

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LAW SOCIETY OF HONG KONG

(Incorporated in Hong Kong with limited by guarantee)

We have audited the accompanying accounts of The Law Society of Hong Kong ("the Society") set out on pages 150 to 170, which comprise the statement of financial position as at 31 December 2010, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

COUNCIL MEMBERS' RESPONSIBILITY FOR THE ACCOUNTS

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

AUDITOR'S RESPONSIBILITY

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

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the accounts that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Council Members, as well as evaluating the overall presentation of the accounts.

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

OPINION

In our opinion, the accounts give a true and fair view of the state of the Society's affairs as at 31 December 2010 and of its surplus and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

(Expressed in Hong Kong dollars)

| | Note | 2010 | 2009 |
|--|------|----------------------|---------------|
| Income | 3 | \$ 75,094,330 | \$ 83,180,274 |
| Staff costs | 4(a) | (35,832,034) | (35,315,390) |
| Office expenses | 4(b) | (4,129,430) | (4,046,028) |
| Depreciation | 7 | (2,547,602) | (2,688,878) |
| Members' expenses | 4(c) | (3,730,558) | (3,973,532) |
| Other operating expenses | 4(d) | (26,436,648) | (27,767,276) |
| Surplus before taxation | 4 | \$ 2,418,058 | \$ 9,389,170 |
| Taxation | 6(a) | (435,718) | (1,488,894) |
| Surplus and total comprehensive income for the year | | \$ 1,982,340 | \$ 7,900,276 |

The notes on pages 154 to 170 form part of these accounts.

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2010

(Expressed in Hong Kong dollars)

| | Note | 2010 | 2009 |
|---|------|-----------------------|-----------------------|
| Non-current assets | | | |
| Fixed assets | 7 | \$ 95,445,944 | \$ 96,491,507 |
| Investment in subsidiaries | 8 | 22 | 23 |
| Deferred tax assets | 13 | 777,422 | 914,090 |
| | | \$ 96,223,388 | \$ 97,405,620 |
| Current assets | | | |
| Trade debtors, deposits and prepayments | 9 | \$ 4,222,468 | \$ 3,138,851 |
| Amounts due from related companies | 10 | 5,335,328 | 4,048,329 |
| Amounts due from subsidiaries | 10 | 85,936 | 224,658 |
| Tax recoverable | 6(c) | 1,287,086 | 1,423,632 |
| Cash and deposits with banks | 11 | 151,017,434 | 143,377,044 |
| | | \$ 161,948,252 | \$ 152,212,514 |
| Current liabilities | | | |
| Amount due to a related company | 10 | \$ 173,003 | \$ – |
| Creditors and accrued charges | 12 | 6,626,592 | 8,190,138 |
| Membership, practising certificate and other fees received in advance | | 45,387,886 | 37,426,177 |
| | | \$ 52,187,481 | \$ 45,616,315 |
| Net current assets | | \$ 109,760,771 | \$ 106,596,199 |
| Net assets | | \$ 205,984,159 | \$ 204,001,819 |
| Representing: | | | |
| Accumulated surpluses | | \$ 205,984,159 | \$ 204,001,819 |

Approved and authorised for issue by the Council on 29 March 2011

HUEN WONG)
 JUNIUS K.Y. HO) Council Members
 DIETER YIH)

 HEIDI CHU)
) Secretary General
)

The notes on pages 154 to 170 form part of these accounts.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

(Expressed in Hong Kong dollars)

| | 2010 | 2009 |
|---|-----------------------|----------------|
| Balance at 1 January | \$ 204,001,819 | \$ 196,101,543 |
| Changes in equity for the year: | | |
| Surplus and total comprehensive income for the year | 1,982,340 | 7,900,276 |
| Balance at 31 December | \$ 205,984,159 | \$ 204,001,819 |

The notes on pages 154 to 170 form part of these accounts.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

