



**PUBLIC FINANCIAL HOLDINGS LIMITED**

**ANNUAL REPORT 2007**

stock code: 626



**大眾銀行(香港)中小企貸款**  
助您把握商機 貨如輪轉

- 無須任何抵押品
- 貸款額高達港幣500,000元
- 可選擇分期貸款或透支服務
- 利率特低・手續簡便



**大眾銀行(香港)**  
新界網絡增添新成員

新界分行 新界分行 新界分行



大眾銀行 匯豐 渣打 花旗 力保大眾



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# Corporate Information

## Board of Directors

### Non-executive Chairman

Tan Sri Dato' Sri Dr. Teh Hong Piow (Chairman),  
also Founder and Chairman of  
Public Bank Berhad

### Executive Directors

Tan Yoke Kong  
Lee Huat Oon

### Non-executive Directors

Dato' Sri Tay Ah Lek  
Dato' Chang Kat Kiam  
Wong Kong Ming

### Independent Non-executive Directors

Tan Sri Dato' Thong Yaw Hong (Co-Chairman)  
Dato' Yeoh Chin Kee  
Lee Chin Guan

## Joint Secretaries

Tan Yoke Kong  
Chan Sau Kuen

## Registered Office

Clarendon House  
Church Street  
Hamilton HM 11  
Bermuda

## Head Office and Principal Place of Business

1105-7 Wing On House  
71 Des Voeux Road Central  
Hong Kong  
Telephone : (852) 2525 9351  
Facsimile : (852) 2845 0681  
Website : [www.publicfinancial.com.hk](http://www.publicfinancial.com.hk)

## Share Listing

Main Board of The Stock Exchange  
of Hong Kong Limited  
Stock Code : 626

## Principal Registrar

Butterfield Fund Services (Bermuda) Limited  
Rosebank Centre  
11 Bermudiana Road  
Pembroke  
Bermuda

## Hong Kong Branch Registrar

Tricor Tengis Limited  
26th Floor, Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong  
Telephone : (852) 2980 1333  
Facsimile : (852) 2810 8185

## Auditors

Ernst & Young  
Certified Public Accountants

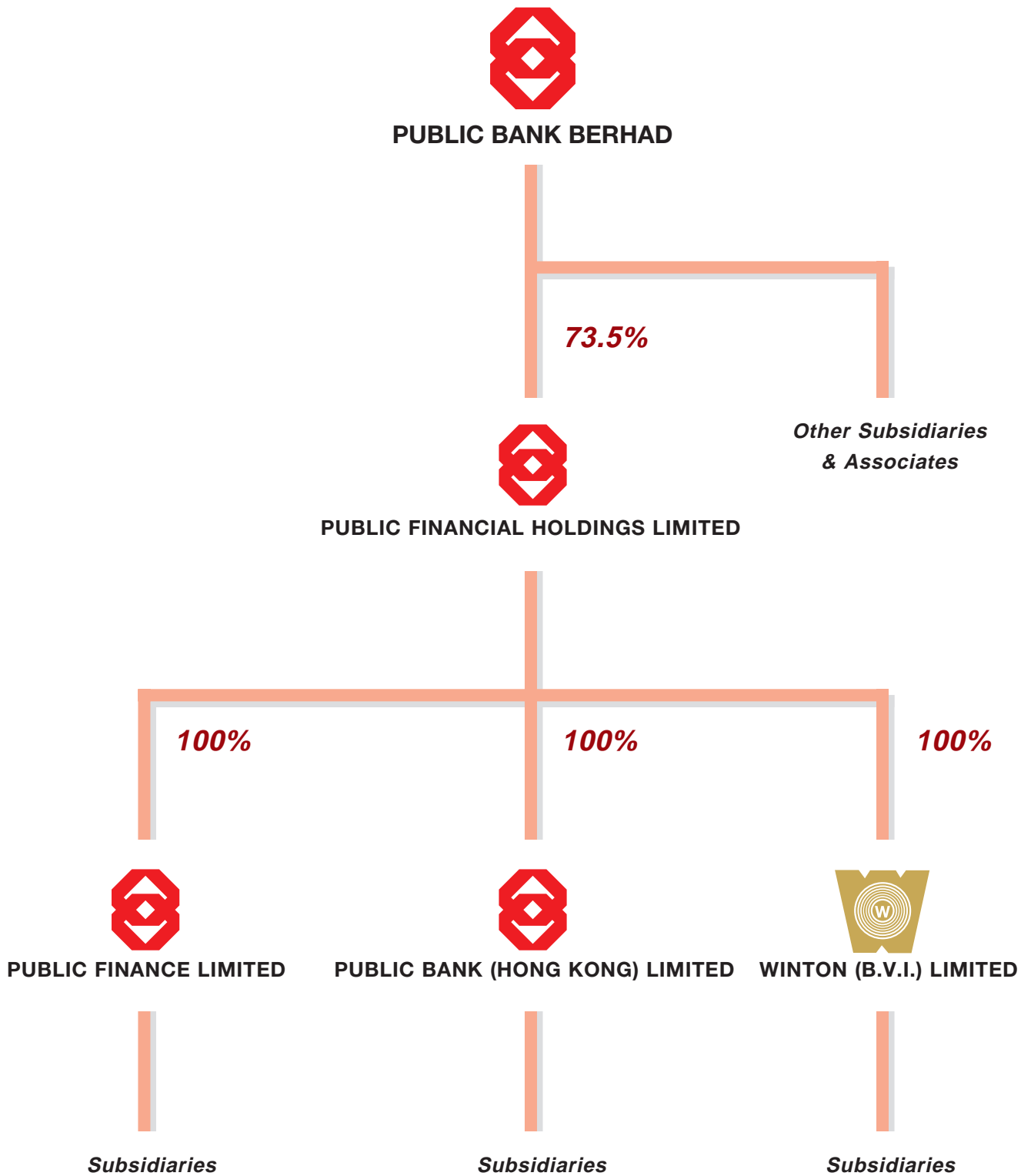
## Legal Advisers

Charles Yeung Clement Lam Liu & Yip  
Deacons  
Gallant Y.T. Ho & Co.  
Philip K H Wong, Kennedy Y H Wong & Co.  
Siao, Wen and Leung

## Principal Bankers

Bank of China  
Barclays Bank PLC  
China Construction Bank  
China Merchants Bank Co Ltd  
China Minsheng Banking Corp. Ltd  
CIMB Bank Berhad  
Oversea-Chinese Banking Corporation Limited  
Public Bank Berhad  
Scotiabank (Hong Kong) Limited  
Standard Chartered Bank  
The Bank of Tokyo – Mitsubishi UFJ Ltd  
The Hongkong and Shanghai Banking Corporation Limited

# Group Structure





## Public Bank (Hong Kong) Limited – Branch Network

## Hong Kong Island

## Head Office and Branches

## Head Office

Public Bank Centre, 120 Des Voeux Road Central  
 Tel : 2541 9222 Telex : 73085 CBHK HKHH  
 Post Box : G.P.O. Box 824 Fax : 2541 0009  
 Website : www.publicbank.com.hk

- |  |   |
|--|---|
| <p><b>1 Main Branch</b><br/>G/F, Public Bank Centre<br/>120 Des Voeux Road Central<br/>Tel: 25419222 Fax: 25452866<br/><b>Manager: So Tak Fai, Peter</b></p> <p><b>2 Western Branch</b><br/>Shop 2-3, G/F, Kam Kwan Building<br/>163-173 Des Voeux Road West<br/>Tel: 28582220 Fax: 28582638<br/><b>Manager: Lau Yiu Fai, Lawrence</b></p> <p><b>3 Wanchai Commercial Centre</b><br/>Unit A, 9/F, China Overseas Building<br/>139 Hennessy Road, Wanchai<br/>Tel: 28914171 Fax: 28341012<br/><b>Manager: Chin Yoke Fong, Marina</b></p> <p><b>4 North Point Branch</b><br/>Shop A, G/F, Yue Yick Building<br/>363-365 King's Road, North Point<br/>Tel: 25685141 Fax: 25670655<br/><b>Manager: Yam Oi Yin, Pauline</b></p> | <p><b>5 Shek Tong Tsui Branch</b><br/>Shop B1, G/F, Hong Kong Plaza<br/>369-375 Des Voeux Road West<br/>Tel: 25462055 Fax: 25597962<br/><b>Manager: Fong Fung Mei, Marisa</b></p> <p><b>6 Causeway Bay Branch</b><br/>G/F and M/F, 447 Hennessy Road<br/>Causeway Bay<br/>Tel: 25722363 Fax: 25723033<br/><b>Manager: So Wai Ming, Aubrey</b></p> <p><b>7 Central Branch</b><br/>Unit A, G/F, Wing On House<br/>71 Des Voeux Road Central<br/>Tel: 21472140 Fax: 21472244<br/><b>Manager: Wong Kai Ip, Jimmy</b></p> <p><b>8 Aberdeen Branch</b><br/>Shop C, G/F, Kong Kai Building<br/>184 Aberdeen Main Road, Aberdeen<br/>Tel: 28710928 Fax: 28710383<br/><b>Manager: Lo Kai Huen, Richard</b></p> |
|--|---|

## Kowloon

- |  |  |
|--|--|
| <p><b>9 Yaumatei Branch</b><br/>Shop No. 1, G/F, Ginza Square<br/>565-567 Nathan Road, Yaumatei<br/>Tel: 23811678 Fax: 23956398<br/><b>Manager: Siu Kit Ching, Christina</b></p> <p><b>10 Kowloon City Branch</b><br/>G/F, 15 Nga Tsin Wai Road, Kowloon City<br/>Tel: 23820147 Fax: 27184281<br/><b>Manager: Cheung Wing Kwong</b></p> <p><b>11 Hung Hom Branch</b><br/>G/F, Hunghom Commercial Centre<br/>37 Ma Tau Wai Road, Hung Hom<br/>Tel: 23639213 Fax: 23633195<br/><b>Manager: Lee Wai Kwan, Luceta</b></p> <p><b>12 Kwun Tong Branch</b><br/>Unit 2310, Tower 1, Millennium City 1<br/>388 Kwun Tong Road, Kwun Tong<br/>Tel: 23899119 Fax: 23899969<br/><b>Manager: Kwok Ka Leung, Joe</b></p> <p><b>13 Mongkok Branch</b><br/>G/F, JCG Building, 16 Mongkok Road<br/>Mongkok<br/>Tel: 23918393 Fax: 23916909<br/><b>Manager: Ngai Mo Ngan, Andy</b></p> | <p><b>14 San Po Kong Branch</b><br/>G/F, 92 Shung Ling Street, San Po Kong<br/>Tel: 23268318 Fax: 23269180<br/><b>Manager: Kwong Hon Wun, Peter</b></p> <p><b>15 Cheung Sha Wan Branch</b><br/>Unit C2, G/F, 746 Cheung Sha Wan Road<br/>Cheung Sha Wan<br/>Tel: 27869858 Fax: 27869506<br/><b>Manager: Chan Yu Chun, Desmond</b></p> <p><b>16 Prince Edward Branch</b><br/>G/F, 751 Nathan Road, Prince Edward<br/>Tel: 23973830 Fax: 23971006<br/><b>Manager: Leung Yuen Fan, Maggie</b></p> <p><b>17 Wong Tai Sin Branch</b><br/>G/F, 89 Fung Tak Road, Wong Tai Sin<br/>Tel: 23287332 Fax: 23267991<br/><b>Manager: Lau Keung Fai, David</b></p> |
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## New Territories

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| <p><b>18 Yuen Long Branch</b><br/>Shop No. 5, Fu Ho Building<br/>3-7 Kau Yuk Road, Yuen Long<br/>Tel: 24794265 Fax: 24733934<br/><b>Manager: Lam Wong Kan, Kent</b></p> <p><b>19 Tsuen Wan Branch</b><br/>G/F, Victory Court, 185-187 Castle Peak Road<br/>Tsuen Wan<br/>Tel: 24904191 Fax: 24904811<br/><b>Manager: Choi Kam Yee, Catalina</b></p> <p><b>20 Kwai Chung Branch</b><br/>Shop 88B, Trendy Place, Kwai Chung Plaza<br/>7-11 Kwai Foo Road, Kwai Chung<br/>Tel: 24800002 Fax: 24012367<br/><b>Manager: Law Chan Shang, Peter</b></p> | <p><b>21 Tai Po Branch</b><br/>Shop B, G/F, 18-24 Kwong Fuk Road, Tai Po<br/>Tel: 26572861 Fax: 26577389<br/><b>Manager: Tsang Wai Chor</b></p> <p><b>22 Fanling Branch</b><br/>Shop 1, G/F, Wo Fung Court<br/>8 Wo Fung Street, Luen Wo Market, Fanling<br/>Tel: 26691559 Fax: 26698780<br/><b>Manager: Chan Kong Hoi, Roy</b></p> <p><b>23 Sheung Shui Branch</b><br/>G/F, 73 San Fung Avenue, Sheung Shui<br/>Tel: 26390307 Fax: 31240091<br/><b>Manager: Yan Yi Kam, Patrick</b></p> |
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## China

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| <p><b>24 Shenzhen Branch</b><br/>Shop No.1, G/F, Carrianna Friendship Square<br/>Renminnan Road, Shenzhen<br/>People's Republic of China<br/>Tel : (86-755) 2518 2822<br/>Fax : (86-755) 2518 2327<br/><b>Manager : Cheung Po Tung, David</b></p> <p><b>25 Futian Sub-branch</b><br/>1-3 Jinrun Mansion, No. 6019 Shennan Road<br/>Futian District, Shenzhen<br/>People's Republic of China<br/>Tel : (86-755) 8280 0026<br/>Fax : (86-755) 8280 0016<br/><b>Manager: Cheung Ding Keung, Sammy</b></p> | <p><b>Shenyang Representative Office</b><br/>Unit A, 18/F, Sunwah Hi-tech Building<br/>No. 262 Shifu Road, Shenhe District, Shenyang<br/>Liaoning Province, People's Republic of China<br/>Tel : (86-24) 2279 1368<br/>Fax : (86-24) 2279 1369<br/><b>Representative: Li Yu Jie</b></p> <p><b>Shanghai Representative Office</b><br/>Room G, 8/F Majesty Building<br/>138 Pu Dong Avenue, Shanghai<br/>People's Republic of China<br/>Tel : (86-21) 5887 8851<br/>Fax : (86-21) 5887 9951<br/><b>Representative: Chen Li Hang</b></p> |
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## Taiwan

**Taipei Representative Office**  
Room 905, No. 18 Chan-An E. Road Section 1, Taipei, Taiwan  
Tel : (88-62) 2563 8789  
Fax : (88-62) 2564 2047  
**Representative: Lu Chia Nan, Deanna**





## Public Finance Limited – Branch Network

## Hong Kong Island

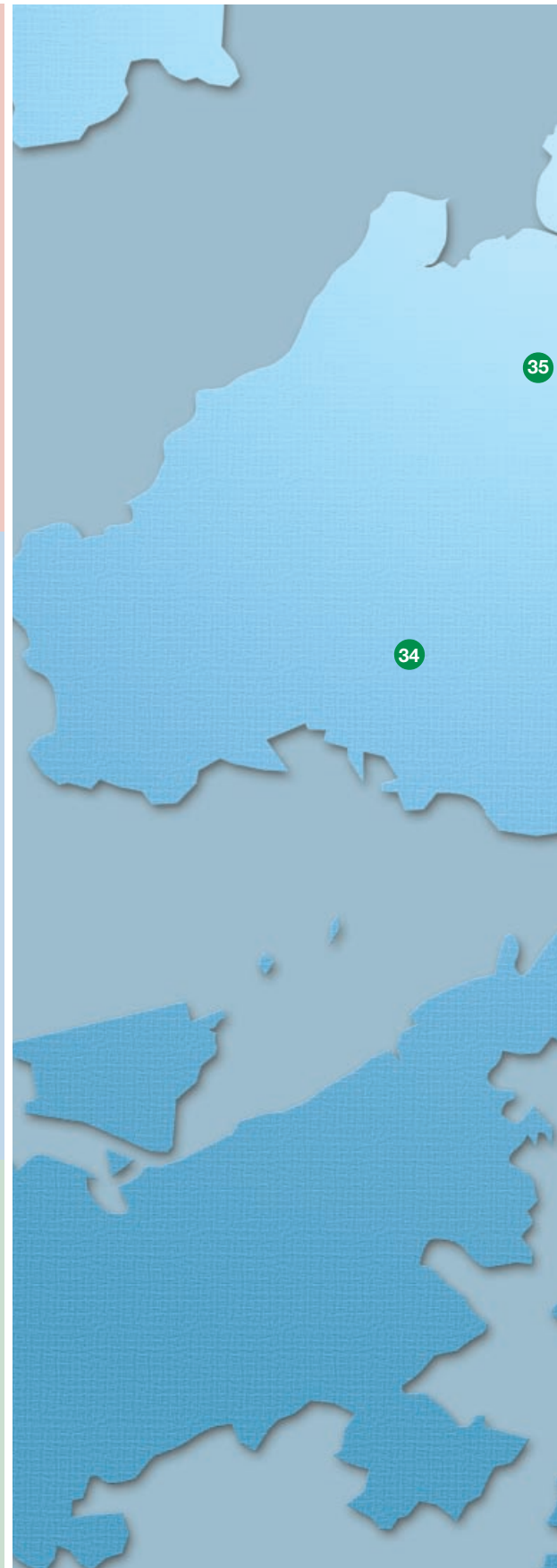
- 1 **Landmark Branch**  
Rm 1905, Gloucester Tower, The Landmark, Central  
Tel: 25224067 Fax: 25373623  
*Manager: Rodriguez Lolita H*
- 2 **Queen's Road Central Branch**  
1/F, Parker House, 72 Queen's Road Central  
Tel: 25266415 Fax: 28779088  
*Manager: Lau Kan So Ivan*
- 3 **Central Branch**  
M/F, Chung Nam House,  
59 Des Voeux Rd Central  
Tel: 25248676 Fax: 28779084  
*Manager: Leung Kwok Fai Eric*
- 4 **Wing On House Branch**  
Room 1109-10, Wing On House,  
71 Des Voeux Road Central  
Tel: 25245603 Fax: 25372909  
*Manager: Villarael Ma Aurora B*
- 5 **Wanchai Branch**  
G/F, 170 Hennessy Road  
Tel: 25746245 Fax: 28936653  
*Manager: Tong Woon Shing*
- 6 **Tin Lok Lane Branch**  
G/F, Foo Tak Building, 365 Hennessy Road  
Tel: 28917028 Fax: 28933769  
*Manager: Wong Wai Keung Thomas*
- 7 **Causeway Bay Branch**  
1/F, Coasia Building 496-498 Lockhart Rd  
Tel: 28936575 Fax: 28932770  
*Manager: Louie Kin Cheong Daniel*
- 8 **North Point Branch**  
Shop No.1, G/F, Wah Hing Building  
449-455 King's Road  
Tel: 25610160 Fax: 28563647  
*Manager: Ho Kwok Sin Tom*
- 9 **Shaukeiwan Branch**  
G/F, 134 Shaukeiwan Road  
Tel: 25670461 Fax: 28858501  
*Manager: Choi Wai Man*
- 10 **Shek Tong Tsui Branch**  
Shop G1, Hong Kong Plaza  
188 Connaught Road West  
Tel: 28176125 Fax: 28177618  
*Manager: Chow Koon Ping Danny*
- 11 **Western District Branch**  
G/F, 161 Des Voeux Road West  
Tel: 25479148 Fax: 25461142  
*Manager: Hui Kam Tong Samson*
- 12 **Aberdeen Branch**  
Shop A, G/F, Kong Kai Bldg  
184-188 Aberdeen Main Rd  
Tel: 25538231 Fax: 25543897  
*Manager: Ng Siu Kwan Arthur*
- 13 **Chai Wan Branch**  
G/F, Flat B, 77 Walton Estate  
341-343 Chai Wan Road  
Tel: 25578003 Fax: 25574088  
*Manager: Miu Ka Lok Patrick*
- 14 **Quarry Bay Branch**  
G/F, 14 Hoi Kwong Street  
Tel: 25166368 Fax: 25790084  
*Manager: Lai Yu Tong*

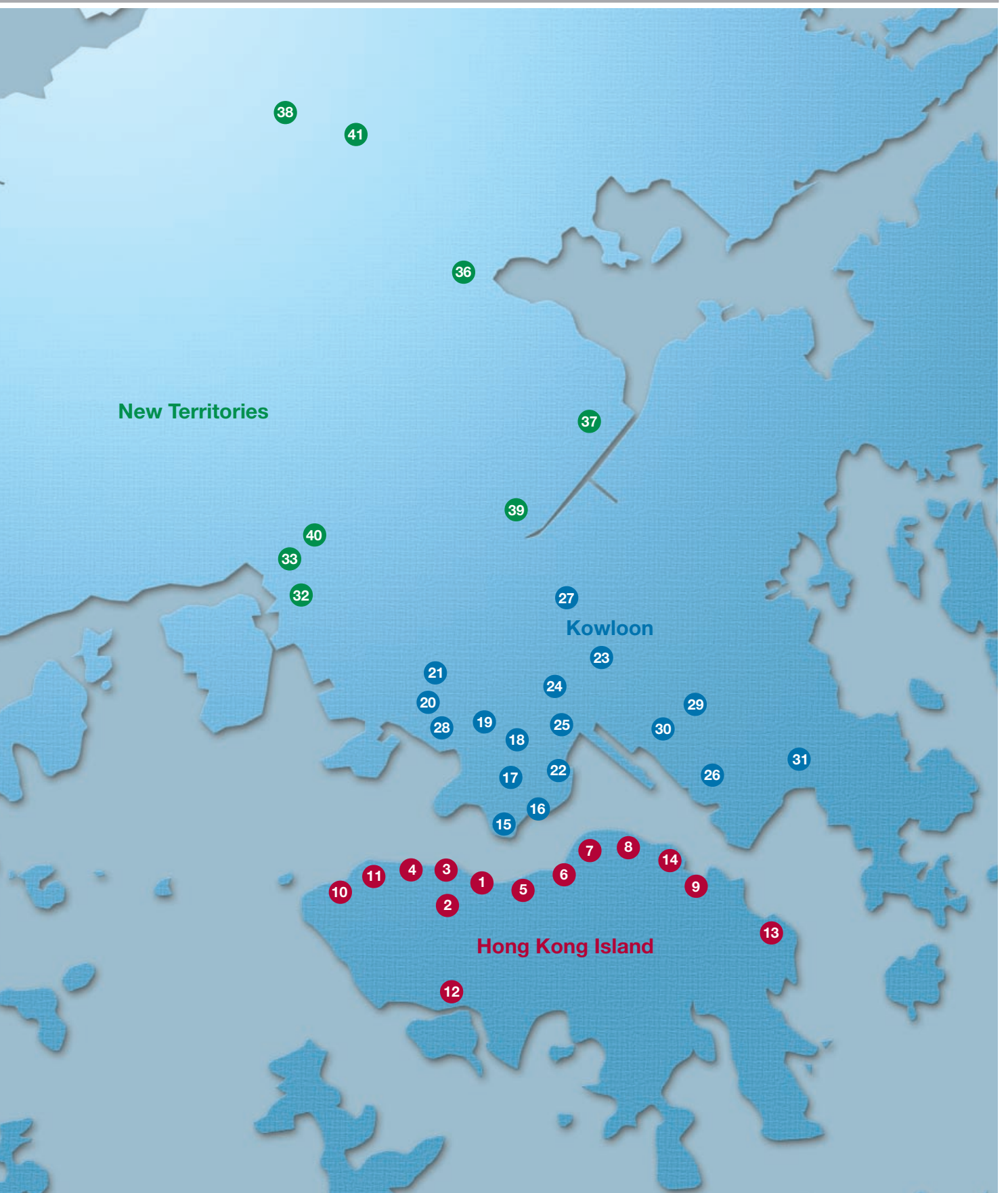
## Kowloon

- 15 **Star House Branch**  
Basement, Shop B9-B10, Star House Plaza, TST  
Tel: 27308395 Fax: 27302346  
*Manager: Ho Mei Yu Denise*
- 16 **Tsimshatsui Branch**  
Shop No. 51-53, 1/F, Harbour Crystal Centre  
100 Granville Rd, TST East  
Tel: 23693236 Fax: 23110433  
*Manager: Leung Kwok Chung Solomon*
- 17 **Jordan Road Branch**  
Shop B, G/F, Dao Hing Building, 34 Jordan Rd  
Tel: 27364711 Fax: 23148432  
*Manager: Cheung Chu Ming Albert*
- 18 **Nathan Road Branch**  
G/F, 480 Nathan Road  
Tel: 27715285 Fax: 27704127  
*Manager: Tong Ka Ling Tony*
- 19 **Mongkok Branch**  
Flat B, 1/F, JCG Building, 16 Mongkok Rd  
Tel: 23940253 Fax: 27875630  
*Manager: Cheng Ho Fat Ricky*
- 20 **Shamshuipo Branch**  
G/F, 27 Castle Peak Road  
Tel: 27282347 Fax: 27299685  
*Manager: Kwan Wai Choi Samuel*
- 21 **Cheung Sha Wan Branch**  
Unit C1, G/F, 746 Cheung Sha Wan Road  
Tel: 27445416 Fax: 27853634  
*Manager: Wu Kin Sang Wilson*
- 22 **Hungohm Branch**  
G/F, 130 Ma Tau Wai Road  
Tel: 23344307 Fax: 27644876  
*Manager: Chan Siu Sung Jeffery*
- 23 **Sanpokong Branch**  
G/F, 92 Shung Ling Street  
Tel: 23283175 Fax: 23254504  
*Manager: Wong Chun Pui Paul*
- 24 **Kowloon City Branch**  
G/F, 31 Lion Rock Road  
Tel: 23824893 Fax: 27164819  
*Manager: Li Kit Shing Joe*
- 25 **Tokwawan Branch**  
Shop 9-10, G/F, Chong Chien Court  
355 Tokwawan Road  
Tel: 23657061 Fax: 27642832  
*Manager: Man Wing Sun Ethan*
- 26 **Kwun Tong Branch**  
G/F, 367 Ngau Tau Kok Road  
Tel: 23440264 Fax: 27635427  
*Manager: Cheng Man Kwong Ringo*
- 27 **Wong Tai Sin Branch**  
G/F, 89 Fung Tak Road  
Tel: 23205112 Fax: 27260106  
*Manager: Ng Chung Tak*
- 28 **Prince Edward Branch**  
G/F, 751 Nathan Road  
Tel: 23803260 Fax: 23804100  
*Manager: Leung Sze Wan Irene*
- 29 **Ngau Tau Kok Branch**  
Shop 29, G/F, Wang Kwong House  
33 Ngau Tau Kok Road  
Tel: 27578299 Fax: 27578737  
*Manager: Lam Kwan Chee Evans*
- 30 **Kowloon Bay Branch**  
Unit 2B, G/F, Fook Hong Industrial Building  
19 Sheung Yuet Road  
Tel: 27567320 Fax: 27585706  
*Manager: Yuen Chuk Kwan Raymond*
- 31 **Tseung Kwan O Branch**  
Shop G29, G/F, Metro City Plaza, Phase II  
Tel: 31944312 Fax: 31944377  
*Manager: Li Wai Yin*

