	2005 HK$'000	2004 HK$'000
Listed equity investments in Hong Kong, at fair value	**12,345**	13,975

During the year, the fair value loss of the Group's available-for-sale financial assets recognised directly in equity amounted to HK$2,113,000 (2004: gain of HK$2,249,000), and gain of HK$68,000 (2004: HK$191,000) was released from equity upon disposal and recognised in the income statement for the year.

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets on 1 January 2005 and have no fixed maturity date or coupon rate.

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

The market value of the Group's listed equity investments at the date of approval of these financial statement was approximately HK$13,658,000.

Notes to Financial Statements

31 December 2005

20. LOANS RECEIVABLE

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

The Group allows a credit period mutually agreed with the contracting parties. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding loans receivable and has a credit control department to minimise credit risk. Loans for margin financing are secured by the pledge of customers' securities as collateral. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and that the Group's loans and advances relate to a large number of diversified customers, there is no significant concentration of credit risk. Loans receivable are interest-bearing at a rate mutually agreed with the contracting parties.

	GROUP	
	2005	2004
	HK$'000	HK$'000
Loans receivable	**289,772**	304,142
Impairment	**(130,967)**	(124,357)
	158,805	179,785
Market value of collaterals at 31 December	**656,388**	779,664

At 31 December 2005, certain equity securities as collateral provided by fellow subsidiaries and clients of approximately of HK$128,737,000 (2004: HK$292,956,000) were pledged to banks to secure banking facilities granted to the Group (note 31).

The carrying amounts of the Group's loans and advances approximate to their fair values.

Notes to Financial Statements

31 December 2005

20. LOANS RECEIVABLE *(Continued)*

The maturity profile of loans receivable at the balance sheet date is analysed into the remaining periods to their contractual maturity dates as follows:

	GROUP	
	2005	2004
	HK$'000	HK$'000
Repayable:		
On demand	124,170	147,209
Within 3 months	10,443	7,736
3 months to 1 year	17,791	19,612
1 year to 5 years	6,401	5,228
	158,805	179,785
Portion classified as current assets	(152,404)	(174,557)
Portion classified as non-current assets	6,401	5,228

21. DEFERRED TAX

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

Deferred tax liabilities

	Group			
	Loss available for offset against future taxable profits	Accelerated depreciation	Revaluation of properties	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2005	(2,819)	2,139	680	—
Deferred tax debited/(credited) to the income statement during the year (note 10)	(1,196)	266	5,250	4,320
At 31 December 2005	(4,015)	2,405	5,930	4,320

Notes to Financial Statements

31 December 2005

21. DEFERRED TAX *(Continued)*

The movements of deferred tax liabilities and assets during the year are as follows: *(Continued)*

Deferred tax assets

		Group	
		Decelerated	
	Provision	**depreciation**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 January 2005	2,765	27	2,792
Deferred tax debited to the income statement during the year (note 10)	—	(4)	(4)
At 31 December 2005	2,765	23	2,788

Deferred tax liabilities

		Group		
	Loss available for offset against future taxable profits	**Accelerated depreciation**	**Revaluation of properties**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2004	(1,922)	1,922	—	—
Deferred tax debited/(credited) to the income statement during the year (note 10)	(897)	217	680	—
At 31 December 2004	(2,819)	2,139	680	—

Notes to Financial Statements

31 December 2005

21. DEFERRED TAX *(Continued)*

The movements of deferred tax liabilities and assets during the year are as follows: *(Continued)*

Deferred tax assets

	Group			
	Loss available for offset against future taxable profits	**Provision**	**Decelerated depreciation**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2004	1,200	2,765	27	3,992
Deferred tax debited to the income statement during the year	(1,200)	—	—	(1,200)
At 31 December 2004	—	2,765	27	2,792

Apart from the above deferred tax assets on tax losses, the Group has tax losses arising in Hong Kong of HK$335,486,000 (2004: HK$312,401,000) 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 tax losses as they have arisen in subsidiaries that have been loss-making for some time.

As at 31 December 2005, there was no significant unrecognised deferred tax liability (2004: 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.

