Notes to Financial Statements

1. CORPORATE INFORMATION

The registered office of the Company is located at Clarendon House, Church Street, Hamilton HM 11, Bermuda.

During the year, the Group's principal activities were deposit taking, personal and commercial lending, mortgage financing, stockbroking, the letting of investment properties, the provision of finance to purchasers of taxis and public light buses, the trading of taxi cabs and taxi licences, and the leasing of taxis. After the completion of the acquisition of the entire issued and paid-up share capital of Public Bank (Hong Kong), the Group's principal activities also included the provision of a comprehensive range of banking, financial and related services.

In the opinion of the directors, the ultimate holding company is Public Bank, which is incorporated in Malaysia.

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 (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, securities measured at fair value through profit or loss, derivative financial instruments and available-for-sale security 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 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 2006. 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.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

2.2 IMPACT OF NEW AND REVISED HKFRSs

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. The adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

• HKAS 21 Amendment	Net Investment in a Foreign Operation
• HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
• HKAS 39 Amendment	The Fair Value Option
• HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
• HK(IFRIC) – Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 "The Effects of Changes in Foreign Exchange Rates"

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS 39 "Financial Instruments: Recognition and Measurement"

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered as insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue". The adoption of this amendment has had no material impact on these financial statements.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transaction, the amendment has had no effect on these financial statements.

2.2 IMPACT OF NEW AND REVISED HKFRSs (Continued)

(c) HK(IFRIC) – Int 4 "Determining whether an Arrangement contains a Lease"

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

• HKAS 1 Amendment	Capital Disclosures
• HKFRS 7	Financial Instruments: Disclosures
• HK(IFRIC) – Int 8	Scope of HKFRS 2
• HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives

HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. This revised standard will affect the disclosures of 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 shall be applied for annual periods beginning on or after 1 January 2007. This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HK(IFRIC) – Int 8 and HK(IFRIC) – Int 9 shall be applied for annual periods beginning on or after 1 May 2006 and 1 June 2006, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. In the opinion of the directors, while the adoption of HKAS 1 Amendment and HKFRS 7 will result in new or amended disclosures, these new and revised HKFRSs should not have any significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that carrying value may be impaired.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the combination's synergies, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill arising on acquisitions before 1 January 2001 was eliminated against the consolidated capital reserve in the year of acquisition. The Group applied the transitional provisions of HKFRS 3 that permitted such goodwill to remain eliminated against the consolidated capital reserve and that required such goodwill not to be recognised in the consolidated income statement when the Group disposes of all or part of the business to which that goodwill relates or when a cash-generating unit to which the goodwill relates become impaired.

Excess over the cost of business combination

On acquisition of subsidiaries, jointly-controlled entities and associates, if the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of an entity being acquired recognised as at the date of acquisition exceeds the cost of the business combination, the Group shall reassess the identification and measurement of the identifiable assets, liabilities and contingent liabilities of that entity and the measurement of the cost of the business combination; and recognise immediately in the consolidated income statement any excess remaining after that reassessment.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint venture companies

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entities and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of jointly-controlled entities are included in the Group's income statement to the extent of dividends received and receivable. The Group's interests in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets, financial assets, goodwill and inventories of taxi licences), 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 the present value of its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for 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 and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, 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.

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 an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its ultimate holding company;

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

(f) 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 (d) or (e); or

(g) 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

The building component of owner-occupied leasehold properties and other property, plant and equipment, other than investment properties, is stated at cost, except for certain leasehold buildings transferred from investment properties, which are stated at deemed cost at the date of transfer, less accumulated depreciation and impairment. The cost of an asset 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 buildings	2%-4%
Leasehold improvements:	
Own leasehold buildings	20%-33$^1/_3$%
Others	Over the shorter of the remaining lease terms or seven years
Furniture, fixtures and equipment	10%-33$^1/_3$%
Motor vehicles	20%-25%

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

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

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 sale proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings 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 properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties (Continued)

For a transfer from investment properties to owner-occupied properties, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for.

Intangible assets

Intangible assets (other than goodwill), representing eligibility rights to trade on or through the Stock Exchange are stated at net book value as at 1 January 2005. The Group ceased amortisation of its remaining intangible asset from 1 January 2005. The carrying amount of intangible assets is subject to an impairment test, and impairment, if any, is charged to the income statement.

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.

The amounts due from the lessees under finance leases are recorded in the balance sheet as advances to customers. The amount comprises the gross investment in the finance leases less gross earnings allocated to future accounting periods.

The total gross earnings under finance leases are allocated to the accounting periods over the duration of the underlying agreements so as to produce an approximately constant periodic rate of return on the net cash investment for each accounting period.

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 investment properties 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.

Land lease prepayments are stated at cost less accumulated amortisation and any impairment, and are amortised over the remaining lease terms on the straight-line basis to the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and fair value. Cost is determined as the actual cost for taxi cabs and taxi licences. Fair value is based on estimated selling prices less any estimated costs to be incurred on disposal.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as either securities measured at fair value through profit or loss, loans and advances and receivables, available-for-sale securities, and held-to-maturity securities, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not measured at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

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.

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

Securities measured at fair value through profit or loss

Financial assets held for trading are included in the category "Securities measured at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement.

Held-to-maturity securities

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity securities when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Held to maturity investments are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Loans and advances and receivables

Loans and advances and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and advances and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale securities

Available-for-sale securities are those non-derivative financial assets in listed and unlisted securities that are designated as available-for-sale or are not classified in any of the other three categories. After initial recognition, available-for-sale securities are measured at fair value with gains or losses being 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 on 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.

Impairment of financial assets

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and advances and receivables or held-to-maturity securities 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 the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Assets carried at amortised cost (Continued)

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 also 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.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale securities

If an available-for-sale security is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through the income statement.

Impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event, occurring after the impairment loss was recognised in the income statement.

Derecognition of financial assets

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (Continued)

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 that 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.

Repossessed assets

Collateral assets for loans and advances and receivables are repossessed by the Group when the borrowers are unable to service their repayments, and would be realised in satisfaction of outstanding debts. Advances with repossessed collateral assets will continue to be accounted for as customer advances, except for those where the Group has taken the legal title of the repossessed collateral assets, in which cases, the repossessed assets are shown under other accounts at the predetermined value with a corresponding reduction in the related advances. Individual impairment allowance is made on the shortfall between the expected net realisable value of repossessed assets and the outstanding advances.

Repossessed assets are recognised at the lower of their carrying amount of the related loans and advances and receivables and fair value less costs to sell.

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.

Derecognition of financial liabilities

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement for the year.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash at banks and on hand, net of outstanding bank overdrafts, 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 of maturity when acquired.

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

Provisions

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

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

Income tax

Income tax comprises current and deferred tax. Income tax 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 material temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

– in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, 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.

Deferred tax assets are recognised for all material 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 and interests in joint ventures, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Group'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 the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Employee benefits

(a) Retirement benefit schemes

The Group operates two defined contribution retirement benefit schemes for those employees who are eligible to participate. The assets of the schemes are held separately from those of the Group in independently administered funds. Contributions are made based on a percentage of the participating employees' relevant monthly income from the Group, and are charged to the income statement as they become payable in accordance with the rules of the respective schemes. When an employee leaves the Occupational Retirement Scheme Ordinance Scheme prior to his/her interest in the Group's employer non-mandatory contributions vesting with the employee, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions. When an employee leaves the Mandatory Provident Fund, the Group's mandatory contributions vest fully with the employee.

(b) Share option scheme

The Company operates a share option scheme (the "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-settled transactions.

For share options granted under the Scheme, the fair value of the employee's services rendered in exchange for the grant of the options is recognised as an expense and credited to an employee share-based compensation reserve under equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted at the grant date. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exerciseable. It recognises the impact of the revision of the original estimates, if any, in the income statement, and a corresponding adjustment to the employee share-based compensation reserve over the remaining vesting period.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

(b) Share option scheme (Continued)

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 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.

(c) 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 Hong Kong Employment Ordinance (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.

A provision is recognised in respect of probable future long service payments based on the best estimate of the probable future outflow of resources which has been earned by the employees from their service to the Group to the balance sheet date, if applicable.

(d) Employee leave entitlements

The cost of accumulating compensated absences is recognised as an expense and measured based on the additional amount that the Group expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date.

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) 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 assets;

(b) commission, brokerage, handling fees and fee income, when services are rendered;

(c) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(d) interest income on finance leases is recognised on the basis as set out above under the heading of "Leases";

(e) rental income, on the straight-line basis over the lease terms; and

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dividends

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

Interim dividends are simultaneously proposed and declared because the Bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised directly as a liability when they are proposed and declared.

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:

Held-to-maturity securities

The Group follows the guidance of HKAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances, it is required to reclassify the entire class of held-to-maturity securities to other appropriate classes of financial assets. The investments would then be measured at fair value and not at amortised cost.

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 allowances on loans and advances and receivables

The Group reviews its loan portfolios to assess impairment on a regular 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 an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was HK$2,774,403,000. Further details are set out in note 25 to the financial statements.

4. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that business segments are its primary reporting format and geographical segments are its secondary reporting format.

(a) By business segments

The Group's operating businesses are organised and managed separately, according to the nature of products and services provided, with each segment representing a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments:

- the retail and commercial banking and lending segment mainly comprises the provision of deposit account services, wealth management services, the extension of mortgages and consumer lending, hire purchase and leasing, provision of finance to purchasers of licensed public vehicles such as taxis and public light buses, provision of services and financing activities for customers in trading, manufacturing and various business sectors, foreign exchange activities, centralised cash management for deposit taking and lending, interest rate risk management, management of investments in securities and the overall funding management of the Group;

- other business segment comprises securities trading and stockbroking, taxi trading and the leasing of taxis and letting of investment properties.