## New Territories

- 32 **Kwai Chung Branch**  
Shop 88B, 3/F, Kwai Chung Plaza  
7-11 Kwai Foo Road  
Tel: 24200121 Fax: 24850590  
*Manager: Ho Kam Ming*
- 33 **Tsuen Wan Branch**  
G/F, 281 Sha Tsui Road  
Tel: 24934187 Fax: 24174497  
*Manager: Law Shue Sum Dennis*
- 34 **Tuen Mun Branch**  
Shop 7, G/F, Mei Hang Bldg, Kai Man Path  
Tel: 24572901 Fax: 24402503  
*Manager: Chan Chiu Ming Peter*
- 35 **Yuen Long Branch**  
G/F, 182 Main Road  
Tel: 24762146 Fax: 24759903  
*Manager: Yuen Chak Sang Michael*
- 36 **Tai Po Branch**  
Shop B, G/F, 18-24 Kwong Fuk Road  
Tel: 26565207 Fax: 26577019  
*Manager: Kan Yuk Lun Taylor*
- 37 **Shatin Branch**  
Shop 10A, 11A & B  
Lucky Plaza Commercial Centre  
Tel: 26995633 Fax: 26914588  
*Manager: Lee Man Fai Eric*
- 38 **Sheung Shui Branch**  
G/F, 99 San Fung Avenue  
Tel: 26732729 Fax: 26739278  
*Manager: Kam Ying Wah*
- 39 **Tai Wai Branch**  
Shop 2C, G/F, 11-13 Chik Fai Street  
Tel: 26092611 Fax: 26094088  
*Manager: Cheung Wa Wai Victor*
- 40 **Nan Fung Centre Branch**  
Rm 1523, Nan Fung Centre  
264-298 Castle Peak Road  
Tsuen Wan  
Tel: 24141198 Fax: 24131624  
*Manager: Lai Chung Wai Danny*
- 41 **Fanling Branch**  
Shop 1, G/F, Wo Fung Court  
8 Wo Fung Street  
Luen Wo Market  
Tel: 26690260 Fax: 26691187  
*Manager: Ho Wai Ming Ian*

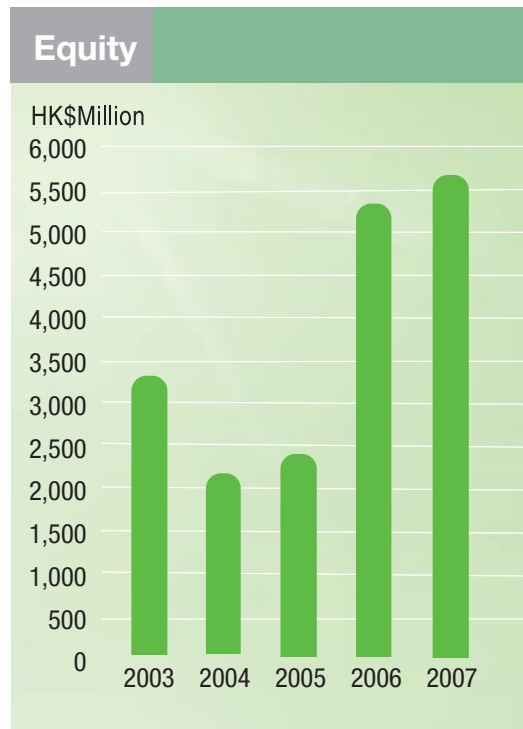
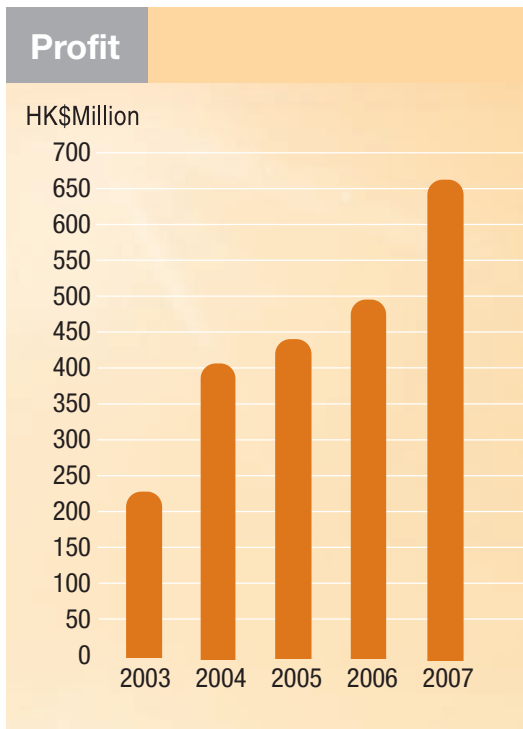
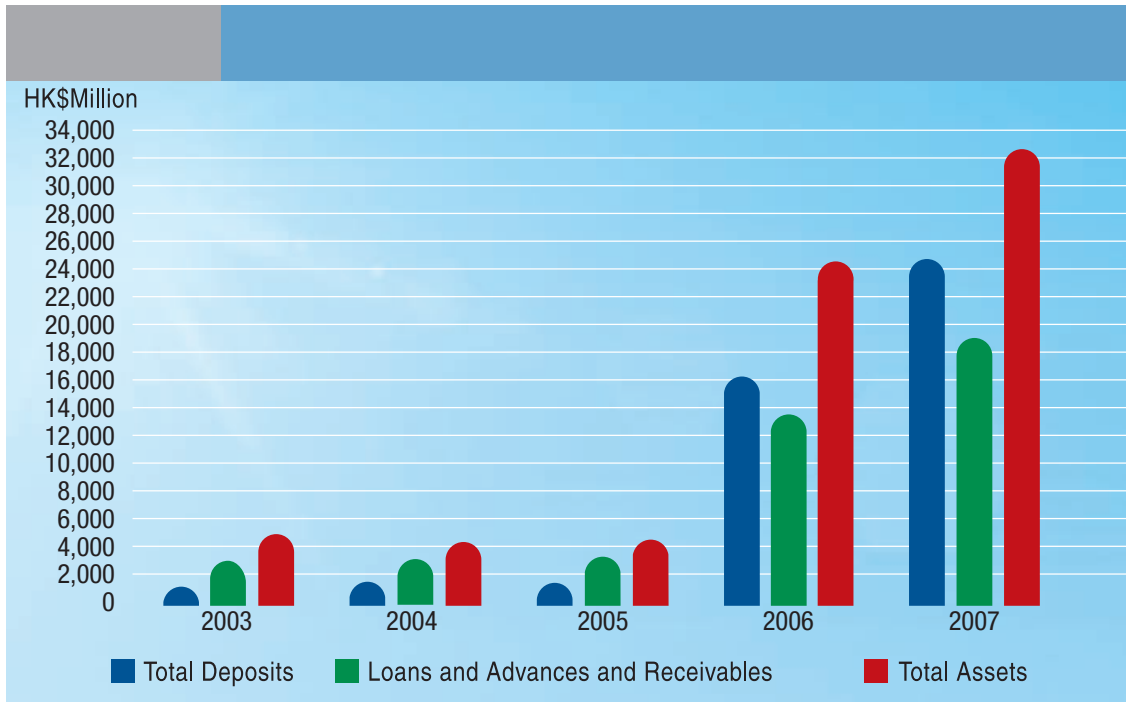








# Five-year Financial Summary



## 2007 Financial Highlights

<b>Profit for the year:</b>	<b>HK\$665.3 million</b>
<b>Loans and advances and receivables:</b>	<b>HK\$19,165.6 million</b>
<b>Total deposits:</b>	<b>HK\$24,814.7 million</b>
<b>Equity:</b>	<b>HK\$5,654.2 million</b>
<b>Earnings per share:</b>	
<b>Basic</b>	<b>HK\$0.608</b>
<b>Diluted</b>	<b>HK\$0.608</b>
<b>Total dividends per share:</b>	<b>HK\$0.300</b>

A summary of the results and of the assets and liabilities of Public Financial Holdings Limited and its subsidiaries for the last five financial years, as extracted from the published audited financial statements, is set out below:

	<b>Year ended 31 December</b>				
	<b>2007</b>	2006	2005	2004	2003
	<b>HK\$'000</b>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash, and placements with banks and financial institutions	<b>6,323,774</b>	2,861,992	458,009	795,924	1,430,122
Loans and advances and receivables	<b>19,165,638</b>	13,694,636	3,512,255	3,103,027	2,961,573
Held-to-maturity investments	<b>2,858,708</b>	3,679,604	–	–	–
Other assets	<b>4,330,692</b>	4,008,165	493,158	394,728	467,165
<b>Total assets</b>	<b>32,678,812</b>	24,244,397	4,463,422	4,293,679	4,858,860
Deposits and balances of banks and other financial institutions at amortised cost	<b>2,263,902</b>	516,097	–	–	–
Customer deposits at amortised cost	<b>20,501,549</b>	14,853,655	1,641,978	1,720,381	1,309,344
Certificates of deposit issued at amortised cost	<b>2,049,227</b>	769,674	–	–	–
Dividend payable	<b>273,474</b>	218,779	291,706	283,104	141,552
Unsecured bank loans at amortised cost	<b>1,100,000</b>	2,000,000	–	–	–
Other liabilities	<b>836,439</b>	566,144	136,304	123,657	100,426
<b>Total liabilities</b>	<b>27,024,591</b>	18,924,349	2,069,988	2,127,142	1,551,322
<b>Equity</b>	<b>5,654,221</b>	5,320,048	2,393,434	2,166,537	3,307,538
<b>Profit for the year</b>	<b>665,331</b>	496,637	446,297	412,889	232,133
Basic earnings per share (HK\$)	<b>0.608</b>	0.500	0.623	0.583	0.328
Diluted earnings per share (HK\$)	<b>0.608</b>	0.500	0.622	N/A	N/A

# Chairman's Statement



**Tan Sri Dato' Sri Dr. Teh Hong Piow**  
*Chairman*

**“ I am pleased to present a review of the performance of the Group for the financial year ended 31 December 2007.”**

## **GROUP RESULTS**

For the year ended 31 December 2007, the Group recorded a profit after tax of HK\$665.3 million, representing an increase of HK\$168.7 million when compared to the profit after tax of HK\$496.6 million for the previous year. The Group's profit after tax for 2007 has consolidated a full 12 months of earnings of HK\$121.4 million for the year ended 31 December 2007 of Public Bank (Hong Kong) Limited (“Public Bank (Hong Kong)”) against 8 months of earnings of HK\$105.9 million in the previous year.

The Group's basic earnings per share for 2007 increased by 21.6% to HK\$0.608 per share from HK\$0.500 per share for 2006. The directors had declared a first and a second interim dividend of HK\$0.05 per share in June 2007 and HK\$0.25 per share in December 2007 respectively. The directors do not recommend the payment of a final dividend, making a total dividend of HK\$0.30 per share for 2007 (2006: HK\$0.25 per share).

## **BUSINESS DEVELOPMENT OF PUBLIC BANK (HONG KONG)**

During the year under review, Public Bank (Hong Kong) continued to expand its network of branches with the opening of 8 new branches in Hong Kong and a new sub-branch in Shenzhen in the People's Republic of China (“PRC”), bringing Public Bank (Hong Kong)'s branch network to 23 branches in Hong Kong and 2 branches in the PRC. Public Bank (Hong Kong) will continue with the branch expansion programme in 2008 and aim to open 10 to 12 new branches in Hong Kong and another new sub-branch in Shenzhen in the PRC.

During the year under review, Public Bank (Hong Kong) registered a growth in loans and advances (including trade bills) of 51.7% or HK\$5.26 billion to HK\$15.42 billion as at 31 December 2007 from HK\$10.16 billion as at 31 December 2006, as well as a growth in customer deposits of 36.9% or HK\$4.96 billion to HK\$18.39 billion as at 31 December 2007 from HK\$13.43 billion as at 31 December 2006. The significant growth rates in loans and advances and customer deposits are attributed to Public Bank (Hong Kong)'s market oriented policies and competitive pricing strategies along with the building of the Public Bank Group's “PB Brand” in Hong Kong.

The opening of new branches of Public Bank (Hong Kong) in the year coupled with the increase in advertising and promotional activities in building the “PB Brand” had led to a significant increase in the operating expenses of Public Bank (Hong Kong) by 27.2% or HK\$49 million which affected the earnings of Public Bank (Hong Kong) for the year under review.

## GROUP FINANCIAL PERFORMANCE

### Income and Expense

For the year under review, the Group's interest income increased by 32.9% or HK\$475.1 million to HK\$1,919.9 million from HK\$1,444.8 million for 2006, whilst interest expense increased by 71.8% or HK\$383.7 million to HK\$918.1 million from HK\$534.4 million for 2006. As a result, the Group's net interest income for 2007 increased by 10.0% or HK\$91.3 million to HK\$1,001.8 million when compared to the previous year.

The interest expense included interest paid of HK\$69.7 million (2006: HK\$65.3 million) for the 3-year bank term loan of HK\$2.0 billion raised in 2006 to partly finance the acquisition of Public Bank (Hong Kong). The 3-year bank term loan has been partly repaid during the year to HK\$1.1 billion as at 31 December 2007.

Non-interest income of the Group increased by 89.2% or HK\$184.6 million to HK\$391.7 million for 2007, whilst operating expenses of the Group increased by 38.8% or HK\$120.5 million to HK\$431.2 million for 2007. The opening of new branches for Public Bank (Hong Kong) and the increase in advertising and promotional activities in building the "PB Brand" and in developing the loans and deposits businesses have caused an increase in operating overheads leading to an increase in the Group's cost to operating income ratio from 27.8% in 2006 to 30.9% in 2007.

The Group's impairment allowances for financial assets decreased by 16.1% or HK\$33.8 million to HK\$177.0 million from HK\$210.8 million for the previous year with higher bad debts recovery in 2007.

### Loans and Deposits

Total loans and advances (including trade bills) of the Group increased by 38.8% to HK\$19.11 billion as at 31 December 2007 from HK\$13.77 billion as at 31 December 2006. For 2007, the Group's impaired loan ratio further improved to 0.8% as at 31 December 2007 from 2.2% as at 31 December 2006. Impaired loan ratio of Public Bank (Hong Kong) also improved to 0.5% as at 31 December 2007 from 0.8% as at 31 December 2006. Deposits from customers of the Group increased by 38.0% to HK\$20.5 billion as at 31 December 2007 from HK\$14.9 billion as at 31 December 2006.

During the year under review, the outstanding balance of certificates of deposit issued by Public Bank (Hong Kong) increased to HK\$2.05 billion as at 31 December 2007 as compared to HK\$769.7 million as at 31 December 2006.

The Group's loan to deposit ratio was 76.4% as at 31 December 2007 as compared to 84.7% as at 31 December 2006.

## BUSINESS DEVELOPMENT

The Group will continue to expand the network of branches for Public Bank (Hong Kong) in Hong Kong and in Shenzhen in the PRC, as well as relocate the branches of Public Bank (Hong Kong) and Public Finance Limited ("Public Finance") to better locations with high visibility and easy access by customers. The Group will continue to focus on expanding its retail and commercial banking businesses and consumer finance business through the expanded branch network of the Group, innovative product development and aggressive marketing and advertising campaigns. The Group will continue to target selected market segments of Public Bank (Hong Kong) and Public Finance to grow the retail and commercial banking and consumer finance businesses.

The Group will also continue to seek further synergies to develop the Group's business as well as lower the operating costs, through further integration of the operations of Public Bank (Hong Kong) and Public Finance where applicable, and cross-selling to the enlarged customer base of the Group.

## ACKNOWLEDGEMENT

On behalf of the Board of Directors, I wish to take this opportunity to express our appreciation to the management and staff of the Group for their commitment, dedication and perseverance, and sincere gratitude to our customers for their invaluable patronage, and to the shareholders for their continued confidence in and support of the Group. The Board of Directors and management would also like to thank the Hong Kong Monetary Authority, the Securities and Futures Commission, the Hong Kong Stock Exchange and other relevant authorities for their invaluable advice, guidance and support.

**Tan Sri Dato' Sri Dr. Teh Hong Piow**

*Chairman*

# Management Discussion and Analysis

## BUSINESS REVIEW

### Overview

During the year under review, the economic conditions in Hong Kong continued to show improvements amidst buoyant stock and property prices, declining unemployment rate, and tightening labour market which drove the growth in private consumption spending and healthy gross domestic product. However, the operating environment for financial institutions in Hong Kong remained challenging and competitive, coupled with the effects from the turmoil in the credit market arising from the US sub-prime mortgages leading to a slowing pace of global economic growth and creating uncertainty for the Hong Kong economy.

## FINANCIAL REVIEW

### Group performance

For the year ended 31 December 2007, the Group recorded a profit after tax of HK\$665.3 million, representing an increase of HK\$168.7 million when compared to the profit after tax of HK\$496.6 million for the previous year.

The Group's profit after tax for 2007 has consolidated a full 12 months of earnings from Public Bank (Hong Kong) of HK\$121.43 million against consolidation of 8 months earnings of HK\$105.87 million in the previous year. In the year under review, the Group also recorded gains from disposal of listed security investment in Hong Kong of HK\$108.5 million.

The Group's basic earnings per share for 2007 increased by 21.6% to HK\$0.608 per share from HK\$0.500 per share for 2006. The directors had declared a first and a second interim dividend of HK\$0.05 per share in June 2007 and HK\$0.25 per share in December 2007 respectively. The directors do not recommend the payment of a final dividend, making a total dividend of HK\$0.30 per share for the year (2006: HK\$0.25 per share).

The Group's net interest income for 2007 increased by 10.0% or HK\$91.3 million to HK\$1,001.8 million when compared to the previous year. Interest income increased by 32.9% or HK\$475.1 million to HK\$1,919.9 million whilst interest expense increased by 71.8% or HK\$383.7 million to HK\$918.1 million when compared to the previous year.

The Group's non-interest income for 2007 increased by 89.2% or HK\$184.6 million to HK\$391.7 million whilst the Group's operating expenses increased by 38.8% or HK\$120.5 million to HK\$431.2 million when compared to the previous year.

The Group's impairment allowances for financial assets decreased by 16.1% or HK\$33.8 million to HK\$177.0 million on higher bad debts recovery as a result of active debt collection and restructuring efforts.

The Group's total loans and advances (including trade bills) increased by 38.8% or HK\$5.34 billion to HK\$19.11 billion as at 31 December 2007 from HK\$13.77 billion as at 31 December 2006. The Group's deposits from customers also increased by 38.0% or HK\$5.65 billion to HK\$20.50 billion as at 31 December 2007 from HK\$14.85 billion as at 31 December 2006. The aggregate of deposits from customers, deposits from banks and financial institutions and issuance of certificates of deposit stood at HK\$24.81 billion as at 31 December 2007. Total assets of the Group increased to HK\$32.68 billion as at 31 December 2007 from HK\$24.24 billion as at 31 December 2006.

### Business development of Public Bank (Hong Kong)

During the year under review, total loans and advances (including trade bills) of Public Bank (Hong Kong) grew by 51.7% or HK\$5.26 billion to HK\$15.42 billion as at 31 December 2007 from HK\$10.16 billion as at 31 December 2006. Deposits from customers also grew by 36.9% or HK\$4.96 billion to HK\$18.39 billion as at 31 December 2007 from HK\$13.43 billion as at 31 December 2006.

## FINANCIAL REVIEW (Continued)

### Business development of Public Bank (Hong Kong) (Continued)

In 2007, Public Bank (Hong Kong) opened 8 new branches in Hong Kong and a new sub-branch in Shenzhen in the People's Republic of China ("PRC"), bringing Public Bank (Hong Kong)'s branch network to 23 branches in Hong Kong and 2 branches in the PRC. The increase in overheads from the opening of new branches, and increase in advertising and promotional expense to develop the "PB Brand" and its loan business had caused an increase of the cost to operating income ratio of the Group to 30.9% for 2007 as compared to 27.8% for 2006.

### Segmental information

The Group's business comprised two main segments: (i) retail and commercial banking and lending businesses and (ii) other businesses. Over 90% of the Group's operating income and profit before tax was contributed by retail and commercial banking in Hong Kong for 2007. When compared to the previous year, the Group's operating income from retail and commercial banking increased by HK\$269.6 million or 24.5% to HK\$1,371.8 million. Profit before tax from retail and commercial banking for 2007 increased by HK\$186.9 million or 32.5% to HK\$762.1 million when compared to the previous year.

### Contingent liabilities and commitments

The Group has no material contingent liabilities (other than those in the normal course of its banking and finance business related to treasury, trade finance and loan commitments disclosed in the notes to the financial statements) at the end of the year under review. The Group did not incur any material capital expenditure or enter into any material commitments in respect of capital expenditure during the year under review. The Group also had no charge over the assets of the Group as at 31 December 2007, which was the same position as disclosed by the Group as at 31 December 2006.

## OPERATIONAL REVIEW

### Funding and capital management

The main objective of the Group's funding activities and capital management is to ensure the availability of funds at reasonable cost to meet all contractual financial commitments, to fund loan growth and to generate reasonable returns from available funds. The Group also encourages its subsidiaries to be self-reliant in funding their business growth.

The Group relied principally on its internally generated capital, deposits from customer, deposits from financial institutions and the issuance of certificates of deposit to fund its retail consumer financing business and retail and commercial banking business. The Group's bank borrowings in the form of a three-year term loan denominated in Hong Kong dollars at floating interest rates to finance the investment in Public Bank (Hong Kong) was reduced by HK\$0.9 billion to HK\$1.1 billion during the year under review. The loan repayment has reduced the Group's gearing ratio from 37.6% as at 31 December 2006 to 19.5% as at 31 December 2007. In the normal course of its commercial banking business, the Group has entered into foreign exchange and interest rate swaps and forward exchange contracts to reduce foreign exchange risk and interest rate risk exposures.

The loan to deposit ratio of the Group decreased to 76.4% as at 31 December 2007 as compared to 84.7% as at 31 December 2006 as a result of the growth in deposits from customers and the issuance of certificates of deposit during the year under review.

### Asset quality

The Group's overdue and impaired loan ratio improved from 2.2% as at 31 December 2006 to 0.8% as at 31 December 2007 due to higher bad debt recoveries and write off of bad debts. The asset quality of Public Bank (Hong Kong) has improved further with its overdue and impaired loan ratio decreasing from 0.8% as at 31 December 2006 to 0.5% as at 31 December 2007 as a result of prudent credit risk management.

# Management Discussion and Analysis

## **OPERATIONAL REVIEW (Continued)**

### **Human resource management**

The objective of the Group's human resource management activities is to reward and recognise performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression within the Group. Staff are enrolled for external training courses, seminars, professional and technical courses with appropriate sponsorship from the Group in order to update their technical knowledge and skills, to increase their awareness of the market and technological changes, and to improve their management and business skills. Staff are also encouraged to participate in social activities organised by the Group to promote team spirit and build a cohesive workforce.

Options to subscribe for 66,526,000 shares in the Company were granted to employees of the Group in May 2005 pursuant to the Company's share option scheme approved by shareholders on 28 February 2002. As at 31 December 2007, options to subscribe for 40,564,000 shares in the Company remained unexercised.

As at 31 December 2007, the Group's staff force stood at 942 employees. For 2007, the Group's total staff and related costs amounted to HK\$226.8 million.

## **PROSPECTS**

The employment market of Hong Kong is anticipated to improve further with higher rates of wage increases. This will provide employees with higher disposable income and a potential for stronger appetite for private consumption and investments in tandem with the growth momentum of the Hong Kong economy. The booming economy of the PRC is expected to continue and help to provide growth impetus in the economy of Hong Kong. The positive economic outlook for Hong Kong and the PRC is anticipated to drive private consumption spending and thus demand for consumer financing.

The Group will continue to focus on expanding its retail and commercial banking business and consumer financing business through its branch expansion programme, innovative product development and aggressive marketing strategies. The Group will continue to seek further synergies in greater economies of scale and lower operating costs through the integration of the support functions of Public Bank (Hong Kong) and Public Finance where appropriate, enhancing efficiency of the Group organisational structure and cross-selling through the combined branch network of Public Bank (Hong Kong) and Public Finance and the Group's enlarged customer base. The Group will continue to target selected market segments of Public Bank (Hong Kong) and Public Finance to grow its retail and commercial banking and consumer financing businesses.

Competition in the banking and financing industry is expected to remain keen with financial institutions seeking greater market share. The competitive environment will be likely to add pressure on the pricing for banking and financing products. The effect of the US sub-prime mortgage crisis may cause uncertainties for financial institutions and drive up the cost of bank borrowing. The measures and policies taken by the authorities in the PRC to cool its overheated economy is expected to continue in the year ahead and this may bring down the pace of the economy growth in Hong Kong.

Barring unforeseen circumstance, the Group expects to continue to register satisfactory growth in its loan and deposit taking businesses and its financial performance.

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure that a high standard of corporate governance is maintained. The Company has applied the principles and complied with the requirements of the Code on Corporate Governance Practices (the "Code on CGP"), except for the deviation in respect of the service term under code provision A.4.1 of the Listing Rules. The current practices will be reviewed and updated regularly to follow the latest practices in corporate governance.

Public Bank (Hong Kong) and Public Finance, both being major subsidiaries of the Company, are a licensed bank and a deposit taking company respectively, and are incorporated in Hong Kong and are under the supervision of the Hong Kong Monetary Authority ("HKMA"). The respective boards of directors are fully committed to adopting and implementing the principles and best practices in corporate governance as set out in the guidelines on "Corporate Governance of Locally Incorporated Authorised Institutions" issued by the HKMA. Specialised committees with clear terms of references and specific authorities delegated by the boards of directors have been set up by Public Bank (Hong Kong) and Public Finance.

## Directors' Securities Transactions

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules. All the directors have confirmed that they have complied with the required standards as set out in the Model Code throughout the year.

## Board of Directors

The board of directors of the Company comprises:

Non-executive Directors: Tan Sri Dato' Sri Dr. Teh Hong

    Piow, *Chairman*

    Dato' Sri Tay Ah Lek

    Dato' Chang Kat Kiam

    Wong Kong Ming

Independent Non-executive Directors : Tan Sri Dato' Thong Yaw Hong,  
    *Co-Chairman*

    Dato' Yeoh Chin Kee

    Lee Chin Guan

Executive Directors : Tan Yoke Kong

    Lee Huat Oon

The non-executive directors provide the Group with a wide range of expertise and knowledge in the banking and finance sector. The independent non-executive directors are persons of high calibre; with academic and professional qualifications in the fields of accounting, law, banking and business management. With their experience gained from senior positions held in other companies, they provide strong support towards the effective discharge of the duties and responsibilities of the board. Each independent non-executive director has given an annual confirmation of his independence to the Company, and the Company considers these directors to be independent under Rule 3.13 of the Listing Rules.



# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES (Continued)

### Board of Directors (Continued)

During the year, nine full board meetings were held and the attendance of each director is set out as follows:

Name of director	Number of board meetings attended in 2007	Attendance rate
Tan Sri Dato' Sri Dr. Teh Hong Piow, <i>Chairman</i>	9	100%
Tan Sri Dato' Thong Yaw Hong, <i>Co-Chairman</i>	9	100%
Tan Yoke Kong	9	100%
Lee Huat Oon	9	100%
Dato' Sri Tay Ah Lek	9	100%
Dato' Chang Kat Kiam	9	100%
Wong Kong Ming	9	100%
Dato' Yeoh Chin Kee	8	89%
Lee Chin Guan	5	56%

The board formulates overall strategy of the Group, monitors its financial performance and maintains effective oversight over the management. The board members are fully committed to their roles and have acted in good faith to maximize the shareholders' value in the long run, and have aligned the Group's goals and directions with the prevailing economic and market conditions. Daily operations and administration are delegated to the management.

The schedule of board meeting for a year is planned in the preceding year. At least 14 days notice of all board meetings is given to all directors and they can include matters for discussion in the agenda if the need arises. The Company Secretary assists the Chairman in preparing the agenda for meetings and ensures that all relevant rules and regulations are followed. The agenda and the accompanying board papers are sent to all directors at least 3 days before the date of every board meeting so that the directors have the time to review the documents. Minutes of every board meeting are circulated to all directors for their perusal prior to confirmation of the minutes at the following board meeting.

Every board member is entitled to have access to board papers and related materials and has unrestricted access to the advice and services of the Company Secretary, and has the liberty to seek external professional advice if so required. The Company Secretary continuously updates all directors on the latest development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practice.

### Chairman, Co-Chairman and Chief Executive

The Chairman and the Chief Executive of the Company are Tan Sri Dato' Sri Dr. Teh Hong Piow and Mr. Tan Yoke Kong respectively. Tan Sri Dato' Thong Yaw Hong, an independent non-executive director, is the Co-Chairman of the Company.

The roles of the Chairman and the Chief Executive are segregated and assumed by two separate individuals who have no relationship with each other. It is aimed at striking a balance of power and authority so that the job responsibilities are not concentrated on any one individual. The Chairman of the board is responsible for the leadership and effective running of the board, while the Chief Executive is delegated with the authorities to manage the business of the Group in all aspects effectively. The division of responsibilities between the Chairman and the Chief Executive have been clearly established and set out in writing.

### Appointment and Re-election of Directors

The Company has not fixed the terms of appointment for non-executive directors. However, they are appointed subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provision of the Bye-laws. This deviates from the provision of A.4.1 of the Code on CGP which requires that non-executive directors be appointed for a specific term. The board is of the view that the current practice of appointing non-executive directors without specific terms but otherwise subject to rotation and re-election by shareholders is fair and reasonable, and does not intend to change the current practice at the moment.

## **CORPORATE GOVERNANCE PRACTICES (Continued)**

### **Remuneration Committee**

The Remuneration Committee of the Company comprises two non-executive directors and three independent non-executive directors.

The Remuneration Committee was formed in January 2005 and meetings shall be held at least once a year. Three meetings were held in 2007. The attendance of each member is set out as follows:

<b>Name of member</b>	<b>Number of meetings attended in 2007</b>	<b>Attendance rate</b>
Tan Sri Dato' Sri Dr. Teh Hong Piow, <i>Chairman</i>	3	100%
Tan Sri Dato' Thong Yaw Hong, <i>Co-Chairman</i>	3	100%
Dato' Sri Tay Ah Lek	3	100%
Dato' Yeoh Chin Kee	2	67%
Lee Chin Guan	1	33%

At the meetings held during the year, the directors' fees and meeting allowances of the Group for the year 2006 and the promotion, secondment and terms of employment of the management staff within the Group in 2007 were reviewed and noted.

The Company has adopted a share option scheme on 28 February 2002, which serves as an incentive to attract, retain and motivate talented eligible staff, including the directors. Details of the share option scheme are set out in note 36 to the financial statements. The emolument payable to directors will depend on their respective contractual terms under employment contracts, if any, and as recommended by the Remuneration Committee. Details of the directors' emoluments are set out in note 9 to the financial statements.

The major role and function of the Group's Remuneration Committee are as follows:

1. To review annually and recommend to the board the overall remuneration policy for the directors, the Chief Executive and key senior management officers.
2. To review annually the performance of the executive directors, the Chief Executive and key senior management officers and recommend to the board specific adjustments in remuneration and/or reward payments.
3. To ensure that the level of remuneration for non-executive directors and independent non-executive directors are linked to their level of responsibilities undertaken and contribution to the effective functioning of the boards of the respective companies in the Group.
4. To review and approve the compensation payable to executive directors, the Chief Executive and key senior management officers in connection with any loss or termination of their office or appointment.
5. To review and approve compensation arrangements relating to dismissal or removal of directors for misconduct.
6. To ensure that no director is involved in deciding his own remuneration.

The terms of reference of the Remuneration Committee are posted on the Company's website.

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES (Continued)

### Nomination Committee

The Nomination Committee of the Company comprises two non-executive directors and three independent non-executive directors.

The Nomination Committee was formed in January 2005 and meetings shall be held at least once a year. Three meetings were held in 2007. The attendance of each member is set out as follows:

Name of member	Number of meetings attended in 2007	Attendance rate
Tan Sri Dato' Sri Dr. Teh Hong Piow, <i>Chairman</i>	3	100%
Tan Sri Dato' Thong Yaw Hong, <i>Co-Chairman</i>	3	100%
Dato' Sri Tay Ah Lek	3	100%
Dato' Yeoh Chin Kee	2	67%
Lee Chin Guan	1	33%

At the meetings held during the year, the changes of management staff in Public Bank (Hong Kong) and Public Finance were noted and the annual performance assessment of the board and directors were conducted.

The major role and function of the Group's Nomination Committee are as follows:

- To assess and recommend the appointment and re-appointment of directors and Chief Executive to the board.
- To oversee the overall composition of the board, in terms of the appropriate size and skills, and the balance between executive directors, non-executive directors and independent non-executive directors through annual review.

- To assess the independence of independent non-executive directors.
- To establish a mechanism for the formal assessment on the effectiveness of the board as a whole and the performances of each director, the Chief Executive and other key senior management officers.
- To oversee the appointment, management succession planning and performance evaluation of key senior management officers.

The terms of reference of the Nomination Committee are posted on the Company's website.

## ACCOUNTABILITY AND AUDIT

The directors are responsible for overseeing the preparation of financial statements of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31 December 2007, the directors have selected suitable accounting policies and have applied them consistently, adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and have prepared the accounts on the going concern basis.

### Audit Committee

The Audit Committee of the Company comprises one non-executive director and three independent non-executive directors.

The Audit Committee shall meet at least twice a year. Six meetings were held during the year. The minutes of the Audit Committee meetings were tabled to the board for noting and for action by the board where appropriate. The attendance of each member is set out as follows:

## ACCOUNTABILITY AND AUDIT (Continued)

### Audit Committee (Continued)

Name of member	Number of meetings attended in 2007	Attendance rate
Tan Sri Dato' Thong Yaw Hong, <i>Chairman</i>	6	100%
Dato' Sri Tay Ah Lek	6	100%
Dato' Yeoh Chin Kee	5	83%
Lee Chin Guan	3	50%

During the meetings held in 2007, the Audit Committee had performed the following work:

- (i) reviewed the financial reports for the year ended 31 December 2006 and for the six months ended 30 June 2007;
- (ii) reviewed the findings and recommendations of the Internal Audit Department on the operations and performance of the branches and departments of Public Bank (Hong Kong), Public Finance and other subsidiaries of the Group;
- (iii) reviewed the effectiveness of internal control system;
- (iv) reviewed the examination reports issued by the HKMA;
- (v) reviewed the external auditors' statutory audit plan and engagement letter; and
- (vi) reviewed and recommended for approval by the board the 2007 audit scope and fees.

The major role and function of the Group's Audit Committee are as follows:

1. To consider the appointment of the external auditors, the audit fees, and any questions of resignation or dismissal of the external auditors of the Group.

2. To discuss with the external auditors the nature and scope of the audit.
3. To review the interim and annual financial statements before submission to the board of directors.
4. To discuss problems and reservations arising from the interim audit review and final audits, and any matters the auditors may wish to discuss.
5. To review the external auditors' management letters and management's response.
6. To review the Group companies' statements on internal control systems (where one is included in the annual report) prior to endorsement by the respective boards of directors.
7. To review the internal audit programme, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Group.
8. To consider the major findings of internal investigations and management's response.

The terms of reference of the Audit Committee are posted on the Company's website.

### Auditors' Remuneration

During the year under review, the remuneration paid/payable to the Company's auditors, Messrs Ernst & Young, is set out as follows:

Services rendered	Fees paid/payable HK\$'000
Audit services	3,301
Non-audit services	233
Total:	<u>3,534</u>

# Corporate Governance Report

## ACCOUNTABILITY AND AUDIT (Continued)

### Internal Control

The board is responsible for the Group's system of internal controls and its effectiveness. However, such a system is designed to manage the Group's risks within an acceptable risk profile, rather than to eliminate the risk of failure to achieve the policies and business objectives of the Group. Accordingly, it can only provide reasonable assurance but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

The board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group and this process includes updating the system of internal controls when there are changes to business environment or regulatory guidelines.

The board is of the view that the system of internal controls in place for the year under review and up to the date of issuance of the annual report and financial statements is sound and is sufficient to safeguard the interests of shareholders, customers and employees, and the Group's assets.

The management assists the board in the implementation of the board's policies and procedures on risk and control by identifying and assessing the risks faced, and involving in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls include the following:

- The Board Executive Committees under Public Bank (Hong Kong) and Public Finance consist of executive directors and non-executive directors and are responsible for the management of the businesses of Public Bank (Hong Kong) and Public Finance in all aspects and the implementation of strategic business plans and policies approved and formulated by the respective boards of directors.
- The Management Committees are established by the respective boards of Public Bank (Hong Kong) and Public Finance to ensure the effectiveness of the Group's daily operations and that the Group's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Audit Committees are established at the Group level as well as at the bank level to review internal control issues identified by the Internal Audit Departments, external auditors, regulatory authorities and management, and evaluate the adequacy and effectiveness of the Group's risk management and internal control systems. They also conduct review of the internal audit functions with particular emphasis on the scope of audits, quality of internal audits and independence of the Internal Audit Department. The minutes of the Audit Committee meetings are tabled to the respective boards for noting and further action, where appropriate.
- The Internal Audit Departments of Public Bank (Hong Kong) and Public Finance monitor compliance with policies and procedures and the effectiveness of the internal control systems, and highlight significant findings in respect of any non-compliance. Audits are carried out on all branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report on the operational and management activities of these branches. The annual audit plans are reviewed and approved by the respective Audit Committees and the findings of the audits are submitted to the respective Audit Committees for review.
- The Credit Committees under Public Bank (Hong Kong) and Public Finance are responsible for making decision on loan applications for all types of loan facilities within their discretionary powers, assisting the respective boards of directors in formulating policy guidelines for Public Bank (Hong Kong)'s banking business and Public Finance's lending business, and recommending applications for loan facilities exceeding the discretionary powers of the Credit Committees to the respective boards for approval.

## ACCOUNTABILITY AND AUDIT (Continued)

### Internal Control (Continued)

- The Asset and Liability Management Committee under Public Bank (Hong Kong) and the Assets and Liabilities Committee under Public Finance review and assess the risk profile and capital structure of Public Bank (Hong Kong) and Public Finance, set the objectives for the asset and liability management function and implement the risk management policies approved by the respective boards of Public Bank (Hong Kong) and Public Finance.
- Operational committees have also been established under Public Bank (Hong Kong) and Public Finance with appropriate authorities to ensure effective management and supervision of the Group's core areas of business operations. These committees include the Human Resources Committees and the Information Technology Committees.

The Human Resources Committees assist the respective boards of directors in formulating and implementing human resources policies including staff recruitment, promotion, career development, performance appraisal and remuneration of all staff.

The Information Technology (I.T.) Steering Committee under Public Bank (Hong Kong) and the Information Technology Committee under Public Finance are responsible for establishing objectives, policies and strategies for the computerisation of the Group, recommending to the respective boards on major acquisitions of computer hardware and software, and monitoring the progress of implementation of all information technology related projects.

- The Finance Committees under Public Bank (Hong Kong) and Public Finance assist the respective boards of directors in the financial planning and budgeting process of the business of Public Bank (Hong Kong) and Public Finance and the review of the business performance, statutory and half year accounts.
- Compliance Review Group and Compliance Department of Public Bank (Hong Kong) and Compliance Working Group of Public Finance are established to review the relevant policies and guidelines issued from time to time by the HKMA and other regulatory authorities, to assess the impact of the relevant regulatory requirements on Public Bank (Hong Kong) and Public Finance and to ensure that the relevant business units and/or departments comply with the relevant regulatory requirements and internal policy guidelines of business units and departments.

## MANAGEMENT OF RISKS

The respective boards of directors of the subsidiaries are responsible for the oversight of risks and approval of risk management policies. The Internal Audit Departments perform regular audits to ensure compliance with the policies and reports directly to the Audit Committees of the Company and Public Bank (Hong Kong). In addition, various committees were formed to mitigate and monitor various kinds of risks within the Group. Risk Management Committee of the Company was established to oversee the overall management of all risks covering market risk management, liquidity risk management, credit risk management and operational risk management of the Group. Details of the objectives and policies of the Group's financial risk management are set out in Note 44 to the financial statements.

# Corporate Governance Report

## COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The board recognises the importance of good communications with all shareholders. The Company's annual general meeting ("AGM") is a valuable forum for the board to communicate directly with the shareholders. The Chairman of the board as well as Chairmen of the Audit, Nomination and Remuneration Committees together with the external auditors are present to answer shareholders' questions. An AGM circular is distributed to all shareholders at least 21 days before the AGM. It sets out the procedures for demanding and conducting a poll and other relevant information of the proposed resolutions. The Chairman explains the procedures for demanding and conducting a poll again at the beginning of the AGM and (except where a poll is demanded) reveals how many proxies for and against have been filed in respect of each resolution. The results of the poll, if any, will be published in the websites of Hong Kong Exchanges and Clearing Limited and the Company.

A key element of effective communication with shareholders and investors is the prompt and timely dissemination of information in relation to the Group. The Company has announced its annual and interim results in a timely manner within 20 days after the end of the relevant periods in 2007, which were well before the time limits as laid down in the Listing Rules.

The management personnel responsible for investor relations held regular meetings with equity research analysts, fund managers and institutional shareholders and investors.

The market capitalisation of the Company as at 31 December 2007 was HK\$5,480,422,056 (issued share capital: 1,093,896,618 shares at closing market price: HK\$5.01 per share). The public float is around 26.5%.

The 2008 AGM will be held at Kowloon Room 1, Mezzanine Floor, Kowloon Shangri-La Hotel, 64 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on Tuesday 19 February 2008 at 10:00 a.m.

# Brief Biography of Directors and Senior Management

## **DIRECTORS**

### **Tan Sri Dato' Sri Dr. Teh Hong Piow**

Tan Sri Dato' Sri Dr. Teh Hong Piow, aged 77, is the Founder and Chairman and a substantial shareholder of Public Bank Berhad ("Public Bank") a commercial bank listed on Bursa Malaysia Securities Berhad and the holding company of the Company. He has 58 years of experience in the banking and finance industry. He was appointed a Non-executive Director and the Chairman of the Company in September 1991. He is currently the Chairman of the Remuneration Committee and the Nomination Committee of the Company. He is also the Executive Chairman of Public Bank (Hong Kong) and the Non-executive Chairman of Public Finance. He also holds directorships in several other companies in the Public Bank Group.

In recognition of his contributions to society and the economy, he was conferred the Doctor of Laws (Honorary) from University of Malaya in 1989.

Tan Sri Dato' Sri Dr. Teh Hong Piow had served in various capacities in public service bodies in Malaysia; he was a member of the Malaysian Business Council from 1991 to 1993; a member of the National Trust Fund from 1988 to 2001; a founder member of the Advisory Business Council since 2003; and is a member of the IPRM Accreditation Privy Council of Malaysia. He is a Fellow of several institutes which include the Institute of Bankers Malaysia; the Chartered Institute of Bankers, United Kingdom; the Institute of Administrative Management, United Kingdom; the Institute of Chartered Secretaries and Administrators, Australia; and the Malaysian Institute of Management.

### **Tan Sri Dato' Thong Yaw Hong**

Tan Sri Dato' Thong Yaw Hong, aged 77, was appointed an Independent Non-executive Co-Chairman of the Company in July 2006 and is the Chairman of the Audit Committee and Risk Management Committee, and a member of the Remuneration Committee and Nomination Committee. He is the Independent Non-executive Co-Chairman of Public Bank and Public Bank (Hong Kong). He also holds directorships in several other companies in the Public Bank Group.

He graduated with a Bachelor of Arts (Hons) degree in Economics from University of Malaya and a Master's degree in Public Administration from Harvard University. He attended the Advanced Management Program at Harvard Business School. In September 2006, he was conferred the Doctor of Economics (Honorary) from University Putra Malaysia.

Tan Sri Dato' Thong Yaw Hong has had a distinguished career with the Government of Malaysia, primarily in the fields of socio-economic development planning and finance. He had served in the Economic Planning Unit in the Prime Minister's Department since 1957 and became its Director-General from 1971 to 1978 and served as Secretary-General, Ministry of Finance from 1979 until his retirement in 1986.

### **Mr. Tan Yoke Kong**

Mr. Tan Yoke Kong, aged 55, has more than 26 years of experience in the banking and finance industry. He was appointed an Executive Director of the Company in February 1992 and is the Chief Executive/Executive Director of Public Bank (Hong Kong) and an Executive Director of Public Finance. He is a member of the Risk Management Committee of the Company. Mr. Tan is a Fellow of the Association of Chartered Certified Accountants, United Kingdom and an Associate of the Institute of Chartered Secretaries and Administrators, United Kingdom. He is currently the Vice-chairman of The DTC Association in Hong Kong.



# Brief Biography of Directors and Senior Management

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## **DIRECTORS (Continued)**

### **Mr. Lee Huat Oon**

Mr. Lee Huat Oon, aged 45, has more than 20 years of experience in the banking and finance industry. He was appointed an Executive Director of the Company in June 1996 and is currently the General Manager/Chief Executive and an Executive Director of Public Finance. He holds a degree in Accounting from the University of Malaya and is a Registered Accountant with the Malaysian Institute of Accountants.

### **Dato' Sri Tay Ah Lek**

Dato' Sri Tay Ah Lek, aged 65, has 47 years of experience in the banking and finance industry. He was appointed a Non-executive Director of the Company in January 1995 and is a member of the Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee. He is the Managing Director/Chief Executive Officer of Public Bank and a Non-executive Director of Public Bank (Hong Kong). He also holds directorships in several other companies in the Public Bank Group.

Dato' Sri Tay Ah Lek holds a Master's degree in Business Administration from Henley, United Kingdom and attended the Advanced Management Program at Harvard Business School. He is a Fellow of the Financial Services Institute of Australasia, the Institute of Bankers Malaysia and the Malaysian Institute of Management.

He is presently the Chairman of the Association of Finance Companies of Malaysia and the Association of Hire Purchase Companies Malaysia. He is a Council Member of the National Economic Action Council and the National Payments Advisory Board in Malaysia.

### **Dato' Chang Kat Kiam**

Dato' Chang Kat Kiam, aged 53, has 33 years of experience in the banking and finance industry. He was appointed a Non-executive Director of the Company in March 2004. He is also a Non-executive Director of Public Bank (Hong Kong) and Public Finance and a member of the Risk Management Committee of the Company. He is currently the Chief Operating Officer of Public Bank. He also holds directorships in several other companies in the Public Bank Group. He holds a Master's degree in Business Administration.

### **Mr. Wong Kong Ming**

Mr. Wong Kong Ming, aged 54, has over 32 years of experience in the banking and finance industry. He was appointed a Non-executive Director of the Company in June 1996. He is also the General Manager of Public Bank, Hong Kong Branch and a Non-executive Director of Public Finance. He is an Associate of the Chartered Institute of Bankers, United Kingdom; the Institute of Bankers Malaysia and the Malaysian Institute of Management. He holds a Master's degree in Business Administration.

### **Dato' Yeoh Chin Kee**

Dato' Yeoh Chin Kee, aged 65, has 47 years of experience in the banking and finance industry. He was appointed an Independent Non-executive Director of the Company in September 2002 and is a member of the Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee. He is also an Independent Non-executive Director of Public Bank and Public Bank (Hong Kong). He also holds directorships in several other companies in the Public Bank Group. He is a Fellow of the Australian Society of Certified Practising Accountants and the Financial Services Institute of Australasia.

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## **DIRECTORS (Continued)**

### **Mr. Lee Chin Guan**

Mr. Lee Chin Guan, aged 49, has 15 years of experience in the legal practice, principally in commercial and corporate matters. He was appointed an Independent Non-executive Director of the Company in September 2004 and is a member of the Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee. He is also an Independent Non-executive Director of Public Bank (Hong Kong). He qualified as a Barrister-at-Law from the Middle Temple, United Kingdom in 1982. He also holds a Bachelor Degree in Science (Hons) from the University of Manchester Institute of Science and Technology, England and Degrees in Law from Cambridge University, Oxford University and Chicago-Kent College of Law.

## **SENIOR MANAGEMENT**

### **Mr. Chong Yam Kiang**

Mr. Chong Yam Kiang, aged 57, has more than 38 years of experience in the banking and finance industry. He was appointed an Executive Director of Public Bank (Hong Kong) in May 2006 and is currently the Alternate Chief Executive of Public Bank (Hong Kong). He holds a diploma in Management from Malaysian Institute of Management.



# Our Corporate Family



The Company's 2007 Annual General Meeting held at Kowloon Shangri-La Hotel.



Public Bank (Hong Kong) and Public Finance sealed a 10-year Strategic Alliance with ING Life Insurance to jointly develop bancassurance business in Hong Kong.



Mr. Tan Yoke Kong presented a birthday gift to our Group Chairman in celebration of his grand 77th birthday, and the performances during the birthday dinner.



The Group Chairman, Tan Sri Dato' Sri Dr. Teh Hong Piow, delivered his opening address at the Group's Annual Dinner 2007.



Staff performing at the Group's Annual Dinner 2007 took a photo with members of the Board of Directors.



Group photo of our staff and family members taken during the Group Annual Outing to Zhuhai and Macau in October 2007.



Management staff participating in Public Bank Group Annual Management Seminar 2007 held in Kuala Lumpur in August 2007.



The new sub-branch in Futian district, Shenzhen opened in March 2007.



Participants of the Corporate Games 2007 Sports Day.



Part of the Bank's promotion and advertising campaign.

# Report of the Directors

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The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2007.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries during the year were the provision of retail and commercial banking and lending services, stockbroking, the letting of investment properties, the provision of financing to purchasers of taxi and public light buses, the trading of taxi cabs and taxi licences, and the leasing of taxis.

Details of the principal activities of the Company's subsidiaries are set out in note 25 to the financial statements.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2007 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 39 to 118.

The first interim dividend of HK\$0.05 (2006: HK\$0.05) per ordinary share was paid on 17 July 2007. The second interim dividend of HK\$0.25 (2006: HK\$0.20) per ordinary share was declared on 28 December 2007 and will be payable on 14 February 2008 to shareholders of the Company whose names appear on the register of members on 6 February 2008. The directors do not recommend the payment of a final dividend for the year (2006: Nil).

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 8 to 9.

## INVESTMENT PROPERTIES, PROPERTY AND EQUIPMENT AND LAND LEASE PREPAYMENTS

Details of movements in the investment properties, property and equipment and land lease prepayments of the Company and of the Group are set out in notes 22, 23, and 24 to the financial statements, respectively.

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements of the Company's share capital and share options are set out in notes 35 and 36 to the financial statements, respectively.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

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

## RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 38 to the financial statements and the consolidated summary statement of changes in equity.

## DISTRIBUTABLE RESERVES

The Company's contributed surplus is distributable to shareholders in accordance with the Companies Act 1981 of Bermuda. At 31 December 2007, the Company's reserves available for cash distribution and/or distribution in specie amounted to approximately HK\$188,077,000 (inclusive of the Company's contributed surplus) are set out in note 38 to the financial statements as computed in accordance with generally accepted accounting principles of Hong Kong SAR. In addition, the Company's share premium account in the amount of approximately HK\$3,988,219,000 may be distributed in the form of fully paid bonus shares.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, income attributable to the Group's five largest customers accounted for less than 30% of the total income for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

## DIRECTORS

The directors of the Company during the year were as follows:

### *Non-executive Directors:*

Tan Sri Dato' Sri Dr. Teh Hong Piow, *Chairman*  
Dato' Sri Tay Ah Lek  
Dato' Chang Kat Kiam  
Wong Kong Ming

### *Independent Non-executive Directors:*

Tan Sri Dato' Thong Yaw Hong, *Co-Chairman*  
Dato' Yeoh Chin Kee  
Lee Chin Guan

### *Executive Directors:*

Tan Yoke Kong  
Lee Huat Oon

In accordance with the Bye-laws, Mr. Tan Yoke Kong, Mr. Lee Huat Oon and Dato' Chang Kat Kiam shall retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

## DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of directors' remuneration and those of the five highest paid individuals in the Group are set out in notes 9 and 10 to the financial statements, respectively.

## DIRECTORS' SERVICE CONTRACTS

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

## DIRECTORS' INTERESTS IN CONTRACTS

Except as detailed in note 41 to the financial statements and in the section headed "Connected transactions" below, no director had a beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries and fellow subsidiaries was a party at the balance sheet date or at any time during the year.

# Report of the Directors

## LOAN AGREEMENT WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDER

In the prior year, the Company entered into a facility agreement (the "Facility Agreement") with Barclays Capital and others as mandated lead arrangers and Barclays Bank PLC as agent and financial institutions as stipulated in the Company's announcement dated 21 July 2006 as the original lenders for a three-year term loan facility in an aggregate amount of HK\$2,000,000,000.

The Facility Agreement provides, among other things, that it is an event of default if Public Bank Berhad ("Public Bank"), the controlling shareholder (currently holding approximately 73.5% interest) of the Company does not or ceases to beneficially own, directly or indirectly, at least 51% of the issued share capital of, and ownership interests in, the Company free from any charge or other security interest, or does not or ceases to exercise management control over the Company.

If an event of default occurs, Barclays Bank PLC as agent may, among other things, demand immediate repayment of all or any of the loans made to the Company together with accrued interest.