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

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31 December 2005

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/SHORT TERM INVESTMENTS

	GROUP	
	2005	2004
	HK$'000	HK$'000
Listed equity investments, at market value:		
Hong Kong	**58,195**	66,665
Elsewhere	**—**	29
	58,195	66,694

The above financial assets at 31 December 2005 were classified as held for trading, of which approximately HK$33,611,000 (2004: HK$40,423,000) were pledged to banks to secure banking facilities granted to the Group (note 31).

The market value of the Group's listed equity investments at the date of approval of these financial statements was approximately HK$85,406,000.

23. TRADE RECEIVABLES

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

The Group allows a credit period up to the settlement dates of the respective securities, bullion and commodities transactions or a credit period mutually agreed with the contracting parties. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Overdue trade receivables bear interest with reference to the prime rate.

The carrying amounts of the Group's trade receivables approximate to their fair values.

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

	GROUP	
	2005	2004
	HK$'000	HK$'000
Current to 90 days	**43,539**	30,105

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24. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	GROUP		COMPANY	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deposits and other receivables	**10,559**	5,083	**587**	587
Prepayments	**1,470**	1,623	**458**	449
	12,029	6,706	**1,045**	1,036

The carrying amounts of the Group's and Company's other receivables, prepayments and deposits approximate to their fair values.

25. AMOUNT DUE FROM AN INTERMEDIATE HOLDING COMPANY

The amount due from Tek Lee Finance and Investment Corporation Limited is unsecured, bears interest at the Hong Kong dollar prime rate (2004: the Hong Kong dollar prime rate) per annum and has no fixed terms of repayment.

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26. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

		GROUP		COMPANY	
	Note	**2005**	2004	**2005**	2004
		HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances		**58,947**	48,191	**161**	103
Time deposits		**18,250**	9,000	**—**	—
		77,197	57,191	**161**	103
Less: Pledged time deposits:					
Pledged for a guarantee provided to Hong Kong Futures Exchange Clearing Corporation Limited for commodities dealing		**(5,000)**	(5,000)	**—**	—
Pledged for a guarantee provided to Hong Kong Securities Clearing Company Limited for securities dealing		**(500)**	(500)	**—**	—
Pledged for bank overdraft facilities	31	**(250)**	—	**—**	—
Cash and cash equivalents		**71,447**	51,691	**161**	103

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$674,000 (2004: HK$69,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposits rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged time deposits approximate to their fair values.

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27. CLIENT DEPOSITS

The Group's client deposits arose from securities, bullion and commodities dealings.

The client deposits are unsecured, bears interest at a bank deposit saving rate (2004: bank deposit saving rate) and are repayable on the demand.

The carrying amounts of the Group's client deposits approximate to their fair values.

28. TRADE PAYABLES

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

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

	GROUP	
	2005	2004
	HK$'000	HK$'000
Current to 30 days	**61,672**	64,323

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

The carrying amounts of the Group's trade payables approximate to their fair values.

29. OTHER PAYABLES AND ACCRUALS

	GROUP		COMPANY	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deferred income	**32**	28	**—**	—
Other payables	**6,345**	6,689	**335**	335
Accruals	**938**	1,786	**—**	—
	7,315	8,503	**335**	335

Other payables are non-interest-bearing and have an average term of three months. The Group's and the Company's other payables and accruals approximate to their fair values.

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31 December 2005

30. OBLIGATION UNDER FINANCE LEASES

The Group leases certain office equipment for its business operations. These leases are classified as finance leases and have a remaining lease term of 16 months (2004: 28 months).

At 31 December 2005, the total future minimum lease payments under finance leases and their present values were as follows:

	GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Obligation under finance leases:				
Within one year	**242**	242	**223**	205
In the second year	**80**	242	**79**	223
In the third to fifth years, inclusive	**—**	80	**—**	79
Total minimum finance lease payments	**322**	564	**302**	507
Future finance charges	**(20)**	(57)		
Total net finance lease payables	**302**	507		
Portion classified as current liabilities	**(223)**	(205)		
Non-current portion	**79**	302		