(Expressed in Hong Kong dollars)

| | Note | 2010 | 2009 |
|--|------|------------------------|----------------------|
| Operating activities | | | |
| Surplus before taxation | | \$ 2,418,058 | \$ 9,389,170 |
| Bank interest income | | (291,671) | (450,292) |
| Depreciation | | 2,547,602 | 2,688,878 |
| Provision for impairment on amounts due from subsidiaries | | 275,625 | – |
| Loss on disposal of a subsidiary | | 1 | – |
| Operating surplus before changes in working capital | | \$ 4,949,615 | \$ 11,627,756 |
| Increase in trade debtors, deposits and prepayments | | (1,083,617) | (300,563) |
| Increase in amounts due from related companies | | (1,286,999) | (672,106) |
| (Increase)/decrease in amounts due from subsidiaries | | (136,903) | 1,907,013 |
| Increase in amount due to a related company | | 173,003 | – |
| (Decrease)/increase in creditors and accrued charges | | (1,563,546) | 2,052,339 |
| Increase/(decrease) in membership, practising certificate and other fees received in advance | | 7,961,709 | (10,129,217) |
| Cash generated from operations | | \$ 9,013,262 | \$ 4,485,222 |
| Hong Kong Profits Tax paid | | (162,504) | (2,685,660) |
| Net cash generated from operating activities | | \$ 8,850,758 | \$ 1,799,562 |
| Investing activities | | | |
| (Increase)/decrease in deposits with bank with maturity of more than three months at acquisition | | \$ (75,880,706) | \$ 6,071,933 |
| Interest received | | 291,671 | 450,292 |
| Purchase of fixed assets | | (1,502,039) | (269,426) |
| Net cash (used in)/generated from investing activities | | \$ (77,091,074) | \$ 6,252,799 |
| Net (decrease)/increase in cash and cash equivalents | | \$ (68,240,316) | \$ 8,052,361 |
| Cash and cash equivalents at 1 January | | 131,448,977 | 123,396,616 |
| Cash and cash equivalents at 31 December | 11 | \$ 63,208,661 | \$ 131,448,977 |

The notes on pages 154 to 170 form part of these accounts.

NOTES TO THE ACCOUNTS

(Expressed in Hong Kong dollars)

1 STATUS OF THE SOCIETY

The Society is a company limited by guarantee with no share capital. The liability of each member is limited to an amount not exceeding \$50. As at 31 December 2010, the Society had 7,986 members (2009: 7,507).

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Society has not prepared consolidated accounts as the Council Members consider that the Society's subsidiaries are immaterial and the Council Members consider that such consolidated accounts would be of no real value to the members of the Society in view of the insignificant amounts involved.

For the purposes of compliance with sections 122 and 123 of the Hong Kong Companies Ordinance, these accounts have been prepared to present a true and fair view of the state of affairs and income and expenditure of the Society only. Consequently, they have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance which apply to the preparation of separate unconsolidated accounts.

The HKICPA has issued certain new and revised HKFRSs that are first effective for the current accounting period of the Society. The adoption of these new and revised HKFRSs has no significant impact on the Society's result of operations and financial position.

The Society has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 19).

(b) Basis of preparation of the accounts

The measurement basis used in the preparation of the accounts is the historical cost basis. A summary of the significant accounting policies adopted by the Society is set out below.

The preparation of the accounts in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Subsidiaries

Subsidiaries are entities controlled by the Society. Control exists when the Society has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

In the Society's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(f)).

(d) Fixed assets

Fixed assets are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(f)).

Depreciation is calculated to write off the cost of items of fixed assets, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

- leasehold land held for own use is amortised over the remaining terms of the respective leases;
- buildings are depreciated over the shorter of their estimated useful lives, being 25 years from the date of purchase, and the unexpired terms of the respective leases;
- other fixed assets are depreciated over their estimated lives as follows:

| | |
|-------------------------------------|-------------|
| – Furniture, fixtures and equipment | 3 - 5 years |
| – Leasehold improvements | 5 years |

Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income on the date of retirement or disposal.