During the year, repayments amounting to HK\$900,000,000 were made. At the balance sheet date, the outstanding loan principal was HK\$1,100,000,000 and the circumstances giving rise to the obligation under Rule 13.18 of the Listing Rules continued to exist.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At the balance sheet date, the directors' interests and short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code were as follows:

### (a) Long positions in ordinary shares of the Company and associated corporations

Interests in	Name of director	Number of ordinary shares			Total	Percentage of interests in the issued share capital
		Directly beneficially owned	Through spouse or minor children	Through controlled corporations		
1. The Company	Tan Sri Dato' Sri Dr. Teh Hong Piow	-	-	804,017,920	804,017,920	73.5004
	Tan Sri Dato' Thong Yaw Hong	498,000	-	-	498,000	0.0455
	Dato' Yeoh Chin Kee	80,000	-	-	80,000	0.0073
	Tan Yoke Kong	80,000	-	-	80,000	0.0073
	Lee Huat Oon	20,000	-	-	20,000	0.0018

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

### (a) Long positions in ordinary shares of the Company and associated corporations (Continued)

Interests in	Name of director	Number of ordinary shares			Total	Percentage of interests in the issued share capital
		Directly beneficially owned	Through spouse or minor children	Through controlled corporations		
2. Public Bank, the ultimate holding company	Tan Sri Dato' Sri Dr. Teh Hong Piow	21,524,250	–	786,468,596	807,992,846	22.9030
	Tan Sri Dato' Thong Yaw Hong	7,313,750	350,000	312,500	7,976,250	0.2261
	Dato' Sri Tay Ah Lek	8,610,109	200,000	139,482	8,949,591	0.2537
	Dato' Yeoh Chin Kee	1,250,000	–	–	1,250,000	0.0354
	Lee Chin Guan	1,390,000	–	–	1,390,000	0.0394
	Dato' Chang Kat Kiam	109,435	–	–	109,435	0.0031
	Tan Yoke Kong	85,000	–	–	85,000	0.0024
	Lee Huat Oon	5,000	–	–	5,000	0.0001
	Wong Kong Ming	199,386	–	–	199,386	0.0057
3. Winsure Company, Limited, a subsidiary	Tan Sri Dato' Sri Dr. Teh Hong Piow	–	–	15,500	15,500	96.8750
4. CampuBank Lonpac Insurance Plc, a fellow subsidiary	Tan Sri Dato' Sri Dr. Teh Hong Piow	–	–	3,850,000	3,850,000	55.0000

Tan Sri Dato' Sri Dr. Teh Hong Piow, by virtue of his direct and indirect interest of 807,992,846 shares in Public Bank, is deemed to be interested in the shares of the Company and its associated corporations as disclosed above, to the extent Public Bank has interests.



# Report of the Directors

## **DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)**

### **(b) Long positions in underlying shares of the Company and an associated corporation**

Interests in	Name of director	Number of ordinary shares attached to the share options				Exercise price	Exercise period
		At the beginning of the year	Granted during the year	Exercised during the year	At the end of the year		
1. The Company	Dato' Sri Tay Ah Lek	1,680,000	–	–	1,680,000	HK\$6.35	10.6.2005 to 9.6.2015
	Dato' Yeoh Chin Kee	700,000	–	–	700,000	HK\$6.35	10.6.2005 to 9.6.2015
	Lee Chin Guan	350,000	–	–	350,000	HK\$6.35	10.6.2005 to 9.6.2015
	Dato' Chang Kat Kiam	1,680,000	–	–	1,680,000	HK\$6.35	10.6.2005 to 9.6.2015
	Tan Yoke Kong	1,928,000	–	–	1,928,000	HK\$6.35	10.6.2005 to 9.6.2015
	Lee Huat Oon	3,170,000	–	–	3,170,000	HK\$6.35	10.6.2005 to 9.6.2015
	Wong Kong Ming	4,000,000	–	–	4,000,000	HK\$6.35	10.6.2005 to 9.6.2015
2. Public Bank	Tan Sri Dato' Thong Yaw Hong	2,000,000	–	2,000,000	–	RM6.37	24.2.2005 to 24.2.2008
	Dato' Sri Tay Ah Lek	4,500,000	–	4,500,000	–	RM6.37	24.2.2005 to 24.2.2008
	Dato' Yeoh Chin Kee	2,025,000	–	2,025,000	–	RM6.37	24.2.2005 to 24.2.2008
		2,000,000	–	2,000,000	–	RM5.67	5.12.2005 to 24.2.2008
		4,025,000	–	4,025,000	–		

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

### (b) Long positions in underlying shares of the Company and an associated corporation (Continued)

Interests in	Name of director	Number of ordinary shares attached to the share options				Exercise price	Exercise period
		At the beginning of the year	Granted during the year	Exercised during the year	At the end of the year		
2. Public Bank (continued)	Lee Chin Guan	1,125,000	–	1,125,000	–	RM6.37	24.2.2005 to 24.2.2008
		650,000	–	650,000	–	RM5.67	5.12.2005 to 24.2.2008
		<b>1,775,000</b>	–	<b>1,775,000</b>	–		
	Dato' Chang Kat Kiam	123,000	–	123,000	–	RM6.37	24.2.2005 to 24.2.2008
		130,000	–	130,000	–	RM5.67	5.12.2005 to 24.2.2008
		<b>253,000</b>	–	<b>253,000</b>	–		
	Tan Yoke Kong	30,000	–	30,000	–	RM6.37	15.2.2005 to 24.2.2008
		40,000	–	40,000	–	RM5.67	5.12.2005 to 24.2.2008
		<b>70,000</b>	–	<b>70,000</b>	–		
	Lee Huat Oon	20,000	–	–	20,000	RM6.37	15.2.2005 to 24.2.2008
		30,000	–	–	30,000	RM5.67	5.12.2005 to 24.2.2008
		<b>50,000</b>	–	–	<b>50,000</b>		
Wong Kong Ming	8,000	–	8,000	–	RM4.92	17.6.2004 to 24.2.2008	
	10,000	–	10,000	–	RM6.37	16.2.2005 to 24.2.2008	
	25,000	–	25,000	–	RM5.67	5.12.2005 to 24.2.2008	
	<b>43,000</b>	–	<b>43,000</b>	–			

# Report of the Directors

## **DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)**

### **(b) Long positions in underlying shares of the Company and an associated corporation (Continued)**

Notes:

1. The options to subscribe for ordinary shares of HK\$0.10 each in the Company under the Employees' Share Option Scheme of the Company (the "ESOS") are only exercisable 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 time to time before the expiry of the share options on 9 June 2015.
2. The options to subscribe for ordinary shares of RM1.00 each in Public Bank were first granted on 10 April 1998 under the Public Bank Berhad Employees' Share Option Scheme (the "PBB ESOS"). Following approvals from the relevant authorities and the shareholders of Public Bank, the PBB ESOS has been extended for a total of five years to 25 February 2008.

Save as disclosed above, none of the directors had registered an interest or a short position in the shares, or underlying shares of the Company or any of its associated corporations that was required to be recorded under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at the balance sheet date.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Apart from the share option schemes disclosed above and set out in note 36 to the financial statements, at no time during the year was the Company, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or minor children to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or in any other body corporate.

## **DIRECTORS' INTERESTS IN COMPETING BUSINESSES**

Tan Sri Dato' Sri Dr. Teh Hong Piow and Dato' Sri Tay Ah Lek are also directors of Public Bank, which is also engaged in the provision of financing for licensed public vehicles, mortgage loans and the taking of deposits from customers in Hong Kong through its fully licensed branch in Hong Kong.

Tan Sri Dato' Sri Dr. Teh Hong Piow is a substantial shareholder of Public Bank by virtue of his interest in Public Bank.

The provision of financing for licensed public vehicles undertaken by Public Bank, Hong Kong Branch during the year was referred by a wholly-owned subsidiary, Winton Motors, Limited and other taxi dealers. The terms and conditions of the taxi financing loans are market driven and agreed at arm's length between the hirers and the financiers. The terms and conditions of other businesses of Public Bank, Hong Kong Branch are also market driven.

## **SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES**

At the balance sheet date, the register of interests and short positions in the shares and underlying shares of the Company kept under Section 336 of the SFO showed that, other than the interests of Tan Sri Dato' Sri Dr. Teh Hong Piow as disclosed above, the following shareholder had interests of 5% or more in the issued share capital of the Company:

<b>Name</b>	<b>Capacity</b>	<b>Number of ordinary shares</b>	<b>Percentage of interests in the issued share capital</b>
<b>Substantial shareholder</b>			
Public Bank	Beneficial owner	804,017,920	73.5004

All the interests stated above represent long positions. Save as disclosed above and under the heading "Directors' interests and short positions in shares and underlying shares", no person had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded under Section 336 of the SFO at the balance sheet date.

## **CONNECTED TRANSACTIONS**

A tenancy arrangement was first made on 23 July 1997 and was renewed subsequently by tenancy agreements between Public Finance Limited ("Public Finance"), a wholly-owned subsidiary, as the landlord and Public Bank, the ultimate holding company, as the tenant whereby Public Finance agreed to lease an apartment located in Taikoo Shing, Hong Kong to Public Bank as its staff quarters. The existing tenancy agreement was entered into on 29 August 2006 for a term of two years commencing from 1 August 2006 to 31 July 2008 at a monthly rental of HK\$20,600.

A lease arrangement was first made on 1 September 1993 and was renewed subsequently by tenancy agreements between Public Finance as the landlord and Public Bank as the tenant whereby Public Finance agreed to lease a portion of the office premises located at 11th Floor, Wing On House, 71 Des Voeux Road Central, Hong Kong to Public Bank as its office. The existing tenancy agreement was entered into on 31 July 2006 for a term of two years commencing from 1 August 2006 to 31 July 2008 at a monthly rental of HK\$43,800.

A tenancy agreement was first made on 11 November 2003 and was renewed subsequently by tenancy agreement between the Company as the landlord and Public Bank as the tenant whereby the Company agreed to lease the premises located at Shop A, Ground Floor, Wing On House, 71 Des Voeux Road Central, Hong Kong to Public Bank as its branch office. The latest tenancy agreement was entered into on 15 November 2006 for a term of three years commencing from 1 November 2006 to 31 October 2009 at a monthly rental of HK\$250,000. The tenancy agreement was terminated by mutual agreement on 30 March 2007.

## **DONATIONS**

During the year, the Group made charitable donations totalling HK\$11,000 (2006: HK\$1,000).

## **COMPLIANCE WITH SUPERVISORY POLICY MANUAL**

The Group has followed the disclosure requirements of the "Guideline on the Application of the Banking (Disclosure) Rules" and "Corporate Governance of Locally Incorporated Authorised Institutions" under the Supervisory Policy Manuals issued by the Hong Kong Monetary Authority ("HKMA"). The Company has complied with capital requirements related to capital base and capital adequacy ratio stipulated by the HKMA.



# Report of the Directors

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## **CORPORATE GOVERNANCE**

The Group is committed to maintaining a high level of corporate governance practices. A detailed Corporate Governance Report is set out on pages 15 to 22 in the annual report.

## **SUFFICIENCY OF PUBLIC FLOAT**

Based on information that is publicly available to the Company and within the knowledge of its directors, the directors confirmed that the Company has maintained the amount of public float as required under the Listing Rules as at the latest practicable date prior to the issue of the annual report.

## **AUDITORS**

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

ON BEHALF OF THE BOARD

**Tan Yoke Kong**

*Director*

Hong Kong

9 January 2008

# Independent Auditors' Report



## To the shareholders of Public Financial Holdings Limited

*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements of Public Financial Holdings Limited set out on pages 39 to 118, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## **AUDITORS' RESPONSIBILITY**

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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



# Independent Auditors' Report

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## **OPINION**

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

## **Ernst & Young**

*Certified Public Accountants*

18/F, Two International Finance Centre

8 Finance Street

Hong Kong

9 January 2008

# Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 HK\$'000	2006 HK\$'000
Interest income	5	1,919,885	1,444,809
Interest expense	5	(918,103)	(534,372)
<b>NET INTEREST INCOME</b>		<b>1,001,782</b>	910,437
Gain less losses from disposal of available-for-sale financial assets		108,545	–
Other operating income	6	283,133	207,029
Non-interest income		391,678	207,029
<b>OPERATING INCOME</b>		<b>1,393,460</b>	1,117,466
Operating expenses	7	(431,218)	(310,722)
<b>OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES</b>		<b>962,242</b>	806,744
Impairment allowances for loans and advances and receivables and held-to-maturity investments	8	(176,973)	(210,825)
<b>OPERATING PROFIT</b>		<b>785,269</b>	595,919
<b>SHARE OF PROFITS AND LOSSES OF A JOINTLY-CONTROLLED ENTITY</b>	26	(163)	176
<b>PROFIT BEFORE TAX</b>		<b>785,106</b>	596,095
Tax	11	(119,775)	(99,458)
<b>PROFIT FOR THE YEAR</b>		<b>665,331</b>	496,637
<b>Attributable to:</b>			
<b>Equity holders of the Company</b>	12	<b>665,331</b>	496,637
<b>DIVIDENDS</b>			
Interim	13	328,169	273,474
<b>EARNINGS PER SHARE (HK\$)</b>	14		
Basic		0.608	0.500
Diluted		0.608	0.500



# Balance Sheets

31 December 2007

	Notes	Group		Company	
		2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
<b>ASSETS</b>					
Cash and short term placements	15	5,882,235	2,295,219	62,772	919,734
Placements with banks and financial institutions	16	441,539	566,773	-	-
Financial assets designated at fair value through profit or loss	17	12,262	10,213	-	-
Derivative financial instruments		2,644	12,780	-	-
Loans and advances and receivables	18	19,165,638	13,694,636	-	-
Available-for-sale financial assets	20	51,044	75,632	-	-
Held-to-maturity investments	21	2,858,708	3,679,604	-	-
Inventories of taxi licences		25,299	24,105	-	-
Investment properties	22	146,492	196,666	58,900	53,000
Property and equipment	23	98,007	71,003	-	-
Land lease prepayments	24	628,664	562,030	-	-
Interests in subsidiaries	25	-	-	5,588,733	5,612,733
Interest in a jointly-controlled entity	26	1,513	1,676	-	-
Deferred tax assets	33	5,668	17,849	-	-
Goodwill	28	2,774,403	2,774,403	-	-
Intangible assets	29	358	725	-	-
Other assets	27	584,338	261,083	2,002	8,837
<b>TOTAL ASSETS</b>		<b>32,678,812</b>	<b>24,244,397</b>	<b>5,712,407</b>	<b>6,594,304</b>
<b>EQUITY AND LIABILITIES</b>					
<b>LIABILITIES</b>					
Deposits and balances of banks and other financial institutions at amortised cost		2,263,902	516,097	-	-
Derivative financial instruments		2,381	9,735	-	-
Customer deposits at amortised cost	31	20,501,549	14,853,655	-	-
Certificates of deposit issued at amortised cost		2,049,227	769,674	-	-
Dividend payable	13	273,474	218,779	273,474	218,779
Unsecured bank loans at amortised cost	32	1,100,000	2,000,000	1,100,000	2,000,000
Current tax payable		32,186	32,810	-	-
Deferred tax liabilities	33	69,243	64,332	4,800	3,700
Other liabilities	34	732,629	459,267	2,682	2,100
<b>TOTAL LIABILITIES</b>		<b>27,024,591</b>	<b>18,924,349</b>	<b>1,380,956</b>	<b>2,224,579</b>
<b>EQUITY</b>					
Issued capital	35	109,390	109,390	109,390	109,390
Reserves	38	5,544,831	5,210,658	4,222,061	4,260,335
<b>TOTAL EQUITY</b>		<b>5,654,221</b>	<b>5,320,048</b>	<b>4,331,451</b>	<b>4,369,725</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>32,678,812</b>	<b>24,244,397</b>	<b>5,712,407</b>	<b>6,594,304</b>

**Tan Yoke Kong**  
Director

**Lee Huat Oon**  
Director

# Consolidated Summary Statement of Changes in Equity

For the year ended 31 December 2007

	<b>2007</b> <b>HK\$'000</b>	2006 HK\$'000
<b>TOTAL EQUITY</b>		
Balance at beginning of year	<b>5,320,048</b>	2,393,434
Rights issue, net of expenses	–	2,660,504
Exchange difference	<b>21,400</b>	–
Surplus on revaluation of available-for-sale financial assets	<b>84,156</b>	42,947
Transfer to income statement for disposal of available-for-sale financial assets	<b>(108,545)</b>	–
Profit for the year	<b>665,331</b>	496,637
Dividends paid/declared on shares	<b>(328,169)</b>	(273,474)
	<b>337,162</b>	223,163
Balance at end of year	<b>5,654,221</b>	5,320,048

# Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Group	
	2007 HK\$'000	2006 HK\$'000
Profit before tax	<b>785,106</b>	596,095
Depreciation and amortisation of land lease prepayments	<b>18,448</b>	13,179
Net gain on disposal of property and equipment	<b>(4,503)</b>	(204)
Decrease in impairment allowances for loans and advances and receivables	<b>(162,870)</b>	(4,298)
Increase in impairment allowances for held-to-maturity investments	<b>9,800</b>	–
Dividends from listed investments	<b>(2,041)</b>	(1,306)
Dividends from unlisted investments	<b>(980)</b>	(780)
Reversal of an impairment loss on land lease prepayments	<b>(2,616)</b>	(4,694)
Increase in fair value of investment properties	<b>(23,769)</b>	(30,719)
Share of profits and losses of a jointly-controlled entity	<b>163</b>	(176)
Increase in impairment for intangible assets	<b>367</b>	–
(Decrease)/increase in an amount due to the ultimate holding company	<b>(500)</b>	203
Exchange differences	<b>21,400</b>	–
Hong Kong profits tax paid	<b>(103,307)</b>	(99,434)
<b>Operating profit before changes in operating assets and liabilities</b>	<b>534,698</b>	467,866
Increase in operating assets:		
(Increase)/decrease in cash and short term placements	<b>(192,685)</b>	35,767
Decrease/(increase) in placements with banks and financial institutions	<b>62,848</b>	(55,543)
(Increase)/decrease in financial assets designated at fair value through profit or loss and available-for-sale financial assets	<b>(1,850)</b>	15,526
Increase in loans and advances and receivables	<b>(5,308,132)</b>	(1,078,323)
Decrease in held-to-maturity investments	<b>1,485,885</b>	132,402
(Increase)/decrease in other assets	<b>(323,255)</b>	126,910
Decrease/(increase) in derivative financial instruments	<b>10,136</b>	(12,780)
(Increase)/decrease in inventories of taxi licences	<b>(1,194)</b>	2,883
	<b>(4,268,247)</b>	(833,158)
Increase in operating liabilities:		
Increase/(decrease) in deposits and balances of banks and other financial institutions at amortised cost	<b>1,747,805</b>	(255,165)
Increase in customer deposits at amortised cost	<b>5,647,894</b>	1,171,208
Increase/(decrease) in certificates of deposit issued at amortised cost	<b>1,279,553</b>	(654,017)
(Decrease)/increase in derivative financial instruments	<b>(7,354)</b>	9,735
Increase/(decrease) in other liabilities	<b>273,862</b>	(64,107)
	<b>8,941,760</b>	207,654
<b>Net cash inflow/(outflow) from operating activities</b>	<b>5,208,211</b>	(157,638)

	Note	Group	
		2007 HK\$'000	2006 HK\$'000
<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>		<b>5,208,211</b>	(157,638)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of a subsidiary		–	(1,551,980)
Purchases of property and equipment		(36,969)	(6,044)
Proceeds from disposal of property and equipment		5,945	4,920
Dividends from listed investments		2,041	1,306
Dividends from unlisted investments		980	780
Net cash outflow from investing activities		(28,003)	(1,551,018)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Rights issue, net of expenses		–	2,660,504
New unsecured bank loans		–	4,500,000
Repayment of unsecured bank loans		(900,000)	(2,500,000)
Dividends paid on shares		(273,474)	(346,401)
Net cash (outflow)/inflow from financing activities		(1,173,474)	4,314,103
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>4,006,734</b>	2,605,447
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>3,063,456</b>	458,009
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>7,070,190</b>	3,063,456
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and short term placements repayable on demand	43	433,085	289,424
Money at call and short notice with original maturity within three months		5,254,125	2,003,455
Placements with banks and financial institutions with original maturity within three months		269,135	331,521
Held-to-maturity investments with original maturity within three months		1,113,845	439,056
		<b>7,070,190</b>	3,063,456

# Notes to Financial Statements

## 1. CORPORATE INFORMATION

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

The Company is a limited liability company and its shares are listed on The Stock Exchange of Hong Kong Limited (stock code: 626).

During the year, the Group's principal activities were the provision of banking, financial and related services, stockbroking, the letting of investment properties, the provision of financing to purchasers of taxis and public light buses, the trading of taxi cabs and taxi licences, and the leasing of taxis.

Details of the principal activities of the Company's subsidiaries are set out in note 25 to the financial statements.

In the opinion of the directors, the ultimate holding company of the Company is Public Bank Berhad, 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. Preparation of financial statements is also made to reference to applicable Supervisory Policy Manual and the Guideline on the Application of the Banking (Disclosure) Rules issued by the HKMA.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land lease prepayments and investment properties, available-for-sale financial assets, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

#### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at and for the year ended 31 December each year. The financial statements of the subsidiaries and a jointly-controlled entity are prepared for the same reporting year as the Group, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal, as appropriate.

The subsidiaries consolidated for accounting purpose and which are members of the Group are as follows:

- Public Bank (Hong Kong) Limited, Public Finance Limited, Winton (B.V.I.) Limited and their subsidiaries and a jointly-controlled entity set out in note 26 to the financial statements.

## 2.1 BASIS OF PREPARATION (Continued)

### Basis of capital disclosures

The Group has complied with capital requirements during the annual reporting period related to capital base and capital adequacy ratio as stipulated by the HKMA, and also complied with the Guideline on the Application of the Banking (Disclosure) Rules issued by the HKMA.

Should the Group have not complied with externally imposed capital requirements of the HKMA, capital management plans should be submitted to the HKMA for restoration of capital to the minimum required level as soon as possible.

The computation of consolidated capital adequacy ratio of the Group is based on the ratio of the aggregate of risk weighted exposures to the aggregate of capital bases of Public Financial Holdings Limited, Public Bank (Hong Kong) Limited and Public Finance Limited for regulatory purpose.

There are no major restrictions on impediments on the transfer of capital or funds among the members of the Company's consolidation group except that liquidity, capital and other performance indicators of Public Securities Limited and Public Financial Securities Limited should satisfy the minimum requirements of Financial Resources Rules issued by the Securities and Futures Commission.

## 2.2 IMPACT OF NEW AND REVISED HKFRSs AND HKASs

The HKICPA has issued a number of new and revised HKFRSs, and HKASs and Interpretations ("Int"), which are generally effective for accounting periods beginning on or after 1 January 2007. The Group has adopted the following HKFRSs and HKASs issued up to 31 December 2007 which are pertinent to its operations and relevant to 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       |
| • HK(IFRIC) – Int 10 | Interim Financial Reporting and Impairment |

The HKAS 1 Amendment will affect the disclosures of qualitative information about the Group's objectives, 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.

The HKFRS 7 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.

The HK(IFRIC) – Int 8 addresses the application of HKFRS 2 to particular transactions in which the entity cannot identify specifically some or all of the goods or services received.

The HK(IFRIC) – Int 9 addresses the application of HKAS 39 that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract, and prohibits subsequent reassessment throughout the life of the contract except for exceptional circumstances.

# Notes to Financial Statements

## 2.2 IMPACT OF NEW AND REVISED HKFRSs AND HKASs (Continued)

The HK(IFRIC) – Int 10 addresses the interaction between the requirements of HKAS 34 and the recognition of impairment losses on goodwill in HKAS 36 and certain financial assets in HKAS 39 and that an entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill and investment in either an equity instrument or a financial asset carried at cost.

There was no material impact on the basis of preparation of the consolidated balance sheet and income statement arising from the above-mentioned accounting standards except for information related to the disclosure requirements of HKAS 1 Amendment and HKFRS 7 which had been disclosed in the financial statements.

## 2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs and HKASs

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

- |                      |   |
|----------------------|---|
| • HKFRS 8            | Operating Segments  |
| • HKAS 23 (Revised)  | Borrowing Costs (Revised)   |
| • HK(IFRIC) – Int 11 | HKFRS 2 – Group and Treasury Share Transactions   |
| • HK(IFRIC) – Int 12 | Service Concession Arrangements   |
| • HK(IFRIC) – Int 13 | Customer Loyalty Programmers  |
| • HK(IFRIC) – Int 14 | HKAS 19 – The Limit on a Defined Benefit Asset,<br>Minimum Funding Requirements and their Interaction |

HKFRS 8 (effective for accounting periods beginning on or after 1 January 2009) supersedes HKAS 14 Segment Reporting. Under HKAS 14, segments were identified and reported on the basis of a risk and return analysis, and items were reported on the basis of the accounting policies used for external reporting. Under HKFRS 8, segments are components of an entity regularly reviewed by an entity's chief operating decision-maker or an authorised qualified staff of the entity. Items are reported based on internal reporting.

HKAS 23 (Revised) shall be applied for annual periods beginning on or after 1 January 2009.

HK(IFRIC) – Int 11 and HK(IFRIC) – Int 12 shall be applied for annual periods beginning on or after 1 March 2007 and 1 January 2008 respectively.

HK(IFRIC) – Int 13 shall be applied for annual periods beginning on or after 1 July 2008.

HK(IFRIC) – Int 14 shall be applied for annual periods beginning on or after 1 January 2008.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs and HKASs upon initial application and expects that the adoption of the above pronouncements will not have significant impact on the Group's results of operations and financial position as at the date of the financial statements.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

### (1) Foreign currency translation

The consolidated 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.

#### (i) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to "Other operating income" or "Other operating expenses" in the income statement with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity which is taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those borrowings are also recorded in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as 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. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the closing rate.

#### (ii) Group companies

As at the reporting date, the assets and liabilities of subsidiaries and overseas branches are translated into the Group's presentation currency at the rate of exchange ruling at the balance sheet date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement as part of gain or loss on disposal.

### (2) Financial instruments – initial recognition and subsequent measurement

#### (i) Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Derivatives are recognised on trade date basis.



# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (2) Financial instruments – initial recognition and subsequent measurement (Continued)

#### (ii) Initial recognition of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

#### (iii) Derivative financial instruments

Derivatives include interest rate swaps and futures, cross currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives held for trading are included in “Net trading income”.

Derivatives embedded in other financial instruments, such as the conversion option in an acquired convertible bond, are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host contract are carried at fair value in the trading portfolio with changes in fair value recognised in the income statement.