The Group's inter-segment transactions during the year were mainly related to dealers' commission from referrals of taxi financing loans, and these transactions were entered into on similar terms and conditions as those contracted with third parties at the dates of the transactions.

4. SEGMENT INFORMATION

(a) By business segments (Continued)

The following tables represent revenue and profit information for these segments for the years ended 31 December 2006 and 2005, and certain asset and liability information regarding business segments as at 31 December 2006 and 2005.

Group	Retail and commercial banking and lending 2006 HK$'000	Retail and commercial lending 2005 HK$'000	Other businesses 2006 HK$'000	Other businesses 2005 HK$'000	Eliminated on consolidation 2006 HK$'000	Eliminated on consolidation 2005 HK$'000	Total 2006 HK$'000	Total 2005 HK$'000
Segment revenue								
Net interest income	**910,399**	766,136	**38**	(89)	**–**	–	**910,437**	766,047
Other operating income:								
Fees and commission income	**158,900**	118,674	**17,449**	3,056	**–**	–	**176,349**	121,730
Others	**14,357**	–	**16,323**	12,450	**–**	–	**30,680**	12,450
Elimination of inter-segment transactions	**–**	–	**373**	737	**(373)**	(737)	**–**	–
	1,083,656	884,810	**34,183**	16,154	**(373)**	(737)	**1,117,466**	900,227
Segment results	**574,190**	491,834	**21,729**	38,055	**–**	–	**595,919**	529,889
Share of profits and losses of a jointly-controlled entity							**176**	–
Profit before tax							**596,095**	529,889
Tax							**(99,458)**	(83,592)
Profit for the year							**496,637**	446,297
Segment assets	**20,934,798**	4,201,485	**516,622**	258,957	**–**	–	**21,451,420**	4,460,442
Unallocated assets:								
Goodwill							**2,774,403**	–
Intangible assets							**725**	126
Deferred tax assets							**17,849**	2,854
Total assets							**24,244,397**	4,463,422
Segment liabilities	**18,471,397**	1,662,637	**137,031**	70,680	**–**	–	**18,608,428**	1,733,317
Unallocated liabilities:								
Declared dividend							**218,779**	291,706
Deferred tax liabilities and tax payable							**97,142**	44,965
Total liabilities							**18,924,349**	2,069,988
Other segment information								
Capital expenditure	**6,044**	1,793	**–**	–	**–**	–	**6,044**	1,793
Amortisation and write-off of commission expenses	**288**	133	**–**	–	**–**	–	**288**	133
Depreciation and amortisation of land lease prepayments	**13,179**	5,100	**–**	–	**–**	–	**13,179**	5,100
Reversal of an impairment loss on land lease prepayments	**(4,694)**	(3,514)	**–**	–	**–**	–	**(4,694)**	(3,514)
Changes in fair value of investment properties	**–**	–	**(30,719)**	(30,160)	**–**	–	**(30,719)**	(30,160)
Impairment loss and allowances for loans and advances and receivables	**210,825**	158,751	**–**	–	**–**	–	**210,825**	158,751
(Gain)/loss on disposal of property, plant and equipment	**(204)**	30	**–**	–	**–**	–	**(204)**	30

4. SEGMENT INFORMATION (Continued)

(b) By geographical segments

Over 90% of the Group's operating income, results, assets, liabilities, off-balance sheet commitments and exposures are derived from operations carried out in Hong Kong. Accordingly, no geographical segment information is presented in the financial statements.

5. OTHER OPERATING INCOME

	Group	
	2006	2005
	HK$'000	HK$'000
Fees and commission income:		
Retail and commercial banking	**162,405**	118,092
Securities	**15,006**	3,638
	177,411	121,730
Less: Fees and commission expenses	**(1,062)**	–
Net fees and commission income	**176,349**	121,730
Gross rental income	**11,739**	7,198
Less: Direct operating expenses	**(212)**	(265)
Net rental income	**11,527**	6,933
Gains less losses arising from dealing in foreign currencies	**10,646**	–
Gain on disposal of securities measured at fair value through profit or loss	**438**	–
Gain on securities measured at fair value through profit or loss	**933**	–
Gain/(loss) on disposal of property, plant and equipment	**204**	(30)
Dividends from listed investments	**1,306**	773
Dividends from unlisted investments	**780**	–
Others	**4,846**	4,774
	207,029	134,180

The direct operating expenses included repair and maintenance expenses arising from investment properties.

6. OPERATING EXPENSES

	Group 2006 HK$'000	2005 HK$'000
Staff costs:		
Salaries and other staff costs	**160,383**	86,731
Pension contributions	**9,086**	6,393
Less: Forfeited contributions	**(129)**	(524)
Net pension contributions	**8,957**	5,869
	169,340	92,600
Employee share option benefits	**–**	45,765
	169,340	138,365
Other operating expenses:		
Operating lease rentals on leasehold buildings	**24,981**	20,221
Depreciation and amortisation of land lease prepayments	**13,179**	5,100
Auditors' remuneration	**2,950**	1,473
Amortisation and write-off of commission expenses	**288**	133
Administrative and general expenses	**32,382**	15,528
Others	**103,015**	64,441
Operating expenses before reversal of an impairment loss on land lease prepayments and changes in fair value of investment properties	**346,135**	245,261
Reversal of an impairment loss on land lease prepayments	**(4,694)**	(3,514)
Changes in fair value of investment properties	**(30,719)**	(30,160)
	(35,413)	(33,674)
	310,722	211,587

As at 31 December 2006, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years (2005: Nil). The current year credits arose in respect of staff who left the scheme during the year.

7. LOANS AND ADVANCES AND RECEIVABLES

(a) Advances to customers and receivables

	Group 2006 HK$'000	Group 2005 HK$'000
Loans and advances to customers	**13,676,597**	3,583,800
Trade bills	**98,381**	–
	13,774,978	3,583,800
Interest receivable	**113,916**	45,232
	13,888,894	3,629,032
Other receivables	**68,473**	73,902
	13,957,367	3,702,934
Impairment allowances for advances to customers and receivables:		
Individual impairment allowances	**(104,785)**	(78,276)
Collective impairment allowances	**(157,946)**	(112,403)
	(262,731)	(190,679)
	13,694,636	3,512,255

Certain loans and advances and receivables were secured by properties, taxi licences, taxi cabs, shares, cash and other collateral.

Included in loans and advances and receivables are receivables in respect of assets leased under finance leases as set out below:

	Group 2006 Minimum lease payments HK$'000	Group 2006 Present value of minimum lease payments HK$'000	Group 2005 Minimum lease payments HK$'000	Group 2005 Present value of minimum lease payments HK$'000
Amounts receivable under finance leases:				
Within one year	**408,197**	**293,704**	75,506	46,921
In the second to fifth years, inclusive	**826,497**	**482,119**	198,016	109,490
Over five years	**2,466,746**	**1,468,776**	483,765	344,856
	3,701,440	**2,244,599**	757,287	501,267
Less: Unearned finance income	**(1,456,841)**		(256,020)	
Present value of minimum lease payments receivable	**2,244,599**		501,267	

The Group has entered into finance lease arrangements with customers in respect of motor vehicles and equipment. The terms of the finance leases entered into range from 1 to 25 years.

7. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(a) Advances to customers and receivables (Continued)

The maturity profile of loans and advances to customers and receivables at the balance sheet date is analysed by the remaining periods to their contractual maturity dates as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Repayable:		
On demand	**481,847**	19,999
Within three months or less	**2,141,654**	546,405
Within one year or less but over three months	**2,009,319**	1,196,343
Within five years or less but over one year	**4,228,162**	1,217,724
After five years	**4,772,898**	490,573
Undated	**323,487**	231,890
	13,957,367	3,702,934

(b) Gross amount of overdue and impaired loans and advances

	Group			
	2006		2005	
	Gross amount HK$'000	**Percentage of total loans and advances**	Gross amount HK$'000	Percentage of total loans and advances
Gross overdue and impaired loans and advances				
Overdue for:				
Six months or less but over three months	**80,142**	**0.6**	62,450	1.7
One year or less but over six months	**49,930**	**0.4**	29,385	0.8
Over one year and loss accounts	**166,901**	**1.2**	116,786	3.3
	296,973	**2.2**	208,621	5.8
Rescheduled loans	**907**	**–**	–	–
Total overdue and impaired loans and advances	**297,880**	**2.2**	208,621	5.8
Impairment allowances for overdue and impaired loans and advances:				
Individual impairment allowances	**(104,785)**		(78,276)	
Collective impairment allowances	**(128,608)**		(105,834)	
	(233,393)		(184,110)	
	64,487	**0.5**	24,511	0.7

7. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(b) Gross amount of overdue and impaired loans and advances (Continued)

Interest accrual of overdue and impaired loans and advances amounted to less than 1% of total gross loans and advances and is considered immaterial to the Group. Accordingly, the aforesaid interest accrual is not disclosed in the financial statements.

(c) Impairment allowances for loans and advances and receivables

	Group	
	2006	2005
	HK$'000	HK$'000
Balance at beginning of year	**190,679**	193,750
Recoveries	**67,538**	59,648
Charge for the year	**278,363**	218,399
Amounts released	**(67,538)**	(59,648)
Net charge to the consolidated income statement	**210,825**	158,751
Amounts written off	**(282,661)**	(221,470)
Acquisition of subsidiaries	**76,350**	–
Balance at end of year	**262,731**	190,679

(d) Repossessed assets

Collateral assets for loans and advances are repossessed by the Group when the borrowers are unable to service their repayments, and would be realised for the settlement of the outstanding debts. Advances with repossessed collateral assets will continue to be accounted for as customer advances and impairment allowance is measured as the difference between the carrying value of the outstanding advance and the net present value of estimated future cash flows including the sales proceeds from the realisation of the repossessed asset.

