Independent auditor's report to the members of The Law Society of Hong Kong

(Incorporated in Hong Kong and limited by guarantee)

We have audited the accompanying accounts of The Law Society of Hong Kong ("the Society") set out on pages 172 to 189, which comprise the statement of financial position as at 31 December 2011, 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 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 2011 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 2011

(Expressed in Hong Kong dollars)

	Note	**2011**	2010
Income	3	**$ 88,348,726**	$ 75,094,330
Staff costs	4(a)	**(38,157,690)**	(35,832,034)
Office expenses	4(b)	**(4,777,368)**	(4,129,430)
Depreciation	7	**(2,588,824)**	(2,547,602)
Members' expenses	4(c)	**(6,030,565)**	(3,730,558)
Other operating expenses	4(d)	**(27,885,252)**	(26,436,648)
Surplus before taxation	4	**$ 8,909,027**	$ 2,418,058
Taxation	6(a)	**(1,327,131)**	(435,718)
Surplus and total comprehensive income for the year		**$ 7,581,896**	$ 1,982,340

The notes on pages 172 to 189 form part of these accounts.

Statement of financial position at 31 December 2011

(Expressed in Hong Kong dollars)

	Note	2011	2010
Non-current assets			
Fixed assets	7	**$ 94,439,149**	$ 95,445,944
Investment in subsidiaries	8	**22**	22
Deferred tax assets	13(b)	**672,226**	777,422
		$ 95,111,397	$ 96,223,388
Current assets			
Deposits, prepayments and other receivables	9	**$ 5,121,189**	$ 4,222,468
Amounts due from related companies	10	**5,297,798**	5,335,328
Amounts due from subsidiaries	10	**179,788**	85,936
Tax recoverable	13(a)	**-**	1,287,086
Cash and deposits with banks	11	**163,866,401**	151,017,434
		$ 174,465,176	$ 161,948,252
Current liabilities			
Current taxation	13(a)	**$ 880,232**	$ -
Amount due to a related company	10	**-**	173,003
Creditors and accrued charges	12	**6,817,667**	6,626,592
Membership, practising certificate and other fees received in advance		**48,312,619**	45,387,886
		$ 56,010,518	$ 52,187,481
Net current assets		**$ 118,454,658**	$ 109,760,771
Net assets		**$ 213,566,055**	$ 205,984,159
Representing:			
Accumulated surpluses		**$ 213,566,055**	$ 205,984,159

Approved and authorised for issue by the Council on 27 March 2012

JUNIUS K.Y. HO) Council Members
AMBROSE S.K. LAM)

HEIDI CHU) Secretary General

The notes on pages 172 to 189 form part of these accounts.

Statement of changes in equity for the year ended 31 December 2011

(Expressed in Hong Kong dollars)

	2011	2010
Balance at 1 January	**$ 205,984,159**	$ 204,001,819
Changes in equity for the year:		
Surplus and total comprehensive income for the year	**7,897,231**	1,982,340
Balance at 31 December	**$ 213,881,390**	$ 205,984,159

The notes on pages 172 to 189 form part of these accounts.

Cash flow statement for the year ended 31 December 2011

(Expressed in Hong Kong dollars)