#### (iv) Financial assets designated at fair value through profit or loss

Financial assets classified in this category are designated by management on initial recognition when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the balance sheet at fair value. Changes in fair value are recorded in “Net gain or loss on financial assets designated at fair value through profit or loss”. Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract, while dividend income is recorded in “Other operating income” when the right to the payment has been established.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (2) Financial instruments – initial recognition and subsequent measurement (Continued)

#### (v) Held-to-maturity investments

Held-to-maturity investments at amortised cost are those which carry fixed or determinable payments and have fixed maturities and which the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in “Interest income” in the income statement. The losses arising from impairment of such investments are recognised in the income statement as “Impairment allowances for loans and advances and receivables and held-to-maturity investments”.

#### (vi) Cash and short term placements, placements with banks and financial institutions, and loans and advances and receivables

Cash and short term placements, placements with banks and financial institutions, and loans and advances and receivables are categorised as loans and advances. They are carried at amortised cost and are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short term resale. After initial measurement, amounts due from banks and loans and advances are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in “Interest income” in the income statement. The losses arising from impairment are recognised in the income statement in “Impairment allowances”.

#### (vii) Available-for-sale financial assets

Available-for-sale financial assets are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity investments or loans and advances. They include equity instruments, investments in mutual funds and money market and other debt instruments.

After initial measurement, available-for-sale financial assets are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity in the “Available-for-sale financial assets revaluation reserve”.

When the security is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement in “Other operating income” or “Other operating expenses”. Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first-in-first-out basis. Interest earned whilst holding available-for-sale financial assets is reported as interest income using the effective interest rate method. Dividends earned whilst holding available-for-sale financial assets are recognised in the income statement as “Other operating income” when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the income statement in “Impairment allowances” and removed from the available-for-sale financial assets revaluation reserve.

# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (2) Financial instruments – initial recognition and subsequent measurement (Continued)

#### (viii) Certificates of deposit

Issued financial instruments or their components, which are not designated at fair value through profit or loss, are classified as liabilities under “Certificates of deposit issued at amortised cost” where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of compound financial instruments, that contain both liability and equity elements, are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

### (3) Derecognition of financial assets and financial liabilities

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

When the Group had transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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, 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (3) Derecognition of financial assets and financial liabilities (Continued)

#### (ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where 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 the recognition of a new liability, and the difference in the respective carrying amounts is recognised in income statement.

### (4) Determination of fair value

The fair value for financial instruments traded in active markets at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models and other relevant valuation models.

### (5) Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with default.

#### (i) Placements with banks and financial institutions, and loans and advances and receivables

For amounts due from banks and loans and advances to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (5) Impairment of financial assets (Continued)

#### (i) Placements with banks and financial institutions, and loans and advances and receivables (Continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral had been realised or had been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment 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. If a future write-off is later recovered, the recovery is credited to "Impairment losses and allowances".

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit risk-based system that considers credit risk characteristics such as asset type, industry, collateral type, economic factors and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (5) Impairment of financial assets (Continued)

#### (ii) Held-to-maturity investments

For held-to-maturity investments, the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to "Impairment losses and allowances", to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

#### (iii) Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement, is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of "Interest income". If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

### (6) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

#### (i) Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in "Property and equipment" with the corresponding liability to the lessor included in "Other liabilities". Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income in "Interest expense".

# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (6) Leases (Continued)

#### (i) Group as a lessee (Continued)

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are not recognised in the balance sheet. Any rentals payable are accounted for on a straight-line basis over the lease term and included in "Operating expenses".

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.

Medium term leases are the leases with remaining lease period of more than 10 years and not more than 50 years. Long term leases are the leases with remaining lease period of more than 50 years.

#### (ii) Group as a lessor

Leases where the Group does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. The Group leases out all of its investment properties as operating leases, thus generating rental income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

The amounts due from the lessees under finance leases are recorded in the balance sheet as loans and 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.

### (7) Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

#### (i) Interest income and expense

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial assets, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (7) Recognition of income and expenses (Continued)

#### (i) Interest income and expense (Continued)

Once the recorded value of a financial asset or a group of similar financial assets had been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

#### (ii) Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

##### (a) *Fee income earned from services that are provided over a certain period of time*

Fees earned from the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

##### (b) *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction.

#### (iii) Dividend income

Revenue is recognised when the Group's right to receive the payment is established.

#### (iv) Net trading income

Results arising from trading activities include all gains and losses from changes in fair value for financial assets and financial liabilities held for trading. This includes any ineffectiveness recorded in hedging transactions.

#### (v) Rental income

Rental income arising on investment properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the income statement in "Other operating income".

### (8) Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, and amounts due from banks on demand or with an original maturity period of three months or less.

### (9) Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the income statement in the year of acquisition.



# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (9) Business combinations and goodwill (Continued)

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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 synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Where goodwill forms part of a cash-generating unit (a group of cash-generating units) 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.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and unamortised goodwill is recognised in the income statement.

#### **Goodwill previously eliminated for against consolidated retained profits**

Goodwill arising on acquisition 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.

### (10) Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (11) Joint venture companies and jointly-controlled entities

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 entity 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 ventures, 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, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Group has a contractual right to exercise a dominant influence with respect to the joint venture's financial and operating policies;
- (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.

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.

# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (12) 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 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.

### (13) Property and equipment, and depreciation

The building component of owner-occupied properties and other property and equipment, other than investment properties, is stated at cost, except for certain 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 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 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 and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2% – 4%
Leasehold improvements:	
Own leasehold buildings	20% – 33 <sup>1</sup> / <sub>3</sub> %
Others	Over the shorter of the remaining lease terms and seven years
Furniture, fixtures and equipment	10% – 33 <sup>1</sup> / <sub>3</sub> %
Motor vehicles	20% – 25%

## **2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **(13) Property and equipment, and depreciation (Continued)**

Where parts of an item of property 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 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.

### **(14) 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 retirement or disposal.

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 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.

### **(15) Intangible assets**

Intangible assets, representing eligibility rights to trade on or through Hong Kong Exchanges and Clearing Limited, are stated at cost less impairment as at 1 January 2007. The carrying amount of intangible assets is subject to an annual impairment test, and impairment, if any, is charged to the income statement.

### **(16) 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.

# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (17) Impairment of non-financial assets

The Group assesses at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) it considered impaired is written down to its recoverable amount.

For assets excluding goodwill, deferred tax assets and inventories of taxi licenses 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 is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods.

### (18) Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, in "Other liabilities", being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement in "Impairment losses and allowances". The premium received is recognised in the income statement in "Net fees and commission income" on a straight line basis over the life of the guarantee.

### (19) Repossessed assets and valuation of collateral

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 with control 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.

Collateral assets (including repossessed assets and assets not yet repossessed) are recognised at the lower of their carrying amount of the related loans and advances and receivables and fair value less costs to sell.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (20) 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 operating expenses in the income statement.

### (21) Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

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

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interest in a joint venture, 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 deductible temporary differences, carry forward of unused tax credit 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 carry forward of unused tax credit 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 interest in a joint venture, 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.

# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (21) Income tax (Continued)

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 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.

### (22) 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 an employees' share option scheme (the "ESOS") 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 ESOS, 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 exercisable. 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (22) Employee benefits (Continued)

#### (b) Share option scheme (Continued)

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that 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) 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 as at the balance sheet date.

### (23) 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 investments

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 investments to other appropriate classes of financial assets. The investments would then be measured at fair value and not at amortised cost.



# Notes to Financial Statements

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation 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, and held-to-maturity investments

The Group reviews its portfolios of loans and advances and receivables and held-to-maturity investments 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 and held-to-maturity investments before the decrease can be identified with an individual loan or held-to-maturity investment in those portfolios. 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.

For loans and advances and receivables for which no individual impairment is observed, management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the loan 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 2007 was HK\$2,774,403,000. Further details are set out in note 28 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, securities trading and stockbroking, wealth management services, the extension of mortgages and consumer lending, hire purchase and leasing, provision of financing 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 segments comprise taxi trading and the leasing of taxis and letting of investment properties.

## 4. SEGMENT INFORMATION (Continued)

### (a) By business segments (Continued)

The Group's business for securities trading and stockbroking was reclassified to "retail and commercial banking and lending businesses" from "other business segments" in 2006 for conformity with presentation in 2007 as the management considers that securities trading and stockbroking are part of retail and commercial banking business activities. 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.

The following tables represent revenue and profit information for these segments for the years ended 31 December 2007 and 2006, and certain asset and liability information regarding business segments as at 31 December 2007 and 2006.

Group	Retail and commercial banking and lending businesses		Other businesses		Eliminated on consolidation		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		(Restated)				
<b>Segment revenue</b>								
Net interest income	1,001,782	910,437	-	-	-	-	1,001,782	910,437
Other operating income:								
Fees and commission income	244,738	176,054	883	295	-	-	245,621	176,349
Others	16,707	15,634	20,805	15,046	-	-	37,512	30,680
Profit on sale of available-for-sale financial assets	108,545	-	-	-	-	-	108,545	-
Elimination of inter-segment transactions	-	-	1,030	373	(1,030)	(373)	-	-
	1,371,772	1,102,125	22,718	15,714	(1,030)	(373)	1,393,460	1,117,466
<b>Segment results</b>	762,054	575,194	23,215	20,725	-	-	785,269	595,919
Share of profits and losses of a jointly-controlled entity							(163)	176
Profit before tax							785,106	596,095
Tax							(119,775)	(99,458)
Profit for the year							665,331	496,637
Segment assets	29,726,592	21,230,649	171,791	220,771	-	-	29,898,383	21,451,420
Unallocated assets:								
Goodwill							2,774,403	2,774,403
Intangible assets							358	725
Deferred tax assets							5,668	17,849
<b>Total assets</b>							32,678,812	24,244,397

# Notes to Financial Statements

## 4. SEGMENT INFORMATION (Continued)

### (a) By business segments (Continued)

Group	Retail and commercial banking and lending businesses				Eliminated on consolidation		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		(Restated)				
Segment liabilities	<b>26,630,797</b>	18,586,422	<b>18,891</b>	22,006	-	-	<b>26,649,688</b>	18,608,428
Unallocated liabilities:								
Dividend payable							<b>273,474</b>	218,779
Deferred tax liabilities and tax payable							<b>101,429</b>	97,142
<b>Total liabilities</b>							<b>27,024,591</b>	18,924,349
<b>Other segment information</b>								
Capital expenditure	<b>36,969</b>	6,044	-	-	-	-	<b>36,969</b>	6,044
Depreciation and amortisation of land lease prepayments	<b>18,448</b>	13,179	-	-	-	-	<b>18,448</b>	13,179
Reversal of an impairment allowance on land lease prepayments	<b>(2,616)</b>	(4,694)	-	-	-	-	<b>(2,616)</b>	(4,694)
Changes in fair value of investment properties	-	-	<b>(23,769)</b>	(30,719)	-	-	<b>(23,769)</b>	(30,719)
Impairment allowances for loans and advances and receivables and held-to-maturity investments	<b>176,973</b>	210,825	-	-	-	-	<b>176,973</b>	210,825
Net gain on disposal of property and equipment	<b>(4,503)</b>	(204)	-	-	-	-	<b>(4,503)</b>	(204)

### (b) By geographical segment

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. INTEREST INCOME AND EXPENSE

The interest income for the year ended 31 December 2007 amounted to HK\$1,919,885,000 (2006: HK\$1,444,809,000) and interest expense for the year ended 31 December 2007 amounted to HK\$918,103,000 (2006: HK\$534,372,000) pursuant to the adoption of effective interest method for financial assets and financial liabilities which are not designated at fair value through profit or loss. The interest income of the impaired loans and advances for the year ended 31 December 2007 amounted to HK\$6,906,000 (2006: HK\$13,189,000).

## 6. OTHER OPERATING INCOME

	Group	
	2007 HK\$'000	2006 HK\$'000
Fees and commission income:		
Retail and commercial banking	<b>168,030</b>	151,639
Securities	<b>78,841</b>	25,772
	<b>246,871</b>	177,411
Less : Fees and commission expenses	<b>(1,250)</b>	(1,062)
Net fees and commission income	<b>245,621</b>	176,349
Gross rental income	<b>12,502</b>	11,739
Less : Direct operating expenses	<b>(157)</b>	(212)
Net rental income	<b>12,345</b>	11,527
Gain less losses arising from dealing in foreign currencies	<b>11,960</b>	13,949
Gain on disposal of financial assets designated at fair value through profit or loss	<b>–</b>	438
Net gain on financial assets designated at fair value through profit or loss	<b>2,023</b>	933
Net gain on disposal of property and equipment	<b>4,503</b>	204
Dividends from listed investments	<b>2,041</b>	1,306
Dividends from unlisted investments	<b>980</b>	780
Net loss on derivative financial instruments	<b>(2,782)</b>	(3,303)
Others	<b>6,442</b>	4,846
	<b>283,133</b>	207,029

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

There were no net gain or losses arising from held-to-maturity investments, loans and advances and receivables, financial liabilities at amortised cost and financial liabilities designated at fair value through profit or loss for the years 2007 and 2006.

All fees and commission income and expense are related to financial assets or financial liabilities which are not designated at fair value through profit or loss. No fees and commission income and expense are related to trust and other fiduciary activities.

# Notes to Financial Statements

## 7. OPERATING EXPENSES

	Group	
	2007 HK\$'000	2006 HK\$'000
Staff costs:		
Salaries and other staff costs	<b>215,343</b>	160,383
Pension contributions	<b>11,472</b>	9,086
Less : Forfeited contributions	<b>(33)</b>	(129)
Net retirement benefit schemes	<b>11,439</b>	8,957
	<b>226,782</b>	169,340
Other operating expenses:		
Operating lease rentals on leasehold buildings	<b>30,771</b>	24,981
Depreciation and amortisation of land lease prepayments	<b>18,448</b>	13,179
Auditors' remuneration	<b>3,301</b>	2,950
Administrative and general expenses	<b>44,517</b>	32,382
Impairment of intangible assets	<b>367</b>	–
Others	<b>133,417</b>	103,303
Operating expenses before reversal of an impairment allowance on land lease prepayments and changes in fair value of investment properties	<b>457,603</b>	346,135
Reversal of an impairment allowance on land lease prepayments	<b>(2,616)</b>	(4,694)
Changes in fair value of investment properties	<b>(23,769)</b>	(30,719)
	<b>(26,385)</b>	(35,413)
	<b>431,218</b>	310,722

## 8. IMPAIRMENT ALLOWANCES

	Group	
	2007	2006
	HK\$'000	HK\$'000
Charge for/(write-back) of impairment allowances:		
– Loans and advances	<b>186,488</b>	215,198
– Trade bills, accrued interest and receivables	<b>(19,315)</b>	(4,373)
– Held-to-maturity investments	<b>9,800</b>	–
	<b>176,973</b>	210,825
Net charge for/(write-back) of impairment losses and allowances:		
– Individually assessed	<b>269,048</b>	193,963
– Collectively assessed	<b>(92,075)</b>	16,862
	<b>176,973</b>	210,825
Of which:		
– new impairment losses and allowances (including any amount directly written off during the year)	<b>255,316</b>	278,363
– releases and recoveries	<b>(78,343)</b>	(67,538)
Net charge to the consolidated income statement	<b>176,973</b>	210,825

There were no impairment allowances for other financial assets (other than loans and advances and receivables, and held-to-maturity investments) for the years 2007 and 2006.

# Notes to Financial Statements

## 9. DIRECTORS' REMUNERATION

The remuneration of each director for the years ended 31 December 2007 and 2006 are set out below:

### Group

Name of director	Fees HK\$'000	Salaries and other benefits HK\$'000 (Note 1)	2007		Total HK\$'000
			Bonuses HK\$'000	Retirement benefit contributions HK\$'000	
Tan Sri Dato' Sri Dr. Teh Hong Piow	325	-	-	-	325
Tan Sri Dato' Thong Yaw Hong	240	-	-	-	240
Tan Yoke Kong (Note 2)	100	1,396	450	153	2,099
Lee Huat Oon	50	1,000	329	111	1,490
Dato' Sri Tay Ah Lek	200	-	-	-	200
Dato' Chang Kat Kiam	150	-	-	-	150
Wong Kong Ming	50	-	-	-	50
Dato' Yeoh Chin Kee	200	-	-	-	200
Lee Chin Guan	200	-	-	-	200
	<b>1,515</b>	<b>2,396</b>	<b>779</b>	<b>264</b>	<b>4,954</b>

## 9. DIRECTORS' REMUNERATION (Continued)

Group

Name of director	Fees HK\$'000	Salaries and other benefits HK\$'000 (Note 1)	2006		Total HK\$'000
			Bonuses HK\$'000	Retirement benefit contributions HK\$'000	
Tan Sri Dato' Sri Dr. Teh Hong Piow	265	–	–	–	265
Tan Sri Dato' Thong Yaw Hong	120	–	–	–	120
Tan Yoke Kong (Note 2)	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	50	–	–	–	50
	1,185	2,154	717	237	4,293

Notes:

- Salaries and other benefits included basic salaries, housing, other allowances, benefits in kind and employee share option benefits. No employee share option benefits were paid in 2007 and the employee share option benefits represent fair value at the date of share options granted and accepted under the ESOS amortised to the income statement in the prior year disregarding whether the options have been exercised or not.
- The director occupies a property of the Group rent free. The estimated monetary value of the accommodation provided to him and not charged to the income statement is HK\$720,000 (2006: HK\$636,000).



# Notes to Financial Statements

## 10. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included two (2006: two) directors, details of whose remuneration, are set out in note 9 above.

Details of the remaining three highest paid individuals' remuneration in 2007 are as follows:

	Group	
	2007 HK\$'000	2006 HK\$'000
Basic salaries, housing, other allowances and benefits in kind	3,594	2,642
Bonuses paid and payable	595	392
Retirement benefit contributions	223	157
	<b>4,412</b>	<b>3,191</b>

The number of highest paid individuals in 2007 whose remuneration fell within the bands set out below is as follows:

	2007 Number of individuals	2006 Number of individuals
Nil – HK\$1,000,000	–	1
HK\$1,000,001 – HK\$1,500,000	2	2
HK\$1,500,001 – HK\$2,000,000	1	–
	<b>3</b>	<b>3</b>

## 11. TAX

	Group	
	2007 HK\$'000	2006 HK\$'000
Current tax charge:		
Hong Kong	99,715	93,260
Elsewhere	5,568	2,627
Over-provisions in prior years	(2,600)	(1,700)
Deferred tax charge (Note 33)	17,092	5,271
	<b>119,775</b>	<b>99,458</b>

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 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.

## 11. 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:

	Hong Kong		2007 Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<b>752,389</b>		<b>32,717</b>		<b>785,106</b>	
Tax at the applicable tax rate	<b>131,668</b>	<b>17.5</b>	<b>5,568</b>	<b>17.0</b>	<b>137,236</b>	<b>17.5</b>
Estimated tax effect of net income that is not taxable	<b>(14,040)</b>	<b>(1.9)</b>	–	–	<b>(14,040)</b>	<b>(1.8)</b>
Estimated tax losses from previous periods utilised	<b>(903)</b>	<b>(0.1)</b>	–	–	<b>(903)</b>	<b>(0.1)</b>
Estimated tax losses not recognised	<b>82</b>	–	–	–	<b>82</b>	–
Adjustments in respect of current tax of previous periods	<b>(2,600)</b>	<b>(0.3)</b>	–	–	<b>(2,600)</b>	<b>(0.3)</b>
Tax charge at the Group's effective rate	<b>114,207</b>	<b>15.2</b>	<b>5,568</b>	<b>17.0</b>	<b>119,775</b>	<b>15.3</b>

	Hong Kong		2006 Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<b>578,583</b>		<b>17,512</b>		<b>596,095</b>	
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	<b>98,531</b>	<b>17.0</b>	<b>927</b>	<b>5.3</b>	<b>99,458</b>	<b>16.7</b>

## 12. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2007 includes a profit of HK\$289,895,000 (2006: HK\$354,884,000) which has been dealt with in the financial statements of the Company (Note 38).

# Notes to Financial Statements

## 13. DIVIDENDS

	2007 HK\$ per ordinary share	2006 HK\$ per ordinary share	2007 HK\$'000	2006 HK\$'000
Interim:				
First	<b>0.05</b>	0.05	<b>54,695</b>	54,695
Second	<b>0.25</b>	0.20	<b>273,474</b>	218,779
	<b>0.30</b>	0.25	<b>328,169</b>	273,474

## 14. 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\$665,331,000 (2006: HK\$496,637,000) and the weighted average number of 1,093,896,618 (2006: 992,998,391) ordinary shares in issue during the year.

### (b) Diluted earnings per share

There was no diluted earnings per share for the year ended 31 December 2007 as the exercise price of all share options outstanding was higher than the average market price of shares issued on deemed exercise of all share options outstanding during the year. The calculation of diluted earnings per share for the year ended 31 December 2006 was based on the profit for the year of HK\$496,637,000 and on the weighted average number of 994,185,625 ordinary shares, being the weighted average number of 992,998,391 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 ordinary shares assumed to have been issued at nil consideration on the deemed exercise of all share options outstanding during the last year.

	2007	2006
Profit for the year, used in the basic and diluted earnings per share calculation (HK\$'000)	<b>665,331</b>	496,637
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<b>1,093,896,618</b>	992,998,391
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
Weighted average number of ordinary shares used in the diluted earnings per share calculation	<b>1,093,896,618</b>	994,185,625
Diluted earnings per share (HK\$)	<b>0.608</b>	0.500

## 15. CASH AND SHORT TERM PLACEMENTS

	Group		Company	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash in hand	111,345	79,133	–	–
Placements with banks and financial institutions	321,740	210,291	722	2,844
Money at call and short notice	5,449,150	2,005,795	62,050	916,890
	<b>5,882,235</b>	2,295,219	<b>62,772</b>	919,734

The carrying amounts of the short term placements approximate their fair values, and over 90% of the placements are rated with grading of Baa2 or above based on the rating of an external credit agency, Moody's.

## 16. PLACEMENTS WITH BANKS AND FINANCIAL INSTITUTIONS

	Group	
	2007	2006
	HK\$'000	HK\$'000
Placements with banks and financial institutions	441,539	566,773

The carrying amounts of the placements with banks and financial institutions approximate their fair values, and over 90% of the placements were rated with grading of Baa2 or above based on the rating of an external credit agency, Moody's.

## 17. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2007	2006
	HK\$'000	HK\$'000
Unlisted equity investment funds, at quoted market price	12,262	10,213

They were designated at fair value through profit or loss upon initial recognition.

# Notes to Financial Statements

## 18. LOANS AND ADVANCES AND RECEIVABLES

	Group	
	2007 HK\$'000	2006 HK\$'000
Loans and advances	<b>18,947,961</b>	13,676,597
Trade bills	<b>166,087</b>	98,381
	<b>19,114,048</b>	13,774,978
Accrued interest	<b>88,179</b>	113,916
	<b>19,202,227</b>	13,888,894
Other receivables	<b>63,272</b>	68,473
Gross loans and advances and receivables	<b>19,265,499</b>	13,957,367
Less: Impairment allowances for loans and advances and receivables		
– Individually assessed	<b>(33,990)</b>	(104,785)
– Collectively assessed	<b>(65,871)</b>	(157,946)
	<b>(99,861)</b>	(262,731)
Loans and advances and receivables	<b>19,165,638</b>	13,694,636

Over 90% of the loans and advances and receivables are unrated exposures. The carrying amounts of loans and advances and other receivables, net of impairment allowances, approximate their fair values.

The Group's loans and advances and receivables are mainly collateralised by properties, cash, securities and tax licences.

## 18. LOANS AND ADVANCES AND RECEIVABLES (Continued)

### (a) Overdue and impaired loans and advances and receivables

	2007		2006	
	Gross amount HK\$'000	Percentage of total loans and advances	Gross amount HK\$'000	Percentage of total loans and advances
Loans and advances overdue for:				
Six months or less but over three months	<b>111,768</b>	<b>0.6</b>	80,142	0.6
One year or less but over six months	<b>7,017</b>	<b>–</b>	49,930	0.4
Over one year	<b>8,111</b>	<b>0.1</b>	148,895	1.1
Loans and advances overdue for more than three months	<b>126,896</b>	<b>0.7</b>	278,967	2.1
Rescheduled loans and advances and loss accounts overdue for three months or less	<b>20,224</b>	<b>0.1</b>	18,913	0.1
Total overdue and impaired loans and advances	<b>147,120</b>	<b>0.8</b>	297,880	2.2

	Group	
	2007 HK\$'000	2006 HK\$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	<b>1,006</b>	9
One year or less but over six months	<b>468</b>	890
Over one year	<b>1,210</b>	26,096
Total overdue and impaired accrued interest and other receivables	<b>2,684</b>	26,995

Impaired loans and advances and receivables are individually determined to be impaired taking into account overdue aging analysis and other qualitative factors such as bankruptcy proceedings and individual voluntary arrangements.

# Notes to Financial Statements

## 18. LOANS AND ADVANCES AND RECEIVABLES (Continued)

### (b) Geographical analysis of overdue and impaired loans and advances and receivables, and individual and collective impairment allowances

	Group					
	2007			2006		
	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
(i) Analysis of overdue loans and advances and receivables						
Loans and advances and receivables overdue more than three months	<b>129,580</b>	–	<b>129,580</b>	212,468	96,090	308,558
Individual impairment allowances	<b>27,532</b>	–	<b>27,532</b>	29,094	72,797	101,891
Collective impairment allowances	<b>42,965</b>	–	<b>42,965</b>	123,108	6	123,114
Current market value and fair value of collateral			<b>40,897</b>			<b>180,717</b>
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	<b>151,360</b>	–	<b>151,360</b>	223,160	101,825	324,985
Individual impairment allowances	<b>33,990</b>	–	<b>33,990</b>	31,988	72,797	104,785
Collective impairment allowances	<b>42,965</b>	–	<b>42,965</b>	128,608	–	128,608
Current market value and fair value of collateral			<b>48,878</b>			<b>218,213</b>

Over 90% of the Group's gross loans and advances and receivables and their related impairment allowances are derived from operations carried out in Hong Kong. Accordingly, no geographical segment information is presented herein.

## 18. LOANS AND ADVANCES AND RECEIVABLES (Continued)

- (c) The value of collateral held in respect of its overdue loans and advances and the split between the portion of the overdue loans and advances covered by credit protection (covered portion) and the remaining portion (uncovered portion) are as follows:

	Group	
	2007 HK\$'000	2006 HK\$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	<b>40,897</b>	180,717
Covered portion of overdue loans and advances	<b>36,644</b>	115,694
Uncovered portion of overdue loans and advances	<b>90,252</b>	163,273

The eligibility of assets taken as collateral should satisfy the following criteria:

- The market value of the asset is readily determinable or can be reasonably established and verified.
- The asset is marketable and there exists a readily available secondary market for disposal of the asset.
- The Group's right to repossess the asset is legally enforceable without impediment.
- The Group is able to secure control over the asset if necessary.

### (d) Repossessed assets

As at 31 December 2007, the total value of repossessed assets of the Group amounted to HK\$749,000 (2006: HK\$21,679,000).