The total value of the repossessed assets of the Group amounted to HK$21,679,000 (2005: HK$1,251,000).

8. DIRECTORS' REMUNERATION

The remuneration of each director for the years ended 31 December 2006 and 2005 are set out below:

Group

	2006				
Name of Director	Fees HK$'000	Salaries and other benefits HK$'000 (Note 1)	Bonuses HK$'000	Pension scheme contributions HK$'000	Total HK$'000
Tan Sri Dato' Sri Dr. Teh Hong Piow	265	–	–	–	265
Tan Sri Dato' Thong Yaw Hong (Note 2)	120	–	–	–	120
Tan Yoke Kong (Note 3)	75	1,242	412	136	1,865
Lee Huat Oon	50	912	305	101	1,368
Dato' Sri Tay Ah Lek	150	–	–	–	150
Dato' Chang Kat Kiam	125	–	–	–	125
Wong Kong Ming	50	–	–	–	50
Dato' Yeoh Chin Kee	150	–	–	–	150
Lee Chin Guan	150	–	–	–	150
Geh Cheng Hooi, Paul (Note 4)	50	–	–	–	50
	1,185	2,154	717	237	4,293

8. DIRECTORS' REMUNERATION (Continued)

Group

Name of Director	Fees HK$'000	Salaries and other benefits HK$'000 (Note 1)	Bonuses HK$'000	Pension scheme contributions HK$'000	Total HK$'000
	2005				
Tan Sri Dato' Sri Dr. Teh Hong Piow	205	486	–	–	691
Tan Yoke Kong (Note 3)	50	4,300	372	125	4,847
Lee Huat Oon	50	3,924	275	90	4,339
Dato' Sri Tay Ah Lek	100	2,775	–	–	2,875
Dato' Chang Kat Kiam	100	2,775	–	–	2,875
Wong Kong Ming	50	2,775	–	–	2,825
Dato' Yeoh Chin Kee	100	486	–	–	586
Lee Chin Guan	100	486	–	–	586
Geh Cheng Hooi, Paul (Note 4)	100	486	–	–	586
	855	18,493	647	215	20,210

Notes:

1. Salaries and other benefits included basic salaries, housing, other allowances, benefits in kind and employee share option benefits. In last year, the employee share option benefits represent fair value at the date of share options granted and accepted under the Scheme included in the income statement disregarding whether the options have been exercised or not.

2. Appointed on 1 July 2006.

3. The director occupies a property of the Group rent free. The estimated monetary value of the accommodation so provided to him and not charged to the income statement is HK$636,000 (2005: HK$576,000).

4. Resigned on 1 July 2006.

9. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included two (2005: five) directors, details of whose remuneration are set out in note 8 above.

Details of the remaining three highest paid individuals' remuneration in 2006 are as follows:

	Group 2006 HK$'000
Basic salaries, housing, other allowances and benefits in kind	**2,642**
Bonuses paid and payable	**392**
Pension scheme contributions	**157**
	3,191

The number of highest paid individuals in 2006 whose remuneration fell within the bands set out below is as follows:

	2006 Number of individuals
Nil-HK$1,000,000	**1**
HK$1,000,001-HK$1,500,000	**2**
	3

10. TAX

	Group	
	2006 HK$'000	2005 HK$'000
Current tax charge:		
Hong Kong	**93,260**	80,851
Elsewhere	**2,627**	–
Over-provisions in prior years	**(1,700)**	–
Deferred tax charge (Note 32)	**5,271**	2,741
	99,458	83,592

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 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, interpretations and practices in respect thereof.

10. TAX (Continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the locations in which the Company and its subsidiaries and a jointly-controlled entity are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates to the effective tax rates, are as follows:

	2006					
	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	578,583		17,512		596,095	
Tax at the applicable tax rate	101,252	17.5	2,627	15.0	103,879	17.5
Share of profits and losses of a jointly-controlled entity	(37)	–	–	–	(37)	–
Estimated tax effect of net income that is not taxable	(1,294)	(0.2)	–	–	(1,294)	(0.3)
Estimated tax losses from previous periods utilised	(1,463)	(0.3)	–	–	(1,463)	(0.2)
Estimated tax losses not recognised	73	–	–	–	73	–
Adjustments in respect of current tax of previous periods	–	–	(1,700)	(9.7)	(1,700)	(0.3)
Tax charge at the Group's effective rate	98,531	17.0	927	5.3	99,458	16.7

	2005					
	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	529,889		–		529,889	
Tax at the applicable tax rate	92,731	17.5	–	–	92,731	17.5
Estimated tax effect of net income that is not taxable	(8,883)	(1.7)	–	–	(8,883)	(1.7)
Estimated tax losses from previous periods utilised	(571)	(0.1)	–	–	(571)	(0.1)
Estimated tax losses not recognised	315	0.1	–	–	315	0.1
Tax charge at the Group's effective rate	83,592	15.8	–	–	83,592	15.8

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE HOLDING COMPANY

The consolidated profit attributable to equity holders of the holding company for the year ended 31 December 2006 included a profit of HK$354,884,000 (2005: HK$597,696,000) which has been dealt with in the financial statements of the Company (note 38).

12. DIVIDENDS

	2006 **HK$ per** **ordinary share**	2005 HK$ per ordinary share	**2006** **HK$'000**	2005 HK$'000
Interim:				
First	**0.05**	0.06	**54,695**	43,755
Second	**0.20**	0.40	**218,779**	291,706
Special	**–**	0.29	**–**	211,487
	0.25	0.75	**273,474**	546,948

13. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the year of HK$496,637,000 (2005: HK$446,297,000) and the weighted average number of 992,998,391 (2005: 715,880,181) ordinary shares in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the year of HK$496,637,000 (2005: HK$446,297,000) and on the weighted average number of 994,185,625 (2005: 717,699,181) ordinary shares, being the weighted average number of 992,998,391 (2005: 715,880,181) ordinary shares in issue during the year as used in the basic earnings per share calculation and the weighted average number of 1,187,234 (2005: 1,819,000) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the year.

	2006 **HK$'000**	2005 HK$'000
Profit for the year, used in the basic and diluted earnings per share calculation	**496,637**	446,297
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**992,998,391**	715,880,181
Weighted average number of ordinary shares assumed issued at no consideration on deemed exercise of all share options outstanding during the year	**1,187,234**	1,819,000
Weighted average number of ordinary shares used in diluted earnings per share calculation	**994,185,625**	717,699,181
Diluted earnings per share (HK$)	**0.500**	0.622

14. CASH AND SHORT TERM PLACEMENTS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and balances with banks and other financial institutions	**289,424**	80,756	**2,844**	377
Money at call and short notice	**2,005,795**	372,253	**916,890**	369,591
	2,295,219	453,009	**919,734**	369,968

Cash and balances with banks and other financial institutions earn interest at floating rates based on daily bank deposit rates. Money at call and short notice are made for various periods of between one day and one month depending on the immediate cash requirement of the Group and the Company, and earn interest at the respective short term time deposit rates.

15. PLACEMENTS WITH BANKS AND FINANCIAL INSTITUTIONS MATURING BETWEEN ONE AND TWELVE MONTHS

The Group's maturity profile of the placements with banks and financial institutions maturing between one and twelve months at the balance sheet date is analysed by the remaining periods to their contractual maturity dates as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Repayable:		
Within three months or less	**481,966**	5,000
Within one year or less but over three months	**84,807**	–
	566,773	5,000

In the prior year, the Group's placements with banks amounting to HK$5,000,000 were pledged to a bank for credit facilities of HK$5,000,000 granted to the Group. The credit facilities were cancelled in current year and the pledged bank balance was released accordingly. The credit facilities were not utilised in the prior year.

16. SECURITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2006	2005
	HK$'000	HK$'000
Unlisted investment funds, at quoted market price	**10,213**	–

17. AVAILABLE-FOR-SALE SECURITY INVESTMENTS

	Group	
	2006	2005
	HK$'000	HK$'000
Listed security investment in Hong Kong, at market value:		
At beginning of year	**25,881**	16,744
Change in fair value (Note 38)	**42,947**	9,137
Sub-total	**68,828**	25,881
Unlisted security investment, at cost:		
At beginning of year	**–**	–
Acquisition of subsidiaries	**6,804**	–
Sub-total	**6,804**	–
Total at end of year	**75,632**	25,881

The Group's listed available-for-sale security investment is non-current in nature and represents 805,000 ordinary shares of HK$1.00 each in Hong Kong Exchanges and Clearing Limited.

18. HELD-TO-MATURITY SECURITIES

	Group	
	2006	2005
	HK$'000	HK$'000
Debt securities and exchange fund bills, at amortised cost:		
– listed in Hong Kong	**19,980**	–
– listed outside Hong Kong	**46,661**	–
– unlisted*	**3,612,963**	–
	3,679,604	–
Market value of listed held-to-maturity securities	**66,158**	–

* Included certificates of deposits held of HK$564,186,000 (2005: Nil) and treasury bills of HK$99,224,000 (2005: Nil). Treasury bills of HK$19,900,000 (2005: Nil) were with original maturity within three months.