(e) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Society determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Leases which do not transfer substantially all the risks and rewards of ownership to the Society are classified as operating leases.

Where the Society has the use of other assets held under operating leases, payments made under the leases are charged to surplus or deficit in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in surplus or deficit as an integral part of the aggregate net lease payments made.

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Impairment of assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets; and
- investment in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Recognition of impairment losses

An impairment loss is recognised in surplus or deficit if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses are recognised to reduce the carrying amount of the asset or assets in the cash-generating unit on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

(iii) Reversal of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to surplus or deficit in the year in which the reversals are recognised.

(g) Disciplinary proceedings and ancillary costs

Disciplinary proceedings and ancillary costs are recognised in the statement of comprehensive income in the year in which they are incurred. Whilst every effort is made by the Society to secure reimbursement of such amounts, due to the uncertainty as to whether such costs will be recovered by reference to the provisions of section 25(1) of the Legal Practitioners Ordinance, reimbursements of such costs are recognised in the statement of comprehensive income only to the extent that they have been received. Also included in the account under this heading are the costs incurred in respect of interventions within solicitors' practices. Such costs are only recoverable from the solicitors concerned and, in view of their nature, such costs are unlikely to be recovered in full.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Trade debtors, deposits and prepayments

Trade debtors, deposits and prepayments are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

Impairment losses for bad and doubtful debts are recognised when there is objective evidence of impairment and are measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the asset's original effective interest rate where the effect of discounting is material. Objective evidence of impairment includes observable data that comes to the attention of the Society about events that have an impact on the asset's estimated future cash flows such as significant financial difficulty of the debtor.

Impairment losses for trade debtors included within trade debtors, deposits and prepayments whose recovery is considered doubtful but not remote are recorded using an allowance account. When the Society is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in surplus or deficit.

(i) Creditors and accrued charges

Creditors and accrued charges are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Employee benefits

- (i) Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are recognised as an expense in surplus or deficit as incurred.
- (iii) Termination benefits are recognised when, and only when, the Society demonstrably commits itself to terminate employment or to provide benefits as a result of Voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(l) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the statement of comprehensive income except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from differences which arise on initial recognition of assets and liabilities, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Society has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Society and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the surplus or deficit as follows:

- (i) Annual membership subscriptions, practising certificate fees, registration fees and other fees are recognised on a time-apportioned basis over the period to which they relate.
- (ii) Tuition fees for continuing professional development are recognised over the period of instruction.
- (iii) Interest income from bank deposits is accrued using the effective interest method.

(o) Related parties

For the purposes of these accounts, a party is considered to be related to the Society if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Society or exercise significant influence over the Society in making financial and operating decisions, or has joint control over the Society;
- (ii) the Society and the party are subject to common control;
- (iii) the party is a subsidiary, an associate of the Society or a joint venture in which the Society is a venturer;

Notes to the accounts

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Related parties (continued)

- (iv) the party is a member of the Council or key management personnel of the Society, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Society or of any entity that is a related party of the Society.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

3 INCOME

The principal activities of the Society are to act as the professional and regulatory body for solicitors in Hong Kong.

Income consists of:

| | 2010 | 2009 |
|--|----------------------|---------------|
| Annual membership fees | \$ – | \$ – |
| Practising certificate fees | 33,669,095 | 43,475,770 |
| Foreign lawyer registration fees | 13,096,975 | 13,540,032 |
| Foreign law firm registration fees | 1,137,000 | 1,176,500 |
| Other fees (note 3(a)) | 7,294,843 | 6,489,770 |
| Disciplinary proceedings and ancillary costs reimbursed (note 2(g)) | 11,046,774 | 7,013,172 |
| Continuing professional development | 1,345,336 | 2,789,259 |
| Miscellaneous income (note 3(b)) | 7,212,636 | 8,245,479 |
| Bank interest | 291,671 | 450,292 |
| | \$ 75,094,330 | \$ 83,180,274 |

- (a) Other fees include fees received for applications for waivers from compliances with guidelines on drafting Deeds of Mutual Covenant, applications and registration of examinations and applications for certificates of standing.
- (b) Miscellaneous income comprises principally income from advertisements in the Society's circulars, recharges to the Professional Indemnity Scheme for the Society's salaries and overheads incurred during the year in administering the Scheme and to the Hong Kong Academy of Law Limited for services provided by the Society during the year.

