



# **PUBLIC FINANCIAL HOLDINGS LIMITED**

stock code: 626



**Annual Report 2008**

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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

Tan Sri Dato' Sri Tay Ah Lek  
Dato' Chang Kat Kiam  
Chong Yam Kiang (appointed on 1 January 2009)

### Independent Non-executive Directors

Tan Sri Dato' Thong Yaw Hong (Co-Chairman)  
Dato' Yeoh Chin Kee  
Lee Chin Guan  
Quah Poh Keat (appointed as Non-executive Director  
on 30 July 2008 and re-designated as  
Independent Non-executive Director on 13 January 2009)

## 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) 2541 9222  
Facsimile : (852) 2545 5665  
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 Fulcrum Group (Bermuda) Limited  
Rosebank Centre  
11 Bermudiana Road  
Pembroke HM08  
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

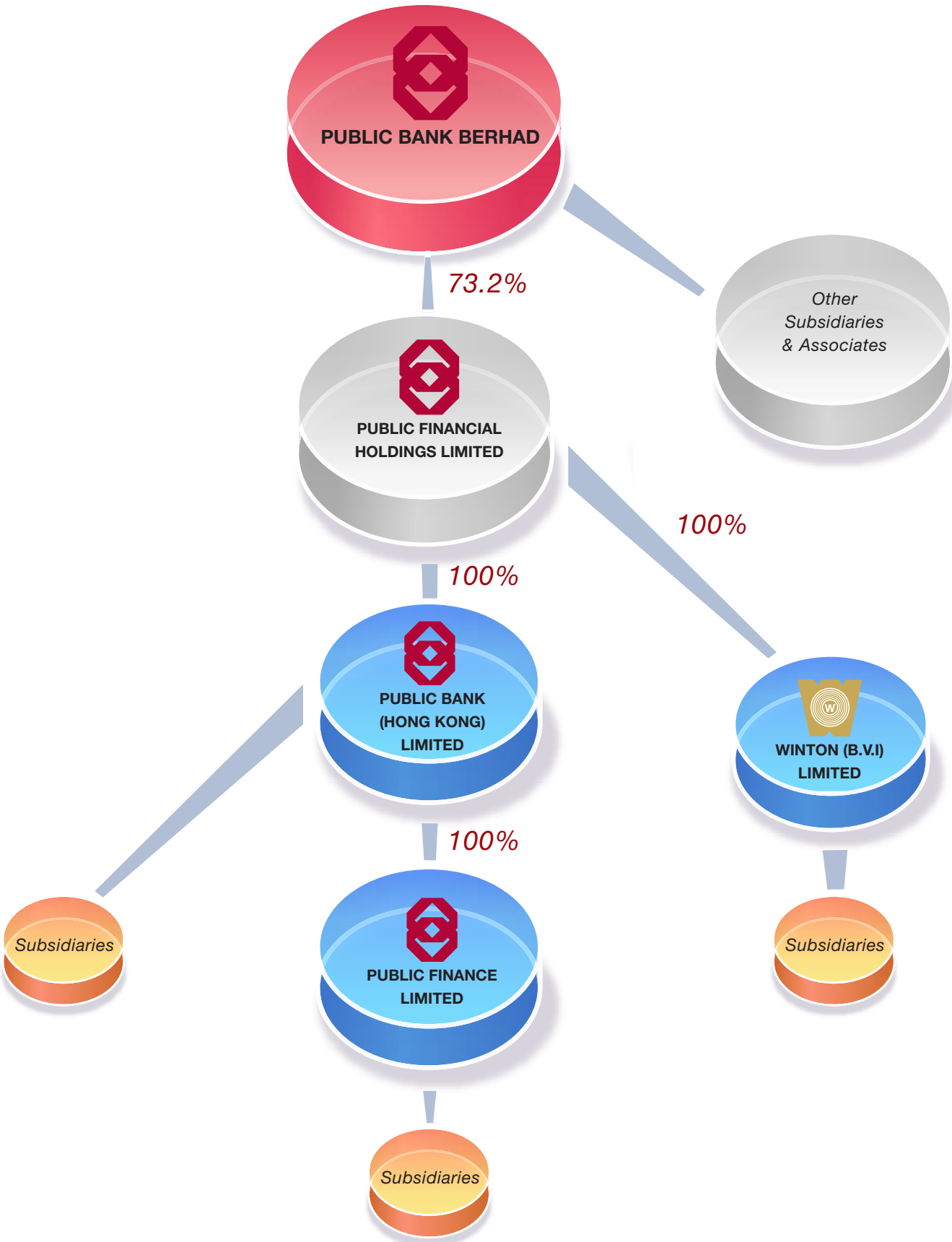
## Legal Advisers

Charles Yeung Clement Lam Liu & Yip  
Deacons  
Siao, Wen and Leung  
Woo Kwan Lee & Lo

## Principal Bankers

Bank of China  
Barclays Bank PLC  
China Construction Bank  
China Merchants Bank Co Ltd  
China Minsheng Banking Corp. Ltd  
CIMB Bank Berhad  
Industrial Bank Company, Limited  
Oversea-Chinese Banking Corporation Limited  
Public Bank Berhad  
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

P.O. Box : G.P.O. Box 824

Website : www.publicbank.com.hk

Telex : 73085 CBHK HKHH

Fax : 2541 0009

- |  |   |
|--|---|
| <p>1 Main Branch<br/>G/F, Public Bank Centre<br/>120 Des Voeux Road Central<br/>Tel: 25419222 Fax: 25452866<br/>Manager: So Tak Fai, Peter</p> <p>2 Western Branch<br/>Shop 2-3, G/F, Kam Kwan Building<br/>163-173 Des Voeux Road West<br/>Tel: 28382220 Fax: 28382633<br/>Manager: Lau Yiu Fai, Lawrence</p> <p>3 Wanchai Commercial Centre<br/>Unit A, 9/F, China Overseas Building<br/>139 Hennessy Road, Wanchai<br/>Tel: 28914171 Fax: 28341012<br/>Manager: Chan Kong Hoi, Roy</p> <p>4 North Point Branch<br/>Shop A, G/F, Yue Yick Building<br/>363-365 King's Road, North Point<br/>Tel: 25885141 Fax: 25870655<br/>Manager: Yam Oi Yin, Pauline</p> <p>5 Shek Tong Tsui Branch<br/>Shop B1, G/F, Hong Kong Plaza<br/>369-375 Des Voeux Road West<br/>Tel: 25462055 Fax: 25597962<br/>Manager: Chui King Yan, Connie</p> | <p>6 Causeway Bay Branch<br/>G/F and M/F, 447 Hennessy Road<br/>Causeway Bay<br/>Tel: 25722363 Fax: 25723033<br/>Manager: So Wai Ming, Aubrey</p> <p>7 Central Branch<br/>Unit A, G/F, Wing On House<br/>71 Des Voeux Road Central<br/>Tel: 21472140 Fax: 21472244<br/>Manager: Wong Kai Ip, Jimmy</p> <p>8 Aberdeen Branch<br/>Shop C, G/F, Kong Kai Building<br/>184 Aberdeen Main Road, Aberdeen<br/>Tel: 28710928 Fax: 28710383<br/>Manager: Wong Chun Hoi, Wilson</p> <p>25 Shau Kei Wan Branch<br/>Shop 2, G/F, Hong Tai Building<br/>326-332 Shaukeiwan Road<br/>Tel: 28843993 Fax: 28859283<br/>Manager: Lam Wai Kin, Ricky</p>   |
| <p>9 Yaumatei Branch<br/>Shop 6, G/F, Wing Kiu Building<br/>530-538 Nathan Road<br/>Tel: 23811678 Fax: 23956398<br/>Manager: Siu Kit Ching, Christina</p> <p>10 Kowloon City Branch<br/>G/F, 15 Nga Tsin Wai Road, Kowloon City<br/>Tel: 23820147 Fax: 27184281<br/>Manager: Chiu Ka Leung, Henry</p> <p>11 Hung Hom Branch<br/>G/F, Hunghom Commercial Centre<br/>37 Ma Tau Wai Road, Hung Hom<br/>Tel: 23639213 Fax: 23633195<br/>Manager: Lee Wai Kwan, Luceta</p> <p>12 Kwun Tong Branch<br/>Unit 2310, Tower 1, Millennium City 1<br/>388 Kwun Tong Road, Kwun Tong<br/>Tel: 23899119 Fax: 23899969<br/>Manager: Kwok Ka Leung, Joe</p> <p>13 Mongkok Branch<br/>G/F, JCG Building, 16 Mongkok Road<br/>Mongkok<br/>Tel: 23918393 Fax: 23916909<br/>Manager: Cheung Wing Kwong</p>  | <p>14 San Po Kong Branch<br/>G/F, 92 Shung Ling Street, San Po Kong<br/>Tel: 23268318 Fax: 23269180<br/>Manager: Kwong Hon Wun, Peter</p> <p>15 Cheung Sha Wan Branch<br/>Unit C2, G/F, 746 Cheung Sha Wan Road<br/>Cheung Sha Wan<br/>Tel: 27869858 Fax: 27869506<br/>Manager: Ho Siu Lung, Dicky</p> <p>16 Prince Edward Branch<br/>G/F, 751 Nathan Road, Prince Edward<br/>Tel: 23973830 Fax: 23971006<br/>Manager: Leung Yuen Fan, Maggie</p> <p>17 Wong Tai Sin Branch<br/>G/F, 89 Fung Tak Road, Wong Tai Sin<br/>Tel: 23287332 Fax: 23287991<br/>Manager: Lau Keung Fai, David</p> <p>28 To Kwa Wan Branch<br/>Shop D, G/F, In House, No. 307 To Kwa Wan Road<br/>To Kwa Wan<br/>Tel: 23620238 Fax: 23623999<br/>Manager: Law Chan Shang, Peter</p>    |
| <p>18 Yuen Long Branch<br/>Shop No. 5, Fu Ho Building<br/>3-7 Kau Yuk Road, Yuen Long<br/>Tel: 24794265 Fax: 24733934<br/>Manager: Lam Wong Kan, Kent</p> <p>19 Tsuen Wan Branch<br/>G/F, Victory Court, 185-187 Castle Peak Road<br/>Tsuen Wan<br/>Tel: 24904191 Fax: 24904811<br/>Manager: Choi Kam Yee, Catalina</p> <p>20 Kwai Chung Branch<br/>Shop 88B, Trendy Place, Kwai Chung Plaza<br/>7-11 Kwai Foo Road, Kwai Chung<br/>Tel: 24800002 Fax: 24012367<br/>Manager: Wong Sze Mui, Rhoda</p> <p>21 Tai Po Branch<br/>Shop B, G/F, 18-24 Kwong Fuk Road, Tai Po<br/>Tel: 26572861 Fax: 26577389<br/>Manager: Tsang Wai Chor</p>   | <p>22 Fanling Branch<br/>Shop 1, G/F, Wo Fung Court<br/>8 Wo Fung Street, Luen Wo Market, Fanling<br/>Tel: 26691559 Fax: 26698780<br/>Manager: Kee Ka Wai</p> <p>23 Sheung Shui Branch<br/>G/F, 73 San Fung Avenue, Sheung Shui<br/>Tel: 26390307 Fax: 31240091<br/>Manager: Yan Yi Kam, Patrick</p> <p>24 Tuen Mun Branch<br/>Shop E, G/F, Kam Lai Building<br/>Nos 1-7 Kai Man Path, Tuen Mun<br/>Tel: 2440 1298 Fax: 2440 1398<br/>Manager: Fong Fung Mei, Marisa</p> <p>26 Sai Kung Branch<br/>G/F, 16 Yi Chun Street, Sai Kung<br/>Tel: 27928588 Fax: 27910077<br/>Manager: Chong Mei Kuen, Joe</p> <p>27 Tseung Kwan O Branch<br/>G105-106, G/F, Metro City Plaza 1, Tseung Kwan O<br/>Tel: 27017688 Fax: 27017628<br/>Manager: Lau Chi Kai, Thomas</p> |
| <p>29 Shenzhen Branch<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/>Manager : Cheung Po Tung, David</p> <p>30 Futian Sub-branch<br/>1-3 Jinrun Mansion, No. 6019 Shennan Road<br/>Futian District, Shenzhen<br/>Tel : (86-755) 8280 0026<br/>Fax : (86-755) 8280 0016<br/>Manager: Cheung Ding Keung, Sammy</p> <p>31 Shekou Sub-branch<br/>Shop No.155-156, Coastal Building (East Block)<br/>Hai De San Dao, Nanshan District, Shenzhen<br/>People's Republic of China<br/>Tel : (86-755) 8627 1388<br/>Fax : (86-755) 8627 0699<br/>Manager : Pun Man Por</p>   | <p>Shenyang Representative Office<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/>Representative: Li Yu Jie</p> <p>Shanghai Representative Office<br/>Room G, G/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/>Representative: Chen Li Hang</p> <p>Taipei Representative Office<br/>Room 905, No. 18 Chan-An E. Road Section 1, Taipei, Taiwan<br/>Tel : (886-2) 2563 8789<br/>Fax : (886-2) 2564 2047<br/>Representative: Lu Chia Nan, Deanna</p>   |

Kowloon

New Territories

Greater China

# Public Finance Limited Branch Network





## Hong Kong Island

- 1 World-Wide House Branch  
Rm 2, 3 and 5, 20/F, World-Wide House  
19 Des Voeux Road Central, Hong Kong  
Tel: 25224067 Fax: 25373623  
Manager: Rodriguez Lolita H
- 2 Queen Victoria Street Central  
G/F, 14 Queen Victoria Street, Central, Hong Kong  
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: Villareal 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  
G/F, 449 Hennessy Road, Causeway Bay  
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: Lai Yu Tong
- 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: Ho Kwok Sin Tom
- 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: Chan Ching Yeung
- 42 Admiralty Branch  
Shop 2010, 2/F, United Centre  
95 Queensway, Admiralty  
Tel: 2520 1323 Fax: 2520 6889  
Manager: Hui Kam Tong Samson

## Kowloon

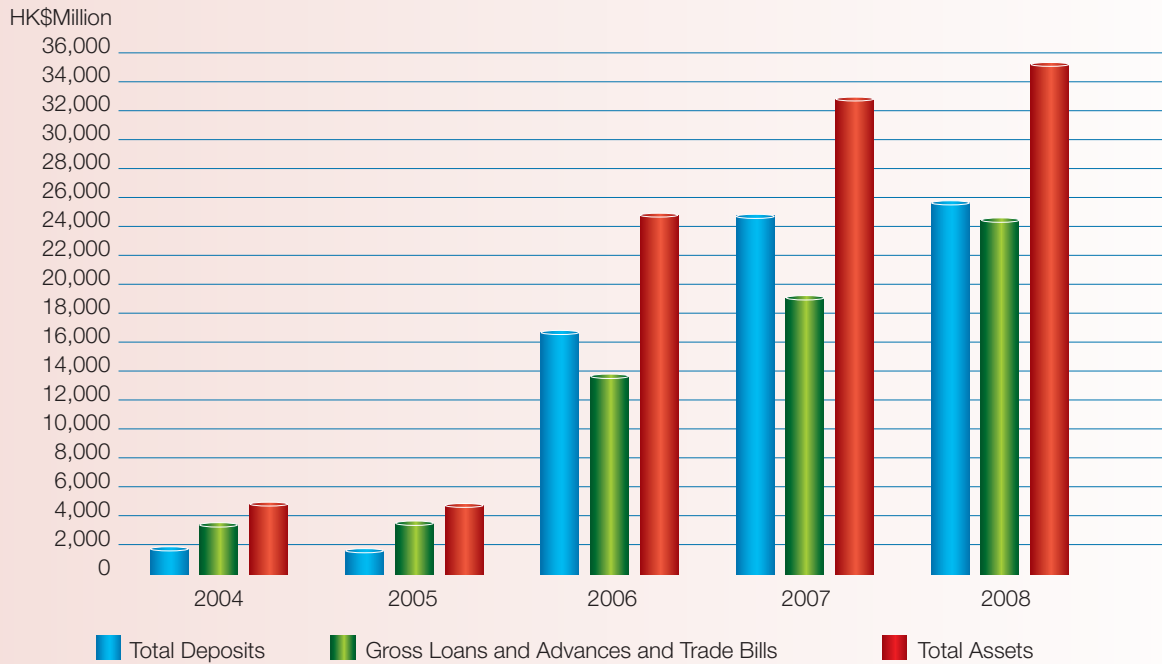
- 15 Star House Branch  
Basement, Shop B9-B10, Star House Plaza, TST  
Tel: 27308395 Fax: 27302346  
Manager: Ho Mei Yu Denise
- 16 Tsimshatsui Branch  
Shop No. 51-53, 1/F, Harbour Crystal Centre  
100 Granville Rd, TST East  
Tel: 23693236 Fax: 23110433  
Manager: Leung Kwok Chung Solomon
- 17 Jordan 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: Yuen Chak Sang Michael
- 21 Cheung Sha Wan Branch  
Unit C1, G/F, 746 Cheung Sha Wan Road  
Tel: 27445416 Fax: 27853634  
Manager: Wu Kin Sang Wilson
- 22 Hunghom Branch  
G/F, 130 Ma Tau Wai Road  
Tel: 23344307 Fax: 27644876  
Manager: Ng Chung Tak
- 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  
G/F, 289 Tokwawan Road, Kowloon  
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: Chan Siu Sung Jeffery
- 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