### (e) Past due but not impaired loans and advances and receivables

	Group			
	2007		2006	
	Gross amount HK\$'000	Percentage of total loans and advances	Gross amount HK\$'000	Percentage of total loans and advances
Loans overdue less than three months	<b>624,509</b>	<b>3.30</b>	518,949	3.79
Rescheduled but not impaired loans and advances	<b>710</b>	-	2,719	0.02
	<b>625,219</b>	<b>3.30</b>	521,668	3.81
Trade bills, accrued interest and other receivables overdue less than three months	<b>6,055</b>		4,917	



# Notes to Financial Statements

## 18. LOANS AND ADVANCES AND RECEIVABLES (Continued)

### (f) Movements in impairment losses and allowances on loans and advances and receivables

Group

	Individual impairment allowance HK\$'000	2007 Collective impairment allowance HK\$'000	Total HK\$'000
At 1 January 2007	104,785	157,946	262,731
Amount written off	(408,386)	–	(408,386)
Impairment losses and allowances charged to the income statement	397,043	–	397,043
Impairment losses and allowances released to the income statement	(137,795)	(92,075)	(229,870)
Net charge of impairment losses and allowances	259,248	(92,075)	167,173
Loans and advances and receivables recovered	78,343	–	78,343
At 31 December 2007	33,990	65,871	99,861
Deducted from:			
Loans and advances	29,407	64,958	94,365
Trade bills, accrued interest and other receivables	4,583	913	5,496
	33,990	65,871	99,861

## 18. LOANS AND ADVANCES AND RECEIVABLES (Continued)

### (f) Movements in impairment losses and allowances on loans and advances and receivables (Continued)

Group

	Individual impairment allowance HK\$'000	2006 Collective impairment allowance HK\$'000	Total HK\$'000
At 1 January 2006	78,276	112,403	190,679
Amount written off	(282,661)	–	(282,661)
Impairment losses and allowances charged to the income statement	261,500	16,863	278,363
Impairment losses and allowances released to the income statement	(67,538)	–	(67,538)
Net charge of impairment losses and allowances	193,962	16,863	210,825
Loans and advances and receivables recovered	67,538	–	67,538
Acquisition of subsidiaries	47,670	28,680	76,350
At 31 December 2006	104,785	157,946	262,731
Deducted from:			
Loans and advances	80,760	157,159	237,919
Trade bills, accrued interest and other receivables	24,025	787	24,812
	104,785	157,946	262,731

# Notes to Financial Statements

## 18. LOANS AND ADVANCES AND RECEIVABLES (Continued)

### (g) Finance lease receivables

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

Group	Minimum lease payments		Present value of minimum lease payments	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts receivable under finance leases:				
Within one year	520,412	408,197	382,168	293,704
In the second to fifth years, inclusive	957,861	826,497	631,289	482,119
Over five years	2,488,574	2,466,746	1,765,148	1,468,776
	<b>3,966,847</b>	3,701,440	<b>2,778,605</b>	2,244,599
Less: Unearned finance income	(1,188,242)	(1,456,841)		
Present value of minimum lease payments receivable	<b>2,778,605</b>	2,244,599		

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.

## 19. OTHER PAST DUE AND RESCHEDULED ASSETS

There were no other overdue or rescheduled advances to banks and other financial institutions or other assets (other than loans and advances and receivables and held-to-maturity investments) as at 31 December 2007 and 2006.

There were no impairment allowances for other assets (other than loans and advances and receivables, held-to-maturity investments and intangible assets) as at 31 December 2007 and 2006, and no impairment allowances and losses were charged to the income statement for such other assets in the financial years 2007 and 2006.

## 20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2007 HK\$'000	2006 HK\$'000
Listed security investment in Hong Kong, at quoted market price:		
At beginning of year	<b>68,828</b>	25,881
Disposals	<b>(108,744)</b>	–
Change in fair value (Note 38)	<b>84,156</b>	42,947
Sub-total	<b>44,240</b>	68,828
Unlisted equity investment, at cost:		
At beginning of year	<b>6,804</b>	–
Acquisition of subsidiaries	–	6,804
Sub-total	<b>6,804</b>	6,804
Total at end of year	<b>51,044</b>	75,632
Analysed by issuers:		
Corporate entities	<b>51,044</b>	75,632

The Group's listed available-for-sale financial assets are non-current in nature and represent 200,000 ordinary shares of HK\$1.00 each in Hong Kong Exchanges and Clearing Limited.

Unlisted equity investment is measured at cost as the investment does not have a quoted market price in an active market and its fair value cannot be reliably measured.

# Notes to Financial Statements

## 21. HELD-TO-MATURITY INVESTMENTS

	Group	
	2007 HK\$'000	2006 HK\$'000
Certificates of deposit held	175,696	564,186
Treasury bills (including Exchange Fund Bills)	297,478	99,224
Other debt securities	2,395,334	3,016,194
	<b>2,868,508</b>	3,679,604
Less : Individual impairment allowance	<b>(9,800)</b>	–
	<b>2,858,708</b>	3,679,604
Listed or unlisted:		
– listed in Hong Kong	19,986	19,980
– listed outside Hong Kong	–	46,661
– unlisted	2,838,722	3,612,963
	<b>2,858,708</b>	3,679,604
Analysed by issuers:		
– Central government	297,478	99,224
– Public sector entities	–	23,329
– Banks and other financial institutions	2,412,973	3,214,200
– Corporate entities	148,257	342,851
	<b>2,858,708</b>	3,679,604
Market value of listed held-to-maturity investments		
– Hong Kong	19,810	19,540
– outside Hong Kong	–	46,618
	<b>19,810</b>	66,158

### Overdue analysis of impaired held-to-maturity investments

	2007		2006	
	Gross amount HK\$'000	Percentage of total held- to-maturity investments	Gross amount HK\$'000	Percentage of total held- to-maturity investments
Overdue less than three months but impaired	77,907	2.71%	–	–

There were no held-to-maturity investments overdue more than three months.

## 21. HELD-TO-MATURITY INVESTMENTS (Continued)

### Overdue analysis of impaired held-to-maturity investments (Continued)

Over 90% of exposures attributed to the held-to-maturity investments are rated with grading of Baa2 or above based on credit rating of an external credit agency, Moody's.

## 22. INVESTMENT PROPERTIES

	Group HK\$'000	Company HK\$'000
At valuation:		
At 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 and 1 January 2007	<b>196,666</b>	<b>53,000</b>
Transfer from owner-occupied property	<b>137</b>	–
Transfer to owner-occupied property	<b>(73,080)</b>	–
Disposals	<b>(1,000)</b>	–
Carrying amount before change in fair value	<b>122,723</b>	<b>53,000</b>
Change in fair value	<b>23,769</b>	<b>5,900</b>
<b>At 31 December 2007</b>	<b>146,492</b>	<b>58,900</b>

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

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
At valuation:				
Medium term leases	<b>60,178</b>	61,472	–	–
Long term leases	<b>86,314</b>	135,194	<b>58,900</b>	53,000
	<b>146,492</b>	196,666	<b>58,900</b>	53,000

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

Investment properties with a carrying amount of HK\$122,723,000 were revalued at HK\$146,492,000 at 31 December 2007 based on the revaluation report issued by C S Surveyors Limited, a firm of independent professionally qualified valuers, on an open market value based on their existing use. The increase in the fair value of HK\$23,769,000 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 39(a) to the financial statements.

# Notes to Financial Statements

## 23. PROPERTY AND EQUIPMENT

	Group			Total HK\$'000
	Buildings HK\$'000	Leasehold improvements, furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	
Cost:				
At 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 and 1 January 2007	<b>65,919</b>	<b>85,589</b>	<b>2,784</b>	<b>154,292</b>
Additions	–	<b>36,769</b>	<b>200</b>	<b>36,969</b>
Transfer to investment properties	<b>(66)</b>	–	–	<b>(66)</b>
Transfer from investment properties	<b>2,995</b>	–	–	<b>2,995</b>
Disposals/write-off	–	<b>(8,807)</b>	–	<b>(8,807)</b>
At 31 December 2007	<b>68,848</b>	<b>113,551</b>	<b>2,984</b>	<b>185,383</b>
Accumulated depreciation:				
At 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 and 1 January 2007	<b>7,762</b>	<b>72,915</b>	<b>2,612</b>	<b>83,289</b>
Provided during the year	<b>1,554</b>	<b>10,876</b>	<b>82</b>	<b>12,512</b>
Transfer to investment properties	<b>(60)</b>	–	–	<b>(60)</b>
Disposals/write-off	–	<b>(8,365)</b>	–	<b>(8,365)</b>
At 31 December 2007	<b>9,256</b>	<b>75,426</b>	<b>2,694</b>	<b>87,376</b>
Net carrying amount:				
At 31 December 2007	<b>59,592</b>	<b>38,125</b>	<b>290</b>	<b>98,007</b>
At 31 December 2006	58,157	12,674	172	71,003

No valuation has been made for the above property and equipment during the years 2007 and 2006.

## 24. LAND LEASE PREPAYMENTS

	<b>Group</b>
	<b>HK\$'000</b>
Cost:	
At 1 January 2006	269,130
Acquisition of subsidiaries	328,499
Disposals	(82)
At 31 December 2006 and 1 January 2007	<b>597,547</b>
Transfer to investment properties	<b>(230)</b>
Transfer from investment properties	<b>70,085</b>
Exchange difference	-
At 31 December 2007	<b>667,402</b>
Accumulated amortisation and impairment:	
At 1 January 2006	35,562
Provided during the year	4,670
Disposals	(21)
Reversal of an impairment loss	(4,694)
At 31 December 2006 and 1 January 2007	<b>35,517</b>
Provided during the year	<b>5,936</b>
Transfer to investment properties	<b>(99)</b>
Reversal of an impairment loss	<b>(2,616)</b>
Exchange difference	-
At 31 December 2007	<b>38,738</b>
Net carrying amount:	
At 31 December 2007	<b>628,664</b>
At 31 December 2006	562,030

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

	<b>Group</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Net book value:		
Medium term leases	<b>184,673</b>	181,009
Long term leases	<b>443,991</b>	381,021
	<b>628,664</b>	562,030



# Notes to Financial Statements

## 24. LAND LEASE PREPAYMENTS (Continued)

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\$2,616,000 (2006: HK\$4,694,000) was credited to the income statement due to increase in fair value as at 31 December 2007. 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\$6,346,000 and HK\$622,318,000 (2006: HK\$4,670,000 and HK\$557,360,000) respectively.

## 25. INTERESTS IN SUBSIDIARIES

	Company	
	2007 HK\$'000	2006 HK\$'000
Unlisted shares, at cost	5,362,792	5,362,792
Amounts due from subsidiaries	225,941	249,941
	<b>5,588,733</b>	5,612,733

The amounts due from subsidiaries were unsecured, and had no fixed terms of repayments. The interest-bearing amounts due from subsidiaries were nil (2006: HK\$16,000,000) while the non-interest-bearing amounts due from subsidiaries were HK\$225,941,000 (2006: HK\$233,941,000) 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		Principal activities
		Direct	Indirect	
Public Bank (Hong Kong) Limited	810,000,000	100	–	Provision of banking, financial and related services
Public Bank (Nominees) Limited	100,000	–	100	Provision of nominee services
PB Finance Limited	25,000,000	–	100	Dormant
Public Investments Limited	5,000,000	–	100	Dormant
Public Realty Limited	100,000	–	100	Dormant
Public Credit Limited	5,000,000	–	100	Dormant

## 25. INTERESTS IN SUBSIDIARIES (Continued)

Name	Nominal value of issued ordinary share capital HK\$	Percentage of equity attributable to the Company		Principal activities
		Direct	Indirect	
Public Futures Limited	20,000,000	–	100	Dormant
Public Pacific Securities Limited	12,000,000	–	100	Dormant
Public Financial Securities Limited	15,000,000	–	100	Securities brokerage
Public Finance Limited	258,800,000	100	–	Deposit-taking and financing
Public Financial Limited	10,100,000	–	100	Investment holding
Public Securities Limited	10,000,000	–	100	Securities brokerage
Public Securities (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

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.

# Notes to Financial Statements

## 26. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2007	2006
	HK\$'000	HK\$'000
Share of net assets other than goodwill	<b>1,513</b>	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

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

The following table illustrates the summarised financial information of the Group's interest in a jointly-controlled entity:

	2007	2006
	HK\$'000	HK\$'000
Share of the jointly-controlled entity assets and liabilities:		
Assets	<b>2,321</b>	1,970
Liabilities	<b>(808)</b>	(294)
Net assets	<b>1,513</b>	1,676
Share of the jointly-controlled entity profits and losses		
Total income	<b>1,291</b>	1,803
Total expenses	<b>(1,454)</b>	(1,627)
Profit/(loss) after tax	<b>(163)</b>	176

\* The financial statements of Net Alliance Co. Limited are coterminous with those of the Group. The most recent management financial statements of Net Alliance Co. Limited are used by the Group in applying the equity method.

## 27. OTHER ASSETS

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Interest receivable from authorised institutions	<b>35,764</b>	51,439	<b>30</b>	1,695
Other debtors, deposits and prepayments	<b>548,574</b>	209,644	<b>1,972</b>	7,142
	<b>584,338</b>	261,083	<b>2,002</b>	8,837

The Group's interest receivable from authorised institutions was current in nature as at 31 December 2007 and 2006. The current and non-current portion of the Group's other debtors, deposits and prepayments were HK\$537,854,000 and HK\$10,720,000 (2006: HK\$201,032,000 and HK\$8,612,000), 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 as at 31 December 2007 and 2006.

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

## 28. GOODWILL

	Group	
	2007 HK\$'000	2006 HK\$'000
Cost:		
At beginning of year	<b>2,774,403</b>	–
Additions	–	2,774,403
At end of year	<b>2,774,403</b>	2,774,403

### 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 are involved mainly in the retail and commercial banking 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 forty-five years. All cash flows are discounted at a discount rate of 6%. Management's financial model assumes an overall growth rate of 10% per annum during the first five 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 years 2007 and 2006 as its value in use exceeds the carrying amount.

# Notes to Financial Statements

## 29. INTANGIBLE ASSETS

	Group	
	2007 HK\$'000	2006 HK\$'000
Cost:		
At beginning of year	725	126
Acquisition of subsidiaries	–	599
At end of year	<b>725</b>	725
Accumulated impairment:		
At beginning of year	–	–
Impairment during the year recognised in the income statement	367	–
At end of year	<b>367</b>	–
Net carrying amount:		
At end of year	<b>358</b>	725

The trading rights are retained for stock trading and stockbroking activities, and are of indefinite useful lives. They represent four units of Stock Exchange Trading Right and one unit of Futures Exchange Trading Right in Hong Kong Exchanges and Clearing Limited.

## 30. 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	
	2007 HK\$'000	2006 HK\$'000
Aggregate amount of principal and interest outstanding at end of year	<b>1,201</b>	1,067
Maximum aggregate amount of principal and interest outstanding during the year	<b>1,593</b>	1,165

The loans to directors and officers are granted on essentially the same terms with those granted to other customers, and/or at prevailing market rates and have no fixed terms of repayment, apart from a loan of HK\$935,478 to an officer which is repayable on 25 December 2015 and is secured by a property at a fair value of HK\$3,300,000 as at 31 December 2007.

### 31. CUSTOMER DEPOSITS AT AMORTISED COST

	Group	
	2007 HK\$'000	2006 HK\$'000
Demand deposits and current accounts	732,912	640,534
Savings deposits	2,363,790	2,016,059
Time, call and notice deposits	17,404,847	12,197,062
	<b>20,501,549</b>	14,853,655

The connected deposits included in "Time, call and notice deposits" were repayable and subject to renewal by a fellow subsidiary within one year.

### 32. UNSECURED BANK LOANS AT AMORTISED COST

	Group and Company	
	2007 HK\$'000	2006 HK\$'000
Unsecured bank loans	1,100,000	2,000,000
Repayable:		
In the second to fifth years, inclusive	1,100,000	2,000,000

The unsecured bank loans are denominated in Hong Kong dollars. The carrying amounts of the unsecured bank loans approximate their fair values and bear interest at floating interest rates and at prevailing market rates.

In the prior year, the Company entered into a 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)"), a fellow subsidiary of the Company, for a Hong Kong dollar three-year term loan facility in an aggregate amount of HK\$2,000,000,000.

# Notes to Financial Statements

## 33. DEFERRED TAX

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

### Group

Deferred tax assets:

	At 1 January 2006 HK\$'000	Acquisition of subsidiaries HK\$'000	Deferred tax charged to the income statement HK\$'000	At 31 December 2006 and 1 January 2007 HK\$'000	Deferred tax charged to the income statement HK\$'000	At 31 December 2007 HK\$'000
Collective impairment allowances for loans and advances and receivables	1,607	3,766	(111)	5,262	(950)	4,312
Losses available for offset against future taxable profit	477	–	(477)	–	–	–
Unrealised profit in inventories	483	–	(128)	355	–	355
Accelerated depreciation allowances	287	–	(287)	–	–	–
Fair value adjustment on held-to-maturity investments	–	13,020	(788)	12,232	(11,231)	1,001
	2,854	16,786	(1,791)	17,849	(12,181)	5,668

Deferred tax liabilities:

	At 1 January 2006 HK\$'000	Acquisition of subsidiaries HK\$'000	Deferred tax charged to the income statement HK\$'000	At 31 December 2006 and 1 January 2007 HK\$'000	Deferred tax charged to the income statement HK\$'000	At 31 December 2007 HK\$'000
Accelerated tax depreciation and revaluation surplus of investment properties	13,410	47,442	3,480	64,332	4,911	69,243

The Group has tax losses arising in Hong Kong of HK\$37,854,091 (2006: HK\$42,549,000) 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\$4,800,000 (2006: HK\$3,700,000) 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.

### 34. OTHER LIABILITIES

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Creditors, accruals and interest payable	<b>732,588</b>	458,726	<b>2,682</b>	1,600
Amount due to the ultimate holding company	<b>41</b>	541	<b>-</b>	500
	<b>732,629</b>	459,267	<b>2,682</b>	2,100

The other liabilities were current in nature and approximate their fair values.

### 35. SHARE CAPITAL

	2007 HK\$'000	2006 HK\$'000
<b>Ordinary shares</b>		
Authorised:		
2,000,000,000 (2006: 2,000,000,000) ordinary shares of HK\$0.10 each	<b>200,000</b>	200,000

	Number of ordinary shares of HK\$0.10 each		Share capital	
	2007	2006	2007 HK\$'000	2006 HK\$'000
Issued and fully paid:				
At 1 January	<b>1,093,896,618</b>	729,264,412	<b>109,390</b>	72,926
Rights issue	<b>-</b>	364,632,206	<b>-</b>	36,464
At 31 December	<b>1,093,896,618</b>	1,093,896,618	<b>109,390</b>	109,390

### 36. SHARE OPTION SCHEME

Under the Employees' Share Option Scheme (the "ESOS") approved on 28 February 2002, the board of directors granted 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, pursuant to a board resolution passed on 18 May 2005. 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.



# Notes to Financial Statements

## 36. SHARE OPTION SCHEME (Continued)

Pursuant to the terms of the ESOS, 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 a rights issue. After the completion of the one for two rights issue in April 2006, the exercise price of the outstanding share options was adjusted from HK\$7.29 per share to HK\$6.35 per share on 14 June 2006 and there was no adjustment to the number of shares falling to be issued.

Particulars in relation to the ESOS of the Company 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 ESOS

Purpose	:	To attract, retain and motivate talented eligible participants.
Participants	:	Eligible participants include: <ul style="list-style-type: none"> <li>(i) any employee and director of the Company or any subsidiary or any associate or controlling shareholder;</li> <li>(ii) any discretionary trust whose discretionary objects include person(s) belonging to the aforesaid participants;</li> <li>(iii) a company beneficially owned by person(s) belonging to the aforesaid participants; and</li> <li>(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.</li> </ul>
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	:	109,389,661 ordinary shares which represent 10% of the issued share capital.
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

## 36. SHARE OPTION SCHEME (Continued)

### (a) Summary of the ESOS (Continued)

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 remaining life of the ESOS	:	The ESOS remains in force until 27 February 2012.

### (b) Movement of share options

Name	Number of share options				Outstanding at the end of the year
	Outstanding at the beginning of the year	Granted and accepted during the year	Lapsed during the year	Exercised during the year	
<i>Directors</i>					
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	–	–
<i>Employees working under "continuous contracts" for the purposes of the Employment Ordinance other than the directors as disclosed above</i>	28,860,000	–	1,804,000	–	27,056,000
	43,068,000	–	2,504,000	–	40,564,000

# Notes to Financial Statements

## 36. SHARE OPTION SCHEME (Continued)

### (b) Movement of share options (Continued)

Notes:

- (i) The share options are only exercisable 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 40,564,000 outstanding options was 7.44 years as at 31 December 2007.
  - (iv) The share options outstanding at end of 2007 can only be exercised in future open exercise periods.
- (c) Had all the outstanding share options been fully exercised on 31 December 2007, the last trading date of 2007, the Group would have received proceeds of HK\$257,581,400 (2006: HK\$273,481,800). The market value of the shares issued based on the closing price of HK\$5.01 (2006: HK\$6.15) per share on that date would have been HK\$203,225,640 (2006: HK\$264,868,200). The directors and employees concerned under the ESOS would have made no gain from the exercise of the share options (2006: Nil).

## 37. EMPLOYEE SHARE-BASED COMPENSATION RESERVE

	Group	
	2007 HK\$'000	2006 HK\$'000
Employee share option benefits	<b>45,765</b>	45,765

There were no movements in the reserve during the years 2007 and 2006.

## 38. RESERVES

Group	Share	Capital	Contributed	Available- for-sale	Employee	Regulatory	Retained	Translation	Total
	premium	redemption		financial	share-based				
	account	reserve	surplus	assets	compensation	reserve	profits	reserve	
	HK\$'000	HK\$'000	HK\$'000	revaluation	reserve	reserve	reserve	reserve	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	reserve	reserve	reserve	reserve	reserve	HK\$'000
At 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 20)	-	-	-	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 13)	-	-	-	-	-	-	(273,474)	-	(273,474)
At 31 December 2006 and 1 January 2007	<b>3,988,219</b>	<b>829</b>	<b>96,116</b>	<b>68,565</b>	<b>45,765</b>	<b>95,881</b>	<b>915,283</b>	<b>-</b>	<b>5,210,658</b>
Change in fair value and total income and expense recognised directly in equity (note 20)	-	-	-	84,156	-	-	-	-	84,156
Profit for the year	-	-	-	-	-	-	665,331	-	665,331
Exchange difference	-	-	-	-	-	-	-	21,400	21,400
Transfer from retained profits	-	-	-	-	-	65,338	(65,338)	-	-
Transfer to income statement for disposal of available-for-sale financial assets	-	-	-	(108,545)	-	-	-	-	(108,545)
Dividends for 2007 (note 13)	-	-	-	-	-	-	(328,169)	-	(328,169)
At 31 December 2007	<b>3,988,219</b>	<b>829</b>	<b>96,116</b>	<b>44,176</b>	<b>45,765</b>	<b>161,219</b>	<b>1,187,107</b>	<b>21,400</b>	<b>5,544,831</b>

# Notes to Financial Statements

## 38. RESERVES (Continued)

Company	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Available-for-sale financial assets 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 2006	1,364,179	829	194,176	-	45,765	-	(50,064)	1,554,885
Premium, net of expenses, arising on rights issue	2,624,040	-	-	-	-	-	-	2,624,040
Dividends for 2006 (note 13)	-	-	-	-	-	-	(273,474)	(273,474)
Profit for the year	-	-	-	-	-	-	354,884	354,884
At 31 December 2006 and 1 January 2007	<b>3,988,219</b>	<b>829</b>	<b>194,176</b>	<b>-</b>	<b>45,765</b>	<b>-</b>	<b>31,346</b>	<b>4,260,335</b>
Premium, net of expense, arising on rights issue	-	-	-	-	-	-	-	-
Dividends for 2007 (note 13)	-	-	-	-	-	-	(328,169)	(328,169)
Profit for the year	-	-	-	-	-	-	289,895	289,895
At 31 December 2007	<b>3,988,219</b>	<b>829</b>	<b>194,176</b>	<b>-</b>	<b>45,765</b>	<b>-</b>	<b>(6,928)</b>	<b>4,222,061</b>

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 2007 were positive goodwill of HK\$98,406,000 (2006: HK\$98,406,000), which arose from the acquisition of certain subsidiaries in prior years.

Note : In accordance with the HKMA's guideline "Impact of the New Hong Kong Accounting Standards on Authorised Institutions' Capital Base and Regulatory Reserve" (the "Guideline"), the regulatory reserve, together with the Group's collective impairment allowances were included as supplementary capital on the Group's capital base at 31 December 2007 as defined in the Guideline.

### 39. 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 2007, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	<b>Group</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>7,807</b>	10,026
In the second to fifth years, inclusive	<b>2,584</b>	8,496
	<b>10,391</b>	18,522

- (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 2007, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	<b>Group</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>28,681</b>	25,804
In the second to fifth years, inclusive	<b>17,599</b>	18,225
	<b>46,280</b>	44,029

# Notes to Financial Statements

## 40. OFF-BALANCE SHEET EXPOSURE

### (a) Contingent liabilities and commitments

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

2007	Contractual amount HK\$'000	Credit risk weighted amount HK\$'000	Positive fair value – assets HK\$'000	Negative fair value – liabilities HK\$'000
Direct credit substitutes	287,899	81,595	–	–
Transaction-related contingencies	3,844	958	–	–
Trade related contingencies	197,345	37,208	–	–
Forward asset purchases	85,898	17,180	–	–
	<b>574,986</b>	<b>136,941</b>	<b>–</b>	<b>–</b>
Derivatives held for trading (note b):				
Foreign exchange rate contracts	2,021,126	866	2,591	2,342
Interest rate swaps	400,000	–	53	39
	<b>2,421,126</b>	<b>866</b>	<b>2,644</b>	<b>2,381</b>
Other commitments with an original maturity of:				
Not more than one year	–	–	–	–
More than one year	508,023	254,011	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,777,592	–	–	–
	<b>7,281,727</b>	<b>391,818</b>	<b>2,644</b>	<b>2,381</b>
Capital commitment contracted for, but not provided in the financial statements	9,284	9,284	–	–

## 40. OFF-BALANCE SHEET EXPOSURE (Continued)

### (a) Contingent liabilities and commitments (Continued)

2006	Contractual amount HK\$'000	Credit risk weighted amount HK\$'000	Positive fair value – assets HK\$'000	Negative fair value – liabilities 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	–	–
	290,071	102,213	–	–
Derivatives held for trading:				
Foreign exchange rate contracts	5,286,409	10,575	11,434	8,129
Interest rate swaps and future contracts	227,780	–	1,346	1,606
	5,514,189	10,575	12,780	9,735
Other commitments with an original maturity of:				
Not more than one year	–	–	–	–
More than one year	279,594	139,797	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,297,666	–	–	–
	9,381,520	252,585	12,780	9,735
Capital commitment contracted for, but not provided in the financial statements	6,308	6,308	–	–

The Group had 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.