(Expressed in Hong Kong dollars)

4 SURPLUS BEFORE TAXATION

Surplus before taxation is arrived at after charging/(crediting):

| | 2010 | 2009 |
|--|----------------------|----------------------|
| (a) Staff costs | | |
| Salaries and allowances | \$ 32,295,232 | \$ 31,991,674 |
| Provident fund contributions | 4,001,334 | 3,510,312 |
| Provident fund contribution forfeitures | (693,469) | (411,025) |
| Recruitment and training | 228,937 | 224,429 |
| | \$ 35,832,034 | \$ 35,315,390 |
| (b) Office expenses | | |
| Operating lease charges on properties | \$ 892,563 | \$ 693,513 |
| Rates and service charges | 922,991 | 987,555 |
| Electricity and telephone | 451,391 | 458,556 |
| Postage | 217,058 | 193,711 |
| Printing and stationery | 1,393,387 | 1,408,765 |
| Repairs and maintenance | 252,040 | 303,928 |
| | \$ 4,129,430 | \$ 4,046,028 |
| (c) Members' expenses | | |
| Issue of membership cards | \$ 28,400 | \$ 137,660 |
| Functions | 2,815,532 | 3,085,205 |
| Meetings | 886,626 | 750,667 |
| | \$ 3,730,558 | \$ 3,973,532 |
| (d) Other operating expenses | | |
| Conferences and overseas visits | \$ 856,209 | \$ 812,788 |
| Disciplinary proceedings and ancillary costs (note 2(g)) * | 12,805,631 | 12,971,173 |
| Professional education | 332,390 | 1,136,678 |
| Professional and consultancy fees | 1,288,990 | 866,145 |
| Professional development | 4,556,786 | 3,794,334 |
| Auditor's remuneration | 122,185 | 116,535 |
| Annual subscriptions | 62,313 | 59,809 |
| Donations | 605,600 | 3,018,600 |
| Insurance and medical | 1,748,392 | 1,466,346 |
| Sundry | 4,058,152 | 3,524,868 |
| | \$ 26,436,648 | \$ 27,767,276 |

* \$1,071,750 (2009: \$1,618,565) was incurred in respect of interventions of solicitors' practices.

Notes to the accounts

(Expressed in Hong Kong dollars)

5 REMUNERATION OF COUNCIL MEMBERS

Remuneration of Council Members disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

| | 2010 | 2009 |
|---|-------------|-------------|
| Council Members' fees | \$ - | \$ - |
| Salaries, allowances and benefits in kind | - | - |
| Discretionary bonuses | - | - |
| Retirement scheme contributions | - | - |
| | \$ - | \$ - |

6 TAXATION

(a) Taxation charged to surplus or deficit:

| | 2010 | 2009 |
|--|-------------------|--------------|
| Current tax | | |
| Provision for Hong Kong Profits Tax for the year at 16.5% (2009: 16.5%) | \$ 273,407 | \$ 1,534,850 |
| Under-provision in respect of prior years | 25,643 | - |
| | \$ 299,050 | \$ 1,534,850 |
| Deferred tax | | |
| Origination and reversal of temporary differences | \$ 136,668 | \$ (45,956) |
| Total income tax expense charged to surplus or deficit | \$ 435,718 | \$ 1,488,894 |

(Expressed in Hong Kong dollars)