18. HELD-TO-MATURITY SECURITIES (Continued)

The maturity profile of treasury bills as at the balance sheet date was as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
With a residual maturity of:		
Three months or less	**49,893**	–
One year or less but over three months	**49,331**	–
	99,224	–

The held-to-maturity securities analysed by issuers as at the balance sheet date were as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Central government and central banks	**99,224**	–
Public sector entities	**23,329**	–
Banks and other financial institutions	**3,214,200**	–
Corporate entities	**342,851**	–
	3,679,604	–

The maturity profile of held-to-maturity securities as at the balance sheet date was as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Repayable:		
Within three months or less	**1,133,079**	–
Within one year or less but over three months	**506,222**	–
Within five years or less but over one year	**1,902,156**	–
Over five years	**138,147**	–
	3,679,604	–

19. INVESTMENT PROPERTIES

	Group HK$'000	Company HK$'000
At valuation:		
At 1 January 2005	106,255	32,412
Transfer from owner-occupied property	11,572	–
Carrying amount before change in fair value	117,827	32,412
Change in fair value	30,160	12,588
At 31 December 2005 and 1 January 2006	**147,987**	**45,000**
Acquisition of subsidiaries	**21,660**	**–**
Disposals	**(3,700)**	**–**
Carrying amount before change in fair value	**165,947**	**45,000**
Change in fair value	**30,719**	**8,000**
At 31 December 2006	**196,666**	**53,000**

The Group's investment properties are all situated in Hong Kong and are held under the following lease terms:

	Group 2006 HK$'000	Company 2006 HK$'000
At valuation:		
Medium term leases	**61,472**	**–**
Long term leases	**135,194**	**53,000**
	196,666	**53,000**

In the prior year, the carrying amounts of the investment properties transferred from owner-occupied properties approximated the fair values at the date of transfer.

Investment properties with a carrying amount of HK$165,947,000 were revalued at HK$196,666,000 based on the revaluation report issued by Chung Sen Surveyors Limited, a firm of independent professionally qualified valuers, on an open market value based on their existing use. The increase in fair value of HK$30,719,000 resulting from the above valuation has been credited to the income statement.

The investment properties held by the Group are let under operating leases from which the Group earns rental income. Details of future annual rental receivables under operating leases are included in note 40(a) to the financial statements.

20. PROPERTY, PLANT AND EQUIPMENT

	Group				Company
	Leasehold buildings HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000	Leasehold buildings HK$'000
Cost:					
At 1 January 2005	26,593	76,247	2,746	105,586	–
Additions	–	1,793	–	1,793	–
Transfer to investment properties	(2,416)	–	–	(2,416)	–
Disposals/write-off	–	(4,820)	–	(4,820)	–
At 31 December 2005 and 1 January 2006	**24,177**	**73,220**	**2,746**	**100,143**	**–**
Acquisition of subsidiaries	**41,751**	**10,640**	**696**	**53,087**	**–**
Additions	**–**	**6,044**	**–**	**6,044**	**–**
Disposals/write-off	**(9)**	**(4,315)**	**(658)**	**(4,982)**	**–**
At 31 December 2006	**65,919**	**85,589**	**2,784**	**154,292**	**–**
Accumulated depreciation:					
At 1 January 2005	7,007	72,713	2,746	82,466	–
Provided during the year	677	1,560	–	2,237	–
Transfer to investment properties	(1,111)	–	–	(1,111)	–
Disposals/write-off	–	(4,785)	–	(4,785)	–
At 31 December 2005 and 1 January 2006	**6,573**	**69,488**	**2,746**	**78,807**	**–**
Provided during the year	**1,194**	**7,274**	**41**	**8,509**	**–**
Disposals/write-off	**(5)**	**(3,847)**	**(175)**	**(4,027)**	**–**
At 31 December 2006	**7,762**	**72,915**	**2,612**	**83,289**	**–**
Net book value:					
At 31 December 2006	**58,157**	**12,674**	**172**	**71,003**	**–**
At 31 December 2005	17,604	3,732	–	21,336	–

21. LAND LEASE PREPAYMENTS

	Group HK$'000
Cost:	
At 1 January 2005	293,441
Transfer to investment properties	(24,311)
At 31 December 2005 and 1 January 2006	**269,130**
Acquisition of subsidiaries	**328,499**
Disposals	**(82)**
At 31 December 2006	**597,547**
Accumulated amortisation and impairment:	
At 1 January 2005	50,257
Provided during the year	2,863
Transfer to investment properties	(14,044)
Reversal of an impairment loss	(3,514)
At 31 December 2005 and 1 January 2006	**35,562**
Provided during the year	**4,670**
Disposals	**(21)**
Reversal of an impairment loss	**(4,694)**
At 31 December 2006	**35,517**
Net book value:	
At 31 December 2006	**562,030**
At 31 December 2005	233,568

The leasehold land lease prepayments of the Group are situated in Hong Kong and held under the following lease terms:

	Group 2006 HK$'000
Net book value:	
Medium term leases	**181,009**
Long term leases	**381,021**
	562,030

The land leases are stated at recoverable amount subject to an impairment test pursuant to HKAS 36 which is based on the higher of fair value less costs to sell and value in use. The recoverable amount of one land lease was stated at fair value, which was higher than its value in use. A reversal of impairment of HK$4,694,000 (2005: HK$3,514,000) was credited to the income statement due to increase in fair value as at 31 December 2006. The fair value less costs of the land lease was determined with reference to a qualified external valuer's valuation.

The current and non-current portions of the land lease prepayments were HK$4,670,000 and HK$557,360,000 (2005: HK$2,863,000 and HK$230,705,000) respectively.

22. INTERESTS IN SUBSIDIARIES

	Company 2006 HK$'000	2005 HK$'000
Unlisted shares, at cost	**5,362,792**	769,444
Amount due from subsidiaries	**249,941**	288,128
	5,612,733	1,057,572

The amounts due from subsidiaries were unsecured, and had no fixed terms of repayments. The amounts due from subsidiaries of HK$16,000,000 (2005: Nil) were interest-bearing and current in nature while HK$233,941,000 (2005: HK$288,128,000) were non-interest-bearing and non-current in nature. Their carrying amounts approximate their fair values.

Particulars of the Company's subsidiaries are as follows:

Name	Nominal value of issued ordinary share capital HK$	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Public Bank (Hong Kong) Limited (formerly known as "Asia Commercial Bank Limited") #	810,000,000	100	–	Provision of banking, financial and related services
Public Bank (Nominees) Limited (formerly known as "Asia Commercial Bank (Nominees) Limited") #	100,000	–	100	Provision of nominee services
PB Finance Limited (formerly known as "ACB Finance Limited") #	25,000,000	–	100	Dormant
Public Investments Limited (formerly known as "Hocomban Investments Limited") #	5,000,000	–	100	Property investment
Public Realty Limited (formerly known as "Hocomban Realty Limited") #	100,000	–	100	Dormant
Public Credit Limited (formerly known as "AFH Credit Limited") #	5,000,000	–	100	Dormant
Public Futures Limited (formerly known as "Asia Financial (Futures) Limited") #	20,000,000	–	100	Dormant

22. INTERESTS IN SUBSIDIARIES (Continued)

Name	Nominal value of issued ordinary share capital HK$	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Public Pacific Securities Limited (formerly known as "Asia Financial Pacific (Securities) Limited") #	12,000,000	–	100	Dormant
Public Financial Securities Limited (formerly known as "Asia Financial (Securities) Limited") #	15,000,000	–	100	Securities brokerage
Public Finance Limited (formerly known as "JCG Finance Company, Limited")	258,800,000	100	–	Deposit-taking and finance
Public Financial Limited	10,100,000	–	100	Investment holding
Public Securities Limited (formerly known as "JCG Securities Limited")	10,000,000	–	100	Securities brokerage
Public Securities (Nominees) Limited (formerly known as "JCG Nominees Limited")	10,000	–	100	Provision of nominee services
Winton (B.V.I.) Limited	61,773	100	–	Investment and property holding
Winton Holdings (Hong Kong) Limited	20	–	100	Property holding
Winton Financial Limited	4,000,010	–	100	Provision of financing for licensed public vehicles and provision of personal and short term loans
Winton Motors, Limited	78,000	–	100	Trading of taxi licences and taxi cabs, and leasing of taxis
Winsure Company, Limited	1,600,000	–	96.9	Dormant

Acquired during the year

Note: Except for Winton (B.V.I.) Limited, which was incorporated in the British Virgin Islands, all other subsidiaries were incorporated in Hong Kong. Except for Public Bank (Hong Kong) Limited which operates in Hong Kong, Mainland China and Taiwan, all other subsidiaries operate in Hong Kong.

23. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group 2006 HK$'000	2005 HK$'000
Share of net assets other than goodwill	**1,676**	–

Particulars of the Group's jointly-controlled entity are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of ownership interest and profit sharing	Voting power	Principal activity
Net Alliance Co. Limited #	Corporate	Hong Kong	17.6	2 out of 8 *	Provision of electronic banking support services

\# Acquired during the year

* Representing the number of votes on the board of directors attributable to the Group

24. OTHER ASSETS

	Note	Group 2006 HK$'000	Group 2005 HK$'000	Company 2006 HK$'000	Company 2005 HK$'000
Interest receivable from authorised institutions		**51,439**	258	**1,695**	4,489
Other debtors, deposits and prepayments		**209,644**	34,160	**7,142**	156
Positive fair values of derivatives	41(b)	**12,780**	–	**–**	–
		273,863	34,418	**8,837**	4,645

The Group's interest receivable from authorised institutions was current in nature at 31 December 2006 and 2005. The current and non-current portion of the Group's other debtors, deposits and prepayments were HK$201,032,000 and HK$8,612,000 (2005: HK$27,992,000 and HK$6,168,000) respectively.

The Company's interest receivable from authorised institutions was current in nature while the Company's other debtors, deposits and prepayments were non-current in nature at 31 December 2006 and 2005.

The carrying amounts of the other debtors, deposits and prepayments approximate their fair values.