Notes to Financial Statements

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31. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group 2005 HK$'000	Group 2004 HK$'000
Current				
Obligation under finance leases (note 30)	9	2006	**223**	205
Bank overdrafts - unsecured	3.5 - 9.5	On demand	**—**	4,955
Bank loans – secured	0.9-5.4	2006	**48,483**	74,978
Bank loans – unsecured	2.1-8.5	2006	**50,178**	44,392
			98,884	124,530
Non-current				
Obligation under finance leases (note 30)	9	2007	**79**	302
Bank loans – secured	2.5 - 5.5	2007-2014	**50,736**	26,052
Bank loans – unsecured	2.1-6.2	2007-2010	**2,080**	3,470
			52,895	29,824
			151,779	154,354

	GROUP 2005 HK$'000	GROUP 2004 HK$'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	**98,661**	124,325
In the second year	**6,516**	6,538
In the third to fifth years, inclusive	**20,700**	9,777
Beyond five years	**25,600**	13,207
	151,477	153,847
Other borrowings repayable:		
Within one year	**223**	205
In the second year	**79**	223
In the third to fifth years, inclusive	**—**	79
	302	507
	151,779	154,354

Notes to Financial Statements

31 December 2005

31. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

Notes:

(a) The Group's overdraft facilities amounting to HK$75,000,000 (2004: HK$65,000,000), of which no amount (2004: HK$4,955,000) had been utilised as at the balance sheet date, are secured by the pledge of certain of the Group's time deposits amounting to HK$250,000 (2004: Nil) (note 26).

(b) Certain of the Group's bank loans are secured by the Group's investment property situated in Hong Kong, which had an aggregate carrying value at the balance sheet date of approximately HK$155,000,000 (2004: HK$125,000,000) (note 15).

In addition, listed equity investments belonging to the Group, fellow subsidiaries and clients totalling approximately HK$162,348,000 (2004: HK$333,379,000) were pledged to banks to secure banking facilities granted to a subsidiary of the Group at the balance sheet date.

(c) All borrowings are in Hong Kong dollars.

Other interest rate information:

	GROUP			
	2005		2004	
	Fixed rate HK$'000	**Floating rate HK$'000**	Fixed rate HK$'000	Floating rate HK$'000
Finance lease payables	**302**	**—**	507	—
Bank overdrafts	**—**	**—**	—	4,955
Bank loans – secured	**—**	**99,219**	—	101,030
Bank loans – unsecured	**—**	**52,258**	—	47,862

The carrying amounts of the Group's bank and other borrowings approximate to their fair values. The fair value of bank and other borrowings was estimated as the present value of future cash flows, discounted at prevailing interest rates at 31 December 2005.

32. SUBORDINATED LOAN TO A SUBSIDIARY

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

The carrying amount of the Company's subordinated loan to the subsidiary approximates to its fair value.

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33. SHARE CAPITAL

Shares

	2005	2004
	HK$'000	HK$'000
Authorised:		
8,000,000,000 (2004: 8,000,000,000) ordinary shares of HK$0.025 each	**200,000**	200,000
Issued and fully paid:		
4,861,990,940 (2004: 4,861,990,940) ordinary shares of HK$0.025 each	**121,550**	121,550

Share options

Details of the Company's share option scheme are included in note 34 to the financial statements.

Warrants

On 2 March 2005, the Company issued 970,000,000 warrants of HK$0.026 each. Each warrant entitled the holder thereof to subscribe for one ordinary share of HK$0.025 at a subscription price of HK$0.1012 per warrant, payable in cash and subject to adjustment, from the date of issue to 2 March 2006.

None of the warrants were exercised during the year. The exercise in full of warrants outstanding as at balance sheet date would, under the present value of the Group, result in the issue of 970,000,000 additional shares of HK$0.025 each. Subsequent to the year end, 142,900,000 warrants were exercised at a price of HK$0.1012 per warrant, which was detailed in note 41 to the financial statements.

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34. SHARE OPTION SCHEME

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

(1) Purpose of the Share Option Scheme

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

(2) Participants of the Share Option Scheme

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

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

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

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

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

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

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

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

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

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

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34. SHARE OPTION SCHEME *(Continued)*

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

A total of 486,193,674 shares of the Company are available for issue under the Share Option Scheme, which represents approximately 9.71% of the issued share capital of the Company as at the date of this Annual Report.