6 TAXATION (CONTINUED)**(b) Reconciliation between tax expense charged to surplus or deficit and accounting surplus at applicable tax rate:**

| | 2010 | 2009 |
|---|---------------------|--------------|
| Surplus before taxation | \$ 2,418,058 | \$ 9,389,170 |
| Notional tax on surplus before taxation, calculated at 16.5% (2009: 16.5%) | \$ 398,980 | \$ 1,549,213 |
| Tax effect of non-deductible expenses | 59,456 | 13,978 |
| Tax effect of non-taxable income | (48,126) | (74,297) |
| Under-provision in prior years | 25,643 | – |
| Others | (235) | – |
| Actual income tax expense charged to surplus or deficit | \$ 435,718 | \$ 1,488,894 |

(c) Taxation in the statement of financial position represents:

| | 2010 | 2009 |
|--|-----------------------|----------------|
| Provision for Hong Kong Profits Tax for the year | \$ 273,407 | \$ 1,534,850 |
| Provisional profits tax paid | (1,560,493) | (2,958,482) |
| Tax recoverable | \$ (1,287,086) | \$ (1,423,632) |

(d) The provision for Hong Kong Profits Tax for 2010 is calculated at 16.5% (2009: 16.5%) of the estimated assessable profits for the year.

Notes to the accounts

(Expressed in Hong Kong dollars)

7 FIXED ASSETS

| | Interest in leasehold land held for own use under operating lease | Building held for own use | Leasehold improve- ments | Furniture, fixtures and equipment | Total |
|----------------------------------|--|---------------------------------|--------------------------------|--|----------------|
| Cost: | | | | | |
| At 1 January 2010 | \$ 76,666,667 | \$ 38,333,333 | \$ 11,306,655 | \$ 4,431,971 | \$ 130,738,626 |
| Additions | – | – | 246,953 | 1,255,086 | 1,502,039 |
| Disposals | – | – | – | (95,514) | (95,514) |
| At 31 December 2010 | \$ 76,666,667 | \$ 38,333,333 | \$ 11,553,608 | \$ 5,591,543 | \$ 132,145,151 |
| Accumulated depreciation: | | | | | |
| At 1 January 2010 | \$ 1,016,580 | \$ 18,399,997 | \$ 10,981,299 | \$ 3,849,243 | \$ 34,247,119 |
| Charge for the year | 84,715 | 1,533,333 | 101,315 | 828,239 | 2,547,602 |
| Written back on disposals | – | – | – | (95,514) | (95,514) |
| At 31 December 2010 | \$ 1,101,295 | \$ 19,933,330 | \$ 11,082,614 | \$ 4,581,968 | \$ 36,699,207 |
| Net book value: | | | | | |
| At 31 December 2010 | \$ 75,565,372 | \$ 18,400,003 | \$ 470,994 | \$ 1,009,575 | \$ 95,445,944 |
| Cost: | | | | | |
| At 1 January 2009 | \$ 76,666,667 | \$ 38,333,333 | \$ 11,264,355 | \$ 10,902,771 | \$ 137,167,126 |
| Additions | – | – | 42,300 | 227,126 | 269,426 |
| Disposals | – | – | – | (6,697,926) | (6,697,926) |
| At 31 December 2009 | \$ 76,666,667 | \$ 38,333,333 | \$ 11,306,655 | \$ 4,431,971 | \$ 130,738,626 |
| Accumulated depreciation: | | | | | |
| At 1 January 2009 | \$ 931,865 | \$ 16,866,664 | \$ 10,791,736 | \$ 9,665,902 | \$ 38,256,167 |
| Charge for the year | 84,715 | 1,533,333 | 189,563 | 881,267 | 2,688,878 |
| Written back on disposals | – | – | – | (6,697,926) | (6,697,926) |
| At 31 December 2009 | \$ 1,016,580 | \$ 18,399,997 | \$ 10,981,299 | \$ 3,849,243 | \$ 34,247,119 |
| Net book value: | | | | | |
| At 31 December 2009 | \$ 75,650,087 | \$ 19,933,336 | \$ 325,356 | \$ 582,728 | \$ 96,491,507 |

The leasehold land and building are held in Hong Kong under a long term lease.