25. GOODWILL

	Group 2006 HK$'000	2005 HK$'000
Cost:		
At beginning of year	**–**	–
Additions	**2,774,403**	–
At end of year	**2,774,403**	–

On 14 February 2006, the Company and Asia Financial Holdings Limited ("AFH") entered into a share purchase agreement ("SPA") pursuant to which AFH agreed to sell and the Company agreed to purchase, the entire issued and paid-up share capital of Public Bank (Hong Kong) for a consideration of HK$4,499,550,000 (the "Consideration"). The Consideration was subsequently adjusted to HK$4,584,999,000. The total cost of acquisition of Public Bank (Hong Kong) amounted to HK$4,593,348,000, including legal and professional fees and stamp duty of HK$8,349,000, which were directly attributable to the acquisition of Public Bank (Hong Kong). The fair value of net assets and the carrying amount of goodwill amounted to HK$1,818,945,000 and HK$2,774,403,000, respectively (note 44).

On 17 February 2006, the Company passed a board resolution to make a rights issue of not less than 364,632,206 rights shares and not more than 386,571,206 rights shares to shareholders at HK$7.30 per share on the basis of one rights share for every two shares held on 17 March 2006 (the "Rights Issue"). Pursuant to the Rights Issue, 364,632,206 shares of HK$0.1 each were issued at HK$7.3 per share. The net proceeds from the Rights Issue, after deduction of related expenses, amounted to approximately HK$2,660,504,000.

Impairment test of goodwill

Goodwill acquired through business combinations was allocated to the cash-generating unit (the "CGU") representing an operating entity within the business segment identified by the Group. The acquired subsidiaries involved in retail and commercial banking and treasury and other businesses. The recoverable amounts of the CGU are determined based on a value in use for calculation. The calculation uses cash flow projections based on financial budgets approved by management covering a five-year period and assumed growth rates are used to extrapolate the cash flows in the following 45 years. All cash flows are discounted at a discount rate of 7%. Management's financial model assumes an overall growth rate of 10% per annum during the first 5 years, and 5% from the sixth to fiftieth year per annum. The discount rates used is based on the rate which reflect specific risks relating to the CGU.

No impairment loss has been recognised in respect of goodwill for the year ended 31 December 2006 as its value in use exceeded the carrying amount.

26. INTANGIBLE ASSETS

	Group	
	2006	2005
	HK$'000	HK$'000
Cost:		
At beginning of year	**126**	126
Acquisition of subsidiaries	**599**	–
At end of year	**725**	126

The intangible assets represent four units of Stock Exchange Trading Right and one unit of Futures Exchange Trading Right in Hong Kong Exchanges and Clearing Limited.

27. LOANS TO DIRECTORS AND OFFICERS

Loans granted by the Group to directors and officers disclosed pursuant to Section 161B(10) of the Hong Kong Companies Ordinance are as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Aggregate amount of principal and interest outstanding at end of year	**1,067**	1,135
Maximum aggregate amount of principal and interest outstanding during the year	**1,165**	1,227

28. DEPOSITS AND BALANCES OF BANKS AND OTHER FINANCIAL INSTITUTIONS

The Group's maturity profile of deposits and balances of banks and other financial institutions at the balance sheet date is analysed by the remaining periods to their contractual maturity dates as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Repayable:		
On demand	**12,811**	–
Within three months or less	**493,324**	–
Within one year or less but over three months	**9,962**	–
	516,097	–

29. CUSTOMER DEPOSITS

	Group	
	2006	2005
	HK$'000	HK$'000
Demand deposits and current accounts	**640,534**	–
Savings deposits	**2,016,059**	–
Time, call and notice deposits	**12,197,062**	1,641,978
	14,853,655	1,641,978

The Group's maturity profile of customer deposits at the balance sheet date is analysed by the remaining periods to their contractual maturity dates as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Repayable:		
On demand	**2,662,221**	3,648
Within three months or less	**10,582,550**	1,051,642
Within one year or less but over three months	**1,083,649**	108,692
Within five years or less but over one year	**40,414**	1,268
	14,368,834	1,165,250
Connected deposits	**484,821**	476,728
	14,853,655	1,641,978

The connected deposits were repayable and subject to renewal by a fellow subsidiary within one year.

30. CERTIFICATES OF DEPOSITS ISSUED

All the certificates of deposits issued are measured at amortised cost. The Group's maturity profile of certificates of deposits issued at the balance sheet date is analysed by the remaining periods to their contractual maturity dates as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Repayable:		
Within three months or less	**249,979**	–
Within one year or less but over three months	**419,751**	–
Within five years or less but over one year	**99,944**	–
	769,674	–

31. BANK LOANS

	Group and Company	
	2006	2005
	HK$'000	HK$'000
Unsecured bank loans	**2,000,000**	–
Repayable:		
In the second to fifth years, inclusive	**2,000,000**	–

On 21 July 2006, the Company entered into a facility agreement (the "Facility Agreement") with Barclays Capital and others as mandated lead arrangers and Barclays Bank PLC as an agent and certain original lenders, including Public Bank (L) Ltd ("PB(L)L"), a fellow subsidiary of the Company, for a Hong Kong dollar 3-year term loan facility in an aggregate amount of HK$2,000,000,000 (the "Facility").

The bank loans are denominated in Hong Kong dollars. The carrying amounts of the bank loans approximate their fair values and bear interests at floating interest rates and the effective interest rate at 4.74% per annum.

32. DEFERRED TAX

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

Group

Deferred tax assets:

	At 1 January 2005 HK$'000	Deferred tax (charged)/ credited to the income statement HK$'000	At 31 December 2005 and 1 January 2006 HK$'000	Acquisition of subsidiaries HK$'000	Deferred tax charged to the income statement HK$'000	At 31 December 2006 HK$'000
Collective impairment allowances for loans and advances and receivables	2,684	(1,077)	1,607	3,766	(111)	5,262
Losses available for offset against future taxable profit	1,048	(571)	477	–	(477)	–
Unrealised profit in inventories	–	483	483	–	(128)	355
Accelerated allowances depreciation	–	287	287	–	(287)	–
Fair value adjustment on held-to-maturity securities	–	–	–	13,020	(788)	12,232
	3,732	(878)	2,854	16,786	(1,791)	17,849

Deferred tax liabilities:

	At 1 January 2005 HK$'000	Deferred tax charged/ (credited) to the income statement HK$'000	At 31 December 2005 and 1 January 2006 HK$'000	Acquisition of subsidiaries HK$'000	Deferred tax charged to the income statement HK$'000	At 31 December 2006 HK$'000
Interest receivable that will be taxable only when received	2,034	(2,034)	–	–	–	–
Accelerated tax depreciation and revaluation surplus of investment properties	9,513	3,897	13,410	47,442	3,480	64,332
	11,547	1,863	13,410	47,442	3,480	64,332

The Group has tax losses arising in Hong Kong of HK$42,549,000 (2005: HK$11,374,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have incurred losses for some time.

The deferred tax liabilities of the Company of HK$3,700,000 (2005: HK$2,200,000) represented accelerated tax depreciation and revaluation surplus of investment properties.

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

33. OTHER LIABILITIES

		Group		Company	
		2006	2005	**2006**	2005
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Creditors, accruals and interest payable		**454,834**	86,995	**1,600**	1,013
Amount due to the ultimate holding company		**541**	338	**500**	300
Provision for long service payments	34	**3,892**	4,006	**–**	–
Negative fair values of derivatives	41(b)	**9,735**	–	**–**	–
		469,002	91,339	**2,100**	1,313

As the trade payables were immaterial to the Group, the maturity profile thereof has not been disclosed. The other liabilities, other than the provision for long service payments, were current in nature.

The carrying amounts of the creditors, accruals and interest payable approximate their fair values.

34. PROVISION FOR LONG SERVICE PAYMENTS

	Group	
	2006	2005
	HK$'000	HK$'000
Balance at beginning of year	**4,006**	4,268
Movement during the year	**(114)**	(262)
Balance at end of year	**3,892**	4,006

The Group provides for the probable future long service payments expected to be made to employees under the Employment Ordinance, as explained under the heading "Employment Ordinance long service payments" in note 2.4 to the financial statements.

35. SHARE CAPITAL

	2006 HK$'000	2005 HK$'000
Ordinary shares		
Authorised:		
2,000,000,000 (2005: 1,000,000,000) ordinary shares of HK$0.10 each (Note (a))	**200,000**	100,000

Issued and fully paid:	**Number of ordinary shares of HK$0.10 each**	**Share capital HK$'000**
At 1 January 2005	707,758,412	70,776
Shares issued on exercise of share options (Note (b))	21,506,000	2,150
At 31 December 2005 and 1 January 2006	**729,264,412**	**72,926**
Rights Issue (Note 25)	**364,632,206**	**36,464**
At 31 December 2006	**1,093,896,618**	**109,390**

Notes:

(a) Pursuant to an ordinary resolution passed on 8 March 2006, the authorised share capital of the Company was increased from HK$100,000,000 to HK$200,000,000 by the creation of 1,000,000,000 additional shares of HK$0.10 each ranking pari passu in all respects with the existing shares of the Company.

(b) The increase in issued share capital represented the shares issued on exercise of share options pursuant to the share option scheme for the year ended 31 December 2005.

36. SHARE OPTION SCHEME

Under the Scheme approved on 28 February 2002, the board of directors passed a board resolution on 18 May 2005 to grant share options to subscribe for a total of 66,526,000 shares in the Company to eligible participants, including directors and employees of the Company and its subsidiaries. Each share option gives the holder the right to subscribe for one ordinary share. 65,976,000 share options were accepted by the directors and employees of the Group. The Group is not legally bound or obliged to repurchase or settle the options in cash.