No share options have been granted under the Share Option Scheme since its adoption up to 31 December 2005, and therefore disclosure of value of share options granted is not applicable.

Subsequent to the balance sheet date, on 16 March 2006, a total of 198,000,000 share options were granted to certain employees and directors of the Company in respect of their services to the Group. These share options have a subscription price of HK$0.128 per share and an exercise period ranging from 16 March 2007 to 15 March 2011. The price of the Company's shares at the date of grant was HK$0.103 per share.

(4) ***Maximun entitlement of each participant***

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

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

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

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

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

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

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

Notes to Financial Statements

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34. SHARE OPTION SCHEME *(Continued)*

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

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

(9) Remaining Life of the Share Option Scheme

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

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35. 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 29 of the financial statements.

(b) COMPANY

	Notes	Share premium account HK$'000	Capital redemption reserve HK$'000	Other reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2004		201,674	1,601	—	(122,662)	80,613
Profit for the year		—	—	—	123,060	123,060
Proposed final 2004 dividend	12	—	—	—	(9,724)	(9,724)
At 31 December 2004 and at 1 January 2005		201,674	1,601	—	(9,326)	193,949
Loss for the year		—	—	—	(19,430)	(19,430)
Issue of warrant	34	—	—	25,220	—	25,220
At 31 December 2005		201,674	1,601	25,220	(28,756)	199,739

On 7 March 2005, certain subsidiaries of the Company declared interim dividends aggregating HK$10,000,000 to the Company for the year ended 31 December 2004.

36. PLEDGE OF ASSETS

Details of the Group's bank loans and overdrafts which are secured by the assets of the Group, are included in notes 31 to the financial statements.

Notes to Financial Statements

31 December 2005

37. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements are as follows:

	GROUP		COMPANY	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to certain financial institutions in connection with commodities and bullion trading facilities granted to subsidiaries	**—**	—	**11,953**	11,957
Guarantees given to banks in connection with banking facilities granted to subsidiaries	**—**	—	**514,910**	541,000

At the balance sheet date, the guarantees provided by the Company to certain financial institutions for commodities and bullion trading facilities granted to its subsidiaries, of which no amount (2004: Nil) had been utilised.

At the balance sheet date, the guarantees provided by the Company to banks for banking facilities granted to its subsidiaries were utilised to the extent of approximately HK$154,258,000 (2004: HK$153,847,000).

38. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment property (note 15) under several operating lease arrangements, with the leases negotiated for terms of three years. The terms of the leases generally also require the tenants to pay security deposits.

At 31 December 2005, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	GROUP	
	2005	2004
	HK$'000	HK$'000
Within one year	**559**	1,308
In the second to fifth years, inclusive	**—**	508
	559	1,816

Notes to Financial Statements

31 December 2005

38. OPERATING LEASE ARRANGEMENTS *(Continued)*

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements, with leases negotiated for terms ranging from 2 to 3 years.

At 31 December 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	GROUP	
	2005	2004
	HK$'000	HK$'000
Within one year	**9,674**	6,037
In the second to fifth years, inclusive	**11,198**	2,373
	20,872	8,410

Notes to Financial Statements

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39. RELATED PARTY TRANSACTIONS

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

	Notes	2005 HK$'000	2004 HK$'000
Consulting and servicing fees paid to an intermedate holding company*:	(i)		
E-business service fee		980	4,000
Advertising and promotional fee		980	6,500
Commission and brokerage income received from:	(ii)		
Fellow subsidiaries*		490	89
Directors and companies in which certain directors have beneficial interests		1,041	547
Interest income received from:			
an Intermediate holding company*	(iii)	953	1,444
Directors and companies in which certain directors have beneficial interests	(iv)	260	262
Interest expense paid to the ultimate holding company	(v)	—	115
Rental expenses paid to fellow subsidiaries*	(vi)	368	187

Notes to Financial Statements

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39. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

Notes:

(i) Consulting and servicing fees relate to the advisory and management services provided by Tek Lee Finance and Investment Corporation Limited ("Tek Lee") for e-commerce consultation and marketing and promotional services. These fees were calculated based on terms mutually agreed by the contracting parties.