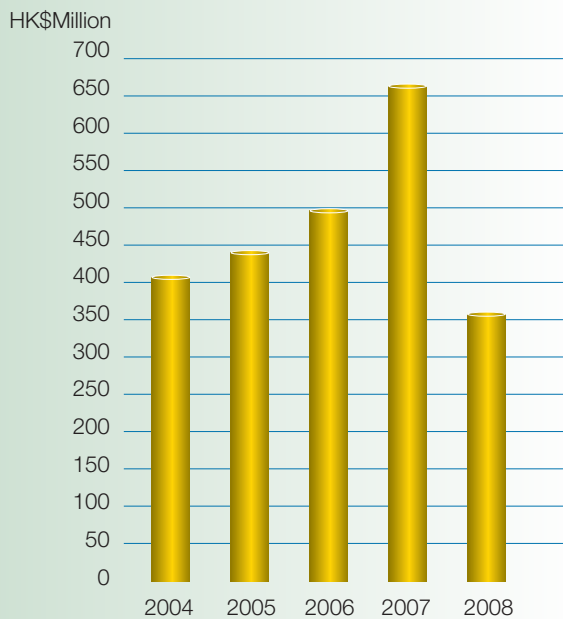
- 32 Kwai Chung Branch  
Shop 88B, 3/F, Kwai Chung Plaza  
7-11 Kwai Foo Road  
Tel: 24200121 Fax: 24850590  
Manager: Lau Shue Sum Dennis
- 33 Tsuen Wan Branch  
G/F, 281 Sha Tsui Road  
Tel: 24934187 Fax: 24174497  
Manager: Kwan Wai Choi Samuel
- 34 Tuen Mun Branch  
Shop 7, G/F, Mei Hang Bldg, Kai 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: Ho Kam Ming
- 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: Chan Sze Mou Ken
- 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



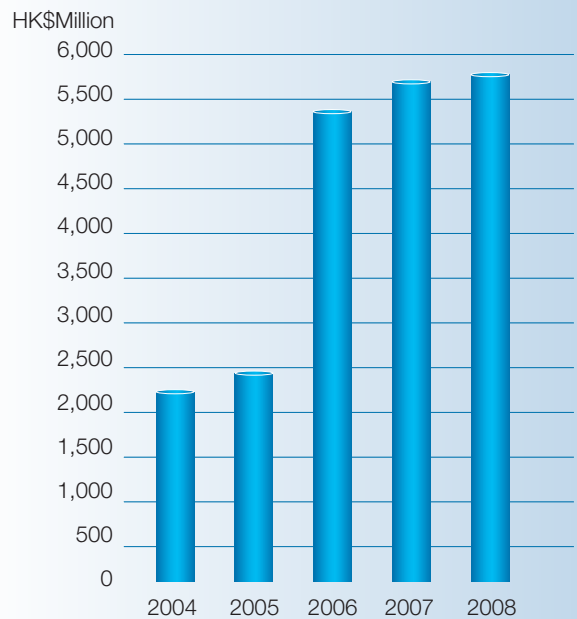
# Five-year Financial Summary



## Profit



## Equity



## 2008 Financial Highlights

Profit for the year:	<b>HK\$358.2 million</b>
Gross loans and advances and trade bills:	<b>HK\$24,428.4 million</b>
Total deposits:	<b>HK\$25,706.0 million</b>
Equity:	<b>HK\$5,769.5 million</b>
Earnings per share:	
Basic	<b>HK\$0.327</b>
Diluted	<b>HK\$0.327</b>
Total dividends per share:	<b>HK\$0.230</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:

	Year ended 31 December				
	2008 HK\$'000	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000
Cash and short term placements, and placements with banks and financial institutions	<b>5,958,371</b>	6,323,774	2,861,992	458,009	795,924
Gross loans and advances and trade bills	<b>24,428,368</b>	19,114,048	13,774,978	3,583,800	3,249,726
Held-to-maturity investments	<b>969,216</b>	2,858,708	3,679,604	–	–
Other assets	<b>3,973,710</b>	4,382,282	3,927,823	421,613	248,029
<b>Total assets</b>	<b>35,329,665</b>	32,678,812	24,244,397	4,463,422	4,293,679
Deposits and balances of banks and other financial institutions at amortised cost	<b>641,732</b>	2,263,902	516,097	–	–
Customer deposits at amortised cost	<b>24,184,416</b>	20,501,549	14,853,655	1,641,978	1,720,381
Certificates of deposit issued at amortised cost	<b>879,850</b>	2,049,227	769,674	–	–
Dividend payable	<b>197,625</b>	273,474	218,779	291,706	283,104
Unsecured bank loans at amortised cost	<b>3,249,219</b>	1,100,000	2,000,000	–	–
Other liabilities	<b>407,317</b>	836,439	566,144	136,304	123,657
<b>Total liabilities</b>	<b>29,560,159</b>	27,024,591	18,924,349	2,069,988	2,127,142
<b>Equity</b>	<b>5,769,506</b>	5,654,221	5,320,048	2,393,434	2,166,537
Profit for the year	<b>358,187</b>	665,331	496,637	446,297	412,889
Basic earnings per share (HK\$)	<b>0.327</b>	0.608	0.500	0.623	0.583
Diluted earnings per share (HK\$)	<b>0.327</b>	0.608	0.500	0.622	N/A

# Chairman's Statement



*I am pleased to present a review of the performance of the Group for the financial year ended 31 December 2008.*

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

## **GROUP FINANCIAL PERFORMANCE**

The Group recorded a profit after tax of HK\$358.2 million for the financial year ended 31 December 2008. Total loans and advances (including trade bills) of the Group increased by 27.8% to HK\$24.43 billion as at 31 December 2008 from HK\$19.11 billion as at 31 December 2007. Deposits from customers of the Group increased by 18.0% to HK\$24.18 billion as at 31 December 2008 from HK\$20.50 billion as at 31 December 2007.

Total assets of the Group grew by HK\$2.65 billion to HK\$35.33 billion as at 31 December 2008 from HK\$32.68 billion as at the end of the previous year.

The earnings for the year under review when compared to the previous year's earnings of HK\$665.3 million decreased by HK\$307.1 million mainly due to the non-recurrent gains from the disposal of long-term investments in listed securities amounting to HK\$108.5 million in the previous year, a one-off impairment charge of HK\$68.2 million for the Group's investment in capital notes from Whistlejacket Capital made in the first half of 2008, specific impairment allowances for impaired loans of approximately HK\$72 million related to a few corporate customers which were placed under liquidation in the second half of 2008, and the increase in operating overheads arising from the continuing expansion of the branch network of Public Bank (Hong Kong) Limited ("Public Bank (Hong Kong)").

The Group's basic earnings per share for the year 2008 was HK\$0.327. The Board of Directors had declared a first and a second interim dividend of HK\$0.05 per share in June 2008 and HK\$0.18 per share in December 2008 respectively. The Board of Directors does not recommend the payment of a final dividend, making a total dividend of HK\$0.23 per share for 2008 (2007: HK\$0.30 per share). The total dividend declared for the year amounted to HK\$252.5 million, representing approximately 70.5% of the net earnings of the year.

## **BUSINESS DEVELOPMENT OF THE GROUP**

In October 2008, Public Bank (Hong Kong) completed the acquisition of the entire issued share capital of its fellow subsidiary, Public Finance Limited ("Public Finance"), from the Company as part of the integration of the Group's business operations in Hong Kong, which will enhance organisational efficiency and capital management, and provide greater economies of scale and better cost synergies. During the year under review, Public Bank (Hong Kong) continued to expand its network of branches with the opening of 6 new branches in Hong Kong and a new sub-branch in Shekou, Shenzhen in the People's Republic of China ("PRC"), bringing its branch network to 28 branches in Hong Kong and 3 branches in the PRC. Together with the 42 branches of Public Finance, the Public Bank (Hong Kong) Group has expanded its combined branch network to 73 branches.



## **BUSINESS DEVELOPMENT OF THE GROUP (Continued)**

During the year under review, the Group registered a strong growth in loans and advances (including trade bills) of 27.8% to HK\$24.43 billion as at 31 December 2008 from HK\$19.11 billion as at the end of December 2007. The Group's customer deposits also registered a growth of 18.0% to HK\$24.18 billion as at 31 December 2008 from HK\$20.50 billion as at the end of the previous year.

The growth in loans and customer deposits were attributed to aggressive marketing and competitive pricing strategies along with the building of the "Public Bank" brand name in Hong Kong.

The expansion of the branch network of Public Bank (Hong Kong) with the opening of new branches, coupled with aggressive advertising and promotional activities in building the "Public Bank" brand name had resulted in an increase in operating expenses of the Group in the year under review, and has affected the earnings of the Group for the year.

## **FINANCIAL REVIEW**

For the year under review, the Group's net interest income increased by HK\$49.8 million or 5.0% to HK\$1,051.6 million from HK\$1,001.8 million in the previous year. Other operating income of the Group (excluding the gain on sale of listed securities in 2007) increased by 6.8% to HK\$302.3 million from HK\$283.1 million, whilst total operating expenses increased by 21.5% or HK\$92.7 million to HK\$523.9 million for 2008.

The Group's impairment allowances for financial assets increased by HK\$264.5 million to HK\$441.5 million from HK\$177.0 million in the previous year, partly due to higher recoveries of defaulted loans in the previous year and an increase in impairment allowances for defaulted loans in the year under review.

The earnings of the Group for the year under review was also affected by higher operating overheads attributed to the expansion of branch network of Public Bank (Hong Kong), and the building of the "Public Bank" brand name in Hong Kong which had more than offset the growth in operating income for the year.

## **LOANS AND DEPOSITS**

The Group will continue to focus on expanding its retail and commercial banking business and consumer loans business through the expanded branch network of the Group, innovative products and marketing activities, and efficient quality customer service.

The Group will target selected market segments of Public Bank (Hong Kong) and Public Finance in growing 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 enhance operating costs efficiency through further integration of the operations and support functions of Public Bank (Hong Kong) and Public Finance.

## **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 their support of the Group, and to the Hong Kong Monetary Authority, the Securities and Futures Commission, The Stock Exchange of Hong Kong Limited 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 was adversely affected by the global financial crisis in the second half of the year which emanated from the US sub-prime mortgage crisis, giving rise to uncertainty for the Hong Kong economic outlook and market concerns of rising unemployment. The operating environment of the Group particularly during the second half of the year under review was very challenging.

## GROUP FINANCIAL PERFORMANCE

### Loans and advances, customer deposits and total assets

The Group's total loans and advances (including trade bills) increased by 27.8% or HK\$5.32 billion to HK\$24.43 billion as at 31 December 2008 from HK\$19.11 billion as at 31 December 2007. Deposits from customers increased by 18.0% or HK\$3.68 billion to HK\$24.18 billion as at 31 December 2008 from HK\$20.50 billion as at 31 December 2007.

Total assets of the Group increased by HK\$2.65 billion to HK\$35.33 billion as at 31 December 2008 from HK\$32.68 billion as at 31 December 2007.

### Revenue and earnings

For the year ended 31 December 2008, the Group recorded a profit after tax of HK\$358.2 million, representing a decrease of HK\$307.1 million when compared to the profit after tax of HK\$665.3 million in the previous year. The decrease in earnings is mainly attributed to the following significant non-recurrent items:

	Financial impact (HK\$ million)
(i) One-off gain on disposal of long term listed securities in 2007	108.5
(ii) Impairment charge for the investment in capital notes of Whistlejacket Capital provided in the year	68.2
(iii) Increase in impairment allowances related to a few corporate customers placed under liquidation in the second half of 2008	72.0

The Group's basic earnings per share for 2008 was HK\$0.327. The Board of Directors had declared a first and a second interim dividend of HK\$0.05 per share in June 2008 and HK\$0.18 per share in December 2008 respectively. The Board of Directors does not recommend the payment of a final dividend, making a total dividend of HK\$0.23 per share for the year (2007: HK\$0.30 per share).

The Group's net interest income for 2008 increased by 5.0% or HK\$49.8 million to HK\$1,051.6 million when compared to the previous year despite the strong loan growth in the year under review. Although interest expense decreased by 24.6% or HK\$225.6 million to HK\$692.5 million, interest income also decreased by 9.2% or HK\$175.9 million to HK\$1,744.0 million caused by the reduction in prime rate.

The Group's non-interest income for 2008 decreased by 22.8% or HK\$89.4 million to HK\$302.3 million whilst the Group's operating expenses increased by 21.5% or HK\$92.7 million to HK\$523.9 million when compared to the previous year. The decrease in non-interest income was due to the higher gain on disposal of listed securities of HK\$108.5 million in the previous year.

The Group's impairment allowances for financial assets increased by HK\$264.5 million to HK\$441.5 million mainly due to higher impairment charge for impaired loans and for a debt security related to Whistlejacket Capital and the effect of significant bad debts recoveries in the previous year which was not repeated in the year under review.



## **GROUP FINANCIAL PERFORMANCE (Continued)**

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

In October 2008, Public Bank (Hong Kong) completed the acquisition of the entire issued capital of its fellow subsidiary, Public Finance, from the Company as part of the Group's re-organisation initiative to enhance efficiency in capital management and improve operational synergies and cost savings through the integration of the businesses and support functions of Public Bank (Hong Kong) and Public Finance.

During the year under review, total loans and advances (including trade bills) and deposits from customers of Public Bank (Hong Kong) grew by 30.3% and 13.1% respectively to HK\$20.08 billion and HK\$20.83 billion, respectively, as at 31 December 2008. Total loans and advances and deposits from customers (excluding intra-group deposits) of Public Finance grew by 17.2% and 42.4% to HK\$4.20 billion and HK\$3.61 billion respectively as at 31 December 2008.

In the year under review, Public Bank (Hong Kong) opened 6 new branches in Hong Kong and a new sub-branch in Shenzhen in the PRC, bringing Public Bank (Hong Kong)'s branch network to 28 branches in Hong Kong and 3 branches in the PRC. Together with the 42 branches of Public Finance, the Public Bank (Hong Kong) Group has a combined branch network of 73 branches.

### **Segmental information**

The Group's business comprised three main segments: (i) retail and commercial banking and lending, (ii) wealth management services and stockbroking and (iii) other businesses. For 2008, over 90% of the Group's operating income and profit before tax was contributed by retail and commercial banking and lending in Hong Kong. When compared to the previous year, the Group's operating income from retail and commercial banking and lending increased by HK\$43.4 million or 3.7 % to HK\$1,223.7 million. Profit before tax from retail and commercial banking and lending for 2008 decreased by HK\$228.9 million or 39.1% to HK\$357.2 million as a result of higher impairment allowance for impaired loans 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 businesses related to treasury and trade finance activities 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 2008, which was the same position as disclosed by the Group as at 31 December 2007.

## **OPERATIONAL REVIEW**

### **Funding and capital management**

The main objective of the Group's funding activities 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 customers, 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 term loans denominated in Hong Kong dollars at floating interest rates stood at HK\$3.25 billion as at the end of 2008. Based on the level of bank borrowings to the equity of the Group, the Group's gearing ratio stood at a healthy level of 0.55 as at 31 December 2008. In the normal course of its commercial banking business, the Group has entered into foreign exchange swaps and forward contracts and interest rate swaps to reduce foreign exchange risk and interest rate risk exposures respectively. Exposures to fluctuations in foreign exchange and interest rates were minimal during the year under review.

# Management Discussion and Analysis

## **OPERATIONAL REVIEW (Continued)**

### **Asset quality**

The Group's overdue and impaired loan ratio stood at 1.0% as at 31 December 2008 as compared to 0.8% as at 31 December 2007. The higher level of impaired loans in the current year resulted from the failure of a few corporate customers amidst the adverse economic, business and market conditions in Hong Kong and the PRC.

### **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 and internal training courses and seminars, as well as professional and technical courses with appropriate sponsorship from the Group, to update their technical knowledge and skills, to increase their awareness of the market place 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. In 2008, 4,021,000 options to subscribe for shares in the Company were exercised by employees of the Group. As at 31 December 2008, options to subscribe for 35,119,000 shares in the Company remained unexercised.

As at 31 December 2008, the Group's staff force had increased to 1,181 employees. The Group's total staff and related costs for 2008 amounted to HK\$280.1 million.

## **PROSPECTS**

It is expected that the global economic downturn will persist and continue in 2009. Economic recovery will depend on the success of the implementation of government macro-economic policies in dealing with the financial crisis and the economic slowdown and the pace of global recovery in various commercial and industrial sectors. Amidst such volatile market and economic conditions, the operating environment for financial institutions and other companies in Hong Kong and in the PRC is anticipated to be challenging in the coming year.

The Group will continue to focus on expanding its retail and commercial banking business and consumer financing business with innovative products and marketing strategies together with improving customer service and appropriate cost savings and staff performance incentives. The Group will proactively seek further synergies in its business operations with further integration of the business and support functions of Public Bank (Hong Kong) and Public Finance in the year ahead.

Competition in the banking and financing industry in Hong Kong is expected to be keen and challenging with financial institutions seeking greater market shares. The effects of the global financial crisis and the economic slowdown are expected to persist in the year ahead and adversely affect the confidence of various sectors, in particular the commercial and industrial sectors. Measures taken by the government in Hong Kong and in the PRC to stimulate consumer consumption and economic growth are expected to continue to be implemented, which would mitigate the effects of the global economic recession on the economic growth of Hong Kong.