(Expressed in Hong Kong dollars)

8 INVESTMENT IN SUBSIDIARIES

Investment in subsidiaries represents unlisted shares at cost.

Details of the subsidiaries are as follows:

| Name of company | Place of incorporation | Percentage of ordinary shares held directly | Nature of business |
|---|-------------------------------|--|--|
| The Law Society of Hong Kong Publications Limited | Hong Kong | 100% | Publishing the journal of the Society |
| The Law Society Clubhouse Limited | Hong Kong | 100% | * Club services for members of the Society |
| The Commonwealth Law Conference 2009 Limited | Hong Kong | 100% | ^ * Organisation of conference |

* Companies not audited by KPMG.

^ Disposed on 27 August 2010.

The losses of the subsidiaries for the year ended 31 December 2010 amounting to \$156,638 (2009: \$99,270) and the subsidiaries' accumulated losses of \$344,009 (2009: \$187,371) have not been dealt with in the accounts of the Society.

9 TRADE DEBTORS, DEPOSITS AND PREPAYMENTS

| | 2010 | 2009 |
|--------------------------|---------------------|--------------|
| Trade debtors | \$ 241,658 | \$ 209,642 |
| Deposits and prepayments | 3,980,810 | 2,929,209 |
| | \$ 4,222,468 | \$ 3,138,851 |

Trade debtors, deposits and prepayments are expected to be recovered or recognised as expense within one year. All of the trade debtors were neither past due nor impaired. These amounts relate to a wide range of entities for whom there is no recent history of default. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and balances are still considered fully recoverable. The Society does not hold any collateral over these balances.

Notes to the accounts

(Expressed in Hong Kong dollars)

10 AMOUNTS DUE FROM/(TO) SUBSIDIARIES AND RELATED COMPANIES

The amounts due from/(to) subsidiaries and related companies are unsecured, interest free and have no fixed terms of repayment.

11 CASH AND DEPOSITS WITH BANKS

| | 2010 | 2009 |
|--|-----------------------|----------------|
| Deposits with banks with maturity within three months at acquisition | \$ 61,261,762 | \$ 113,510,072 |
| Cash at bank and in hand | 1,946,899 | 17,938,905 |
| Cash and cash equivalents in the cash flow statement | \$ 63,208,661 | \$ 131,448,977 |
| Deposits with banks with maturity of more than three months at acquisition | 87,808,773 | 11,928,067 |
| Cash and deposits with banks in the statement of financial position | \$ 151,017,434 | \$ 143,377,044 |

As at 31 December 2010, the Society had \$5,177,438 (2009: \$6,514,616) cash and deposits with banks which were held on behalf of law firms in respect of their unclaimed clients' monies or law firms under intervention. The Council Members are of the opinion that these monies were deposited in specific bank accounts set up solely for these purposes and the Society is not entitled to use these monies. Therefore, the amounts have not been recognised in the statement of financial position of the Society.

12 CREDITORS AND ACCRUED CHARGES

Creditors and accrued charges are expected to be settled within one year or are repayable on demand.

(Expressed in Hong Kong dollars)

13 DEFERRED TAXATION

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

| | Depreciation in excess of depreciation allowances |
|-----------------------------------|--|
| Deferred tax arising from: | |
| At 1 January 2009 | \$ 868,134 |
| Credited to surplus or deficit | 45,956 |
| <hr/> | |
| At 31 December 2009 | \$ 914,090 |
| <hr/> | |
| At 1 January 2010 | \$ 914,090 |
| Charged to surplus or deficit | (136,668) |
| <hr/> | |
| At 31 December 2010 | \$ 777,422 |
| <hr/> | |

The Society has no significant unrecognised deferred tax assets and liabilities at 31 December 2009 and 2010.