As at 31 December 2007 and 2006, the Group had no other material outstanding contingent liabilities and commitments save as disclosed above.

### (b) Derivative financial instruments

The Group uses the following derivative instruments:

Currency forwards represent commitments to purchase foreign and domestic currencies, including undelivered spot transactions. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as changes in the futures contract value are settled daily with the exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.



# Notes to Financial Statements

## 40. OFF-BALANCE SHEET EXPOSURE (Continued)

### (b) Derivative financial instruments (Continued)

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an exchange of interest rates (for example, fixed rate or floating rate). No exchange of principal takes place. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligations. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

## 41. RELATED PARTY TRANSACTIONS

Save as disclose elsewhere, 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	
		2007 HK\$'000	2006 HK\$'000
<b>Related party transactions included in the income statement:</b>			
Commission income from the ultimate holding company for referrals of taxi financing loans	(a)	33	133
Interest income from the ultimate holding company	(b)	244	15,211
Rental income from the ultimate holding company	(c)	1,515	2,686
Management fees from the ultimate holding company	(d)	814	920
Services charge paid to the ultimate holding company	(d)	18	31
Interest paid and payable to a fellow subsidiary and the ultimate holding company	(e)	46,177	19,762
Key management personnel compensation:	(f)		
– short-term employee benefits		4,690	4,056
– post employment benefits		264	237
		4,954	4,293
Interest income received from key management personnel	(g)	38	42
Interest expense paid to key management personnel	(h)	656	138
Commission fee income from key management personnel	(i)	3	7
Post employment benefits for employees other than key management personnel	(j)	11,175	8,720
<b>Related party transactions included in the assets and liabilities:</b>			
Cash and short term funds with the ultimate holding company	(b)	223	8,446
Deposits from a fellow subsidiary, the ultimate holding company and an affiliated company	(e)	2,139,800	484,821
Interest payable to fellow subsidiaries and the ultimate holding company	(e)	3,284	2,792
Rental deposits from the ultimate holding company	(c)	41	541
A mortgage loan to key management personnel	(g)	935	1,037
Deposits from key management personnel	(h)	19,147	10,254

## 41. 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 the related lease arrangement was renewed on 1 August 2006 for a term of two years at a monthly rental of HK\$43,800; and
  - (iii) Public Bank as its branch office for a term of three years terminated on 30 March 2007 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. Fixed deposits were also accepted from Public Bank and an affiliated company in the ordinary course of business by Public Bank (Hong Kong). The interests were paid/payable to PB Trust for the year by Public Finance and paid/payable to Public Bank and the affiliated company by Public Bank (Hong Kong) in respect of the placements. The balances of the said fixed deposits accepted from PB Trust, Public Bank and the affiliated company and interest payable were included in customer deposits, deposits from banks and financial institutions and other liabilities, respectively, in the balance sheet.
- (f) Further details of post-employment benefits and directors' remuneration are included in notes 7 and 9 to the financial statements respectively.
- (g) A mortgage loan was granted to one of the directors by Public Finance. The interest income was received from the director.
- (h) During the year, fixed deposits were accepted from three of the directors by Public Bank (Hong Kong) and savings accounts were accepted from four of the directors by Public Bank (Hong Kong). Interests 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 7 to the financial statements.

# Notes to Financial Statements

## 41. RELATED PARTY TRANSACTIONS (Continued)

During prior year, a syndicated loan amounted to HK\$2,000,000,000 was granted to the Company by Barclays Capital and other banks as mandated lead arrangers and Barclays Bank PLC as an agent and certain original lenders, including PB(L). In current year, the bank loan was repaid in amount of HK\$900,000,000 and the outstanding loan balance was HK\$1,100,000,000 as at 31 December 2007. The bank loan from PB(L), was reduced to HK\$275,000,000 as at 31 December 2007 (2006: HK\$500,000,000).

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

## 42. FAIR VALUE OF FINANCIAL INSTRUMENTS

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

### Group

	2007			2006		
	Carrying value HK\$'000	Fair value HK\$'000	Unrecognised gain HK\$'000	Carrying value HK\$'000	Fair value HK\$'000	Unrecognised gain HK\$'000
<b>Financial assets</b>						
Cash and short term placements	5,882,235	5,882,235	-	2,295,219	2,295,219	-
Placements with banks and financial institutions	441,539	441,539	-	566,773	566,773	-
Financial assets designated at fair value through profit or loss	12,262	12,262	-	10,213	10,213	-
Derivative financial instruments	2,644	2,644	-	12,780	12,780	-
Loans and advances and receivables	19,165,638	19,165,638	-	13,694,636	13,694,636	-
Available-for-sale financial assets (excluding unlisted equity investment, at cost)	44,240	44,240	-	68,828	68,828	-
Held-to-maturity investments	2,858,708	2,860,158	1,450	3,679,604	3,716,216	36,612
Other assets	584,338	584,338	-	261,083	261,083	-
<b>Financial liabilities</b>						
Deposits and balances of banks and other financial institutions at amortised cost	2,263,902	2,263,902	-	516,097	516,097	-
Derivative financial instruments	2,381	2,381	-	9,735	9,735	-
Customer deposits at amortised cost	20,501,549	20,501,549	-	14,853,655	14,853,655	-
Certificates of deposit issued at amortised cost	2,049,227	2,049,227	-	769,674	769,674	-
Unsecured bank loans at amortised cost	1,100,000	1,100,000	-	2,000,000	2,000,000	-
Other liabilities	732,629	732,629	-	459,267	459,267	-
<b>Total unrecognised change in unrealised fair value</b>			<b>1,450</b>			<b>36,612</b>

## 42. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

### Assets and liabilities for which fair value approximates carrying value – Liquid or/and very short term

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair values. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

### Fixed rate financial instruments

The fair values of fixed rate financial assets and financial liabilities carried at amortised cost are based on current interest rates offered for similar financial instruments appropriate for remaining term to maturity. The estimated fair values of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates. For those certificates of deposit issued and customer deposits where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

### Financial instruments recorded at fair value

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair values are based on quoted market prices and those involving valuation techniques where all the model inputs are observable in the market.

#### Group

	Quoted market price HK\$'000	2007 Valuation techniques- market observable inputs HK\$'000	Total HK\$'000
Financial assets:			
Financial assets designated at fair value through profit or loss	12,262	–	12,262
Derivative financial instruments	–	2,644	2,644
Available-for-sale financial assets	44,240	–	44,240
	<b>56,502</b>	<b>2,644</b>	<b>59,146</b>
Financial liabilities:			
Derivative financial instruments	–	2,381	2,381

# Notes to Financial Statements

## 42. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

### Financial instruments recorded at fair value (Continued)

Group

	Quoted market price HK\$'000	2006 Valuation techniques- market observable inputs HK\$'000	Total HK\$'000
Financial assets:			
Financial assets designated at fair value			
through profit or loss	10,213	–	10,213
Derivative financial instruments	–	12,780	12,780
Available-for-sale financial assets	68,828	–	68,828
	<u>79,041</u>	<u>12,780</u>	<u>91,821</u>
Financial liabilities:			
Derivative financial instruments	–	9,735	9,735

Derivative financial instruments are recorded at fair value based on prices of similar market transactions.

Unlisted equity investment measured at cost amounted to HK\$6,804,000 (2006: HK\$6,804,000) was excluded from the fair value of financial instruments disclosure.

There were no financial assets and financial liabilities that offset against each other at the end of the years 2007 and 2006.

### 43. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The table below shows an analysis of financial assets and financial liabilities analysed by principal according to when they are expected to be recovered or settled. The Group's contractual undiscounted repayment obligations are shown in section "Liquidity Risk Management" of note 44 to the consolidated financial statements.

#### Group

	2007							Total HK\$'000
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	Over 1 month	Over 3 months	Over 1 year	Over 5 years HK\$'000	Repayable within an indefinite period HK\$'000	
			but not more than 3 months HK\$'000	but not more than 12 months HK\$'000	but not more than 5 years HK\$'000			
Financial assets :								
Cash and short term placements	433,085	5,449,150	-	-	-	-	-	5,882,235
Placements with banks and financial institutions	-	-	301,175	140,364	-	-	-	441,539
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	12,262	12,262
Derivative financial instruments	-	475	1,580	589	-	-	-	2,644
Loans and advances and receivables	584,594	1,420,067	1,403,520	1,991,787	6,602,539	7,092,524	170,468	19,265,499
Available-for-sale financial assets	-	-	-	-	-	-	51,044	51,044
Held-to-maturity investments	-	1,293,378	580,093	781,431	213,606	-	-	2,868,508
Other assets	-	53,315	-	531,023	-	-	-	584,338
<b>Total financial assets</b>	<b>1,017,679</b>	<b>8,216,385</b>	<b>2,286,368</b>	<b>3,445,194</b>	<b>6,816,145</b>	<b>7,092,524</b>	<b>233,774</b>	<b>29,108,069</b>
Financial liabilities :								
Deposits and balances of banks and other financial institutions at amortised cost	36,074	2,130,542	35,244	62,042	-	-	-	2,263,902
Customer deposits at amortised cost	2,956,640	12,441,818	3,900,980	1,171,062	31,049	-	-	20,501,549
Certificates of deposit issued at amortised cost	-	-	99,995	1,149,723	799,509	-	-	2,049,227
Derivative financial instruments	-	1,560	285	536	-	-	-	2,381
Unsecured bank loans at amortised cost	-	-	-	-	1,100,000	-	-	1,100,000
Other liabilities	-	92,835	-	639,753	-	-	41	732,629
<b>Total financial liabilities</b>	<b>2,992,714</b>	<b>14,666,755</b>	<b>4,036,504</b>	<b>3,023,116</b>	<b>1,930,558</b>	<b>-</b>	<b>41</b>	<b>26,649,688</b>

# Notes to Financial Statements

## 43. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

Group

	2006							Total HK\$'000
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	Over 1 month but not more than 3 months HK\$'000	Over 3 months but not more than 12 months HK\$'000	Over 1 year but not more than 5 years HK\$'000	Over 5 years HK\$'000	Repayable within an indefinite period HK\$'000	
Financial assets :								
Cash and short term placements	289,424	2,005,795	-	-	-	-	-	2,295,219
Placements with banks and financial institutions	-	-	481,966	84,807	-	-	-	566,773
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	10,213	10,213
Derivative financial instruments	-	804	4,770	5,586	1,620	-	-	12,780
Loans and advances and receivables	481,847	876,661	1,264,993	2,009,319	4,228,162	4,772,898	323,487	13,957,367
Available-for-sale financial assets	-	-	-	-	-	-	75,632	75,632
Held-to-maturity investments	-	573,435	559,644	506,222	1,967,321	72,982	-	3,679,604
Other assets	-	85,814	-	175,269	-	-	-	261,083
<b>Total financial assets</b>	<b>771,271</b>	<b>3,542,509</b>	<b>2,311,373</b>	<b>2,781,203</b>	<b>6,197,103</b>	<b>4,845,880</b>	<b>409,332</b>	<b>20,858,671</b>
Financial liabilities :								
Deposits and balances of banks and other financial institutions at amortised cost	12,811	470,411	22,913	9,962	-	-	-	516,097
Customer deposits at amortised cost	2,662,221	8,255,405	2,811,966	1,083,649	40,414	-	-	14,853,655
Certificates of deposit issued at amortised cost	-	-	249,979	419,751	99,944	-	-	769,674
Derivative financial instruments	-	664	2,303	5,408	1,360	-	-	9,735
Unsecured bank loans at amortised cost	-	-	-	-	2,000,000	-	-	2,000,000
Other liabilities	-	75,265	-	383,461	-	-	541	459,267
<b>Total financial liabilities</b>	<b>2,675,032</b>	<b>8,801,745</b>	<b>3,087,161</b>	<b>1,902,231</b>	<b>2,141,718</b>	<b>-</b>	<b>541</b>	<b>18,608,428</b>

## 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise certificates of deposit issued 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 investments, loans and advances and receivables, available-for-sale financial assets and financial assets designated 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 held for trading. The purpose is to manage or mitigate interest rate risk and currency risk arising from the Group's operations.

The main risks arising from the Group's financial instruments are market risk, credit risk, liquidity risk and operational risk. The board reviews and approves 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.

## 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Risk Management

The Group has established systems, policies and procedures for the control and monitoring of market, credit, liquidity and operational risks, which are approved and endorsed by the board of directors and reviewed regularly by the Group's management, Credit Risk Management Committee, Asset and Liability Management Committee, Operational Risk Management Committee and other designated committees or working groups. Material risks are identified and measured by designated committees and/or working groups before the launch of new products or business activities, and monitored, documented and controlled against applicable risk limits after the implementation of new products or services or business activities. The internal auditors of the Group also perform regular audits to ensure compliance with the policies and procedures.

### Market Risk Management

#### (a) Interest Rate Risk

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 and measured by the Asset and Liability Management Committee of Public Bank (Hong Kong) and Assets and Liabilities Committee of Public Finance against limits approved by the respective board of directors.

#### *Interest rate risk exposures in banking book:*

The relevant principal interest rate risk arises from repricing risk and basis risk.

Repricing risk is one of sources of interest rate risks which arises from timing differences in interest rate changes and cash flows that occur in the repricing and maturity of fixed and floating rate assets, liabilities and off-balance sheet financial instruments. Should the interest rate increase by 200 basis points and the positive net interest gap of HK\$839 million up to twelve months, profit and loss would increase by HK\$7 million for the next twelve months after the reporting date.

Based on the positive net interest gap of HK\$2,603 million up to five years, economic value would increase by positive HK\$76 million.

Basis risk is one of sources of interest rate risks which arises from imperfect correlation between changes in the interest rates earned and paid on different financial instruments with similar repricing characteristics. The Group adopts the following scenarios for sensitivity analysis: (i) interest rate on managed-rate assets would decrease by 200 basis points whilst interest rate on other interest-bearing assets and interest-bearing liabilities would be kept unchanged. Based on the scenario assumption, profit and loss would decrease by HK\$207 million for the next twelve months; (ii) interest rate on fixed-rate liabilities and floating-rate liabilities would increase by 200 basis points whilst interest rate on interest-bearing assets would be kept unchanged. Based on the scenario assumption, profit and loss would decrease by HK\$470 million for the next twelve months.



# Notes to Financial Statements

## 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued) Market Risk Management (Continued)

### (a) Interest Rate Risk (Continued)

The carrying amounts of financial instruments exposed to interest rate risk based on maturity or repricing as at 31 December 2007 and 2006 are detailed as follows:

#### Group

	2007					Over 5 years HK\$'000	Non-interest bearing HK\$'000	Total HK\$'000
	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			
<b>Assets:</b>								
<b>Fixed rate financial assets</b>								
Cash and short term placements	5,399,150	-	-	-	-	-	433,085	5,832,235
Placements with banks and financial institutions	292,538	-	-	-	-	-	-	292,538
Loans and advances and receivables	2,274,460	984,943	555,784	196,816	38,065	40,810	70,556	4,161,434
Derivative financial instruments	-	-	-	-	-	-	2,644	2,644
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	12,262	12,262
Available-for-sale financial assets	-	-	-	-	-	-	51,044	51,044
Held-to-maturity investments	2,286,893	19,945	-	-	-	-	-	2,306,838
Other assets	400,000	-	-	-	-	-	-	400,000
	10,653,041	1,004,888	555,784	196,816	38,065	40,810	569,591	13,058,995
<b>Floating rate financial assets</b>								
Cash and short term placements	50,000	-	-	-	-	-	-	50,000
Placements with banks and financial institutions	149,001	-	-	-	-	-	-	149,001
Loans and advances and receivables	15,103,316	-	-	-	-	-	749	15,104,065
Held-to-maturity investments	561,670	-	-	-	-	-	-	561,670
	15,863,987	-	-	-	-	-	749	15,864,736
Less:								
<b>Liabilities:</b>								
<b>Fixed rate financial liabilities</b>								
Deposits and balances of banks and other financial institutions at amortised cost	2,227,839	-	-	-	-	-	36,063	2,263,902
Customer deposits at amortised cost	17,154,748	30,462	586	-	-	-	-	17,185,796
Derivative financial instruments	-	-	-	-	-	-	2,381	2,381
	19,382,587	30,462	586	-	-	-	38,444	19,452,079
<b>Floating rate financial liabilities</b>								
Customer deposits at amortised cost	2,746,611	-	-	-	-	-	569,142	3,315,753
Certificates of deposit issued at amortised cost	2,049,227	-	-	-	-	-	-	2,049,227
Unsecured bank loans at amortised cost	1,100,000	-	-	-	-	-	-	1,100,000
Other liabilities	400,000	-	-	-	-	-	-	400,000
	6,295,838	-	-	-	-	-	569,142	6,864,980
<b>Total interest sensitivity gap</b>	<b>838,603</b>	<b>974,426</b>	<b>555,198</b>	<b>196,816</b>	<b>38,065</b>	<b>40,810</b>	<b>(37,246)</b>	<b>2,606,672</b>

## 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Market Risk Management (Continued)

#### (a) Interest Rate Risk (Continued)

Group

	2006					Over 5 years HK\$'000	Non-interest bearing HK\$'000	Total HK\$'000
	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			
<b>Assets:</b>								
<b>Fixed rate financial assets</b>								
Cash and short term placements	1,954,683	-	-	-	-	-	289,424	2,244,107
Placements with banks and financial institutions	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
Derivative financial instruments	-	-	-	-	-	-	12,780	12,780
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	10,213	10,213
Available-for-sale financial assets	-	-	-	-	-	-	75,632	75,632
Held-to-maturity investments	1,892,887	137,414	163,545	57,242	38,127	-	-	2,289,215
Other assets	150,000	-	-	-	-	-	-	150,000
	<b>6,684,704</b>	<b>1,054,103</b>	<b>580,523</b>	<b>165,067</b>	<b>64,798</b>	<b>51,733</b>	<b>545,199</b>	<b>9,146,127</b>
<b>Floating rate financial assets</b>								
Cash and short term placements	51,112	-	-	-	-	-	-	51,112
Placements with banks and financial institutions	114,693	-	-	-	-	-	-	114,693
Loans and advances and receivables	9,982,891	-	-	-	-	-	62,376	10,045,267
Held-to-maturity investments	1,390,389	-	-	-	-	-	-	1,390,389
	<b>11,539,085</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>62,376</b>	<b>11,601,461</b>
Less:								
<b>Liabilities:</b>								
<b>Fixed rate financial liabilities</b>								
Deposits and balances of banks and other financial institutions at amortised cost	503,286	-	-	-	-	-	12,811	516,097
Customer deposits at amortised cost	11,983,203	39,799	615	-	-	-	-	12,023,617
Derivative financial instruments	-	-	-	-	-	-	9,735	9,735
	<b>12,486,489</b>	<b>39,799</b>	<b>615</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>22,546</b>	<b>12,549,449</b>
<b>Floating rate financial liabilities</b>								
Customer deposits at amortised cost	2,232,459	-	-	-	-	-	597,579	2,830,038
Certificates of deposit issued at amortised cost	769,674	-	-	-	-	-	-	769,674
Unsecured bank loans at amortised cost	2,000,000	-	-	-	-	-	-	2,000,000
Other liabilities	150,000	-	-	-	-	-	-	150,000
	<b>5,152,133</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>597,579</b>	<b>5,749,712</b>
<b>Total interest sensitivity gap</b>	<b>585,167</b>	<b>1,014,304</b>	<b>579,908</b>	<b>165,067</b>	<b>64,798</b>	<b>51,733</b>	<b>(12,550)</b>	<b>2,448,427</b>

# Notes to Financial Statements

## 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Market Risk Management (Continued)

#### (a) Interest Rate Risk (Continued)

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

	<b>Group</b>	
	<b>2007</b>	2006
	<b>Rate</b>	Rate
	<b>(%)</b>	(%)
<b>Assets</b>		
Cash and short term placements	<b>5.42</b>	4.86
Placements with banks and financial institutions	<b>5.44</b>	5.00
Loans and advances and receivables (including trade bills)	<b>8.29</b>	10.32
Held-to-maturity investments	<b>3.84</b>	4.27
<b>Liabilities</b>		
Deposits and balances of banks and other financial institutions at amortised cost	<b>4.94</b>	4.59
Customer deposits at amortised cost	<b>4.25</b>	4.11
Certificates of deposit issued at amortised cost	<b>4.85</b>	4.78
Unsecured bank loans at amortised cost	<b>4.26</b>	4.74

#### (b) Currency Risk

Currency risk is the risk that the holding of foreign currencies will affect the Group's position as a result of a change in foreign currency exchange rates. The Group's foreign exchange risk positions arise from foreign exchange dealing, commercial banking operations and structural foreign currency exposures. All foreign exchange positions are managed by the Group's Treasury Department within limits approved by the board of directors of respective subsidiaries. The Group's assets and liabilities are mainly denominated in Hong Kong dollars and United States dollars of which the exchange rates have remained relatively stable among each other for the years ended 31 December 2007 and 2006.

#### (c) Price Risk

Price risk is the risk to the Group's earnings and capital due to changes in the prices of securities including commodities, debt securities and equities.

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

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

## 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### 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. Credit risk exposures are measured and monitored against credit limits and other control limits (such as connected exposures, large exposures and risk concentration limits set by the Credit Risk Management Committee and approved by the board of directors). Segregation of duties in key credit functions is in place to ensure separate credit control and monitoring. Management and recovery of problem credits are 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. Its policy on connected lending defines and states connected parties, statutory and applicable connected lending limits, types of connected transactions, taking of collateral, capital adequacy treatment and detailed procedures and controls for monitoring of connected lending exposures. In general, interest rates and other terms and conditions applying to connected lending should not be more favourable than loans granted to non-connected borrowers under similar circumstances. The terms and conditions should be determined on normal commercial terms at arm's length and in the ordinary course of business of the Group.

Credit and compliance audits are periodically conducted by the Internal Audit Department to evaluate the effectiveness of the credit review, approval and monitoring processes and to ensure the established credit policies and procedures are complied with.

The Credit Committee of the Group monitors the quality of financial assets which are neither past due nor impaired by financial performance indicators (such as loan-to-value ratio, debts servicing ratio, financial soundness of borrowers and personal guarantee) through meeting discussions, management information systems and reports. Those loan borrowers subject to legal proceedings, negative comments from other counterparties and rescheduled arrangements are put under watch lists or under "special mention" grade for management oversight.

The Credit Committee of the Group monitors the quality of past due or impaired financial assets by internal grading of "substandard", "doubtful" and "loss" through the same meeting discussions and management information systems and reports. The impaired financial assets include those subject to personal bankruptcy petitions, corporate winding-up and rescheduled arrangements.

The Credit Risk Management Committee of the Group is responsible for establishing the framework for identifying, measuring, monitoring and controlling credit risk of existing and new products, and approving credit risk management policies and credit risk tolerable limits as and when necessary.

The Group mitigates credit risk by credit protection provided by guarantors and by loan collaterals such as cash, properties, taxi licenses and cabs and securities.

# Notes to Financial Statements

## 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued) Credit Risk Management (Continued)

Maximum credit exposures without taking into account the fair value of collateral were as follows:

	Group	
	2007 HK\$'000	2006 HK\$'000
Loans and advances and receivables	<b>19,265,499</b>	13,957,367
Loan commitments	<b>2,667,775</b>	1,611,755
Placements with banks and financial institutions	<b>441,539</b>	566,773
Short term placements (excluding cash in hand)	<b>5,770,890</b>	2,216,086
Held-to-maturity investments	<b>2,858,708</b>	3,679,604
Derivative financial instruments	<b>2,644</b>	12,780
Interest in a jointly-controlled entity	<b>1,513</b>	1,676

Other quantitative data about credit risk exposure to loans and advances are disclosed in note 18 "Loans and advances and receivables" and the significant concentrations of credit risk attributed to loans and advances are detailed in "Advances to Customers by Industry Sectors" of the Supplementary Information.

### Liquidity Risk Management

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

The Asset and Liability Management Committee of the Group monitors the liquidity position as part of the ongoing assets and liabilities management, and sets up trigger limits to monitor liquidity risk. It also closely monitors the liquidity of the subsidiaries on a periodic basis to ensure that the liquidity structure of the subsidiaries' assets, liabilities and commitments can meet the funding needs, and that internal liquidity trigger limits are complied with. Standby facilities are maintained to provide liquidity to meet unexpected and material cash outflows in the ordinary course of business.

## 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Liquidity Risk Management (Continued)

Maturity analysis of financial liabilities, based on contractual undiscounted cash flow, was as follows:

#### Group

	2007							Total HK\$'000
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	Over 1 month but not more than 3 months HK\$'000	Over 3 months but not more than 12 months HK\$'000	Over 1 year but not more than 5 years HK\$'000	Over 5 years HK\$'000	Repayable within an indefinite period HK\$'000	
Forward assets purchase	-	84,027	1,935	-	-	-	-	85,962
Net amount of interest rate swaps	-	-	-	40	-	-	-	40
Net amount of foreign currency contracts	-	1,560	285	496	-	-	-	2,341
Gross loan commitments	1,657,755	402,345	93,585	6,067	406,553	101,470	-	2,667,775
Customer deposits at amortised cost	2,961,377	12,342,347	3,947,106	1,371,866	33,715	-	-	20,656,411
Deposits and balances of banks and other financial institutions at amortised cost	36,074	2,136,868	36,230	63,590	-	-	-	2,272,762
Certificates of deposit issued at amortised cost	-	-	100,942	1,178,740	847,842	-	-	2,127,524
Unsecured bank loans at amortised cost	-	3,529	6,926	31,167	1,120,778	-	-	1,162,400
Other liabilities	-	92,835	-	639,753	-	-	41	732,629
	<b>4,655,206</b>	<b>15,063,511</b>	<b>4,187,009</b>	<b>3,291,719</b>	<b>2,408,888</b>	<b>101,470</b>	<b>41</b>	<b>29,707,844</b>

#### Group

	2006							Total HK\$'000
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	Over 1 months but not more than 3 months HK\$'000	Over 3 months but not more than 12 months HK\$'000	Over 1 year but not more than 5 years HK\$'000	Over 5 years HK\$'000	Repayable within an indefinite period HK\$'000	
Forward assets purchase	-	19,539	-	-	-	-	-	19,539
Net amount of interest rate swaps and futures	-	-	-	1,606	-	-	-	1,606
Net amount of foreign currency contracts	-	664	2,303	3,802	1,360	-	-	8,129
Gross loan commitments	1,174,693	127,307	29,557	25,983	178,402	75,813	-	1,611,755
Customer deposits at amortised cost	2,667,155	8,298,108	2,848,318	1,115,973	43,967	-	-	14,973,521
Deposits and balances of banks and other financial institutions at amortised cost	12,811	474,014	23,553	10,296	-	-	-	520,674
Certificates of deposit issued at amortised cost	-	-	252,558	433,910	105,230	-	-	791,698
Unsecured bank loans at amortised cost	-	8,013	14,770	66,465	2,132,930	-	-	2,222,178
Other liabilities	-	75,265	-	383,461	-	-	541	459,267
	<b>3,854,659</b>	<b>9,002,910</b>	<b>3,171,059</b>	<b>2,041,496</b>	<b>2,461,889</b>	<b>75,813</b>	<b>541</b>	<b>20,608,367</b>

# Notes to Financial Statements

## 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Operational Risk Management

The operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Group has operational risk management function in place to identify, measure, monitor and control operational risk. Its Operational Risk Management Policy Manual defines responsibilities of various committees, business units and supporting departments, highlights key operational risk cause factors and categories with loss event types to facilitate measurement and assessment of operational risks and potential impact. The operational risk exposures are monitored by appropriate key risk indicators for tracking and escalation to management for providing early warning signals of increased operational risk or a breakdown in operational risk management. Regular operational risk management reports are received and consolidated from various parties and reported to the Operational Risk Management Committee for monitoring and control of operational risk.