Barring unforeseen circumstance, the Group expects to register moderate growth in its loan and deposit-taking businesses and in 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. They 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 for the year comprises:

Non-executive Directors	: Tan Sri Dato’ Sri Dr. Teh Hong Piow, <i>Chairman</i> Tan Sri Dato’ Sri Tay Ah Lek Dato’ Chang Kat Kiam Quah Poh Keat (Appointed as Non-Executive Director on 30 July 2008 and re-designated as Independent Non-executive Director on 13 January 2009) Wong Kong Ming (Deceased on 2 October 2008)
Independent Non-executive Directors	: Tan Sri Dato’ Thong Yaw Hong, <i>Co-Chairman</i> 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. All the independent non-executive directors who served in 2008 have given annual confirmations of their 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)

Mr. Quah Poh Keat was re-designated from Non-executive Director to Independent Non-executive Director of the Company on 13 January 2009. The Board considers that Mr. Quah is independent as he fulfills all independence assessments under Rule 3.13(1) to (6) and (8), save for Rule 3.13(7) of the Listing Rules which provides that an independent non-executive director appointed was not a director of the listed issuer during the two years immediately preceding the appointment. Mr. Quah was appointed a Non-executive Director but not as an Independent Non-Executive Director on 30 July 2008 pursuant to Rule 3.13(3) in view that Mr. Quah had retired from KPMG Malaysia (auditor of Public Bank Berhad) on 31 December 2007 and there was a lapse of less than one year prior to his appointment to the Company.

Mr. Quah has since his appointment as a Non-Executive Director of the Company, exercised independent judgment and he has not engaged in the day-to-day management of the Company, and has not participated in any business dealings and is not involved in any other relationships with the Company. The Board considers that Mr. Quah's professional qualifications, experience and expertise are suitable for him to discharge the roles and responsibilities of an independent non-executive director effectively.

The Company has demonstrated to the satisfaction of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") that Mr. Quah is independent and a confirmation of independence was served by Mr. Quah to the Stock Exchange.

During the year, ten 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 2008	Attendance rate
Tan Sri Dato' Sri Dr. Teh Hong Piow, <i>Chairman</i>	10	100%
Tan Sri Dato' Thong Yaw Hong, <i>Co-Chairman</i>	10	100%
Tan Yoke Kong	10	100%
Lee Huat Oon	10	100%
Tan Sri Dato' Sri Tay Ah Lek	10	100%
Dato' Chang Kat Kiam	10	100%
Dato' Yeoh Chin Kee	8	80%
Lee Chin Guan	9	90%
Quah Poh Keat (Appointed on 30 July 2008)	4	100%
Wong Kong Ming (Deceased on 2 October 2008)	8	100%

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 maximise 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.

## CORPORATE GOVERNANCE PRACTICES (Continued)

### Board of Directors (Continued)

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 has 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.

### Remuneration Committee

The Remuneration Committee of the Company comprised two non-executive directors and three independent non-executive directors in 2008.

The Remuneration Committee was formed in January 2005 and meetings shall be held at least once a year. Three meetings were held in 2008. The attendance of each member is set out as follows:

Name of member	Number of meetings	Attendance rate
	attended in 2008	
Tan Sri Dato' Sri Dr. Teh Hong Piow, <i>Chairman</i>	3	100%
Tan Sri Dato' Thong Yaw Hong	3	100%
Tan Sri Dato' Sri Tay Ah Lek	3	100%
Dato' Yeoh Chin Kee	3	100%
Lee Chin Guan	3	100%

At the meetings held during the year, the directors' fees and meeting allowances of the Group for the year 2007 and the promotion, secondment and terms of employment of the management staff within the Group in 2008 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.

# Corporate Governance Report

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

### **Remuneration Committee (Continued)**

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.

### **Nomination Committee**

The Nomination Committee of the Company comprised two non-executive directors and three independent non-executive directors in 2008.

The Nomination Committee was formed in January 2005 and meetings shall be held at least once a year. Two meetings were held in 2008. The attendance of each member is set out as follows:

<b>Number of meetings</b>	<b>Name of member attended in 2008</b>	<b>Attendance rate</b>
	Tan Sri Dato' Sri Dr. Teh Hong Piow, <i>Chairman</i>	2 100%
	Tan Sri Dato' Thong Yaw Hong	2 100%
	Tan Sri Dato' Sri Tay Ah Lek	2 100%
	Dato' Yeoh Chin Kee	2 100%
	Lee Chin Guan	2 100%

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:

1. To assess and recommend the appointment and re-appointment of directors and Chief Executive to the respective boards.
2. To oversee the overall composition of the respective boards, 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.
3. To assess the independence of independent non-executive directors.
4. To establish a mechanism for the formal assessment on the effectiveness of the respective boards as a whole and the performances of each director, the Chief Executive and other key senior management officers.
5. To oversee the appointment, management succession planning and performance evaluation of key senior management officers.

## CORPORATE GOVERNANCE PRACTICES (Continued)

### Nomination Committee (Continued)

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 2008, 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 comprised two non-executive director and three independent non-executive directors in 2008.

The Audit Committee shall meet at least twice a year. Eight 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:

<b>Name of member</b>	<b>Number of meetings attended in 2008</b>	<b>Attendance rate</b>
Tan Sri Dato' Thong Yaw Hong, <i>Chairman</i>	8	100%
Tan Sri Dato' Sri Tay Ah Lek	8	100%
Dato' Yeoh Chin Kee	6	75%
Lee Chin Guan	8	100%
Quah Poh Keat (Appointed on 30 July 2008)	3	100%

During the meetings held in 2008, the Audit Committee had performed the following work:

- (i) reviewed the financial reports for the year ended 31 December 2007 and for the six months ended 30 June 2008;
- (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 compliance reports of Public Bank (Hong Kong);
- (vi) reviewed the external auditors' statutory audit plan and engagement letter;
- (vii) reviewed and recommended for approval by the board the 2008 audit scope and fees; and
- (viii) noted the engagement of Ernst & Young to report under S.48(3) of the Deposit Protection Scheme.

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.

# Corporate Governance Report

## ACCOUNTABILITY AND AUDIT

### (Continued)

#### Audit Committee (Continued)

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.
9. To review arrangements by which employees of the Group may raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure independent investigations and appropriate follow-up actions on such matters.

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:

<b>Services rendered</b>	<b>Fees paid/ payable HK\$'000</b>
Audit services	3,625
Non-audit services	256
Total:	<u>3,881</u>

#### 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 also reviews annually the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget.

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 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.



## **ACCOUNTABILITY AND AUDIT (Continued) Internal Control (Continued)**

- 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 Department, 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.
  - The Credit Risk Management Committee under Public Bank (Hong Kong) review and assess independently the credit risk profile, conduct stress-testing and post-mortem analysis on credit risk and set concentration risk limits of Public Bank (Hong Kong) and provide advice to Public Finance and other group companies, and implement credit risk management policies approved by the Board of Public Bank (Hong Kong).
  - The Asset and Liability Management Committee under Public Bank (Hong Kong) and the Assets and Liabilities Committee under Public Finance review and assess the market risk profile, capital adequacy 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.
  - The Operational Risk Management Committee under Public Bank (Hong Kong) and Public Finance review and assess operational risk profile, impact of operational loss events and set operational risk limits, if applicable, of Public Bank (Hong Kong) and Public Finance, and implement operational 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.

# Corporate Governance Report

## **ACCOUNTABILITY AND AUDIT**

### **(Continued)**

#### **Internal Control (Continued)**

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.

## **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. The AGM circulars were distributed to all shareholders 21 days before the 2008 AGM. It set out the procedures for demanding and conducting a poll and other relevant information of the proposed resolutions. The Chairman also explained the procedures for demanding and conducting a poll at the beginning of the 2008 AGM and revealed how many proxies for and against have been filed in respect of each resolution.

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 2008, 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 2008 was HK\$3,183,961,092 (issued share capital: 1,097,917,618 shares at closing market price: HK\$2.90 per share). The public float is around 26.8%.

The 2009 AGM will be held at Kowloon Room I, Kowloon Shangri-La Hotel, 64 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on Monday, 23 February 2009 at 10:00 a.m.



# Brief Biography of Directors and Senior Management

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

Tan Sri Dato' Sri Dr. Teh Hong Piow, aged 78, is the Founder and Chairman and a substantial shareholder of Public Bank Berhad ("Public Bank"), a commercial bank listed on the Malaysian stock exchange, and the holding company of the Company. He has 59 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 and is the Chairman of LPI Capital Berhad which is a public listed company in Malaysia. He has no previous directorships in other public listed companies in the last 3 years.

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 78, 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, Public Bank (Hong Kong) and Public Finance. He also holds directorships in several other companies in the Public Bank Group.

Tan Sri Dato' Thong Yaw Hong's directorships in other public listed companies are in Berjaya Sports Toto Berhad (Chairman), LPI Capital Berhad (Co-Chairman), Batu Kawan Berhad (Director), Kuala Lumpur Kepong Berhad (Director) and Glenealy Plantations (Malaya) Berhad (Director) which are listed in Malaysia. His previous directorships in public listed companies over the last 3 years were in Berjaya Land Berhad (resigned on 1 September 2007) and MMC Corporation Berhad (resigned on 31 August 2006).

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.



# Brief Biography of Directors and Senior Management

## **Mr. Tan Yoke Kong**

Mr. Tan Yoke Kong, aged 56, has 27 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 has no previous directorships in other public listed companies in the last 3 years. 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.

## **Mr. Lee Huat Oon**

Mr. Lee Huat Oon, aged 46, has 21 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 has no previous directorships in other public listed companies in the last 3 years. He holds a degree in Accounting from the University of Malaya and is a Registered Accountant with the Malaysian Institute of Accountants.

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

Tan Sri Dato' Sri Tay Ah Lek, aged 66, has 48 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) and Public Finance. He also holds directorships in several other companies in the Public Bank Group. He has no previous directorships in other public listed companies in the last 3 years.

Tan Sri 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 member of the National Payments Advisory Board in Malaysia.

## **Dato' Chang Kat Kiam**

Dato' Chang Kat Kiam, aged 54, has 34 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 a Chief Operating Officer of Public Bank. He also holds directorships in several other companies in the Public Bank Group. He has no previous directorships in other public listed companies in the last 3 years. He holds a Master's degree in Business Administration.

## **Dato' Yeoh Chin Kee**

Dato' Yeoh Chin Kee, aged 66, has 48 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, Public Bank (Hong Kong) and Public Finance. He also holds directorships in several other companies in the Public Bank Group and is a Director of LPI Capital Berhad which is a public listed company in Malaysia. He has no previous directorships in other public listed companies in the last 3 years. He is a Fellow of the Certified Practising Accountants of Australia and the Financial Services Institute of Australasia.



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

Mr. Lee Chin Guan, aged 50, has 16 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) and Public Finance. 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.

Mr. Lee was, in the last 3 years, an Independent Non-executive Director of Public Bank Berhad and LPI Capital Berhad and an Executive Director of Transmile Group Berhad, which are public listed companies in Malaysia. He resigned from the boards of directors of these three companies on 3 July 2007, 9 October 2007 and 15 November 2007 respectively.

### **Mr. Quah Poh Keat**

Mr. Quah Poh Keat, aged 56, has 35 years of experience in auditing, tax and insolvency practices and had worked in Malaysia and United Kingdom. He was appointed a Non-executive Director of the Company in July 2008 and was re-designated as an Independent Non-executive Director on 13 January 2009. He is currently a member of the Audit Committee and Risk Management Committee. He is also an Independent Non-executive Director of Public Bank, Public Investment Bank Bhd, Public Bank (Hong Kong) and Public Finance. He also holds directorship in another company in the Public Bank Group.

Mr. Quah is also an Independent Non-executive Director of LPI Capital Berhad, IOI Corporation Berhad, IOI Properties Berhad, PLUS Expressways Berhad and Telekom Malaysia Berhad, which are public listed companies in Malaysia.

Mr. Quah is a Fellow of the Malaysian Institute of Taxation and the Association of Chartered Certified Accountants. He is also a member of the Malaysian Institute of Accountants, the Malaysian Institute of Certified Public Accountants and the Chartered Institute of Management Accountants. He was a partner of KPMG Malaysia since 1 October 1982 and appointed Senior Partner (also known as Managing Partner in other practices) in October 2000 until 30 September 2007. He retired from the firm on 31 December 2007.

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

Mr. Chong Yam Kiang, aged 58, has 39 years of experience in the banking and finance industry. He was appointed a Non-executive Director of the Company in January 2009 and is an Executive Director of Public Bank (Hong Kong) and a Non-executive Director of Public Finance. He is currently the Alternate Chief Executive of Public Bank (Hong Kong). He has no previous directorships in other public listed companies in the last 3 years. He holds a diploma in Management from Malaysian Institute of Management.

# Our Corporate Family

## Corporate Events



The Company's 2008 Annual General Meeting held at Kowloon Shangri-La Hotel on 19 February 2008.



Staff performing at the Group's Annual Dinner 2008 took a photo with members of the Board.



Mr. Tan Yoke Kong, Executive Director and Chief Executive, addressing the participants of the Group's Team Building Workshop "ONE TEAM, ONE GOAL TO VICTORY: TOGETHER, WE ARE THE BEST!".



The Group Chairman, Tan Sri Dato' Sri Dr. Teh Hong Piow, delivered his opening address at the Group's Annual Dinner 2008.



Group photo of our management staff taken at the 42nd Anniversary Dinner of our holding company, Public Bank Berhad, in Malaysia.



Our Hong Kong staff performing at the 42nd Anniversary Dinner of Public Bank Berhad held in Kuala Lumpur, took a photo with our Group Chairman.



Group photo of the participants at the Group's Team Building Workshop.



An official visit of the Group Chairman, Tan Sri Dato' Sri Dr. Teh Hong Piow to Shenzhen Branch in the PRC.



Staff enjoying the fun games at the Group's Annual Dinner 2008.



Members of the Board sang the Public Bank Corporate Song at the Group's Annual Dinner 2008 held in Hong Kong.



Staff of our Futian sub-branch, Shenzhen, PRC took a photo with the Group Chairman during his official visit of the branch.



Board members paid a courtesy visit to the China Banking Regulatory Commission, Shenzhen, PRC.



Head of China Operation Department presented a hand-sewed silk picture to Tan Sri Chairman during his visit to Shenzhen Branch.

# Our Corporate Family

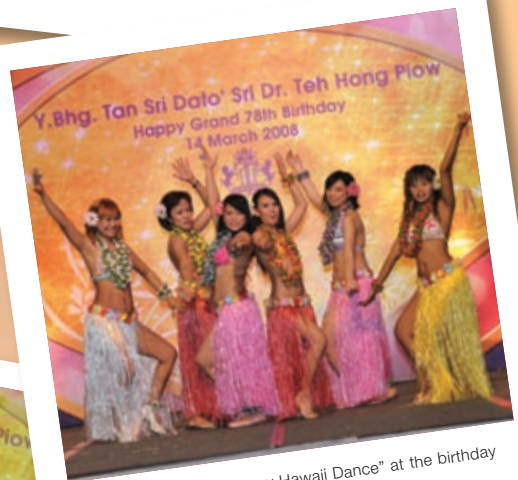
## Recreational Activities



Branch Managers presented a song to our Group Chairman, Tan Sri Dato' Sri Dr. Teh Hong Piow, in celebration of his Grand 78th Birthday.



Tan Sri Chairman cutting the birthday cake during his birthday dinner.



Staff performing the "Happy Hawaii Dance" at the birthday dinner.



Staff performing the "Thousand Hand Buddha" at the dinner to celebrate the 78th Birthday of our Group Chairman.



Group photo of all participants of the Group's Bowling Competition 2008.



A "merry" Christmas party held at Novotel in December 2008.



Congratulations to the relay team from Public Bank (Hong Kong) Group for winning the 3rd-Runner-Up medals in the 4 x 100 Relay Competition at the HK Corporate Games 2008.



Our staff and family members enjoyed a pleasant trip on board the Star Cruises "SuperStar Virgo" during the Group's Annual Outing 2008.



Mr. Tan Yoke Kong congratulated the Group's soccer team for winning the ICBC (Asia) 7-a-side Mini-Soccer Competition 2008.

# Our Corporate Family

## Marketing & Promotions

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電話：2362 0238 傳真：2362 3999

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12月13日及12月20日  
時間：上午9時至下午5時

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- 貸款額高達HK\$12,000,000
- 還款期長達5年
- 首6個月只需繳付每月利息安排
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貸款額	利率	每月還款	每月平息	每月還款	每月平息
10,000 - 20,000	0.15%	85.52	0.138%	84.28	0.11%
20,000 - 40,000	0.15%	167.04	0.138%	162.56	0.11%
40,000 - 60,000	0.15%	248.56	0.138%	241.04	0.11%
60,000 - 80,000	0.15%	330.08	0.138%	319.52	0.11%
80,000 - 100,000	0.15%	411.60	0.138%	398.40	0.11%
100,000 - 200,000	0.138%	67.36	0.138%	65.92	0.11%

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# Report of the Directors

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2008.

## **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 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.

## **ACQUISITION OF PUBLIC FINANCE LIMITED ("PUBLIC FINANCE") BY PUBLIC BANK (HONG KONG) LIMITED ("PUBLIC BANK (HONG KONG)")**

During the year, Public Bank (Hong Kong) completed the acquisition of the entire issued and paid-up share capital of Public Finance from the Company as part of the internal group reorganisation.

## **RESULTS AND DIVIDENDS**

The Group's profit for the year ended 31 December 2008 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 42 to 130.