Pursuant to the terms of the Scheme, an adjustment is required to be made to the exercise price and/or the number of shares falling to be issued upon exercise of the outstanding share options as a result of the Rights Issue. After the completion of the Rights Issue, the exercise price of the outstanding share options was adjusted from HK$7.29 per share to HK$6.35 per share and there was no adjustment to the number of shares falling to be issued.

Particulars in relation to the Scheme that are required to be disclosed under Rules 17.07 to 17.09 of Chapter 17 of the Listing Rules and HKAS 19 “Employee benefits” are as follows:

(a) Summary of the Scheme

Purpose : To attract, retain and motivate talented eligible participants.

Participants : Eligible participants include:

(i) any employee and director of the Company or any subsidiary or any associate or controlling shareholder;

(ii) any discretionary trust whose discretionary objects include person(s) belonging to the aforesaid participants;

(iii) a company beneficially owned by person(s) belonging to the aforesaid participants; and

(iv) any business partner, agent, consultant, representative, customer or supplier of any member of the Group or controlling shareholder determined by the board of directors as having contributed or may contribute to the development and growth of the Group.

Total number of ordinary shares available for issue and the percentage of the issued share capital that it represents as at the date of this annual report : 72,926,441 ordinary shares which represent 6.7% of the issued share capital.

36. SHARE OPTION SCHEME (Continued)

(a) Summary of the Scheme (Continued)

Maximum entitlement of each participant	:	Shall not exceed 1% of the ordinary shares of the Company in issue in the 12-month period up to and including the date of grant.
Period within which the ordinary shares must be taken up under an option	:	Exerciseable within open exercise periods determined by the board of directors within 10 years from the commencement date on which the option is granted and accepted.
Amount payable on acceptance	:	HK$1.00
Basis of determining the exercise price	:	Determined by the directors at their discretion based on the higher of: (i) the closing price of the ordinary shares on the Stock Exchange at the offer date; (ii) the average closing price of the ordinary shares on the Stock Exchange for 5 business days immediately preceding the offer date; and (iii) the nominal value of an ordinary share.
Vesting condition	:	Nil, subject to open exercise periods to be determined by the board of directors or the Share Option Committee. The first open exercise period was from 28 July 2005 to 10 September 2005.
The remaining life of the Scheme	:	The Scheme remains in force until 27 February 2012.

36. SHARE OPTION SCHEME (Continued)

(b) Movement of share options

	Number of share options				
Name	**Outstanding at the beginning of the year**	**Granted and accepted during the year**	**Lapsed during the year**	**Exercised during the year**	**Outstanding at the end of the year**
Directors					
Tan Yoke Kong	1,928,000	–	–	–	1,928,000
Lee Huat Oon	3,170,000	–	–	–	3,170,000
Dato' Sri Tay Ah Lek	1,680,000	–	–	–	1,680,000
Dato' Chang Kat Kiam	1,680,000	–	–	–	1,680,000
Wong Kong Ming	4,000,000	–	–	–	4,000,000
Dato' Yeoh Chin Kee	700,000	–	–	–	700,000
Lee Chin Guan	350,000	–	–	–	350,000
Geh Cheng Hooi, Paul (resigned on 1 July 2006)	700,000	–	–	–	700,000
Employees working under "continuous contracts" for the purposes of the Employment Ordinance other than the directors as disclosed above	29,670,000	–	810,000	–	28,860,000
	43,878,000	–	810,000	–	43,068,000

Notes:

(i) The share options are only exerciseable at the exercise price of HK$6.35 per share during certain periods as notified by the board or the Share Option Committee to each grantee which it may in its absolute discretion determine from 10 June 2005 to 9 June 2015.

(ii) There was no open exercise period during the year.

(iii) The remaining contractual life of the 43,068,000 outstanding options was 8.44 years as at 31 December 2006.

(iv) The share option outstanding at end of 2006 can only be exercised in future open exercise periods.

(c) Had all the outstanding share options been fully exercised on 29 December 2006, the last trading date of 2006, the Group would have received proceeds of HK$273,481,800 (2005: HK$319,870,620). The market value of the shares issued based on the closing price of HK$6.15 (2005: HK$8.15) per share on that date would have been HK$264,868,200 (2005: HK$357,605,700). The directors and employees concerned under the Scheme would have made no gain from the exercise of share options (2005: HK$0.86 per share or, in aggregate, HK$37,735,080).

37. EMPLOYEE SHARE-BASED COMPENSATION RESERVE

	Group 2006 HK$'000	Group 2005 HK$'000
At beginning of year	**45,765**	–
Employee share option benefits	**–**	45,765
At end of year	**45,765**	45,765

38. RESERVES

Group	Share premium account HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Available-for-sale investment revaluation reserve HK$'000	Employee share-based compensation reserve HK$'000	Regulatory reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2005	1,209,593	829	96,116	16,481	–	75,686	812,966	2,211,671
Change in fair value and total income and expense recognised directly in equity (Note 17)	–	–	–	9,137	–	–	–	9,137
Employee share option benefits	–	–	–	–	45,765	–	–	45,765
Profit for the year	–	–	–	–	–	–	446,297	446,297
Premium, net of expense, arising on share options exercised	154,586	–	–	–	–	–	–	154,586
Transfer from retained profits	–	–	–	–	–	9,714	(9,714)	–
Dividends for 2005 (Note 12)	–	–	–	–	–	–	(546,948)	(546,948)
At 31 December 2005 and 1 January 2006	**1,364,179**	**829**	**96,116**	**25,618**	**45,765**	**85,400**	**702,601**	**2,320,508**
Change in fair value and total income and expense recognised directly in equity (Note 17)	**–**	**–**	**–**	**42,947**	**–**	**–**	**–**	**42,947**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**496,637**	**496,637**
Premium, net of expense, arising on Rights Issue	**2,624,040**	**–**	**–**	**–**	**–**	**–**	**–**	**2,624,040**
Transfer from retained profits	**–**	**–**	**–**	**–**	**–**	**10,481**	**(10,481)**	**–**
Dividends for 2006 (Note 12)	**–**	**–**	**–**	**–**	**–**	**–**	**(273,474)**	**(273,474)**
At 31 December 2006	**3,988,219**	**829**	**96,116**	**68,565**	**45,765**	**95,881**	**915,283**	**5,210,658**

38. RESERVES (Continued)

Company	Share premium account HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Available-for-sale investment revaluation reserve HK$'000	Employee share-based compensation reserve HK$'000	Regulatory reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2005	1,209,593	829	194,176	–	–	–	(100,812)	1,303,786
Employee share option benefits	–	–	–	–	45,765	–	–	45,765
Premium, net of expense, arising on share options exercised	154,586	–	–	–	–	–	–	154,586
Dividends for 2005 (Note 12)	–	–	–	–	–	–	(546,948)	(546,948)
Profit for the year	–	–	–	–	–	–	597,696	597,696
At 31 December 2005 and 1 January 2006	**1,364,179**	**829**	**194,176**	**-**	**45,765**	**-**	**(50,064)**	**1,554,885**
Premium, net of expense, arising on Rights Issue	**2,624,040**	**-**	**-**	**-**	**-**	**-**	**-**	**2,624,040**
Dividends for 2006 (Note 12)	**-**	**-**	**-**	**-**	**-**	**-**	**(273,474)**	**(273,474)**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**354,884**	**354,884**
At 31 December 2006	**3,988,219**	**829**	**194,176**	**-**	**45,765**	**-**	**31,346**	**4,260,335**

The contributed surplus of the Group represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the Group's reorganisation in September 1991 over the nominal value of the Company's shares issued in exchange therefor.

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group's reorganisation in September 1991 over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda, a company may make distributions to its shareholders out of the contributed surplus under certain circumstances.

Deducted from the contributed surplus of the Group as at 31 December 2006 were positive goodwill of HK$98,406,000 (2005: HK$98,406,000), which arose from the acquisition of certain subsidiaries in prior years.

39. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

A reconciliation of profit before tax to the net cash flows from operating activities is set out below:

	Group	
	2006	2005
	HK$'000	HK$'000
Profit before tax	**596,095**	529,889
Employee share option benefits	**–**	45,765
Depreciation and amortisation of land lease prepayments	**13,179**	5,100
(Gain)/loss on disposal of property, plant and equipment	**(204)**	30
Decrease in impairment loss and allowances for advances to customers and receivables	**(4,298)**	(3,071)
Dividends from listed investments	**(1,306)**	(773)
Dividends from unlisted investments	**(780)**	–
Amortisation and write-off of commission expenses	**288**	133
Reversal of an impairment loss on land lease prepayments	**(4,694)**	(3,514)
Increase in fair value of investment properties	**(30,719)**	(30,160)
Share of profits and losses of a jointly-controlled entity	**(176)**	–
Decrease in provision for long service payments	**(114)**	(262)
Increase/(decrease) in an amount due to the ultimate holding company	**203**	(56)
Hong Kong profits tax paid	**(99,434)**	(88,855)
Operating profit before changes in operating assets and liabilities	**468,040**	454,226
Increase in operating assets:		
Decrease in cash and short term placements	**35,767**	–
Increase in placements with banks and financial institutions	**(55,543)**	–
Decrease in securities measured at fair value through profit or loss	**15,526**	–
Increase in loans and advances and receivables	**(1,078,323)**	(328,911)
Decrease in held-to-maturity securities	**132,402**	–
Decrease/(increase) in other debtors, deposits, prepayments and interest receivable from authorised institutions	**113,842**	(23,969)
Decrease in inventories of taxi licences	**2,883**	2,661
	(833,446)	(350,219)
Increase/(decrease) in operating liabilities:		
Decrease in deposits and balances of banks and other financial institutions	**(255,165)**	–
Increase/(decrease) in customer deposits	**1,171,208**	(78,403)
Decrease in certificates of deposits issued	**(654,017)**	–
(Decrease)/increase in creditors, accruals and interest payable	**(54,258)**	19,106
	207,768	(59,297)
Net cash (outflow)/inflow from operating activities	**(157,638)**	44,710

40. OPERATING LEASE ARRANGEMENTS

(a) The Group leases its investment properties under operating lease arrangements, and the terms of the leases range from one to five years.