	Note	2011	2010
Operating activities			
Surplus before taxation		**$ 8,909,027**	$ 2,418,058
Bank interest income		**(1,047,159)**	(291,671)
Depreciation		**2,588,824**	2,547,602
Provision for impairment on amounts due from subsidiaries		**-**	275,625
Loss on disposal of a subsidiary		**-**	1
Loss on disposal of fixed assets		**3,260**	-
Operating surplus before changes in working capital		**$ 10,453,952**	$ 4,949,615
Increase in deposits, prepayments and other receivables		**(898,721)**	(1,083,617)
Decrease/(increase) in amounts due from related companies		**37,530**	(1,286,999)
Increase in amounts due from subsidiaries		**(93,852)**	(136,903)
(Decrease)/increase in amount due to a related company		**(173,003)**	173,003
Increase/(decrease) in creditors and accrued charges		**191,075**	(1,563,546)
Increase in membership, practising certificate and other fees received in advance		**2,924,733**	7,961,709
Cash generated from operations		**$ 12,441,714**	$ 9,013,262
Hong Kong Profits Tax refund/(paid)		**945,383**	(162,504)
Net cash generated from operating activities		**$ 13,387,097**	$ 8,850,758
Investing activities			
Increase in deposits with banks with maturity of more than three months at acquisition		**$ (3,771,520)**	$ (75,880,706)
Interest received		**1,047,159**	291,671
Purchase of fixed assets		**(1,585,389)**	(1,502,039)
Proceeds from disposal of fixed assets		**100**	-
Net cash used in investing activities		**$ (4,309,650)**	$ (77,091,074)
Net increase/(decrease) in cash and cash equivalents		**$ 9,077,447**	$ (68,240,316)
Cash and cash equivalents at 1 January		**63,208,661**	131,448,977
Cash and cash equivalents at 31 December	**11**	**$ 72,286,108**	$ 63,208,661

The notes on pages 172 to 189 form part of these accounts.

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 2011, the Society had 8,448 members (2010: 7,986).

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, which consisted 0.1% and 1.9% of the net assets at the end of the reporting period and surplus for the year of the Society, respectively, 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 a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Society. Of these, the development to HKAS 24 (revised 2009), "Related party disclosures" is relevant to the Society's financial statements. HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Society has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Society's related party disclosures in the current and previous period. HKAS 24 (revised 2009) also introduces modified disclosure requirement, for government-related entities. This does not impact the Society because the Society is not a government-related entity.

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.

2 Significant accounting policies *(continued)*

(b) Basis of preparation of the accounts *(continued)*

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.

(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 under finance lease is amortised over the remaining terms of the lease;

- 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.

2 Significant accounting policies *(continued)*

(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.

(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.

2 Significant accounting policies *(continued)*

(f) Impairment of assets *(continued)*

(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.

(h) Deposits, prepayments and other receivables

Deposits, prepayments and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, 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 receivables 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 receivables 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.

2 Significant accounting policies *(continued)*

(i) Creditors and accrued charges

Creditors and accrued charges are initially recognised at fair value and subsequently 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.

(k) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

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.

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.

(ii) Termination benefits

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.

2 Significant accounting policies *(continued)*

(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.

(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.

2 Significant accounting policies *(continued)*

(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

(a) A person, or a close member of that person's family, is related to the Society if that person:

(i) has control or joint control over the Society;

(ii) has significant influence over the Society; or

(iii) is a member of the key management personnel of the Society or the Society's parent.

(b) An entity is related to the Society if any of the following conditions applies:

(i) The entity and the Society are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Society or an entity related to the Society.

(vi) The entity is controlled or jointly-controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

(Expressed in Hong Kong dollars)

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:

	2011	2010
Annual membership fees	$ 6,371,200	$ -
Practising certificate fees	35,532,500	33,669,095
Foreign lawyer registration fees	13,760,956	13,096,975
Foreign law firm registration fees	1,342,000	1,137,000
Other fees (note 3(a))	9,262,177	7,294,843
Disciplinary proceedings and ancillary costs reimbursed (note 2(g))	12,628,130	11,046,774
Continuing professional development	1,709,258	1,345,336
Miscellaneous income (note 3(b))	6,695,346	7,212,636
Bank interest	1,047,159	291,671
	$ 88,348,726	$ 75,094,330

(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):