The first interim dividend of HK\$0.05 (2007: HK\$0.05) per ordinary share was paid on 25 July 2008. The second interim dividend of HK\$0.18 (2007: HK\$0.25) per ordinary share was declared on 31 December 2008 and will be payable on 10 February 2009 to shareholders of the Company whose names appear on the register of members on 6 February 2009. The directors do not recommend the payment of a final dividend for the year (2007: 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 page 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 2008, the Company's reserves available for cash distribution and/or distribution in specie amounted to approximately HK\$1,434,631,000 (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\$4,013,345,000 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 and up to date of this report were as follows:

### *Non-executive Directors:*

Tan Sri Dato' Sri Dr. Teh Hong Piow, *Chairman*  
Tan Sri Dato' Sri Tay Ah Lek  
Dato' Chang Kat Kiam  
Chong Yam Kiang (Appointed on 1 January 2009)  
Wong Kong Ming (Deceased on 2 October 2008)

### *Independent Non-executive Directors:*

Tan Sri Dato' Thong Yaw Hong, *Co-Chairman*  
Dato' Yeoh Chin Kee  
Lee Chin Guan  
Quah Poh Keat (Appointed as Non-executive Director on 30 July 2008 and re-designated as Independent Non-executive Director on 13 January 2009)

### *Executive Directors:*

Tan Yoke Kong  
Lee Huat Oon

In accordance with the Bye-laws, Tan Sri Dato' Sri Dr. Teh Hong Piow, Tan Sri Dato' Sri Tay Ah Lek, Mr. Lee Chin Guan, Mr. Quah Poh Keat and Mr. Chong Yam Kiang shall retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

# Report of the Directors

## **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, 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.

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

In 2006, the Company entered into a facility agreement (the "Facility Agreement") with Barclays Capital and others as mandated lead arrangers and Barclays Bank PLC as the 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 73.2% 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 the agent may, among other things, demand immediate repayment of all or any of the loans made to the Company together with accrued interest.

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 for Securities Transactions by Directors of Listed Issuers (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	73.2312
	Tan Sri Dato' Sri Tay Ah Lek	350,000	–	–	350,000	0.0319
	Dato' Chang Kat Kiam	300,000	–	–	300,000	0.0273
	Dato' Yeoh Chin Kee	150,000	–	–	150,000	0.0137
	Tan Yoke Kong	540,000	–	–	540,000	0.0492
	Lee Huat Oon	20,000	–	–	20,000	0.0018
2. Public Bank, the ultimate holding company	Tan Sri Dato' Sri Dr. Teh Hong Piow	21,524,250	–	786,468,596	807,992,846	22.8768
	Tan Sri Dato' Thong Yaw Hong	7,313,750	350,000	312,500	7,976,250	0.2258
	Tan Sri Dato' Sri Tay Ah Lek	8,610,109	200,000	139,482	8,949,591	0.2534
	Dato' Yeoh Chin Kee	200,000	100,000	–	300,000	0.0085
	Lee Chin Guan	1,170,000	–	–	1,170,000	0.0331
	Dato' Chang Kat Kiam	109,435	–	–	109,435	0.0031
	Tan Yoke Kong	70,000	–	–	70,000	0.0020
	Lee Huat Oon	55,000	–	–	55,000	0.0016

# Report of the Directors

## **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		
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.

## 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	Tan Sri Dato' Sri Tay Ah Lek	1,680,000	–	450,000	1,230,000	HK\$6.35	10.6.2005 to 9.6.2015
	Dato' Yeoh Chin Kee	700,000	–	150,000	550,000	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	–	300,000	1,380,000	HK\$6.35	10.6.2005 to 9.6.2015
	Tan Yoke Kong	1,928,000	–	610,000	1,318,000	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
2. Public Bank	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
		50,000	–	50,000	–		

#### Notes:

- 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.
- 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.

# Report of the Directors

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Directors' interests and short positions in shares and underlying shares" 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 or 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.

## 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:

Name	Capacity	Number of ordinary shares	Percentage of interests in the issued share capital
<b>Substantial shareholder</b>			
Public Bank	Beneficial owner	804,017,920	73.2312

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.

## DONATIONS

During the year, the Group made charitable donations totalling HK\$7,000 (2007: HK\$11,000).

## 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 Manual issued by the Hong Kong Monetary Authority (the "HKMA"). The Company has complied with capital requirements related to capital base and capital adequacy ratio stipulated by the HKMA.

## 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

14 January 2009



# 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 42 to 130, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated summary 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 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 of 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.



## **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 2008 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

14 January 2009

# Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 HK\$'000	2007 HK\$'000
Interest income	5	1,744,046	1,919,885
Interest expense	5	(692,465)	(918,103)
<b>NET INTEREST INCOME</b>		<b>1,051,581</b>	1,001,782
Gains less losses from disposal of available-for-sale listed securities		–	108,545
Other operating income	6	302,279	283,133
Non-interest income		302,279	391,678
<b>OPERATING INCOME</b>		<b>1,353,860</b>	1,393,460
Operating expenses	7	(523,932)	(431,218)
<b>OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES</b>		<b>829,928</b>	962,242
Impairment allowances for loans and advances and receivables, held-to-maturity investments and available-for-sale financial assets	8	(441,534)	(176,973)
<b>OPERATING PROFIT</b>		<b>388,394</b>	785,269
<b>SHARE OF PROFITS AND LOSSES OF A JOINTLY-CONTROLLED ENTITY</b>	26	–	(163)
<b>PROFIT BEFORE TAX</b>		<b>388,394</b>	785,106
Tax	11	(30,207)	(119,775)
<b>PROFIT FOR THE YEAR</b>		<b>358,187</b>	665,331
<b>Attributable to:</b>			
<b>Equity holders of the Company</b>	12	<b>358,187</b>	665,331
<b>DIVIDENDS</b>			
Interim	13	252,521	328,169
<b>EARNINGS PER SHARE (HK\$)</b>	14		
Basic		0.327	0.608
Diluted		0.327	0.608

# Balance Sheet

31 December 2008

	Notes	Group		Company	
		2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
<b>ASSETS</b>					
Cash and short term placements	15	5,785,272	5,882,235	309,081	62,772
Placements with banks and financial institutions	16	173,099	441,539	–	–
Financial assets designated at fair value through profit or loss	17	–	12,262	–	–
Derivative financial instruments		1,151	2,644	–	–
Loans and advances and receivables	18	24,384,943	19,165,638	–	–
Available-for-sale financial assets	20	21,524	51,044	–	–
Held-to-maturity investments	21	969,216	2,858,708	–	–
Inventories of taxi licences		21,805	25,299	–	–
Investment properties	22	165,346	146,492	982,980	58,900
Property and equipment	23	119,110	98,007	–	–
Land lease prepayments	24	667,990	628,664	–	–
Interests in subsidiaries	25	–	–	6,660,283	5,588,733
Interest in a jointly-controlled entity	26	1,513	1,513	–	–
Deferred tax assets	33	9,168	5,668	–	–
Goodwill	28	2,774,403	2,774,403	–	–
Intangible assets	29	358	358	–	–
Other assets	27	234,767	584,338	7,014	2,002
<b>TOTAL ASSETS</b>		<b>35,329,665</b>	<b>32,678,812</b>	<b>7,959,358</b>	<b>5,712,407</b>
<b>EQUITY AND LIABILITIES</b>					
<b>LIABILITIES</b>					
Deposits and balances of banks and other financial institutions at amortised cost		641,732	2,263,902	–	–
Derivative financial instruments		4,150	2,381	–	–
Customer deposits at amortised cost	31	24,184,416	20,501,549	–	–
Certificates of deposit issued at amortised cost		879,850	2,049,227	–	–
Dividend payable	13	197,625	273,474	197,625	273,474
Unsecured bank loans at amortised cost	32	3,249,219	1,100,000	2,150,000	1,100,000
Current tax payable		6,403	32,186	–	–
Deferred tax liabilities	33	24,122	69,243	4,800	4,800
Other liabilities	34	372,642	732,629	3,401	2,682
<b>TOTAL LIABILITIES</b>		<b>29,560,159</b>	<b>27,024,591</b>	<b>2,355,826</b>	<b>1,380,956</b>
<b>EQUITY</b>					
Issued capital	35	109,792	109,390	109,792	109,390
Reserves	38	5,659,714	5,544,831	5,493,740	4,222,061
<b>TOTAL EQUITY</b>		<b>5,769,506</b>	<b>5,654,221</b>	<b>5,603,532</b>	<b>4,331,451</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>35,329,665</b>	<b>32,678,812</b>	<b>7,959,358</b>	<b>5,712,407</b>

Tan Yoke Kong  
Director

Lee Huat Oon  
Director

# Consolidated Summary Statement of Changes in Equity

For the year ended 31 December 2008

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
<b>TOTAL EQUITY</b>		
Balance at beginning of year	<b>5,654,221</b>	5,320,048
Proceeds from issuance of shares upon exercise of share options, net of expenses	<b>25,479</b>	–
Exchange difference	<b>13,660</b>	21,400
(Deficit)/surplus on revaluation of available-for-sale financial assets	<b>(29,520)</b>	84,156
Transfer to income statement on disposal of available-for-sale financial assets	–	(108,545)
Profit for the year	<b>358,187</b>	665,331
Dividends paid/declared on shares	<b>(252,521)</b>	(328,169)
	<b>105,666</b>	337,162
Balance at end of year	<b>5,769,506</b>	5,654,221

# Consolidated Cash Flow Statement

For the year ended 31 December 2008

	<b>Group</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax	<b>388,394</b>	785,106
Depreciation and amortisation of land lease prepayments	<b>23,851</b>	18,448
Net losses/(gains) on disposal of property and equipment	<b>74</b>	(4,503)
Increase/(decrease) in impairment allowances for loans and advances and receivables	<b>87,867</b>	(162,870)
Impairment allowances for held-to-maturity investments	<b>37,000</b>	9,800
Write off of impairment allowances for held-to-maturity investments	<b>(46,800)</b>	–
Dividends from listed investments	<b>(1,178)</b>	(2,041)
Dividends from unlisted investments	<b>(980)</b>	(980)
Reversal of an impairment allowance on land lease prepayments	<b>–</b>	(2,616)
Increase in fair value of investment properties	<b>(18,541)</b>	(23,769)
Share of profits and losses of a jointly-controlled entity	<b>–</b>	163
Increase in impairment for intangible assets	<b>–</b>	367
Increase/(decrease) in an amount due to the ultimate holding company	<b>6</b>	(500)
Exchange differences	<b>13,718</b>	21,400
Hong Kong profits tax paid	<b>(104,611)</b>	(103,307)
	<b>378,800</b>	534,698
Operating profit before changes in operating assets and liabilities		
Increase in operating assets:		
Decrease/(increase) in cash and short term placements	<b>195,025</b>	(192,685)
Decrease in placements with banks and financial institutions	<b>33,394</b>	62,848
Decrease/(increase) in financial assets designated at fair value through profit or loss and available-for-sale financial assets	<b>12,262</b>	(1,850)
Increase in loans and advances and receivables	<b>(5,307,173)</b>	(5,308,132)
Decrease in held-to-maturity investments	<b>972,866</b>	1,485,885
Decrease/(increase) in other assets	<b>349,572</b>	(323,255)
Decrease in derivative financial instruments	<b>1,493</b>	10,136
Decrease/(increase) in inventories of taxi licences	<b>3,494</b>	(1,194)
	<b>(3,739,067)</b>	(4,268,247)
Increase in operating liabilities:		
(Decrease)/increase in deposits and balances from banks and other financial institutions	<b>(1,622,170)</b>	1,747,805
Increase in customer deposits at amortised cost	<b>3,682,867</b>	5,647,894
(Decrease)/increase in certificates of deposit issued	<b>(1,169,377)</b>	1,279,553
Increase/(decrease) in derivatives payables	<b>1,769</b>	(7,354)
(Decrease)/increase in other liabilities	<b>(359,994)</b>	273,862
	<b>533,095</b>	8,941,760
Net cash (outflow)/inflow from operating activities	<b>(2,827,172)</b>	5,208,211

# Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Notes	Group	
		2008 HK\$'000	2007 HK\$'000
<b>NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES</b>		<b>(2,827,172)</b>	5,208,211
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of property and equipment		(38,964)	(36,969)
Sale proceeds of property and equipment		–	5,945
Purchases of investment properties and land lease prepayments		(45,760)	–
Dividends from listed investments		1,178	2,041
Dividends from unlisted investments		980	980
Net cash outflow from investing activities		<b>(82,566)</b>	(28,003)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
New unsecured bank loans		2,149,219	–
Repayment of unsecured bank loans		–	(900,000)
Dividends paid on shares		(328,370)	(273,474)
Proceeds from issuance of share upon exercise of share options, net of expenses		25,479	–
Net cash inflow/(outflow) from financing activities		<b>1,846,328</b>	(1,173,474)
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(1,063,410)</b>	4,006,734
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>7,070,190</b>	3,063,456
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>6,006,780</b>	7,070,190
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and short term placements repayable on demand	43	475,138	433,085
Money at call and short notice with original maturity within three months		5,310,134	5,254,125
Placements with banks and financial institutions with original maturity within three months		34,089	269,135
Held-to-maturity investments with original maturity within three months		187,419	1,113,845
		<b>6,006,780</b>	7,070,190



# 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 (the “SEHK”) (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 (“Public Bank”), which is incorporated in Malaysia.

## 2.1 ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all HKFRSs, 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. The preparation of financial statements has also made reference to the applicable Supervisory Policy Manual and the Guideline on the Application of the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority (the “HKMA”).

The consolidated financial statements have been prepared under the historical cost convention, as modified for 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 purposes 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.



# Notes to Financial Statements

## 2.1 ACCOUNTING POLICIES (Continued)

### Basis of capital disclosures

The Group has complied with the capital requirements during the annual reporting period related to the 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 level required as soon as possible.

The computation of the 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 purposes.

There are no major restrictions or 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 the Financial Resources Rules issued by the Securities and Futures Commission.

## 2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new interpretations and amendments has had no material effect on these financial statements.

- HKAS 39 and HKFRS 7 Amendments      Amendments to HKAS 39 Financial Instruments:  
Recognition and Measurement and  
HKFRS 7 Financial Instruments: Disclosures  
– Reclassification of Financial Assets
- HK(IFRIC) – Int 11      HKFRS 2 – Group and Treasury Share Transactions
- HK(IFRIC) – Int 12      Service Concession Arrangements
- HK(IFRIC) – Int 14      HKAS 19 – The Limit on a Defined Benefit Asset,  
Minimum Funding Requirements and their Interaction



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

The principal effects of adopting these new and revised HKFRSs are as follows:

**(a) HKAS 39 and HKFRS 7 Amendments – Amendments to HKAS 39 Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets**

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing it in the near term if specified criteria are met. A debt instrument classified as held for trading not classified by designation or as available for sale not classified by designation may be reclassified as a loan or receivable if the asset meets the definition of a loan or receivable and the entity has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets that are not eligible for classification as loans and receivables, may be transferred from held for trading to available for sale or to held to maturity (in the case of debt instrument), only in rare circumstances.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above.

The amendments are effective from 1 July 2008. As the Group does not intend to reclassify any of its financial instruments, the amendments have had no impact on the financial position or results of operation of the Group.

**(b) HK(IFRIC)-Int 11 HKFRS 2 – Group and Treasury Share Transactions**

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation has had no effect on these financial statements.

**(c) HK(IFRIC)-Int 12 Service Concession Arrangements**

HK(IFRIC)-Int 12 applies to service concession operators and explains how to account for obligation undertaken and the rights received in service concession arrangements. As the Group currently has no such arrangements, the interpretation has had no effect on these financial statements.

**(d) HK(IFRIC)-Int 14 HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction**

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists. As the Group currently has no defined benefit scheme, the interpretation has had no effect on these financial statements.

# Notes to Financial Statements

## 2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

- |   |                                |   |
|---|--------------------------------|---|
| • | HKFRS 1 and HKAS 27 Amendments | Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate <sup>1</sup> |
| • | HKFRS 2 Amendments             | Amendments to HKFRS 2 Share-based Payment-Vesting Conditions and Cancellations <sup>1</sup>   |
| • | HKFRS 3 (Revised)              | Business Combinations <sup>2</sup>  |
| • | HKFRS 8                        | Operating Segments <sup>1</sup>   |
| • | HKAS 1 (Revised)               | Presentation of Financial Statements <sup>1</sup>   |
| • | HKAS 23 (Revised)              | Borrowing Costs <sup>1</sup>  |
| • | HKAS 27 (Revised)              | Consolidated and Separate Financial Statements <sup>2</sup>   |
| • | HKAS 32 and HKAS 1 Amendments  | Amendments to HKAS 32 Financial Instruments:<br>Presentation and HKAS 1 Presentation of Financial Statements-Putable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>              |
| • | HKAS 39 Amendment              | Amendment to HKAS 39 Financial Instruments:<br>Recognition and Measurement – Eligible Hedged Items <sup>2</sup>   |
| • | HK(IFRIC)-Int 13               | Customer Loyalty Programmes <sup>3</sup>  |
| • | HK(IFRIC)-Int 15               | Agreements for the Construction of Real Estate <sup>1</sup>   |
| • | HK(IFRIC)-Int 16               | Hedges of a Net Investment in a Foreign Operation <sup>4</sup>  |
| • | HK(IFRIC)-Int 17               | Distribution of Non-cash Assets to Owners <sup>2</sup>  |

Apart from the above, the HKICPA has also issued Improvements to HKFRSs which sets out 35 amendments to 20 HKFRSs. Except for the amendment to HKFRS 5 which is effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2008

<sup>4</sup> Effective for annual periods beginning on or after 1 October 2008

\* Improvements to HKFRSs contain amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.



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

HKAS 27 Amendment removes the definition of the cost method and requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the separate financial statements. HKFRS 1 Amendment allows a first-time adopters of HKFRSs to measure its investments in subsidiaries, associates or jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements. The Group expects to adopt HKAS 27 Amendment from 1 January 2009 prospectively.

HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only, both of which include a requirement for the counterparty to complete a specified period of service. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award of a share option does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, the amendments are unlikely to have any significant implications on its accounting for share-based payments.

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. These changes, include, but are not limited to (i) introducing an option to measure non-controlling interests (currently minority interests) at fair value; (ii) recognising gains or losses from remeasuring to the fair value the interest in the acquiree held by the entity immediately before the business combination, in a step acquisition; (iii) expensing acquisition costs as incurred; (iv) recognising the fair value of contingent considerations at the acquisition date with subsequent changes generally reflected in the income statement; and (v) separately accounting for pre-existing relationships between the acquirer and acquiree.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 Cash Flows statements, HKAS 12 Income Taxes, HKAS 21 The Effects of Changes in Foreign Exchange Rate, HKAS 28 Investments in Associates and HKAS 31 Interests in Joint Ventures.

The Group expects to adopt HKFRS 3 (Revised) and HKAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect future acquisitions, loss of control and transactions with minority interests.

HKFRS 8, which will replace HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

# Notes to Financial Statements

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

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements (including changes to the titles of the main statements). The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this revised standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. This revised standard also requires an entity to include three “statements of financial position” (currently called the “balance sheet”) whenever the entity applies an accounting policy retrospectively or makes a retrospective restatement, or when it makes a reclassification. The revised standard does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group expects to adopt HKAS 1 (Revised) from 1 January 2009.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group’s current operation does not involve in acquisition, construction, or production of qualifying assets, the revised standard is unlikely to have any financial impact on the Group. In accordance with the transitional provisions in the revised standard, the Group shall apply the revised standard on a prospective basis to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

HKAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. HKAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments are unlikely to have any financial impact on the Group.

The amendment to HKAS 39 addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The Group has concluded that the amendment will have no financial impact on the Group, as the Group has not entered into any such hedges.

HK(IFRIC)-Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no customer loyalty award credits, the interpretation is not applicable to the Group and therefore is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 15 will replace HK Interpretation 3 Revenue – Pre-completion Contracts for the Sale of Development Properties and the current guidance for real estate. It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with HKAS 11 Construction Contracts or an agreement for the sale of goods or services in accordance with HKAS 18 Revenue. As the Group currently is not involved in any construction of real estate, the interpretation is unlikely to have any financial impact on the Group.



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

HK(IFRIC)-Int 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 17 standardises practice in the accounting for all non-reciprocal distributions of non-cash assets to owners. The Group expects to apply the interpretation from 1 January 2010 prospectively. This new Interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to HKAS 10 Events after the Balance Sheet Date and HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations. While the adoption of the interpretation may result in changes in accounting policy, the interpretation is unlikely to have any material financial impact on the Group.

In October 2008, the HKICPA issued its first Improvements to HKFRSs which sets out 35 amendments to 20 HKFRSs, primarily with a view to removing inconsistencies and clarifying wording. The Group expects to adopt the following amendments to HKFRSs from 1 January 2009. There are separate transitional provisions for each standard. While the adoption of some of them may result in changes in accounting policy, none of these amendments are expected to have a material financial impact on the Group.

- (a) HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations: It clarifies that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest.
- (b) HKFRS 7 Financial Instruments: Disclosures: It removes the reference to “total interest income” as a component of finance costs.
- (c) HKAS 1 Presentation of Financial Statements: It clarifies that assets and liabilities classified as held for trading in accordance with HKAS 39 are not automatically classified as current in the balance sheet.
- (d) HKAS 16 Property, Plant and Equipment: It replaces the term “net selling price” with “fair value less costs to sell” and the recoverable amount of property, plant and equipment is calculated as the higher of an asset’s fair value less costs to sell and its value in use.

In addition, items held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventories when rental ceases and they are held for sale.

- (e) HKAS 27 Consolidated and Separate Financial Statements: It requires that when a parent entity accounts for a subsidiary at fair value in accordance with HKAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

# Notes to Financial Statements

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

- (f) HKAS 28 Investment in Associates: It clarifies that an investment in an associate is a single asset for the purpose of conducting the impairment test and that no impairment is separately allocated to goodwill included in the investment balance.
- (g) HKAS 36 Impairment of Assets: When discounted cash flows are used to estimate “fair value less cost to sell”, additional disclosure is required about the discount rate, which shall be consistent with disclosures required when the discounted cash flows are used to estimate “value in use”.
- (h) HKAS 40 Investment Property: It revises the scope such that property that is being constructed or developed for future as an investment property is classified as investment property.

## 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.



## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (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 the trade date basis.

#### (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 gains or losses on derivative financial instruments”.

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 held for trading or 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;
- 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.



# Notes to Financial Statements

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

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

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

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.

#### **(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 for loans and advances and receivables”.

#### **(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”.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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 for loans and advance and receivables” and removed from the available-for-sale financial assets revaluation reserve.

#### (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 when:

- the rights to receive cash flows from the asset have expired;
- The Group retains the rights to receive cash flows from the assets, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; or
- either (a) the Group has transferred its rights to receive cash flows from the assets and 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.

# Notes to Financial Statements

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

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

#### **(i) Financial assets (Continued)**

When the Group has 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 new 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.

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

#### **(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 the 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 discounted cash flow analysis, comparison to similar instruments for which market observable prices exist, option pricing models and other relevant valuation models.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (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 present value of 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, the asset is included 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.

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” in the income statement.

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.

# 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)

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.

#### (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 allowances for held to maturity investments", 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (6) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date: whether the fulfilment 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 other than legal titles, 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" in the income statement.

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 are 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 a straight-line basis to the income statement.

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

#### (ii) Group as a lessor

Leases where the Group remains 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 are 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.

# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (7) Recognition of revenue and expenditure

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 the carrying amount is recorded as interest income or expense.

Once the 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

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



## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (7) Recognition of revenue and expenditure (Continued)

#### (iv) Net trading income

Net trading income arising from trading activities includes all gains and losses from changes in fair value for financial assets and financial liabilities held for trading. Gains and losses on foreign exchange trading and other transactions are also reported as “Net trading income” except for those gains and losses on translation of foreign currencies recognised in the translation reserve.

#### (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 as “Other operating income”.

### (8) Cash and cash equivalents

For the purpose of consolidated cash flow statement, cash and cash equivalents consist of cash on hand, and amounts due from banks on demand or with an original maturity period of three months or less in the cash flow statement.

### (9) Business combinations and goodwill

Business combinations are accounted for using the purchase method. 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.

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. When the recoverable amount is less than the carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed for subsequent increase in its recoverable amount in future periods.

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.



# Notes to Financial Statements

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

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

#### **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 interests in subsidiaries are stated at cost less any impairment losses.

### **(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 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.



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

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

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. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interest in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. 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.

### **(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.

# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (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 a 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%

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

Residual values, useful lives and 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 sales 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.



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

### **(14) Investment properties (Continued)**

For a transfer from investment properties to owner-occupied properties, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under “Property 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 as a revaluation.

### **(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 2008. The carrying amount of intangible assets is subject to an impairment test, and annual impairment, if any, is charged to the income statement.

### **(16) Inventories**

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

### **(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) the Group 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 but not to an amount higher than the carrying amount that would have been determined (net of any depreciation amortization) had no impairment recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period it arises.

### **(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 less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised/at fair value through profit or loss. Subsequent to initial recognition, the Group in “Other liabilities” measures the financial guarantee contract 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 for financial guarantees”. The premium received is recognised in the income statement in “Net fees and commission income” under other operating income on a straight line basis over the life of the guarantee.

# Notes to Financial Statements

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

### **(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.

### **(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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (21) Income tax (Continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward 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 carryforward 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.

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.

# Notes to Financial Statements

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

### **(22) Employee benefits (Continued)**

#### **(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.

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

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

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

#### **Estimation uncertainty**

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

#### **Impairment allowances on loans and advances and receivables, 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 discounted 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 2008 was HK\$2,774,403,000 (2007: HK\$2,774,403,000). Further details are set out in note 28 to the financial statements.



# Notes to Financial Statements

## 4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment, and (ii) on a secondary segment reporting basis, by geographical segment.

### (a) By business segment

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the 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, 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;
- wealth management services, stockbroking and securities management; and
- other business segments comprise taxi trading and the leasing of taxis and letting of investment properties.

The Group's business for wealth management services, stockbroking and securities trading was reclassified to an independent segment "Wealth management services, stockbroking and securities management" from "Retail and commercial banking and lending business" in 2007 for conformity with the presentation in 2008.

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 terms and conditions similar to those contracted with third parties at the dates of the transactions.

## 4. SEGMENT INFORMATION (Continued)

### (a) By business segment (Continued)

The following tables present revenue, and certain assets and liabilities and profit information for the Group's business segments for the years ended 31 December 2008 and 2007.

	Retail and commercial banking and lending businesses		Wealth management services, stockbroking and securities management		Other businesses		Eliminated on consolidation		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	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	1,051,226	1,000,959	355	823	-	-	-	-	1,051,581	1,001,782
Other operating income:										
Fees and commission income	154,562	162,633	113,125	82,105	630	883	-	-	268,317	245,621
Others	18,935	16,707	1,178	-	14,906	20,805	-	-	35,019	37,512
(Losses)/gains on disposal of available-for-sale financial assets <sup>#</sup>	(1,057)	-	-	108,545	-	-	-	-	(1,057)	108,545
Elimination of inter-segment transactions	-	-	-	-	247	1,030	(247)	(1,030)	-	-
Operating income	1,223,666	1,180,299	114,658	191,473	15,783	22,718	(247)	(1,030)	1,353,860	1,393,460
<b>Segment results</b>	357,217	586,092	26,381	175,962	4,796	23,215	-	-	388,394	785,269
Share of profits and losses of a jointly-controlled entity									-	(163)
Profit before tax									388,394	785,106
Tax									(30,207)	(119,775)
Profit for the year									358,187	665,331
Segment assets	32,051,675	29,093,187	306,910	633,405	187,151	171,791	-	-	32,545,736	29,898,383
Unallocated assets:										
Goodwill									2,774,403	2,774,403
Intangible assets									358	358
Deferred tax assets									9,168	5,668
<b>Total assets</b>									35,329,665	32,678,812

<sup>#</sup> gains on disposal of listed securities in 2007

# Notes to Financial Statements

## 4. SEGMENT INFORMATION (Continued)

### (a) By business segment (Continued)

	Retail and commercial banking and lending businesses		Wealth management services, stockbroking and securities management		Other businesses		Eliminated on consolidation		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		(Restated)						
Segment liabilities	29,163,996	26,129,142	155,090	501,655	12,923	18,891	-	-	29,332,009	26,649,688
Unallocated liabilities:										
Dividend payable									197,625	273,474
Deferred tax liabilities and current tax payable									30,525	101,429
<b>Total liabilities</b>									<b>29,560,159</b>	<b>27,024,591</b>
<b>Other segment information</b>										
Capital expenditure	84,416	36,969	-	-	-	-	-	-	84,416	36,969
Depreciation and amortisation of land lease prepayments	23,849	18,448	-	-	-	-	-	-	23,849	18,448
Reversal of an impairment allowance on land lease prepayments	-	(2,616)	-	-	-	-	-	-	-	(2,616)
Changes in fair value of investment properties	-	-	-	-	(18,541)	(23,769)	-	-	(18,541)	(23,769)
Impairment allowances for loans and advances and receivables and held-to- maturity investments	441,534	176,973	-	-	-	-	-	-	441,534	176,973
Net (gains)/losses on disposal of property and equipment	74	(4,503)	-	-	-	-	-	-	74	(4,503)

### (b) By geographical segment

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

## 5. INTEREST INCOME AND EXPENSE

	Year ended 31 December	
	2008 HK\$'000	2007 HK\$'000
Interest income from:		
Loans and advances and receivables	<b>1,462,931</b>	1,507,681
Short term placements and placements with banks	<b>167,810</b>	224,717
Held-to-maturity investments	<b>113,305</b>	187,487
	<b>1,744,046</b>	1,919,885
Interest expense on:		
Deposit from banks and financial institutions	<b>83,239</b>	97,205
Deposit from customers	<b>563,464</b>	750,780
Bank loans	<b>45,762</b>	70,118
	<b>692,465</b>	918,103

The interest income for the year ended 31 December 2008 amounted to HK\$1,744,046,000 (2007: HK\$1,919,885,000) and interest expense for the year ended 31 December 2008 amounted to HK\$692,465,000 (2007: HK\$918,103,000) pursuant to the adoption of the effective interest rate 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 2008 amounted to HK\$4,942,000 (2007: HK\$6,906,000).

# Notes to Financial Statements

## 6. OTHER OPERATING INCOME

	Year ended 31 December	
	2008 HK\$'000	2007 HK\$'000
Fees and commission income:		
Retail and commercial banking	156,370	164,766
Wealth management services, stockbroking and securities management	113,125	82,105
	<b>269,495</b>	246,871
Less: Fees and commission expenses	<b>(1,178)</b>	(1,250)
Net fees and commission income	<b>268,317</b>	245,621
Gross rental income	<b>12,689</b>	12,502
Less: Direct operating expenses	<b>(117)</b>	(157)
Net rental income	<b>12,572</b>	12,345
Gains less losses arising from dealing in foreign currencies	<b>16,361</b>	11,960
Losses on disposal of financial assets designated at fair value through profit or loss	<b>(1,057)</b>	–
Net gains on financial assets designated at fair value through profit or loss	–	2,023
Net (losses)/gains on disposal of property and equipment	<b>(74)</b>	4,503
Dividends from listed investments	<b>1,178</b>	2,041
Dividends from unlisted investments	<b>980</b>	980
Net loss on derivative financial instruments	<b>(3,263)</b>	(2,782)
Others	<b>7,265</b>	6,442
	<b>302,279</b>	283,133

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

There were no net gains 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 ended 31 December 2008 and 2007.

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.

## 7. OPERATING EXPENSES

	Year ended 31 December	
	2008 HK\$'000	2007 HK\$'000
Staff costs:		
Salaries and other staff costs	265,863	215,343
Pension contributions	14,261	11,472
Less: Forfeited contributions	(52)	(33)
Net retirement benefit schemes	14,209	11,439
	280,072	226,782
Other operating expenses:		
Operating lease rentals on leasehold buildings	39,232	30,771
Depreciation and amortisation of land lease prepayments	23,849	18,448
Auditors' remuneration	3,625	3,301
Administrative and general expenses	49,426	44,517
Impairment of intangible assets	–	367
Others	146,269	133,417
Operating expenses before changes in fair value of investment properties	542,473	457,603
Reversal of an impairment allowance on land lease prepayments	–	(2,616)
Changes in fair value of investment properties	(18,541)	(23,769)
	(18,541)	(26,385)
	523,932	431,218

# Notes to Financial Statements

## 8. IMPAIRMENT ALLOWANCES

	Year ended 31 December	
	2008 HK\$'000	2007 HK\$'000
Net charge for/(write-back of) impairment allowances:		
– Loans and advances	<b>370,778</b>	186,488
– Trade bills, accrued interest and receivables	<b>2,540</b>	(19,315)
– Held-to-maturity investments	<b>37,000</b>	9,800
– Available-for-sale financial assets	<b>31,216</b>	–
	<b>441,534</b>	176,973
Net charge for/(write-back of) impairment allowances:		
– Individually assessed	<b>428,286</b>	269,048
– Collectively assessed	<b>13,248</b>	(92,075)
	<b>441,534</b>	176,973
Of which:		
– new impairment allowances (including any amount directly written off during the year)	<b>553,257</b>	406,843
– releases and recoveries	<b>(111,723)</b>	(229,870)
Net charge to the consolidated income statement	<b>441,534</b>	176,973

There were no impairment allowances for other financial assets (other than loans and advances and receivables, held-to-maturity investments and available-for-sale financial assets) for the years ended 31 December 2008 and 2007.

## 9. DIRECTORS' REMUNERATION

The remuneration of each director for the years ended 31 December 2008 and 2007 is set out below:

### Group

Name of director	2008				Total HK\$'000
	Fees HK\$'000	Salaries and other benefits HK\$'000	Bonuses HK\$'000	Retirement benefit contributions HK\$'000	
	(Note 1)				
Tan Sri Dato' Sri Dr. Teh Hong Piow	325	–	–	–	325
Tan Sri Dato' Thong Yaw Hong	240	–	–	–	240
Tan Yoke Kong (Note 2)	100	1,587	557	170	2,414
Lee Huat Oon	50	1,118	403	123	1,694
Tan Sri Dato' Sri Tay Ah Lek	200	–	–	–	200
Dato' Chang Kat Kiam	150	–	–	–	150
Dato' Yeoh Chin Kee	200	–	–	–	200
Lee Chin Guan	200	–	–	–	200
Quah Poh Keat (Appointed on 30 July 2008)	83	–	–	–	83
Wong Kong Ming (Deceased on 2 October 2008)	38	–	–	–	38
	<b>1,586</b>	<b>2,705</b>	<b>960</b>	<b>293</b>	<b>5,544</b>



# Notes to Financial Statements

## 9. DIRECTORS' REMUNERATION (Continued)

### Group

Name of director	2007				Total HK\$'000
	Fees HK\$'000	Salaries and other benefits HK\$'000	Bonuses HK\$'000	Retirement benefit contributions HK\$'000	
		(Note 1)			
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
Tan Sri Dato' Sri Tay Ah Lek	200	–	–	–	200
Dato' Chang Kat Kiam	150	–	–	–	150
Dato' Yeoh Chin Kee	200	–	–	–	200
Lee Chin Guan	200	–	–	–	200
Wong Kong Ming (Deceased on 2 October 2008)	50	–	–	–	50
	<b>1,515</b>	<b>2,396</b>	<b>779</b>	<b>264</b>	<b>4,954</b>

### 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 2008 (2007: Nil) and the employee share option benefits represent the 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 which was not charged to the income statement was HK\$780,000 (2007: HK\$720,000).