As at 31 December 2006, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within one year	**10,026**	7,312
In the second to fifth years, inclusive	**8,496**	3,418
	18,522	10,730

(b) The Group entered into non-cancellable operating lease arrangements with landlords, and the terms of the leases range from one to five years.

As at 31 December 2006, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within one year	**25,804**	16,172
In the second to fifth years, inclusive	**18,225**	11,461
	44,029	27,633

41. OFF BALANCE SHEET EXPOSURE

(a) Commitments and contingent liabilities

The following is a summary of the contractual amount of each significant class of contingent liabilities and commitments of the Group outstanding:

	Group					
	2006			2005		
	Contractual amount HK$'000	**Replacement cost HK$'000**	**Risk weighted amount HK$'000**	Contractual amount HK$'000	Replacement cost HK$'000	Risk weighted amount HK$'000
Direct credit substitutes	**90,111**	**–**	**66,060**	–	–	–
Transaction-related contingencies	**6,842**	**–**	**2,955**	–	–	–
Trade related contingencies	**169,626**	**–**	**28,499**	–	–	–
Forward forward deposits placed	**3,988**	**–**	**798**	–	–	–
Forward asset purchases	**19,504**	**–**	**3,901**	–	–	–
Foreign exchange rate contracts	**5,286,409**	**2,295**	**10,575**	–	–	–
Interest rate swap and future contracts	**227,780**	**–**	**–**	–	–	–
Other commitments with an original maturity of:						
Under one year or which are unconditionally cancellable	**3,297,666**	**–**	**–**	773	–	–
One year and over	**279,594**	**–**	**139,797**	–	–	–
Capital commitment contracted for, but not provided in the financial statements	**6,308**	**–**	**6,308**	1,603	–	1,603
	9,387,828	**2,295**	**258,893**	2,376	–	1,603

The Group has not entered into any bilateral netting arrangements and accordingly the above amounts are shown on a gross basis. The credit risk weighted amounts are calculated in accordance with the Third Schedule of the Banking Ordinance and guidelines issued by the HKMA. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments and from 0% to 50% for exchange rate contracts. Replacement cost represents the cost of replacing all contracts which have a positive value when marked to market.

As at 31 December 2006 and 2005, the Company had no other material outstanding contingent liabilities and commitments.

41. OFF BALANCE SHEET EXPOSURE (Continued)

(b) Derivatives

The following tables set out the summary of the notional amounts, fair values and credit risk weighted amounts of each significant type of derivatives.

	Group		
	2006 Contract/ notional amount HK$'000	**2006 Fair values of assets HK$'000**	**2006 Fair values of liabilities HK$'000**
Derivatives held for trading:			
Foreign exchange rate contracts	**5,286,409**	**11,434**	**8,129**
Interest rate swaps and future contracts	**227,780**	**1,346**	**1,606**
	5,514,189	**12,780**	**9,735**

The Group and the Company did not have any derivatives held solely for trading at 31 December 2005.

	2006 Credit risk weighted amount HK$'000	2005 Credit risk weighted amount HK$'000
Derivatives held for trading:		
Foreign exchange rate contracts	**10,575**	–
Interest rate swaps and future contracts	**–**	–
	10,575	–

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans and overdrafts, other interest-bearing loans, certificates of deposits issued, finance leases, and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets such as trade bills, held-to-maturity securities, loans and advances and receivables, available-for-sale securities and securities measured at fair value through profit or loss, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

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

Risk management

The Group has established policies and procedures for the control and monitoring of credit, liquidity, capital, foreign currency, interest rate and market risks, which are reviewed regularly by the Group's management, Credit Committees, the Assets and Liabilities Committee and Asset and Liability Management Committee. The internal auditors of the Group also perform regular audits to ensure compliance with the policies and procedures.

Interest rate risk management

Interest rate risk is the risk that the Group's position may be adversely affected by a change of market interest rates. The Group's interest rate risk arises primarily from the timing difference in the maturity and the repricing of the Group's interest bearing assets, liabilities and off-balance sheet commitments. The primary objective of interest rate risk management is to limit the potential adverse effects of interest rate movements in net interest income by closely monitoring the net repricing gap of the Group's assets and liabilities. The interest rate risk is managed by the Group's Treasury Department and monitored by management under limits approved by the directors.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk management (Continued)

The carrying amounts of financial instruments exposed to interest rate risk based on maturity or repricing as at 31 December 2006 and 2005 are detailed as follows:

Group	2006 One year or less HK$'000	Over 1 year but not more than 2 years HK$'000	Over 2 years but not more than 3 years HK$'000	Over 3 years but not more than 4 years HK$'000	Over 4 years but not more than 5 years HK$'000	Over 5 years HK$'000	Non-interest bearing HK$'000	Total HK$'000
Assets:								
Fixed rate financial assets								
Cash and short term placements	1,954,683	–	–	–	–	–	289,424	2,244,107
Placements with banks and other financial institutions maturing between one and twelve months	452,080	–	–	–	–	–	–	452,080
Loans and advances and receivables	2,235,054	916,689	416,978	107,825	26,671	51,733	157,150	3,912,100
Securities measured at fair value through profit or loss	–	–	–	–	–	–	10,213	10,213
Available-for-sale securities	–	–	–	–	–	–	75,632	75,632
Held-to-maturity securities	1,892,887	137,414	163,545	57,242	38,127	–	–	2,289,215
	6,534,704	1,054,103	580,523	165,067	64,798	51,733	532,419	8,983,347
Floating rate financial assets								
Cash and short-term placements	51,112	–	–	–	–	–	–	51,112
Placements with banks and other financial institutions maturing between one and twelve months	114,693	–	–	–	–	–	–	114,693
Loans and advances and receivables	9,982,891	–	–	–	–	–	62,376	10,045,267
Held-to-maturity securities	1,390,389	–	–	–	–	–	–	1,390,389
Other assets	150,000	–	–	–	–	–	–	150,000
	11,689,085	–	–	–	–	–	62,376	11,751,461
Less:								
Liabilities:								
Fixed rate financial liabilities								
Deposits and balances of banks and other financial institutions	503,286	–	–	–	–	–	12,811	516,097
Customer deposits	11,983,203	39,799	615	–	–	–	–	12,023,617
	12,486,489	39,799	615	–	–	–	12,811	12,539,714
Floating rate liabilities								
Customer deposits	2,232,459	–	–	–	–	–	597,579	2,830,038
Certificates of deposits issued	769,674	–	–	–	–	–	–	769,674
Bank loans	2,000,000	–	–	–	–	–	–	2,000,000
Other liabilities	150,000	–	–	–	–	–	–	150,000
	5,152,133	–	–	–	–	–	597,579	5,749,712
Total interest sensitivity gap	585,167	1,014,304	579,908	165,067	64,798	51,733	(15,595)	2,445,382

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk management (Continued)

Group	One year or less HK$'000	Over 1 year but not more than 2 years HK$'000	Over 2 years but not more than 3 years HK$'000	Over 3 years but not more than 4 years HK$'000	Over 4 years but not more than 5 years HK$'000	Over 5 years HK$'000	Non-interest bearing HK$'000	Total HK$'000
	2005							
Assets:								
Fixed rate financial assets								
Cash and short term placements	372,253	–	–	–	–	–	80,756	453,009
Placements with banks and other financial institutions maturing between one and twelve months	5,000	–	–	–	–	–	–	5,000
Loans and advances and receivables	1,721,291	759,399	278,034	51,942	–	69,101	148,664	3,028,431
Available-for-sale securities	–	–	–	–	–	–	25,881	25,881
	2,098,544	759,399	278,034	51,942	–	69,101	255,301	3,512,321
Floating rate financial assets								
Loans and advances and receivables	594,502	–	–	–	–	–	80,001	674,503
Less:								
Liabilities:								
Fixed rate financial liabilities								
Customer deposits	1,640,710	1,268	–	–	–	–	–	1,641,978
Total interest sensitivity gap	1,052,336	758,131	278,034	51,942	–	69,101	335,302	2,544,846

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk management (Continued)

The table below summarises the effective average interest rates at 31 December for monetary financial instruments:

	Group	
	2006	2005
	HK dollar Rate	HK dollar Rate
	(%)	(%)
Assets		
Cash and short term placements	**4.86**	3.95
Placements with banks and other financial institutions	**5.00**	3.10
Loans and advances and receivables (including trade bills)	**10.32**	23.14
Held-to-maturity securities	**4.27**	–
Liabilities		
Deposits and balances of banks and other financial institutions	**4.59**	–
Deposits from customers	**4.11**	4.00
Certificates of deposits issued	**4.78**	–
Bank loans	**4.74**	–

There were no financial assets and liabilities denoted in currency other than the Hong Kong dollar as at 31 December 2006 and 2005.

Credit risk management

Credit risk is the risk that a customer or counterparty in a transaction may default. It arises from the lending, trade finance, treasury and other activities undertaken by the Group.

The Group has a credit risk management process to measure, monitor and control credit risk. Its Credit Policy Manual defines the credit extension and measurement criteria, the credit review, approval and monitoring processes, and the loan classification and provisioning systems. It has a hierarchy of credit authority which approves credit in compliance with the Group's credit policy; exposures are monitored against credit limits and other control limits (such as large exposures and concentration limits); segregation of duties in key credit functions is in place to ensure separate credit control and monitoring; management and recovery of problem credits is handled by an independent work-out team.