		2011	2010
(a)	**Staff costs**		
	Salaries and allowances	$ 33,863,413	$ 32,295,232
	Provident fund contributions	4,040,905	4,001,334
	Provident fund contribution forfeitures	(110,928)	(693,469)
	Recruitment and training	364,300	228,937
		$ 38,157,690	$ 35,832,034
(b)	**Office expenses**		
	Operating lease charges on properties	$ 1,063,099	$ 892,563
	Rates and service charges	993,030	922,991
	Electricity and telephone	486,319	451,391
	Postage	201,978	217,058
	Printing and stationery	1,781,364	1,393,387
	Repairs and maintenance	251,578	252,040
		$ 4,777,368	$ 4,129,430
(c)	**Members' expenses**		
	Issue of membership cards	$ 91,954	$ 28,400
	Functions	5,040,869	2,815,532
	Meetings	897,742	886,626
		$ 6,030,565	$ 3,730,558
(d)	**Other operating expenses**		
	Conferences and overseas visits	$ 833,077	$ 856,209
	Disciplinary proceedings and ancillary costs (note 2(g)) *	10,140,188	12,805,631
	Professional education	306,379	332,390
	Professional and consultancy fees	633,039	1,288,990
	Professional development	8,184,764	4,556,786
	Auditor's remuneration	131,750	122,185
	Annual subscriptions	51,750	62,313
	Donations	2,840,000	605,600
	Insurance and medical	1,131,670	1,748,392
	Sundry	3,632,635	4,058,152
		$ 27,885,252	$ 26,436,648

* $1,680,316 (2010: $1,071,750) was incurred in respect of interventions of solicitors' practices.

(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:

		2011		2010
Council Members' fees	**$**	**-**	$	-
Salaries, allowances and benefits in kind		**-**		-
Discretionary bonuses		**-**		-
Retirement scheme contributions		**-**		-
	$	**-**	$	-

6 Taxation

(a) Taxation charged/(credited) to surplus or deficit:

		2011		2010
Current tax – Hong Kong Profits Tax				
Provision for the year	**$**	**1,187,787**	$	273,407
Under-provision in respect of prior years		**34,148**		25,643
	$	**1,221,935**	$	299,050
Deferred tax				
Origination and reversal of temporary differences		**105,196**		136,668
Total income tax expense charged to surplus or deficit	**$**	**1,327,131**	$	435,718

The provision for Hong Kong Profits Tax for 2011 is calculated at 16.5% (2010: 16.5%) of the estimated assessable profits for the year.

(Expressed in Hong Kong dollars)

6 Taxation *(continued)*

(b) Reconciliation between tax expense charged to surplus or deficit and accounting surplus at the applicable tax rate:

		2011		2010
Surplus before taxation	**$**	**8,909,027**	$	2,418,058
Notional tax on surplus before taxation, calculated at 16.5% (2010: 16.5%)	**$**	**1,469,989**	$	398,980
Tax effect of non-deductible expenses		**13,978**		59,456
Tax effect of non-taxable income		**(172,781)**		(48,126)
Under-provision in prior years		**34,148**		25,643
Others		**(18,203)**		(235)
Actual income tax expense charged to surplus or deficit	**$**	**1,327,131**	$	435,718

(Expressed in Hong Kong dollars)

7 Fixed assets

	Interest in leasehold land held for own use under finance lease	Building held for own use	Leasehold improvements	Furniture, fixtures and equipment	Total
Cost:					
At 1 January 2011	$ 76,666,667	$ 38,333,333	$ 11,553,608	$ 5,591,543	$ 132,145,151
Additions	-	-	709,619	875,770	1,585,389
Disposals	-	-	-	(115,000)	(115,000)
At 31 December 2011	$ 76,666,667	$ 38,333,333	$ 12,263,227	$ 6,352,313	$ 133,615,540
Accumulated depreciation:					
At 1 January 2011	$ 1,101,295	$ 19,933,330	$ 11,082,614	$ 4,581,968	$ 36,699,207
Charge for the year	84,715	1,533,333	239,998	730,778	2,588,824
Written back on disposals	-	-	-	(111,640)	(111,640)
At 31 December 2011	$ 1,186,010	$ 21,466,663	$ 11,322,612	$ 5,201,106	$ 39,176,391
Net book value:					
At 31 December 2011	$ 75,480,657	$ 16,866,670	$ 940,615	$ 1,151,207	$ 94,439,149
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

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

* Not audited by KPMG.