## 10. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included two (2007: two) directors, details of whose remuneration, are set out in note 9 above.

Details of the remaining three highest paid individuals' remuneration in 2008 are as follows:

	<b>Group</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Basic salaries, housing, other allowances and benefits in kind	<b>3,397</b>	3,594
Bonuses paid and payable	<b>884</b>	595
Retirement benefit scheme contributions	<b>243</b>	223
	<b>4,524</b>	4,412

The number of highest paid individuals in 2008 whose remuneration fell within the bands set out below is as follows:

	<b>2008</b>	2007
	<b>Number of</b>	Number of
	<b>Individuals</b>	Individuals
Nil to HK\$1,000,000	–	–
HK\$1,000,001 to HK\$1,500,000	<b>2</b>	2
HK\$1,500,001 to HK\$2,000,000	<b>1</b>	1
	<b>3</b>	3

## 11. TAX

	<b>Group</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Current tax charge:		
Hong Kong	<b>80,086</b>	99,715
Elsewhere	<b>915</b>	5,568
Over-provisions in prior years	<b>(2,173)</b>	(2,600)
Deferred tax charge (Note 33)	<b>(48,621)</b>	17,092
	<b>30,207</b>	119,775

# Notes to Financial Statements

## 11. TAX (Continued)

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 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.

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:

	2008					
	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<b>383,364</b>		<b>5,030</b>		<b>388,394</b>	
Tax at the applicable tax rate	<b>63,255</b>	<b>16.5</b>	<b>905</b>	<b>18.0</b>	<b>64,160</b>	<b>16.5</b>
Effect on change in tax rates	<b>(3,634)</b>	<b>(0.9)</b>	-	-	<b>(3,634)</b>	<b>(0.9)</b>
Estimated tax effect of net (income)/expenses that is not taxable	<b>(293)</b>	<b>(0.1)</b>	<b>10</b>	<b>0.2</b>	<b>(283)</b>	<b>(0.1)</b>
Estimated tax losses not recognised	<b>4,164</b>	<b>1.1</b>	-	-	<b>4,164</b>	<b>1.1</b>
Estimated tax losses from previous periods utilised	<b>(27)</b>	-	-	-	<b>(27)</b>	-
Adjustments in respect of deferred tax of previous periods	<b>(32,000)</b>	<b>(8.3)</b>	-	-	<b>(32,000)</b>	<b>(8.2)</b>
Adjustments in respect of current tax of previous periods	<b>(2,173)</b>	<b>(0.6)</b>	-	-	<b>(2,173)</b>	<b>(0.6)</b>
Tax charge at the Group's effective rate	<b>29,292</b>	<b>7.7</b>	<b>915</b>	<b>18.2</b>	<b>30,207</b>	<b>7.8</b>

## 11. TAX (Continued)

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

## 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 2008 includes a profit of HK\$1,499,075,000 (2007: HK\$289,895,000) which has been dealt with in the financial statements of the Company (Note 38).

## 13. DIVIDENDS

	2008	2007	2008	2007
	HK\$ per ordinary share	HK\$ per ordinary share	HK\$'000	HK\$'000
Interim:				
First	<b>0.05</b>	0.05	<b>54,896</b>	54,695
Second	<b>0.18</b>	0.25	<b>197,625</b>	273,474
	<b>0.23</b>	0.30	<b>252,521</b>	328,169

# Notes to Financial Statements

## 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\$358,187,000 (2007: HK\$665,331,000) and the weighted average number of 1,096,354,200 (2007: 1,093,896,618) ordinary shares in issue during the year.

### (b) Diluted earnings per share

A diluted earnings per share for the years ended 31 December 2008 and 2007 have not been disclosed as the share options outstanding during these years had an anti-dilutive effect on the basic earning per share for these years.

The calculation of diluted earnings per share for the year ended 31 December 2008 was based on the profit for the year of HK\$358,187,000 and on the weighted average number of 1,096,354,200 ordinary shares, being the weighted average number of 1,096,354,200 ordinary shares in issue during the year as used in the basic earnings per share calculation.

## 15. CASH AND SHORT TERM PLACEMENTS

	Group		Company	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash in hand	129,548	111,345	–	–
Placements with banks and financial institutions	345,590	321,740	4,256	722
Money at call and short notice	5,310,134	5,449,150	304,825	62,050
	<b>5,785,272</b>	5,882,235	<b>309,081</b>	62,772

Over 90% of the placements are rated with grading of Baa2 or above based on the credit rating of an external credit agency, Moody's.

## 16. PLACEMENTS WITH BANKS AND FINANCIAL INSTITUTIONS

	Group	
	2008	2007
	HK\$'000	HK\$'000
Placements with banks and financial institutions	173,099	441,539

Over 90% of the placements were rated with grading of Baa2 or above based on the credit rating of an external credit agency, Moody's.

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

	Group	
	2008	2007
	HK\$'000	HK\$'000
Unlisted equity investment funds, at market value	–	12,262

The above equity investment funds were designated by the Group as financial asset at fair value through profit or loss upon initial recognition.

## 18. LOANS AND ADVANCES AND RECEIVABLES

	Group	
	2008	2007
	HK\$'000	HK\$'000
Loans and advances	<b>24,377,507</b>	18,947,961
Trade bills	<b>50,861</b>	166,087
	<b>24,428,368</b>	19,114,048
Accrued interest	<b>86,165</b>	88,179
	<b>24,514,533</b>	19,202,227
Other receivables	<b>58,138</b>	63,272
Gross loans and advances and receivables	<b>24,572,671</b>	19,265,499
Less: Impairment allowances for loans and advances and receivables		
– Individually assessed	<b>(108,432)</b>	(33,990)
– Collectively assessed	<b>(79,296)</b>	(65,871)
	<b>(187,728)</b>	(99,861)
Loans and advances and receivables	<b>24,384,943</b>	19,165,638

Over 90% of the loans and advances and receivables are unrated exposures. The Group's loans and advances and receivables are mainly collateralised by properties, cash, securities and taxi licences.

# Notes to Financial Statements

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

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

	2008		Group		2007	
	Gross amount HK\$'000	Percentage of total loans and advances	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	183,494	0.76	111,768	0.59	7,017	0.04
One year or less but over six months	9,551	0.04	8,111	0.04		
Over one year	12,843	0.05				
Loans and advances overdue for more than three months	205,888	0.85	126,896	0.67		
Rescheduled loans and advances overdue for three months or less	298	-	2,765	0.02		
Impaired accounts overdue for three months or less	47,198	0.19	17,459	0.09		
<b>Total overdue and impaired loans and advances</b>	<b>253,384</b>	<b>1.04</b>	<b>147,120</b>	<b>0.78</b>		

	Group	
	2008 HK\$'000	2007 HK\$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	3,251	1,006
One year or less but over six months	437	468
Over one year	2,113	1,210
<b>Total overdue and impaired trade bills, accrued interest and other receivables</b>	<b>5,801</b>	<b>2,684</b>

Impaired loans and advances and receivables are individually determined to be impaired after considering overdue ageing analysis and other qualitative factors such as bankruptcy proceedings and individual voluntary arrangements.

## 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			Group		
	Hong Kong HK\$'000	2008 Mainland China HK\$'000	Total HK\$'000	Hong Kong HK\$'000	2007 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	151,411	60,278	211,689	129,580	–	129,580
Individual impairment allowances	68,306	16,311	84,617	27,532	–	27,532
Collective impairment allowances	50,455	–	50,455	42,965	–	42,965
Current market value and fair value of collateral			19,085			40,897
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	198,950	63,298	262,248	151,360	–	151,360
Individual impairment allowances	91,526	16,906	108,432	33,990	–	33,990
Collective impairment allowances	50,455	–	50,455	42,965	–	42,965
Current market value and fair value of collateral			31,371			48,878

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.



# Notes to Financial Statements

## 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	
	2008	2007
	HK\$'000	HK\$'000
Current market value and fair value of collateral held against the covered portion of overdue for loans and advances	19,085	40,897
Covered portion of overdue loans and advances	7,624	36,644
Uncovered portion of overdue loans and advances	198,264	90,252

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 2008, the total value of repossessed assets of the Group amounted to nil (2007: HK\$749,000).

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

	Group			
	2008		2007	
	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	718,268	2.95	624,509	3.30
Rescheduled but not impaired loans and advances	505	-	710	-
	718,773	2.95	625,219	3.30
Trade bills, accrued interest and other receivables overdue less than three months	6,939		6,055	

## 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	2008 Collective impairment allowance HK\$'000	Total HK\$'000
At 1 January 2008	33,990	65,871	99,861
Amount written off	(393,087)	–	(393,087)
Impairment losses and allowances charged to the income statement	471,793	13,248	485,041
Impairment losses and allowances released to the income statement	(111,723)	–	(111,723)
Net charge of impairment losses and allowances	360,070	13,248	373,318
Loans and advances and receivables recovered	107,459	–	107,459
Exchange difference	–	177	177
At 31 December 2008	<b>108,432</b>	<b>79,296</b>	<b>187,728</b>
Deducted from:			
Loans and advances	101,893	79,093	180,986
Trade bills, accrued interest and other receivables	6,539	203	6,742
	<b>108,432</b>	<b>79,296</b>	<b>187,728</b>

# Notes to Financial Statements

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

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

Group	Individual	2007	Total
	impairment allowance	Collective impairment allowance	
	HK\$'000	HK\$'000	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)

### (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	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Amounts receivable under finance leases:				
Within one year	504,367	520,412	402,799	382,168
In the second to fifth years, inclusive	984,264	957,861	712,678	631,289
Over five years	3,020,088	2,488,574	2,390,931	1,765,148
	<b>4,508,719</b>	3,966,847	<b>3,506,408</b>	2,778,605
Less: Unearned finance income	(1,002,311)	(1,188,242)		
Present value of minimum lease payments receivable	<b>3,506,408</b>	2,778,605		

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 2008 and 2007.

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 2008 and 2007, and no impairment allowances and losses were charged to the income statement for such other assets for the years ended 31 December 2008 and 2007.

# Notes to Financial Statements

## 20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2008	2007
	HK\$'000	HK\$'000
Listed security investment in Hong Kong, at quoted market price:		
At beginning of year	44,240	68,828
Disposals	–	(108,744)
Change in fair value (Note 38)	<b>(29,520)</b>	84,156
Sub-total	<b>14,720</b>	44,240
Unlisted equity investment, at cost:		
At beginning and end of year	<b>6,804</b>	6,804
Total at end of year	<b>21,524</b>	51,044
Analysed by issuers:		
Corporate entities	<b>21,524</b>	51,044

The Group's listed available-for-sale financial assets represent 200,000 (2007: 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.

## 21. HELD-TO-MATURITY INVESTMENTS

	Group	
	2008	2007
	HK\$'000	HK\$'000
Certificates of deposit held	40,000	175,696
Treasury bills (including Exchange Fund Bills)	319,721	297,478
Other debt securities	609,495	2,395,334
	<b>969,216</b>	2,868,508
Less : Individual impairment allowance	–	(9,800)
	<b>969,216</b>	2,858,708
Listed or unlisted:		
– listed in Hong Kong	19,994	19,986
– unlisted	949,222	2,838,722
	<b>969,216</b>	2,858,708
Analysed by issuer:		
– Central government	319,720	297,478
– Banks and other financial institutions	649,496	2,412,973
– Corporate entities	–	148,257
	<b>969,216</b>	2,858,708
Market value of listed held-to-maturity investments:		
– Hong Kong	20,214	19,810
– outside Hong Kong	–	–
	<b>20,214</b>	19,810

# Notes to Financial Statements

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

### Movement on impairment allowance of held-to-maturity investments

	Group	
	2008	2007
	HK\$'000	HK\$'000
Balance at beginning of year	9,800	–
Individual impairment allowance charged to the income statement for the year	37,000	9,800
Less: Amount written off	(46,800)	–
Balance at end of the year	–	9,800

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

	2008		2007	
	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.

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

## 22. INVESTMENT PROPERTIES

	Group HK\$'000	Company HK\$'000
At valuation:		
At 1 January 2007	196,666	53,000
Transfer from owner-occupied properties	137	–
Transfer to owner-occupied properties	(73,080)	–
Disposals	(1,000)	–
Carrying amount before change in fair value	122,723	53,000
Change in fair value	23,769	5,900
At 31 December 2007 and 1 January 2008	<b>146,492</b>	<b>58,900</b>
Additions	<b>313</b>	<b>923,574</b>
Change in fair value	<b>18,541</b>	<b>506</b>
At 31 December 2008	<b>165,346</b>	<b>982,980</b>

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

	Group		Company	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
At valuation:				
Medium term leases	<b>66,197</b>	60,178	<b>150,289</b>	–
Long term leases	<b>99,149</b>	86,314	<b>832,691</b>	58,900
	<b>165,346</b>	146,492	<b>982,980</b>	58,900

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

At 31 December 2008, investment properties with a carrying amount of HK\$146,805,000 (2007: HK\$122,723,000) were revalued at HK\$165,346,000 (2007: HK\$146,492,000) 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\$18,541,000 (2007: 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 2007	65,919	85,589	2,784	154,292
Additions	–	36,769	200	36,969
Transfer to investment properties	(66)	–	–	(66)
Transfer from investment properties	2,995	–	–	2,995
Disposals/write-off	–	(8,807)	–	(8,807)
At 31 December 2007 and 1 January 2008	<b>68,848</b>	<b>113,551</b>	<b>2,984</b>	<b>185,383</b>
Additions	<b>1,406</b>	<b>37,558</b>	–	<b>38,964</b>
Disposals/write-off	–	<b>(6,590)</b>	–	<b>(6,590)</b>
At 31 December 2008	<b>70,254</b>	<b>144,519</b>	<b>2,984</b>	<b>217,757</b>
Accumulated depreciation:				
At 1 January 2007	7,762	72,915	2,612	83,289
Provided during the year	1,554	10,876	82	12,512
Transfer to investment properties	(60)	–	–	(60)
Disposals/write-off	–	(8,365)	–	(8,365)
At 31 December 2007 and 1 January 2008	<b>9,256</b>	<b>75,426</b>	<b>2,694</b>	<b>87,376</b>
Provided during the year	<b>1,539</b>	<b>16,092</b>	<b>99</b>	<b>17,730</b>
Exchange difference	<b>35</b>	<b>23</b>	–	<b>58</b>
Disposals/write-off	–	<b>(6,517)</b>	–	<b>(6,517)</b>
At 31 December 2008	<b>10,830</b>	<b>85,024</b>	<b>2,793</b>	<b>98,647</b>
Net carrying amount:				
At 31 December 2008	<b>59,424</b>	<b>59,495</b>	<b>191</b>	<b>119,110</b>
At 31 December 2007	59,592	38,125	290	98,007

No valuation has been made for the above property and equipment for the years ended 31 December 2008 and 2007.

## 24. LAND LEASE PREPAYMENTS

	<b>Group</b>
	<b>HK\$'000</b>
Cost:	
At 1 January 2007	597,547
Transfer to investment properties	(230)
Transfer from investment properties	70,085
At 31 December 2007 and 1 January 2008	<b>667,402</b>
Additions	<b>45,447</b>
At 31 December 2008	<b>712,849</b>
Accumulated amortisation and impairment:	
At 1 January 2007	35,517
Provided during the year	5,936
Transfer to investment properties	(99)
Reversal of an impairment loss	(2,616)
Exchange difference	-
At 31 December 2007 and 1 January 2008	<b>38,738</b>
Provided during the year	<b>6,121</b>
At 31 December 2008	<b>44,859</b>
Net carrying amount:	
At 31 December 2008	<b>667,990</b>
At 31 December 2007	628,664

# Notes to Financial Statements

## 24. LAND LEASE PREPAYMENTS (Continued)

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

	Group	
	2008 HK\$'000	2007 HK\$'000
Net book value:		
Medium term leases	225,353	184,673
Long term leases	442,637	443,991
	<b>667,990</b>	628,664

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. No reversal of impairment of land leases (2007: HK\$2,616,000) was credited to the income statement. 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\$7,200,000 (2007: HK\$6,346,000) and HK\$660,790,000 (2007: HK\$622,318,000) respectively.

## 25. INTERESTS IN SUBSIDIARIES

	Company	
	2008 HK\$'000	2007 HK\$'000
Unlisted shares, at cost	6,593,507	5,362,792
Amounts due from subsidiaries	66,776	225,941
	<b>6,660,283</b>	5,588,733

The amounts due from subsidiaries were unsecured, and had no fixed terms of repayments. No interest-bearing amounts were due from subsidiaries as at 31 December 2008 and 2007. The non-interest-bearing amounts due from subsidiaries were HK\$66,776,000 (2007: HK\$225,941,000) and non-current in nature. Their carrying amounts approximate to their fair values.

On 17 October 2008, the Company disposed of its 100% interest in Public Finance Limited to one of its wholly owned subsidiaries, Public Bank (Hong Kong) Limited. The consideration received from such disposal was HK\$1,800,024,080 and the cost of investment in Public Finance Limited was HK\$769,444,257 as at the date of disposal. A gain on disposal amounting to HK\$1,030,579,823 was recognised in the Company's income statement. Such amount was eliminated upon consolidation and thus had no impact on the consolidated financial statements.