The Group manages its credit risk within a conservative framework. Its credit policy is regularly revised, taking into account factors such as prevailing business and economic conditions, regulatory requirements and its capital resources.

Credit and compliance audits are periodically held to evaluate the effectiveness of the credit review, approval and monitoring processes and to test the compliance of the established credit policies and procedures.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management

Liquidity risk is the risk that the Group cannot meet its current obligation. To manage liquidity risk, the Group has established the liquidity management policy which is reviewed by management and approved by the directors. The Group measures the liquidity of the Group using the statutory liquidity ratio, loan-to-deposit ratio and maturity mismatch portfolio.

The Assets and Liabilities Committee of Public Finance and the Asset and Liability Management Committee of Public Bank (Hong Kong) monitor the liquidity position as part of the ongoing assets and liabilities management, and set up trigger limits to monitor liquidity risk. They also closely monitor the liquidity of the respective subsidiaries on a periodic basis to ensure that the liquidity structure of the respective subsidiaries' assets, liabilities and commitments can meet the funding needs, and that the statutory liquidity ratio is always complied with. Standby facilities are maintained to provide liquidity to meet unexpected, material cash outflows in the ordinary course of business.

Capital management

The Group's policy is to maintain a strong capital base to support the development of the Group's businesses and to meet the statutory capital adequacy ratio and other regulatory capital requirements. Capital is allocated to the various activities of the Group depending on the risk taken by each business division and in accordance with the requirements of relevant regulatory bodies.

Market risk management

Market risk is the risk to the Group's earnings and capital due to changes in the market level of interest rates, securities, foreign exchange and equities as well as the volatilities of those prices.

The Group monitors market risk principally by limits established for transactions and open positions. These limits are reviewed and approved by the directors and are monitored on a daily basis.

The Group does not actively trade in financial instruments and in the opinion of the directors, the market risk related to trading activities to which the Group is exposed is not material. Accordingly, no quantitative market risk disclosures have been prepared.

All foreign exchange positions are managed by the Group's Treasury Department within limits approved by the directors.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the balance sheet date, or a date close to the balance sheet date, without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices unless the position is immaterial. In such case, a mid rate will be applied for both long and short positions.

If a quoted market price is not available on a recognised stock exchange or from a broker/dealer for non-exchange-traded financial instruments, the fair value of the instrument is estimated using valuation techniques, including the use of recent arm's-length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates, and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the balance sheet date.

Use of derivatives

Being a financial institution, the Group employs derivatives during the course of running its ordinary banking businesses. These derivatives can be either exchange-traded or over-the-counter including interest rate futures, interest rate swaps and options. Before engaging in any such products and instruments, the Group will conduct thorough study and evaluation on both its risk and necessity affecting the Group's operation. In this respect, the Group will consider those over-the-counter derivatives, e.g., options and interest rate swaps, as solely for hedging purposes. While for the exchange-traded instruments, the Group will impose appropriate trading limits together with a daily mark-to-market revaluation process. The Group monitors closely these derivative positions in order to achieve a stable and commensurable contribution to the Group's revenue.

43. RELATED PARTY TRANSACTIONS

The Group also had the following major transactions with related parties during the year which were carried out on essentially the same terms and/or at prevailing market rates with other customers or suppliers.

	Notes	Group 2006 HK$'000	2005 HK$'000
Related party transactions included in the income statement:			
Commission income from the ultimate holding company for referrals of taxi financing loans	(a)	**133**	196
Interest income from the ultimate holding company	(b)	**15,211**	198
Rental income from the ultimate holding company	(c)	**2,686**	2,424
Management fees from the ultimate holding company	(d)	**920**	863
Services charge paid to the ultimate holding company	(d)	**31**	6
Interest paid and payable to a fellow subsidiary	(e)	**19,762**	10,995
Key management personnel compensation:	(f)		
– short-term employee benefits		**4,056**	3,480
– share-based payment		**–**	16,515
– post employment benefits		**237**	215
		4,293	20,210
Interest income received from key management personnel	(g)	**42**	29
Interest expense paid to key management personnel	(h)	**138**	3
Commission fee income from key management personnel	(i)	**7**	28
Post employment benefits for employees other than key management personnel	(j)	**8,720**	5,654
Related party transactions included in the assets and liabilities:			
Cash and short term funds with the ultimate holding company	(b)	**8,446**	21,207
Deposits from a fellow subsidiary	(e)	**484,821**	476,728
Interest payable to fellow subsidiaries	(e)	**2,792**	1,721
Rental deposits from the ultimate holding company	(c)	**541**	338
A mortgage loan to key management personnel	(g)	**1,037**	1,135
Deposits from key management personnel	(h)	**10,254**	300

43. RELATED PARTY TRANSACTIONS (Continued)

Notes:

(a) The commission income received from referrals of floating rate taxi financing loans to Public Bank was determined based on market practice.

(b) The Group placed deposits with Public Bank at prevailing market rates. Interest income was received/receivable by the Group for the year from Public Bank in respect of placements with Public Bank, which was included in cash and short term placements in the balance sheet.

(c) The rental income and deposits were derived from properties rented to:

  (i) Public Bank as its staff quarters for a term of two years commencing on 1 August 2006 at a monthly rental of HK$20,600;

  (ii) Public Bank as its office for a term of two years commencing on 1 August 2006 at a monthly rental of HK$43,800; and

  (iii) Public Bank as its branch office for a term of three years commencing on 1 November 2006 at a monthly rental of HK$250,000.

(d) The management fees arose from administrative services provided by the Group to the ultimate holding company. They were charged based on the cost incurred by the Group during the year.

  The services charge arose from the commission paid to the ultimate holding company.

(e) During the year, fixed deposits were accepted from PB Trust (L) Ltd. ("PB Trust"), a fellow subsidiary of the Company, in the ordinary course of business by Public Finance. The interest was paid/payable to PB Trust for the year by Public Finance in respect of the placements. The balances of the said fixed deposits and interest payable were included in customer deposits and other liabilities, respectively, in the balance sheet.

(f) Further details of post-employment benefits and directors' remuneration are included in notes 6 and 8 to the financial statements respectively.

(g) A mortgage loan was granted to one of the directors by Public Finance. Interest income was received from the director.

(h) During the year, deposits were accepted from directors by Public Bank (Hong Kong) and Public Finance. Interest expenses were paid to the directors.

(i) The commission income was received from the key management personnel of the Group for securities dealing.

(j) The Group's post-employment benefit plan for the benefits of employees was detailed in note 6 to the financial statements.

During the year, a syndicated loan of HK$2,000,000,000 (2005: Nil) was granted to the Company by Barclays Capital and others as mandated lead arrangers and Barclays Bank PLC as an agent and certain original lenders, including PB(L)L. As at 31 December 2006, the bank loan from the fellow subsidiary amounted to HK$500,000,000 (2005: Nil).

In addition, certain banking facilities of the Group are supported by letters of comfort issued by the ultimate holding company.

Notes to Financial Statements

44. ACQUISITION OF A SUBSIDIARY

During the year, the Company acquired the entire issued and paid-up share capital of Public Bank (Hong Kong). Further details of the acquisition are included in note 25 to the financial statements. The purchase consideration for the acquisition was in the form of cash, with total cost of HK$4,593,348,000, including legal and professional fees and stamp duty of HK$8,349,000.

The fair values of the identifiable assets and liabilities of Public Bank (Hong Kong) as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Note	Fair value recognised on acquisition HK$'000	Carrying amount HK$'000
Net assets acquired:			
Assets:			
Cash and short term placements		**2,522,586**	**2,522,586**
Placements with banks and financial institutions maturing between one and twelve months		**360,472**	**360,472**
Securities measured at fair value through profit or loss		**25,739**	**25,739**
Loans and advances and receivables		**9,099,760**	**9,103,820**
Available-for-sale security investment		**6,804**	**6,804**
Held-to-maturity securities		**3,749,076**	**3,823,473**
Interest in a jointly-controlled entity		**1,500**	**1,500**
Investment properties		**21,660**	**21,660**
Property, plant and equipment		**53,087**	**53,087**
Land lease prepayments		**328,499**	**328,499**
Intangible assets		**599**	**599**
Deferred tax assets		**13,020**	**–**
Other assets		**353,575**	**353,575**
		16,536,377	**16,601,814**
Less			
Liabilities:			
Deposits and balances of banks and other financial institutions		**771,262**	**771,262**
Customer deposits		**12,040,469**	**12,040,469**
Certificates of deposits issued		**1,423,691**	**1,423,691**
Deferred tax liabilities		**43,676**	**43,676**
Other liabilities		**438,334**	**434,334**
		14,717,432	**14,713,432**
		1,818,945	**1,888,382**
Goodwill on acquisition	25	**2,774,403**	
Satisfied by cash		**4,593,348**	

44. ACQUISITION OF A SUBSIDIARY (Continued)

Included in the balances of cash and short term placements, placements with banks and financial institutions maturing between one and twelve months and held-to-maturity securities were HK$2,484,479,000, HK$180,763,000 and HK$376,126,000 with original maturity within three months, respectively.

Included in other liabilities were tax payables of HK$6,502,000.

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	Note	HK$'000
Cash paid, including legal and professional fees	25	**(4,593,348)**
Cash and cash equivalents acquired		**3,041,368**
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries		**(1,551,980)**

Since acquisition, Public Bank (Hong Kong) contributed HK$227,953,000 to the Group's revenue and HK$105,873,000 to the net profit for the year ended 31 December 2006.

Had the combination taken place at the beginning of the year, the revenue from continuing operations and the net profit from Public Bank (Hong Kong) to the Group for the year would have been HK$341,984,000 and HK$145,500,000 respectively.

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 10 January 2007.