The profits of the subsidiaries for the year ended 31 December 2011 amounting to $173,794 (2010: losses of $156,638) and the subsidiaries' accumulated losses of $148,883 (2010: $322,677) have not been dealt with in the accounts of the Society.

9 Deposits, prepayments and other receivables

	2011	2010
Deposits and prepayments	**$ 4,477,187**	$ 3,980,810
Other receivables	**644,002**	241,658
	$ 5,121,189	$ 4,222,468

Deposits, prepayments and other receivables are expected to be recovered or recognised as expense within one year.

(Expressed in Hong Kong dollars)

10 Amounts due (to)/from subsidiaries and related companies

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

11 Cash and deposits with banks

	2011	2010
Deposits with banks with maturity within three months at acquisition	$ 69,424,969	$ 61,261,762
Cash at bank and in hand	2,861,139	1,946,899
Cash and cash equivalents in the cash flow statement	$ 72,286,108	$ 63,208,661
Deposits with banks with maturity of more than three months at acquisition	91,580,293	87,808,773
Cash and deposits with banks in the statement of financial position	$ 163,866,401	$ 151,017,434

As at 31 December 2011, the Society had $17,353,948 (2010: $5,177,438) 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 Income tax in the statement of financial position

(a) Current taxation in the statement of financial position represents:

		2011		2010
Provision for Hong Kong Profits Tax for the year	**$**	**1,187,787**	$	273,407
Provisional Profits Tax paid		**(307,555)**		(1,560,493)
Current taxation/(tax recoverable)	**$**	**880,232**	$	(1,287,086)

(b) Deferred tax assets and liabilities recognised:

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 2010	$	914,090
Charged to surplus or deficit		(136,668)
At 31 December 2010	$	777,422
At 1 January 2011	$	777,422
Credited to surplus or deficit		(105,196)
At 31 December 2011	$	672,226

The Society has no significant unrecognised deferred tax assets and liabilities at 31 December 2010 and 2011.

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 surplus. The Society's primary objectives when managing its accumulated surplus 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.

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 deposits with banks. The Society's policy is to place its deposits with banks with major financial institutions with good credit rating.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

(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 1.45% (2010: 0.22%).

At 31 December 2011, it is estimated that a general increase/decrease of 1%/1% (2010: 1%/0.22%) in interest rates, with all other variables held constant, would increase/decrease the Society's surplus and equity by approximately $1,638,664/$1,638,664 (2010: $1,510,174/$332,238).

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 2010.

(Expressed in Hong Kong dollars)

15 Financial risk management and fair values *(continued)*

(d) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2011 and 2010.

16 Operating lease commitments

At 31 December 2011, the total future minimum lease payments under non-cancellable operating leases in respect of properties are payable as follows:

	2011	2010
Within one year	**$ 1,158,000**	$ 622,500
After one year but within five years	**723,500**	-
	$ 1,881,500	$ 622,500

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.

(Expressed in Hong Kong dollars)

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 $0.8 million (2010: $2.7 million).

Amounts due to these firms of solicitors at 31 December 2011 totalled $0.2 million (2010: $0.2 million) which are included in creditors and accrued charges.

(b)

	2011	2010
Expenses borne on behalf of a subsidiary	**$ 383,230**	$ 448,523
Recharge of office expenses to related entities	**4,694,370**	4,597,670
Donation to related entity	**2,700,000**	500,000

19 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2011

Up to the date of issue of these accounts, the HKICPA has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these accounts. These include the following which may be relevant to the Society.

	Effective for accounting periods beginning on or after
HKFRS 9, Financial instruments	1 January 2013
HKFRS 10, Consolidated financial statements	1 January 2013
HKFRS 12, Disclosure of interests in other entities	1 January 2013
HKAS 27, Separate financial statements (2011)	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.