14 CAPITAL MANAGEMENT

The Society is a company limited by guarantee and has no share capital. The Society considers its capital to be the accumulated surpluses. The Society's primary objectives when managing its accumulated surpluses is to safeguard the Society's ability to continue as a going concern, so that it can continue to provide support and protect the interest of its members. Adjustments are made to the capital structure in light of changes in economic conditions affecting the Society to the extent that these do not conflict with the Council Members' fiduciary duties towards the Society or the requirements of the Hong Kong Companies Ordinance.

There has been no change in the Society's capital management practices as compared to prior year and the Society is not subject to any externally imposed capital requirements.

(Expressed in Hong Kong dollars)

15 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity and interest rate risks arises in the normal course of the Society's operation. The Society's exposure to these risks and the financial risk management policies and practices used by the Society to manage these risks are described below.

(a) Credit risk

The Society does not have any significant credit risk with respect to trade and other receivables as they relate to a wide range of entities with no recent history of default.

The major exposure to credit risk is represented by the carrying amount of bank deposits. The Society's policy is to place its cash and cash equivalents with financial institutions with good credit rating.

(b) Liquidity risk

The Society's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

(c) Interest rate risk

The Society's interest rate risk arises primarily from deposits with bank and other financial instruments at fixed rates that expose the Society to fair value interest rate risk. The Society's bank deposits have an effective interest rate of 0.22% (2009: 0.37%).

At 31 December 2010, it is estimated that a general increase/decrease of 1%/0.22% (2009: 1%/0.37%) in interest rates, with all other variables held constant, would increase/decrease the Society's surplus and equity by approximately \$1,510,174/\$332,238 (2009: \$1,433,770/\$530,495).

The sensitivity analysis above has been determined assuming the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The analysis is performed on the same basis for 2009.

(d) Fair values

All financial instruments are carried at amount not materially different from their fair values as at 31 December 2010 and 2009.

*(Expressed in Hong Kong dollars)***16 OPERATING LEASE COMMITMENTS**

At 31 December 2010, the total future minimum lease payments under non-cancellable operating leases in respect of properties are payable as follows:

| | 2010 | 2009 |
|-----------------|-------------------|------------|
| Within one year | \$ 622,500 | \$ 347,500 |

The Society leases a number of properties under operating leases. The leases typically run for an initial period of two to three years, with an option to renew the leases upon expiry when all terms are renegotiated.

17 PROFESSIONAL INDEMNITY INSURANCE SCHEME

It is the opinion of the Council that the assets and liabilities of the Professional Indemnity Insurance Scheme are not those of the Society and, accordingly, these assets and liabilities have not been included in these accounts.

18 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the accounts, the Society entered into the following material related party transactions.

- (a) Firms of solicitors in which the Council Members have interests carry out intervention work and disciplinary proceedings for the Society and charge the Society on an agreed basis. Charges for the work performed by such firms of solicitors to the Society for the year totalled \$2.7 million (2009: \$0.7 million).

Amounts due to these firms of solicitors at 31 December 2010 totalled \$0.2 million (2009: \$0.1 million) which are included in creditors and accrued charges.

(b)

| | 2010 | 2009 |
|--|-------------------|------------|
| Expenses borne on behalf of a subsidiary | \$ 448,523 | \$ 396,872 |
| Recharge of office expenses to a subsidiary | - | 418,598 |
| Recharge of office expenses to related companies | 4,597,670 | 5,408,259 |
| Donation to related party | 500,000 | 3,000,000 |

(Expressed in Hong Kong dollars)

19 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010

Up to the date of issue of these accounts, the HKICPA has issued a number of amendments and interpretations and one new standard which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these accounts.

| | Effective for accounting periods beginning on or after |
|---|---|
| Revised HKAS 24, <i>Related party disclosures</i> | 1 January 2011 |
| Improvements to HKFRSs 2010 | 1 July 2010 or 1 January 2011 |
| HKFRS 9, <i>Financial instruments</i> | 1 January 2013 |

The Society is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Society's results of operations and financial position.