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

(iii) Interest income relates to cash advances to Tek Lee, details of which are set out in note 25 to the financial statements.

(iv) Interest income relates to the Group's margin financing business and was calculated at 4% over the Hong Kong dollar prime Rate (2004: 4% over the Hong Kong dollar prime rate) per annum.

(v) Interest expense relates to a loan from South China Holdings Limited borne interest at 1% over the Hong Kong dollar prime rate per annum.

(vi) Rental expenses relates to the leasing of certain office premises from fellow subsidiaries and was calculated by reference to market rentals.

(b) Outstanding balances with related parties:

As disclosed in the consolidated balance sheet, the Group had outstanding amount due from an intermediate holding company of HK$442,000 (2004: HK$4,076,000), as at the balance sheet date. The balance is unsecured, interest bearing at the Hong Kong Dollar Prime Rate (2004: Hong Kong Dollar Prime Rate) per annum and has no specific terms of repayment.

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

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

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

Notes to Financial Statements

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40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include investments in equity securities, borrowings, trade receivables and trade payables. Details of these financial instruments are disclosed in respective notes. The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner and minimise potential adverse effects on the Group's financial performance.

Market risk

(i) *Currency risk*

Currency risk is the risk of loss due to adverse movements in foreign exchange rates relating to investments denominated in foreign currencies. The Group's principal businesses are conducted and recorded in Hong Kong dollars. The Group's assets and liabilities are primarily denominated in Hong Kong dollars. When seeking to optimize the returns on its funds available for investment, the Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Since the impact of foreign exchange exposure is minimal, no hedging against foreign currency exposure has been carried out by the management.

(ii) *Interest rate risk*

Short-term floating rate bank loans, which are HIBOR-based, are used to fund margin financings of the securities brokerage business that are typically prime-based. The principal risk lies with the interest rate differential between the interbank rate and the best lending rate. The Group mitigates the risk by monitoring the interest rate gap between the short-term bank loans and margin financing facilities and revises the margin financing rate if necessary.

(iii) *Price risk*

Price risk represents the possibilities of changes in fair value or future cash flows due to changes in market prices. The Group is exposed to equity security price risk through its investment held classified as available-for-sale financial assets and financial assets at fair value through profit or loss. The Group is not exposed to commodity price risk. Management monitors this exposure by maintaining a portfolio of investments with different risk profiles and the Investment Committee meets on an ad hoc basis to review the investments held by the Group in order to minimise the price risk.

Notes to Financial Statements

31 December 2005

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

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts due from cash clients and loans due from margin clients with collateral shortfalls. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors of the Company consider that the Group's credit risk is significantly reduced.

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

Bank balances are placed in various authorised institutions and Directors of the Company consider the credit risk for such is minimal.

Liquidity risk

Internally generated cash flow and bank borrowings are the general sources of funds to finance the operations of the Group. Majority of the Group's banking facilities are subject to floating rate and are renewable annually. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations. The Group aims to maintain flexibility in funding by keeping committed credit lines available and sufficient bank deposits to meet its short term cash requirements. The Group liquidity risk management includes making available standby banking facilities and diversifying the funding sources.

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41. POST BALANCE SHEET EVENTS

(a) Pursuant to an announcement dated 7 March 2006, a wholly-owned subsidiary of the Company, entered into a conditional agreement to acquire a 51% equity interest in a mining holding company in Mainland China for a consideration of HK$38,250,000 by way of issuance of additional shares of the Company at an issue price of HK$0.13 per share. This company has already been granted exploration rights in gold, copper and tungsten mining projects.

(b) In March 2006, the Company's warrant holders exercised 142,900,000 Company's warrants at an exercise price of HK$0.1012, resulting in the issuance of additional 142,900,000 ordinary shares of HK$0.025 each of the Company with gross proceed of approximately HK$14,461,000.

(c) Subsequent to the balance sheet date, on 16 March 2006, a total of 198,000,000 share options were granted to certain employees and directors of the Company in respect of their services to the Group. These share options have a subscription price of HK$0.128 per share and an exercise period ranging from 16 March 2007 to 15 March 2011. The price of the Company's shares at the date of grant was HK$0.103 per share.

42. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 April 2006.