On 30 September 2008 and 17 October 2008, the Company had made additional investment of HK\$200,135,040 and HK\$1,800,024,080 in ordinary share capital of Public Bank (Hong Kong) Limited, respectively, to strengthen its capital position.

The purpose of the aforesaid transactions is to restructure and integrate the Group's retail and commercial banking and lending business, which is expected to enhance efficiency in capital management and improve operational synergies in terms of economies of scale.

## 25. INTERESTS IN SUBSIDIARIES (Continued)

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	1,481,600,000	100	–	Provision of banking, financial and related services
Public Bank (Nominees) Limited	100,000	–	100	Provision of nominee services
Public Investments Limited	5,000,000	–	100	Dormant
Public Realty Limited	100,000	–	100	Dormant
Public Credit Limited	5,000,000	–	100	Dormant
Public Futures Limited	20,000,000	–	100	Dormant
Public Pacific Securities Limited	12,000,000	–	100	Dormant
Public Financial Securities Limited	28,000,000	–	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 holding
Winton Holdings (Hong Kong) Limited	20	–	100	Dormant
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	
	2008	2007
	HK\$'000	HK\$'000
Share of net assets other than goodwill	1,513	1,513

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:

	2008	2007
	HK\$'000	HK\$'000
Share of the jointly-controlled entity assets and liabilities:		
Assets	2,020	2,321
Liabilities	(507)	(808)
Net assets	1,513	1,513
Share of the jointly-controlled entity profits and losses		
Total income	1,405	1,291
Total expenses	(1,405)	(1,454)
Profit/(loss) after tax	-	(163)

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

## 27. OTHER ASSETS

	Group		Company	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Interest receivable from authorised institutions	13,488	35,764	1,583	30
Other debtors, deposits and prepayments	221,279	548,574	5,431	1,972
	<b>234,767</b>	584,338	<b>7,014</b>	2,002

## 28. GOODWILL

	Group	
	2008 HK\$'000	2007 HK\$'000
Cost:		
At beginning and 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 in mainly 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 three-year period and assumed growth rates are used to extrapolate the cash flows in the following 47 years. All cash flows are discounted at discount rates of 4% to 6%. Management's financial model assumes an average of growth rates from 4% to 5% per annum from forth to fiftieth year. The discount rates used is based on the rate which reflects specific risks relating to the CGU.

No impairment loss has been recognised in respect of goodwill for the years ended 2008 and 2007 as its value in use exceeds the carrying amount.

# Notes to Financial Statements

## 29. INTANGIBLE ASSETS

	<b>Group</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Cost:		
At beginning and at end of year	<b>725</b>	725
At end of year	<b>725</b>	725
Accumulated impairment:		
At beginning of year	<b>367</b>	–
Impairment during the year recognised in the income statement	–	367
At end of year	<b>367</b>	367
Net carrying amount:		
At end of year	<b>358</b>	358

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 of the Hong Kong Companies Ordinance are as follows:

	<b>Group</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Aggregate amount of principal and interest outstanding at end of year	<b>834</b>	1,201
Maximum aggregate amount of principal and interest outstanding during the year	<b>1,435</b>	1,593

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\$817,926 to an officer which is repayable on 25 December 2015 and was secured by a property at a fair value of HK\$2,900,000 as at 31 December 2008.

The carrying amounts of these loans approximate to their fair value.



### 31. CUSTOMER DEPOSITS AT AMORTISED COST

	Group	
	2008 HK\$'000	2007 HK\$'000
Demand deposits and current accounts	928,778	732,912
Savings deposits	2,988,709	2,363,790
Time, call and notice deposits	20,266,929	17,404,847
	<b>24,184,416</b>	20,501,549

### 32. UNSECURED BANK LOANS AT AMORTISED COST

	Group		Company	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Unsecured bank loans	3,249,219	1,100,000	2,150,000	1,100,000
Repayable:				
within one year	3,249,219	1,100,000	2,150,000	1,100,000

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



# 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 2007 HK\$'000	Deferred tax charged to the income statement HK\$'000	At 31 December 2007 and 1 January 2008 HK\$'000	Effect of change in tax rates changed to income statement HK\$'000	Deferred tax charged/ (credited) to income statement HK\$'000	At 31 December 2008 HK\$'000
Collective impairment allowances for loans and advances and receivables	5,262	(950)	4,312	(246)	567	4,633
Losses available for offsetting against future taxable profits	–	–	–	–	–	–
Unrealised profit in inventories	355	–	355	(20)	–	335
Accelerated depreciation allowances	–	–	–	–	–	–
Fair value adjustment on held-to-maturity investments	12,232	(11,231)	1,001	(57)	(944)	–
Recoverable tax loss	–	–	–	–	4,200	4,200
	17,849	(12,181)	5,668	(323)	3,823	9,168

Deferred tax liabilities:

	At 1 January 2007 HK\$'000	Deferred tax charged to the income statement HK\$'000	At 31 December 2007 and 1 January 2008 HK\$'000	Effect of change in tax rates changed to income statement HK\$'000	Deferred tax credited to income statement HK\$'000	At 31 December 2008 HK\$'000
Accelerated tax depreciation and revaluation surplus of investment properties	64,332	4,911	69,243	(3,957)	(41,164)	24,122

The Group has tax losses arising in Hong Kong of HK\$62,925,000 (2007: HK\$37,854,000) 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 and it is not considered probable that taxable profit will be available against which tax losses can be utilized.

The deferred tax liabilities of the Company of HK\$4,800,000 (2007: HK\$4,800,000) 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	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Creditors, accruals and interest payable	372,595	732,588	3,401	2,682
Amount due to the ultimate holding company	47	41	–	–
	<b>372,642</b>	732,629	<b>3,401</b>	2,682

## 35. SHARE CAPITAL

	Company	
	2008 HK\$'000	2007 HK\$'000
<b>Ordinary shares</b>		
Authorised:		
2,000,000,000 (2007: 2,000,000,000) ordinary shares of HK\$0.10 each	<b>200,000</b>	200,000

Issued and fully paid:	Number of ordinary shares of HK\$0.10 each		Share capital		Share premium	
	2008	2007	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
At 1 January	1,093,896,618	1,093,896,618	109,390	109,390	3,988,219	3,988,219
Shares issued on exercise of share options	4,021,000	–	402	–	25,077	–
At 31 December	<b>1,097,917,618</b>	1,093,896,618	<b>109,792</b>	109,390	<b>4,013,296</b>	3,988,219

The increase in share capital represented the issue of shares upon the exercise of share options pursuant to the ESOS detailed in note 36 to the financial statements.

# Notes to Financial Statements

## 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.

Pursuant to the terms of the ESOS, an adjustment was 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:   |
|              | (i)   | any employee and director of the Company or any subsidiary or any associate or controlling shareholder;  |
|              | (ii)  | any discretionary trust whose discretionary objects include person(s) belonging to the aforesaid participants;   |
|              | (iii) | a company beneficially owned by person(s) belonging to the aforesaid participants; and   |
|              | (iv)  | any business partner, agent, consultant, representative, customer or supplier of any member of the Group or controlling shareholder determined by the board of directors as having contributed or may contribute to the development and growth of the Group. |



## 36. SHARE OPTION SCHEME (Continued)

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

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 9.96% 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	:	Exercisable within open exercise periods determined by the board of directors within 10 years from the commencement date on which the option is granted and accepted.
Amount payable on acceptance	:	HK\$1.00
Basis of determining the exercise price	:	Determined by the directors at their discretion based on the highest of: <ul style="list-style-type: none"><li>(i) the closing price of the ordinary shares on the Stock Exchange at the offer date;</li><li>(ii) the average closing price of the ordinary shares on the Stock Exchange for 5 business days immediately preceding the offer date; and</li><li>(iii) the nominal value of an ordinary share.</li></ul>
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.

# Notes to Financial Statements

## 36. SHARE OPTION SCHEME (Continued)

### (b) Movement of share options

Name	Number of share options				Exercise price HK\$	Weighted average closing price of the shares immediately before dates of exercise HK\$
	Outstanding at the beginning of the year	Exercised during the year	Lapsed during the year	Outstanding at the end of the year		
<i>Directors</i>						
Tan Sri Dato' Sri Tay Ah Lek	1,680,000	450,000	–	1,230,000	6.35	7.25
Dato' Yeoh Chin Kee	700,000	150,000	–	550,000	6.35	6.72
Lee Chin Guan	350,000	–	–	350,000	6.35	–
Dato' Chang Kat Kiam	1,680,000	300,000	–	1,380,000	6.35	7.20
Tan Yoke Kong	1,928,000	610,000	–	1,318,000	6.35	7.26
Lee Huat Oon	3,170,000	–	–	3,170,000	6.35	–
Wong Kong Ming	4,000,000	80,000	–	3,920,000	6.35	6.54
<i>Employees working under "continuous contracts" for the purposes of the Employment Ordinance other than the directors as disclosed above</i>						
	27,056,000	2,431,000	1,424,000	23,201,000	6.35	7.32
	40,564,000	4,021,000	1,424,000	35,119,000	6.35	7.25

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) The share options were opened for exercise from 14 May 2008 to 7 June 2008.
- (iii) The remaining contractual life of the 35,119,000 outstanding options was 6.44 years as at 31 December 2008.
- (iv) The share options outstanding at end of 2008 can only be exercised in future open exercise periods.

- (c)** Had all the outstanding share options been fully exercised on 31 December 2008, the last trading date of 2008, the Group would have received proceeds of HK\$223,005,650 (2007: HK\$257,581,400). The market value of the shares issued based on the closing price of HK\$2.90 (2007: HK\$5.01) per share on that date would have been HK\$101,845,100 (2007: HK\$203,225,640). The directors and employees concerned under the ESOS would have made no gain from the exercise of the share options (2007: Nil).

The 4,021,000 share options exercised during the year resulted in the issue of 4,021,000 ordinary shares of the Company with new share capital of HK\$402,100 and share premium of HK\$25,077,000 as further detailed in note 35 to the financial statements. A total of 1,424,000 share options had lapsed due to expiry of the options without being exercised.

## 37. EMPLOYEE SHARE-BASED COMPENSATION RESERVE

	Group 2008 HK\$'000	2007 HK\$'000
Employee share option benefits	<b>45,765</b>	45,765

There were no movements in the reserve during the financial years ended 2008 and 2007.

## 38. RESERVES

### Group

	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	Translation reserve HK\$'000	Total HK\$'000
At 1 January 2007	3,988,219	829	96,116	68,565	45,765	95,881	915,283	-	5,210,658
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 and 1 January 2008	<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>
Change in fair value and total income and expense recognised directly in equity (note 20)	-	-	-	(29,520)	-	-	-	-	(29,520)
Profit for the year	-	-	-	-	-	-	358,187	-	358,187
Premium, net of expenses arising on share options exercised	25,077	-	-	-	-	-	-	-	25,077
Exchange difference	-	-	-	-	-	-	-	13,660	13,660
Transfer from retained profits	-	-	-	-	-	143,332	(143,332)	-	-
Dividends for 2008 (note 13)	-	-	-	-	-	-	(252,521)	-	(252,521)
At 31 December 2008	<b>4,013,296</b>	<b>829</b>	<b>96,116</b>	<b>14,656</b>	<b>45,765</b>	<b>304,551</b>	<b>1,149,441</b>	<b>35,060</b>	<b>5,659,714</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 asset 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 2007	3,988,219	829	194,176	-	45,765	-	31,346	4,260,335
Dividends for 2007 (note 13)	-	-	-	-	-	-	(328,169)	(328,169)
Profit for the year	-	-	-	-	-	-	289,895	289,895
At 1 December 2007 and 1 January 2008	<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>
Premium, net of expense, arising on on share options exercised	<b>25,125</b>	-	-	-	-	-	-	<b>25,125</b>
Dividends for 2008 (note 13)	-	-	-	-	-	-	(252,521)	(252,521)
Profit for the year	-	-	-	-	-	-	1,499,075	1,499,075
At 31 December 2008	<b>4,013,344</b>	<b>829</b>	<b>194,176</b>	<b>-</b>	<b>45,765</b>	<b>-</b>	<b>1,239,626</b>	<b>5,493,740</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 2008 were positive goodwill of HK\$98,406,000 (2007: 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 2008 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 2008, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	<b>Group</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>8,559</b>	7,807
In the second to fifth years, inclusive	<b>3,532</b>	2,584
	<b>12,091</b>	10,391

- (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 2008, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	<b>Group</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>37,759</b>	28,681
In the second to fifth years, inclusive	<b>32,391</b>	17,599
	<b>70,150</b>	46,280



# Notes to Financial Statements

## 40. OFF-BALANCE SHEET EXPOSURE

### (a) Contingent liabilities, commitments and derivatives

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

#### Group

	Contractual amount HK\$'000	Credit equivalent amount HK\$'000	2008		
			Credit risk weighted amount HK\$'000	Positive fair value- assets HK\$'000	Negative fair value- liabilities HK\$'000
Direct credit substitutes	313,464	313,464	99,130	-	-
Transaction-related contingencies	3,238	1,619	563	-	-
Trade related contingencies	70,505	14,101	9,195	-	-
Forward forward deposits placed	8,596	8,596	1,719	-	-
Forward asset purchases	23,346	23,346	4,669	-	-
	<b>419,149</b>	<b>361,126</b>	<b>115,276</b>	-	-
Derivatives held for trading (note b):					
Foreign exchange rate contracts	1,925,319	15,988	68	1,151	4,150
Interest rate swaps	-	-	-	-	-
	<b>1,925,319</b>	<b>15,988</b>	<b>68</b>	<b>1,151</b>	<b>4,150</b>
Other commitments with original maturity of:					
Not more than one year	-	-	-	-	-
More than one year	259,096	129,548	129,548	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	<b>3,862,542</b>	-	-	-	-
	<b>6,466,106</b>	<b>506,662</b>	<b>244,892</b>	<b>1,151</b>	<b>4,150</b>
Capital commitment contracted for, but not provided in the financial statements	<b>5,192</b>				

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

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

#### Group

	2007				
	Contractual	Credit	Credit risk	Positive	Negative
	amount	equivalent	weighted	fair value-	fair value-
	amount	amount	amount	assets	liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Direct credit substitutes	287,899	287,899	81,595	–	–
Transaction-related contingencies	3,844	1,922	958	–	–
Trade related contingencies	197,345	39,469	37,208	–	–
Forward asset purchases	85,898	85,898	17,180	–	–
	574,986	415,188	136,941	–	–
Derivatives held for trading (note b):					
Foreign exchange rate contracts	2,021,126	9,535	866	2,591	2,342
Interest rate swaps	400,000	–	–	53	39
	2,421,126	9,535	866	2,644	2,381
Other commitments with original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	508,023	254,011	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	–	–	–	–
	7,281,727	678,734	391,818	2,644	2,381
Capital commitment contracted for, but not provided in the financial statements	9,284				

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 2008 and 2007, the Group had no material outstanding contingent liabilities and commitments save as disclosed above.

# Notes to Financial Statements

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

### **(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.

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 used 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 disclosed elsewhere in these financial statements, the Group also had the following material transactions with related parties during the year which were carried out on essentially the same terms and/or at prevailing market rates as other customers or suppliers.

		<b>Group</b>	
	Notes	<b>2008</b>	2007
		<b>HK\$'000</b>	HK\$'000
<b>Related party transactions included in the consolidated income statement:</b>			
Commission income from the ultimate holding company for referrals of taxi financing loans	(a)	–	33
Interest income from the ultimate holding company	(b)	<b>32,656</b>	244
Rental income from the ultimate holding company	(c)	<b>842</b>	1,515
Management fees from the ultimate holding company	(d)	<b>449</b>	814
Services charge paid to the ultimate holding company	(d)	–	18
Interest paid and payable to a fellow subsidiary and the ultimate holding company	(e)	<b>58,011</b>	46,177
Key management personnel compensation:	(f)		
– short-term employee benefits		<b>5,251</b>	4,690
– post employment benefits		<b>293</b>	264
		<b>5,544</b>	4,954
Interest income received from key management personnel	(g)	<b>22</b>	38
Interest expense paid to key management personnel	(h)	<b>654</b>	656
Commission fee income from key management personnel	(i)	<b>20</b>	3
Post employment benefits for employees other than key management personnel	(j)	<b>13,915</b>	11,175
<b>Related party transactions included in the consolidated balance sheet:</b>			
Cash and short term funds with the ultimate holding company	(b)	<b>1,937,677</b>	223
Interest receivable from the ultimate holding company	(b)	<b>393</b>	–
Deposits from a fellow subsidiary and affiliated company	(e)	<b>2,332,673</b>	2,139,800
Bank loan from a fellow subsidiary	(k)	<b>1,050,000</b>	–
Interest payable to fellow subsidiaries and the ultimate holding company	(e)	<b>31,002</b>	3,284
Rental deposits from the ultimate holding company	(c)	<b>47</b>	41
A mortgage loan to key management personnel	(g)	<b>818</b>	935
Deposits from key management personnel	(h)	<b>22,355</b>	19,147

# Notes to Financial Statements

## 41. RELATED PARTY TRANSACTIONS (Continued)

Notes:

- (a) The commission income received from referrals of floating rate taxi financing loans to the ultimate holding company, 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 the ultimate holding company, 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 commenced on 1 August 2008 at a monthly rental of HK\$23,500; and
  - (ii) Public Bank as its office for the related lease arrangement which was renewed on 1 August 2008 for a term of two years at a monthly rental of HK\$54,800.
- (d) The management fees arose from administrative services provided by the Group to the ultimate holding company, Public Bank. 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 PB Trust, 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 PB Trust, Public Bank and an 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 an affiliated company, and the 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 four of the directors by Public Bank (HK) and saving accounts were accepted from two of the directors by Public Bank (HK). 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.
- (k) During the year, bank loan was borrowed from Public Bank (L) Limited. The interests were paid/payable to Public Bank (L) Limited for the year by Public Financial Holdings Limited and the interest payable was included in other liabilities in the balance sheet.