### Capital Management

Capital of the Group for regulatory and risk management purpose include share capital, share premium, reserves, profit and loss, regulatory reserve and sub-ordinated debts, if any. The Finance and Control Department is responsible for monitoring the amount of capital base and capital adequacy ratio against trigger limits and for risk exposures, ensuring compliance with relevant statutory limits taking into account business growth, dividend payout and other relevant factors.

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 business activities of the Group depending on the risk taken by each business division and in accordance with the requirements of relevant regulatory bodies, taking into account current and future activities within a time frame of three years.

### Capital adequacy and core capital ratios

	2007	2006
Consolidated capital adequacy ratio	<b>12.66%</b>	15.04%
Consolidated core capital ratio	<b>12.45%</b>	15.62%

The details of capital disclosures are disclosed in the section "Capital Disclosures" of Supplementary Information.

## 45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 9 January 2008.

# Supplementary Information (Unaudited)

## ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS

Gross and impaired loans and advances to customers, impairment allowances, impaired loans written off and collateral are analysed by industry sectors pursuant to HKMA guidelines as follows:

### Group

	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	2007		Collateral HK\$'000	Impaired loans and advances HK\$'000	Overdue more than three months loans HK\$'000
				New impairment allowances charged to income statement HK\$'000	Amount of impaired loans and advances written off HK\$'000			
Loans for use in Hong Kong								
Industrial, commercial and financial:								
Property development	566,999	624	-	-	-	109,583	-	-
Property investment	3,689,301	4,057	-	-	-	2,525,873	11,991	11,990
Financial concerns	94,043	103	-	-	-	49,158	-	-
Stockbrokers	155,971	172	-	-	-	-	-	-
Telecommunication	52	-	-	-	-	-	-	-
Wholesale and retail trade	27,082	30	5,739	5,737	-	3,919	14,139	13,695
Manufacturing	626,721	691	6,499	5,278	-	89,119	14,674	7,622
Transport and transport equipment	2,679,605	2,570	2,896	1,535	1,258	2,271,348	2,633	697
Others	1,702,170	1,555	2,919	3,344	1,703	35,805	5,291	2,842
Individuals:								
Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	238,921	263	-	-	-	238,921	887	887
Loans for the purchase of other residential properties	4,136,299	4,517	1,405	584	-	4,134,894	4,032	3,281
Credit card advances	17,301	19	-	306	308	-	-	-
Others	3,667,636	49,190	6,032	376,137	402,725	296,057	72,659	69,349
Trade finance	602,676	-	3,917	4,122	2,392	50,853	20,814	16,533
Loans for use outside Hong Kong	743,184	1,167	-	-	-	197,133	-	-
<b>Total loans excluding trade bills</b>	<b>18,947,961</b>	<b>64,958</b>	<b>29,407</b>	<b>397,043</b>	<b>408,386</b>	<b>10,002,663</b>	<b>147,120</b>	<b>126,896</b>



# Supplementary Information (Unaudited)

## ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS (Continued)

Group

	2006							
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	New impairment		Collateral HK\$'000	Impaired loans and advances HK\$'000	Overdue more than three months loans and advances HK\$'000
				allowances charged to income statement HK\$'000	Amount of impaired loans and advances written off HK\$'000			
Loans for use in Hong Kong								
Industrial, commercial and financial:								
Property development	291,630	671	-	-	-	130,727	-	-
Property investment	1,770,464	3,945	409	-	30	1,549,833	4,599	4,024
Financial concerns	74,066	170	-	-	-	21,048	-	-
Stockbrokers	66,018	152	-	-	-	1,241	-	-
Telecommunication	51,578	117	-	-	-	-	-	-
Wholesale and retail trade	16,355	38	-	-	-	-	-	-
Manufacturing	484,588	1,295	3,496	4,371	932	88,484	4,867	3,581
Transport and transport equipment	2,139,575	4,167	1,936	-	2,428	1,808,867	1,399	934
Others	1,190,590	2,739	2,825	-	-	88,110	4,234	4,234
Individuals:								
Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	257,769	593	-	705	268	257,769	640	364
Loans for the purchase of other residential properties	2,676,947	6,119	655	62	50	2,529,050	4,469	3,797
Credit card advances	12,467	29	-	180	180	-	-	34
Others	3,255,512	134,648	1,894	273,045	273,900	250,535	161,442	154,749
Trade finance	727,657	-	10,093	-	-	5,029	32,716	32,120
Loans for use outside Hong Kong	661,381	2,476	59,452	-	4,873	208,736	83,514	75,130
Total loans excluding trade bills	13,676,597	157,159	80,760	278,363	282,661	6,939,429	297,880	278,967

The advances to customers are classified by industry sectors based on the industry in which the loans granted were used. In those cases where loans cannot be classified with reasonable certainty, they are classified according to the known principal activity of the borrowers or by reference to the assets financed according to the loan documentation.

## NON-BANK MAINLAND EXPOSURES

The following table illustrates the disclosure required to make in respect of its Mainland exposures to non-bank counterparties:

	On-balance sheet exposure HK\$'million	Off-balance sheet exposure HK\$'million	Total exposures HK\$'million	Individual impairment allowances HK\$'million
<b>As at 31 December 2007</b>				
Mainland entities	231	305	536	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	132	–	132	–
Other counterparties the exposures to whom are considered by the Group to be non-bank Mainland exposures	726	–	726	–
	<b>1,089</b>	<b>305</b>	<b>1,394</b>	<b>–</b>
	On-balance sheet exposure HK\$'million	Off-balance sheet exposure HK\$'million	Total exposures HK\$'million	Individual impairment allowances HK\$'million
<b>As at 31 December 2006</b>				
Mainland entities	339	–	339	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	180	–	180	59
Other counterparties the exposures to whom are considered by the Group to be non-bank Mainland exposures	513	–	513	–
	1,032	–	1,032	59

# Supplementary Information (Unaudited)

## CROSS-BORDER CLAIMS

The following table illustrates the geographical disclosure of the Group's cross-border claims by type of counterparties on which the ultimate risk lies, and is shown according to the location of the counterparties after taking into account the transfer of risk. An individual country or geographical area is reported if it constitutes 10% or more of the aggregate cross-border claims and was prepared in accordance with the guidelines issued by the HKMA.

	<b>Banks and other financial institutions</b> HK\$'million	<b>Public sector entities</b> HK\$'million	<b>Others</b> HK\$'million	<b>Total</b> HK\$'million
<b>As at 31 December 2007</b>				
1. Asia Pacific excluding Hong Kong of which:	<b>3,444</b>	<b>4</b>	<b>322</b>	<b>3,770</b>
Australia	<b>1,012</b>	<b>-</b>	<b>-</b>	<b>1,012</b>
2. Western Europe of which:	<b>4,854</b>	<b>-</b>	<b>256</b>	<b>5,110</b>
Germany	<b>1,596</b>	<b>-</b>	<b>1</b>	<b>1,597</b>
United Kingdom	<b>884</b>	<b>-</b>	<b>92</b>	<b>976</b>
	Banks and other financial institutions HK\$'million	Public sector entities HK\$'million	Others HK\$'million	Total HK\$'million
<b>As at 31 December 2006</b>				
1. Asia Pacific excluding Hong Kong of which:	2,087	7	154	2,248
Australia	899	-	23	922
2. Western Europe	2,953	-	308	3,261

## CURRENCY RISK

Foreign currency exposures with a net position which constitutes not less than 10% of the total net position in all foreign currencies of the Group are as follow:

	Spot assets	Spot liabilities	Forward purchases	Forward sales	Net long/(short) position	Net structural long position
<b>As at 31 December 2007 (In HK\$'million)</b>						
US Dollars	4,926	5,842	1,454	535	3	
Renminbi	294	72	–	–	222	
Others	2,093	2,036	135	194	(2)	
	<b>7,313</b>	<b>7,950</b>	<b>1,589</b>	<b>729</b>	<b>223</b>	
Renminbi						<b>214</b>

	Spot assets	Spot liabilities	Forward purchases	Forward sales	Net long position	Net structural long position
<b>As at 31 December 2006 (In HK\$'million)</b>						
US Dollars	3,762	4,320	2,944	2,319	67	
Renminbi	260	51	–	–	209	
Others	1,072	1,768	902	205	1	
	<b>5,094</b>	<b>6,139</b>	<b>3,846</b>	<b>2,524</b>	<b>277</b>	
Renminbi						<b>199</b>

## LIQUIDITY RATIO

	2007	2006
<b>Average liquidity ratio for the year:</b>		
Public Bank (Hong Kong)	<b>46.50%</b>	51.96%
Public Finance	<b>61.68%</b>	64.95%

The average liquidity ratio for the year is computed in accordance with the Fourth Schedule of the Banking Ordinance.

# Supplementary Information (Unaudited)

## CAPITAL DISCLOSURES

The components of the Group's total capital base include the following items:

	2007 HK\$'000	2006 HK\$'000
Core capital:		
Paid up ordinary share capital	109,390	109,390
Share premium account	3,988,219	3,988,219
Published reserves	887,548	693,049
Profit and loss account	369,287	253,246
Deduct:		
Goodwill	(2,774,403)	(2,774,403)
Net deferred tax assets	(4,948)	–
Core capital before deductions	2,575,093	2,269,501
Less: Deductions from shareholdings in subsidiaries	(33,531)	–
Securitisation exposures subject to deduction	(34,054)	–
Other deductions	(118,122)	–
Total core capital after deductions	2,389,386	2,269,501
Supplementary capital:		
Regulatory reserve	161,219	47,995
Collective provisions	65,719	179,804
Supplementary capital before deductions	226,938	227,799
Less: Deductions from shareholdings in subsidiaries	(33,531)	–
Securitisation exposures subject to deduction	(34,054)	–
Other deductions	(118,122)	–
Total supplementary capital after deductions	41,231	227,799
Deductions from capital base	–	(312,284)
Capital base	2,430,617	2,185,016

The capital adequacy ratio of the Group is computed on a consolidated basis including the Company, Public Bank (Hong Kong) and Public Finance.

The subsidiaries not included in the computation of the capital adequacy ratio, capital base and risk weighted amounts of the Group are Public Bank (Nominees) Limited, PB Finance Limited, Public Investments Limited, Public Realty Limited, Public Credit Limited, Public Futures Limited, Public Pacific Securities Limited, Public Financial Securities Limited, Public Financial Limited, Public Securities Limited, Public Securities (Nominees) Limited, Winton (B.V.I.) Limited, Winton Holdings (Hong Kong) Limited, Winton Financial Limited, Winton Motors, Limited and Winsure Company, Limited. Deduction from the capital base included investment in subsidiaries, securitisation and other exposures.

## CAPITAL DISCLOSURES (Continued)

### Group

Class of exposures	2007					
	Exposures*			Risk-weighted amounts		
	Rated# HK\$'000	Unrated HK\$'000	Total HK\$'000	Rated HK\$'000	Unrated HK\$'000	Total HK\$'000
On-balance sheet:						
Sovereign	416,374	–	416,374	–	–	–
Public sector entity	–	397,362	397,362	–	79,472	79,472
Bank	8,501,532	316,276	8,817,808	2,107,059	107,495	2,214,554
Securities firm	–	156,376	156,376	–	78,188	78,188
Corporate	501,268	4,929,153	5,430,421	513,754	4,929,153	5,442,907
Cash items	–	379,890	379,890	–	17,068	17,068
Regulatory retail	–	5,664,452	5,664,452	–	4,263,764	4,263,764
Residential mortgage	–	6,833,621	6,833,621	–	3,401,139	3,401,139
Past due exposures	–	103,388	103,388	–	146,014	146,014
Collective investment scheme exposures	–	12,262	12,262	–	12,262	12,262
Other non-past due exposures	–	907,415	907,415	–	907,415	907,415
Off-balance sheet:						
OTC derivative transactions						
– foreign exchange contracts	–	741,382	741,382	–	866	866
– others	–	400,000	400,000	–	–	–
Other off-balance sheet items	–	4,860,466	4,860,466	–	390,952	390,952
	<b>9,419,174</b>	<b>25,702,043</b>	<b>35,121,217</b>	<b>2,620,813</b>	<b>14,333,788</b>	<b>16,954,601</b>

The Group did not enter into OTC derivative transactions other than foreign exchange contracts and interest rate swaps and futures with counterparties during the years 2007 and 2006. The credit exposures attributed to such transactions are considered insignificant.

\* Principal amount or credit equivalent amount, net of individual impairment allowance before and after credit risk mitigation.

# Exposures are rated by the Group's ECAI, Moody's, with ECAI issue specific rating or with ECAI inferred rating. Risk weights are determined based on ECAI ratings pursuant to Banking (Capital) Rules.

# Supplementary Information (Unaudited)

## CAPITAL DISCLOSURES (Continued)

Group

Class of exposures	2006	
	Exposures HK\$'000	Risk weighted amounts HK\$'000
On-balance sheet:		
Sovereign	173,282	9,922
Public sector entity	458,228	91,646
Bank	6,292,233	1,258,447
Non-bank private sector	10,438,012	10,438,012
Investments in the equity or other capital instruments of other banks	35,656	35,656
Cash items	380,312	–
Residential mortgage	2,436,567	1,218,284
Other assets	1,078,782	1,078,782
Off-balance sheet:		
OTC derivative transactions		
– foreign exchange contracts	57,907	11,584
Other off-balance sheet items	3,867,078	242,010
Deductions from credit risk exposures	–	(83,950)
	<b>25,218,057</b>	<b>14,300,393</b>

Group	2007	
	Risk weighted exposures HK\$'000	Capital requirements/ charge HK\$'000
Credit risk	<b>16,954,601</b>	<b>16,954,601</b>
Market risk – foreign exchange exposures	<b>221,763</b>	<b>17,741</b>
Operational risk	<b>2,022,475</b>	<b>161,798</b>
	<b>19,198,839</b>	<b>17,134,140</b>

## CAPITAL DISCLOSURES (Continued)

Group	2006	
	Risk weighted exposures HK\$'000	Capital requirements/ charge HK\$'000
Credit risk	14,300,393	14,308,972
Market risk – foreign exchange exposures	231,633	18,533
	<b>14,532,026</b>	<b>14,327,505</b>

The Group has adopted standardised approach for calculation of credit risk weighted exposures and market risk weighted exposures. The Group has adopted basic indicator approach and standardised approach for calculation of operational risk weighted exposures of Public Bank (Hong Kong) and Public Finance, respectively, during the year 2007.



# List of Properties

**Appended below is a list of properties owned by the Group as at 31 December 2007:**

Location	Description	Current use	Tenure	Remaining lease period (expiry date)	Age of property	Built-up area (sq m)	Date of last revaluation/ acquisition	Net carrying amount as at 31 Dec 2007 HK\$'000
Shop 7 Ground Floor Mei Hang Building 15/17, 21/25, 29/33 37/41 & 45 Kai Man Path Tuen Mun New Territories	A shop unit on the ground floor of a 5-storey composite building	Public Finance's Tuen Mun Branch	Leasehold 149 Years	40 Years (30-6-2047)	34 Years	84	30-6-1980	1,460
Shop A Ground Floor Kong Kai Building 184 Aberdeen Main Road Aberdeen Hong Kong	A shop unit on the ground floor of a 22-storey residential building built on a 2-storey commercial podium	Public Finance's Aberdeen Branch	Leasehold 999 Years	852 Years (26-12-2859)	18 Years	68	9-3-1990	3,885
Ground Floor Yue Yee Mansion 92 Shung Ling Street San Po Kong Kowloon	Ground floor of a 7-storey Chinese tenement building	Public Bank (Hong Kong) & Public Finance's San Po Kong Branch	Leasehold 149 Years	40 Years (30-6-2047)	43 Years	94	9-6-1990	2,447
Flat F 29th Floor Pine Mansion Harbour View Gardens 26 Taikoo Wan Road Taikoo Shing Quarry Bay Hong Kong	A residential unit of a 30-storey residential building	Leased to Public Bank	Leasehold 999 Years	892 Years (18-4-2899)	24 Years	91	3-10-1990 (R)	6,600

Location	Description	Current use	Tenure	Remaining lease period (expiry date)	Age of property	Built-up area (sq m)	Date of last revaluation/ acquisition	Net carrying amount as at 31 Dec 2007 HK\$'000
Units 1003-1005 10th Floor Fortress Tower 250 King's Road North Point Hong Kong	3 office units on the 10th floor of a 20-storey office building built on a 4-storey commercial podium	Public Finance's IT Centre	Leasehold 150 Years	119 Years (26-8-2126)	24 Years	293	18-3-1992	8,038
Apartment A 14th Floor Tower II Regent on The Park 9A Kennedy Road Wanchai Hong Kong	A residential unit on the 14th floor of a 34-storey residential building	Residential quarters for staff of the Group	Leasehold 150 Years	123 Years (19-10-2130)	22 Years	253	5-3-1993	9,222
Ground Floor & Open Yard Golden Dragon Mansion 751 Nathan Road Mongkok Kowloon	Ground floor of a 14-storey composite building	Public Bank (Hong Kong) & Public Finance's Prince Edward Branch	Leasehold 150 Years	72 Years (18-8-2079)	37 Years	130	24-5-1993	13,621
11th Floor Wing On House 71 Des Voeux Road Central Hong Kong	11th floor of a 31-storey office building built on a 2-storey podium	Office of the Group of which portion is leased to Public Bank, Hong Kong Branch as office	Leasehold 999 Years	895 Years (14-8-2902)	40 Years	1,464	11-6-1993	89,674

# List of Properties

Location	Description	Current use	Tenure	Remaining lease period (expiry date)	Age of property	Built-up area (sq m)	Date of last revaluation/ acquisition	Net carrying amount as at 31 Dec 2007 HK\$'000
Shop B Ground Floor and Office B 1st to 17th Floor JCG Building 16 Mongkok Road Mongkok Kowloon	A shop unit on ground floor and all B units for 1st to 17th floors of an 18-storey commercial building with shops and offices	Public Bank (Hong Kong) & Public Finance's Mongkok Branch; storeroom of the Group; office space leased to third parties	Leasehold 150 Years	43 Years (27-5-2050)	20 Years	2,215	30-6-1994 (R)	100,889
Flat F 24th Floor Ngan Sing Mansion Sing Fai Terrace 1 Tai Fung Avenue Taikoo Shing Quarry Bay Hong Kong	A residential unit of a 26-storey residential building built on a podium	Residential quarters for staff of Public Bank (Hong Kong)	Leasehold 999 Years	892 Years (18-4-2899)	23 Years	76	1-8-1995	4,553
Ground Floor Ruby Commercial Building 480 Nathan Road Yau Ma Tei Kowloon	Ground floor of a 16-storey commercial building	Public Finance's Nathan Road Branch	Leasehold 150 Years	60 Years (22-10-2067)	25 Years	110	14-1-2000	10,775
Shop Nos. 51 to 53 1st Floor Harbour Crystal Centre 100 Granville Road Tsimshatsui Kowloon	3 commercial units on the 1st floor of a 16-storey commercial building	Public Finance's Tsimshatsui Branch	Leasehold 150 Years	121 Years (10-12-2128)	25 Years	131	1-11-2000	2,468
Ground Floor Section B Lot No. 3704 DD120 Yuen Long New Territories	Ground floor of a 5-storey composite building	Public Finance's Yuen Long Branch	Leasehold 149 Years	40 Years (30-6-2047)	50 Years	102	23-4-2001	14,834

Location	Description	Current use	Tenure	Remaining lease period (expiry date)	Age of property	Built-up area (sq m)	Date of last revaluation/ acquisition	Net carrying amount as at 31 Dec 2007 HK\$'000
Unit A, Ground Floor Wing On House 71 Des Voeux Road Central Hong Kong	Ground floor of a 31-storey office building built on a 2-storey podium	Public Bank (Hong Kong)'s Central Branch	Leasehold 999 Years	895 Years (14-8-2902)	40 Years	113	15-10-2003	52,945
Workshops A, B and C Ground Floor and Flat E 9th Floor Hung Cheong Factory Building 742-748 Cheung Sha Wan Road 3 Kwong Cheung Street Cheung Sha Wan Kowloon	3 workshop units on the ground floor and a unit on the 9th floor of a 12-storey industrial building	Portion of workshops on ground floor and whole flat E at 9th floor are leased to third parties. Other portion is occupied by the Group as office	Leasehold 149 Years	40 Years (27-6-2047)	42 Years	Workshop A, B, C 682  Flat E 68	24-7-1992 (R)	16,339
Workshops E1 and F1 10th Floor Hang Fung Industrial Building Phase 1 2G Hok Yuen Street Hunghom Kowloon	2 workshops on the 10th floor of a 13-storey industrial building	Occupied by the Group as storeroom	Leasehold 150 Years	40 Years (15-9-2047)	28 Years	962	24-7-1992	1,720
11th Floor Argyle Centre Phase 1 688 Nathan Road 65 Argyle Street Mongkok Kowloon	Office space on the 11th Floor of a 21-storey commercial building	The Group's office and part of office space leased to third parties	Leasehold 150 Years	53 Years (18-5-2060)	25 Years	1,465	2-5-1994 (R)	102,238

# List of Properties

Location	Description	Current use	Tenure	Remaining lease period (expiry date)	Age of property	Built-up area (sq m)	Date of last revaluation/ acquisition	Net carrying amount as at 31 Dec 2007 HK\$'000
4th Floor 581 Nathan Road Mongkok Kowloon	4th floor of a 7-storey composite building with shops and domestic flats	Leased to third parties	Leasehold 150 Years	30 Years (25-12-2037)	38 Years	55	14-6-1984 (R)	1,000
Unit 3 5th Floor Telford House 16 Wang Hoi Road Kowloon Bay Kowloon	An office unit on 5th floor of a 23-storey commercial building	Leased to third parties	Leasehold 149 Years	40 Years (30-6-2047)	13 Years	90	30-5-2006** (R)	6,000
Shop 3C 1st Floor Telford House 16 Wang Hoi Road Kowloon Bay Kowloon	A shop unit on 1st floor of a 23-storey commercial building	Leased to third parties	Leasehold 149 Years	40 Years (30-6-2047)	13 Years	47	30-5-2006** (R)	11,900
Ground Floor 17 South Wall Road and the whole block of 19 South Wall Road Kowloon	A shop unit on ground floor of a 5-storey tenement block and whole block of a 5-storey tenement block	Public Bank (Hong Kong)'s Kowloon City Branch on ground floor; other portion as staff quarters of Public Bank (Hong Kong)	Leasehold 149 Years	40 Years (30-6-2047)	30 Years	432	30-5-2006**	18,659
Shop 5 Ground Floor Fu Ho Building 3-7 Kau Yuk Road Yuen Long New Territories	A shop unit on ground floor of a 14-storey composite building	Public Bank (Hong Kong)'s Yuen Long Branch	Leasehold 149 Years	40 Years (30-6-2047)	28 Years	82	30-5-2006**	11,995

Location	Description	Current use	Tenure	Remaining lease period (expiry date)	Age of property	Built-up area (sq m)	Date of last revaluation/ acquisition	Net carrying amount as at 31 Dec 2007 HK\$'000
Shop B Ground Floor Victory Court 185-187 Castle Peak Road Tsuen Wan New Territories	A shop unit on ground floor of a 14-storey composite building	Public Bank (Hong Kong)'s Tsuen Wan Branch	Leasehold 149 Years	40 Years (30-6-2047)	27 Years	149	30-5-2006**	12,852
Units 801, 808-812 Metroplaza Tower 2 223 Hing Fong Road Kwai Fong New Territories	6 office units on level 8 of a 35-storey office building on 9-storey commercial carpark podium	Public Bank (Hong Kong)'s backup office	Leasehold 149 Years	40 Years (30-6-2047)	15 Years	527	30-5-2006**	22,181
Units 1-5 24th Floor Luen Cheong Can Centre Tuen Mun New Territories	5 industrial units on the 24th floor of a 26-storey industrial building	Public Bank (Hong Kong)'s warehouse	Leasehold 149 Years	40 Years (30-6-2047)	15 Years	1,053	30-5-2006**	2,475
Basement, Ground Floor 1st-12th Floor, Flat A & B on 14th Floor, 17th Floor, Flat A on 19th Floor, 21st Floor and Main Roof Public Bank Centre 120 Des Voeux Road Central Hong Kong	A shop unit on ground floor and basement; and office floors of a 23-storey commercial building	Public Bank (Hong Kong)'s Main branch and office	Leasehold 999 Years	835 Years (26-6-2842)	30 Years	5,451	30-5-2006**	250,034
Unit 40-41 Ground Floor Hunghom Commercial Centre 37-39 Ma Tau Wai Road Kowloon	2 shop units on ground floor of a 14-storey commercial building	Public Bank (Hong Kong)'s Hung Hom Branch	Leasehold 149 Years	40 Years (15-9-2047)	25 Years	184	30-5-2006**	15,233

# List of Properties

Location	Description	Current use	Tenure	Remaining lease period (expiry date)	Age of property	Built-up area (sq m)	Date of last revaluation/ acquisition	Net carrying amount as at 31 Dec 2007 HK\$'000
Shop B1 Ground Floor Hong Kong Plaza 369-375 Des Voeux Road West Hong Kong	A shop unit on ground floor of a 42-storey commercial building	Public Bank (Hong Kong)'s Shek Tong Tsui Branch	Leasehold 150 Years  Leasehold 999 Years (for Lot no 302)	47 Years (27-12-2054) (for Lot No 289)  895 Years (3-9-2902) (for Lot no 302)	24 Years	180	30-5-2006**	13,438
Shop 1 Ground Floor Carrianna Friendship Square Renminnan Road Shenzhen PRC	A shop unit on ground floor of a 33-storey composite building	Public Bank (Hong Kong)'s Shenzhen Branch	Leasehold 50 Years	34 Years (17-12-2041)	10 Years	168	30-5-2006**	27,273

Notes:

(R) Revaluation was performed as at 31 December 2007.

\*\* The acquisition date for all properties vested over from Public Bank (Hong Kong) was 30 May 2006.

The Group holds the land portion of all properties by means of leases, in Hong Kong SAR.