During prior year, a syndicated loan amounted to HK\$2,000,000,000 of the Company by Barclays Capital and other banks as mandated lead arrangers and Barclays Bank PLC as an agent and certain original lenders, including Public Bank (L) Limited. In current year, the outstanding loan balance was HK\$1,100,000,000 as at 31 December 2008 (2007: HK\$1,100,000,000). The bank loan from a fellow subsidiary, Public Bank (L) Limited, was HK\$275,000,000 as at 31 December 2008 (2007: HK\$275,000,000).

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

	2008			2007		
	Carrying value HK\$'000	Fair value HK\$'000	Unrecognised gain/(loss) HK\$'000	Carrying value HK\$'000	Fair value HK\$'000	Unrecognised gain/(loss) HK\$'000
<b>Financial assets</b>						
Cash and short term placements	5,785,272	5,785,272	-	5,882,235	5,882,235	-
Placements with banks and financial institutions	173,099	173,099	-	441,539	441,539	-
Financial assets designated at fair value through profit or loss	-	-	-	12,262	12,262	-
Derivative financial instruments	1,151	1,151	-	2,644	2,644	-
Loans and advances and receivables	24,384,943	24,384,943	-	19,165,638	19,165,638	-
Available-for-sale financial assets (excluding unlisted equity investment, at cost)	14,720	14,720	-	44,240	44,240	-
Held-to-maturity investments	969,216	957,557	(11,659)	2,858,708	2,860,158	1,450
Other assets	234,767	234,767	-	584,338	584,338	-
<b>Financial liabilities</b>						
Deposits and balances of banks and other financial institutions at amortised cost	641,732	641,732	-	2,263,902	2,263,902	-
Derivative financial instruments	4,150	4,150	-	2,381	2,381	-
Customer deposits at amortised cost	24,184,416	24,184,416	-	20,501,549	20,501,549	-
Certificates of deposit issued at amortised cost	879,850	879,850	-	2,049,227	2,049,227	-
Unsecured bank loans at amortised cost	3,249,219	3,249,219	-	1,100,000	1,100,000	-
Other liabilities	372,642	372,642	-	732,629	732,629	-
<b>Total unrecognised change in unrealised fair value</b>			<b>(11,659)</b>			<b>1,450</b>

# Notes to Financial Statements

## 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 have a short term maturity (less than three months), it is assumed that the carrying amounts approximate to 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 are 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	2008 Valuation techniques using market observable inputs HK\$'000	Total HK\$'000
Financial assets:			
Derivative financial instruments	–	1,151	1,151
Available-for-sale financial assets	14,720	–	14,720
	<b>14,720</b>	<b>1,151</b>	<b>15,871</b>
Financial liabilities:			
Derivative financial instruments	–	4,150	4,150

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

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

#### Group

	Quoted market price HK\$'000	2007 Valuation techniques using 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
	<u>56,502</u>	<u>2,644</u>	<u>59,146</u>
Financial liabilities:			
Derivative financial instruments	–	2,381	2,381

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

Unlisted equity investment measured at cost amounting to HK\$6,804,000 (2007: HK\$6,804,000) was excluded from the disclosure of the fair value of financial instruments.

There were no financial assets and financial liabilities that offset against each other at 31 December 2008 and 2007.



# Notes to Financial Statements

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

The tables below show an analysis of financial assets and financial liabilities analysed by principal according to the period that they are expected to be recovered or settled. The Group's contractual undiscounted repayment obligations are shown in section "Liquidity risk management" in note 44 to the consolidated financial statements.

### Group

	2008							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	475,138	5,310,134	-	-	-	-	-	5,785,272
Placements with banks and financial institutions	-	-	34,089	139,010	-	-	-	173,099
Derivative financial instruments	-	877	274	-	-	-	-	1,151
Loans and advances and receivables	537,303	1,379,984	1,305,662	2,571,270	8,296,139	10,269,581	212,732	24,572,671
Available-for-sale financial assets	-	-	-	-	-	-	21,524	21,524
Held-to-maturity investments	-	217,410	230,973	417,631	103,202	-	-	969,216
Other assets	-	13,489	-	-	-	-	221,278	234,767
<b>Total financial assets</b>	<b>1,012,441</b>	<b>6,921,894</b>	<b>1,570,998</b>	<b>3,127,911</b>	<b>8,399,341</b>	<b>10,269,581</b>	<b>455,534</b>	<b>31,757,700</b>
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	30,324	398,546	161,297	51,565	-	-	-	641,732
Derivative financial instruments	-	4,026	124	-	-	-	-	4,150
Customer deposits at amortised cost	3,902,302	10,238,254	6,518,751	3,509,886	15,223	-	-	24,184,416
Certificates of deposit issued at amortised cost	-	-	-	879,850	-	-	-	879,850
Unsecured bank loans at amortised cost	-	-	-	3,249,219	-	-	-	3,249,219
Other liabilities	-	105,451	1,277	-	-	-	265,914	372,642
<b>Total financial liabilities</b>	<b>3,932,626</b>	<b>10,746,277</b>	<b>6,681,449</b>	<b>7,690,520</b>	<b>15,223</b>	<b>-</b>	<b>265,914</b>	<b>29,332,009</b>

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

	2007							
	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	Total 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
Derivative financial instruments	-	1,560	285	536	-	-	-	2,381
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
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>

### 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.

# Notes to Financial Statements

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

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

### Risk management

The Group has established systems, policies and procedures for the control and monitoring of interest rate, foreign currency price, 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 introduction of new products or services or implementation of new business activities. 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 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 the 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\$505 million be up to 12 months, profit before tax would increase by HK\$28 million for the next 12 months after the reporting date.

Based on the positive net interest gap of HK\$2,577 million up to five years, economic value would increase positively by HK\$62 million.

Basis risk is one of the sources of interest rate risks which arises from the difference in the changes of interest rates earned and paid on different financial instruments with similar repricing characteristics. The Group adopts two stress-testing scenarios for sensitivity analysis:

- (i) Interest rate on managed-rate assets would decrease by 200 basis point whilst interest rate on other interest-bearing assets and interest-bearing liabilities would be kept unchanged. Based on this scenario assumption, profit before tax would decrease by HK\$274 million for the next 12 months.
- (ii) Interest rate on interest-bearing assets and liabilities, except for interest rate on fixed rate assets and managed-rate assets would increase by 200 basis points. Based on this scenario assumption, profit before tax would decrease by HK\$388 million for the next 12 months.

## 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 earlier of maturity dates or contractual repricing as at 31 December 2008 and 2007 are detailed as follows:

#### Group

	2008					Over 5 years HK\$'000	Non-interest bearing HK\$'000	Total HK\$'000
	1 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	5,257,134	-	-	-	-	-	475,138	5,732,272
Placements with banks and financial institutions	-	-	-	-	-	-	-	-
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	1,151	1,151
Loans and advances and receivables	2,418,271	1,113,108	673,767	245,521	54,595	33,027	84,866	4,623,155
Available-for-sale financial assets	-	-	-	-	-	-	21,524	21,524
Held-to-maturity investments	694,531	-	-	-	-	-	-	694,531
Other assets	-	-	-	-	-	-	-	-
	8,369,936	1,113,108	673,767	245,521	54,595	33,027	582,679	11,072,633
<b>Floating rate financial assets</b>								
Cash and short term placements	53,000	-	-	-	-	-	-	53,000
Placements with banks and financial institutions	173,099	-	-	-	-	-	-	173,099
Loans and advances and receivables	19,949,516	-	-	-	-	-	-	19,949,516
Held-to-maturity investments	274,685	-	-	-	-	-	-	274,685
	20,450,300	-	-	-	-	-	-	20,450,300
Less:								
<b>Liabilities:</b>								
<b>Fixed rate financial liabilities</b>								
Deposits and balances of banks and other financial institutions	611,420	-	-	-	-	-	30,312	641,732
Derivative financial instruments	-	-	-	-	-	-	4,150	4,150
Customer deposits at amortised cost	20,152,066	13,725	1,089	-	409	-	-	20,167,289
	20,763,486	13,725	1,089	-	409	-	34,462	20,813,171
<b>Floating rate financial liabilities</b>								
Customer deposits at amortised cost	3,422,684	-	-	-	-	-	594,443	4,017,127
Certificates of deposit issued at amortised cost	879,850	-	-	-	-	-	-	879,850
Unsecured bank loans at amortised cost	3,249,219	-	-	-	-	-	-	3,249,219
Other liabilities	-	-	-	-	-	-	-	-
	7,551,753	-	-	-	-	-	594,443	8,146,196
<b>Total interest sensitivity gap</b>	<b>504,997</b>	<b>1,099,383</b>	<b>672,678</b>	<b>245,521</b>	<b>54,186</b>	<b>33,027</b>	<b>(46,226)</b>	<b>2,563,566</b>

# Notes to Financial Statements

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

### Market risk management (Continued)

#### (a) Interest rate risk (Continued) Group

	2007							Total HK\$'000
	1 year or less HK\$'000	Over 1 year but not more than 2 years HK\$'000	Over 2 years but not more than 3 years HK\$'000	Over 3 years but not more than 4 years HK\$'000	Over 4 years but not more than 5 years HK\$'000	Over 5 years HK\$'000	Non-interest bearing HK\$'000	
<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
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	12,262	12,262
Derivative financial instruments	-	-	-	-	-	-	2,644	2,644
Loans and advances and receivables	2,274,460	984,943	555,784	196,816	38,065	40,810	70,556	4,161,434
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
<b>Less:</b>								
<b>Liabilities:</b>								
<b>Fixed rate financial liabilities</b>								
Deposits and balances of banks and other financial institutions	2,227,839	-	-	-	-	-	36,063	2,263,902
Derivative financial instruments	-	-	-	-	-	-	2,381	2,381
Customer deposits at amortised cost	17,154,748	30,462	586	-	-	-	-	17,185,796
	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)

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

	<b>Group</b>	
	<b>2008</b>	2007
	<b>Rate</b>	Rate
	<b>(%)</b>	(%)
<b>Assets</b>		
Cash and short term placements	<b>2.62</b>	5.42
Placements with banks and financial institutions	<b>2.77</b>	5.44
Loans and advances and receivable (including trade bills)	<b>5.95</b>	8.29
Held-to-maturity investments	<b>3.55</b>	3.84
<b>Liabilities</b>		
Deposits and balances of banks and other financial institutions at amortised cost	<b>1.55</b>	4.94
Customer deposits at amortised cost	<b>2.03</b>	4.25
Certificates of deposit issued at amortised cost	<b>2.38</b>	4.85
Unsecured bank loans at amortised cost	<b>1.13</b>	4.26

#### (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 directors. The Group has no significant foreign currencies risk as 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 2008 and 2007. Accordingly, no quantitative market risk disclosures for currency risk have been prepared.

#### (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 directors and are monitored on a daily basis.

The Group does not actively trade in financial instruments and in the opinion of the directors, the 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.

# Notes to Financial Statements

## **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 is handled by an independent work-out team.

The Group manages its credit risk within a conservative framework. Its credit policy is regularly revised, taking into account factors such as prevailing business and economic conditions, regulatory requirements and its capital resources. 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 the use of 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 Group's Internal Audit Department to evaluate the effectiveness of the credit review, approval and monitoring processes and to ensure 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 guarantees) 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.

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

##### Credit risk management (Continued)

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 licences and cabs and securities.

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

	<b>Group</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Loans and advances and receivables	<b>24,572,671</b>	19,265,499
Loan commitments	<b>1,796,134</b>	2,667,775
Other credit related contingent liabilities	<b>387,207</b>	489,088
Other credit related commitments	<b>2,357,446</b>	1,703,738
Placements with banks and financial institutions	<b>173,099</b>	441,539
Short term placements (excluding cash in hand)	<b>5,655,724</b>	5,770,890
Held-to-maturity investments	<b>969,216</b>	2,858,708
Derivative financial instruments	<b>1,151</b>	2,644
Interest in a jointly-controlled entity	<b>1,513</b>	1,513

Concentrations of credit risk attributed to loans and advances managed by industry sector and geographical region are detailed in "Advances to customers by industry sector" of the Supplementary Information.



# Notes to Financial Statements

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

### 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 directors. The Group measures the liquidity of the Group using the statutory liquidity ratio, loan-to-deposit ratio, 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 their funding needs, and that internal liquidity trigger limits are complied with. Standby facilities are maintained to provide liquidity to meet unexpected, material cash outflows in the ordinary course of business.

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

#### Group

	2008							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	-	23,346	-	-	-	-	-	23,346
Net amount for foreign currency contracts	-	465	2,359	175	-	-	-	2,999
Gross loan commitments	1,232,870	273,811	30,357	7,363	230,157	21,576	-	1,796,134
Customer deposits at amortised cost	3,903,669	10,281,327	6,563,100	3,595,597	16,475	-	-	24,360,168
Deposits and balances of banks and other financial institutions at amortised cost	30,324	401,990	163,496	54,488	-	-	-	650,298
Certificates of deposit issued at amortised cost	-	972	4,250	886,016	-	-	-	891,238
Unsecured bank loans at amortised cost	-	3,982	7,404	3,265,153	-	-	-	3,276,539
Other liabilities	-	105,451	1,277	-	-	-	265,914	372,642
	5,166,863	11,091,344	6,772,243	7,808,792	246,632	21,576	265,914	31,373,364

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

### Liquidity risk management (Continued)

#### 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 for interest rate swaps	-	-	-	40	-	-	-	40
Net amount for 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
	4,655,206	15,063,511	4,187,009	3,291,719	2,408,888	101,470	41	29,707,844

#### Operational risk management

The operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, human and system errors 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 factors and categories, types of loss event to facilitate the measurement and assessment of operational risks and their potential impact. The operational risk exposures are monitored by appropriate key risk indicators for tracking and escalation to management, 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.

# Notes to Financial Statements

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

### Capital management

Capital of the Group for regulatory and risk management purpose include share capital, share premium, reserves, retained profits, 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.

More detailed quantitative disclosure of capital adequacy ratio, core capital ratio and capital base is disclosed in the section "Capital disclosures" of Supplementary Information.

### Capital adequacy and core capital ratios

	2008	2007
Group:		
Consolidated capital adequacy ratio	<b>11.70%</b>	12.66%
Consolidated core capital ratio	<b>10.77%</b>	12.45%
Public Bank (Hong Kong):		
Solo capital adequacy ratio	<b>15.34%</b>	13.16%
Solo core capital ratio	<b>15.34%</b>	11.81%
Public Finance:		
Solo capital adequacy ratio	<b>21.77%</b>	29.21%
Solo core capital ratio	<b>20.61%</b>	28.05%

## 45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 14 January 2009.

# Supplementary Information (Unaudited)

## ADVANCES TO CUSTOMERS BY INDUSTRY SECTOR

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

### Group

	31 December 2008								
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	New impairment allowances charged to income statement HK\$'000	Amount of impaired loans and advances written off HK\$'000	Collateral HK\$'000	Percentage of gross advances covered by collateral	Impaired loans and advances HK\$'000	Loans and advances overdue for more than three months HK\$'000
Loans for use in Hong Kong									
Manufacturing	542,760	608	34,808	38,750	9,860	71,477	13.2%	42,963	39,459
Building & construction, property development and investment									
Property development	596,458	626	-	344	344	56,769	9.5%	-	-
Property investment	5,720,563	5,941	-	-	-	4,198,015	73.4%	4,308	-
Civil engineering works	93,295	97	-	-	-	7,681	8.2%	-	-
Electricity and gas	34,080	35	-	-	-	-	-	-	-
Recreational activities	3,023	3	-	-	-	2,915	96.4%	-	-
Information technology	1,565	2	-	-	-	-	-	-	-
Wholesale and retail trade	42,331	58	-	6,450	11,678	28,348	67.0%	889	-
Transport and transport equipment	3,474,961	3,244	5,433	5,385	3,277	541,771	15.6%	6,239	4,728
Hotels, boarding houses & catering	12,505	11	-	-	-	11,565	92.5%	-	-
Financial concerns	156,033	162	-	-	-	21,910	14.0%	-	-
Stockbrokers									
Margin lending	-	-	-	-	-	-	-	-	-
Others	52,223	54	-	-	-	3,454	6.6%	-	-
Non-stockbroking companies & individuals for the purchase of shares									
Margin lending	243,798	253	-	-	-	-	-	-	-
Others	2,303	2	-	-	-	-	-	-	-
Professional & private individuals									
Loans for the purchase of flats covered by the guarantee issued by the Housing Authority under Home Ownership Scheme, Private Sector Participation Scheme & Tenant Purchase Scheme	234,704	244	32	29	-	234,672	100.0%	32	32
Loans for the purchase of other residential properties	6,159,142	6,281	859	35	-	6,158,283	100.0%	2,578	825
Loans for credit card advances	18,945	20	31	410	379	-	-	31	31
Loans for other business purposes	11,824	164	-	-	-	534	4.5%	202	202
Loans for other private purposes	4,000,964	58,196	10,918	375,623	361,582	168,391	4.2%	88,565	82,591
Trade finance	623,706	648	30,559	33,628	5,967	45,418	7.3%	38,521	17,431
Other loans and advances	1,349,670	1,402	2,986	16,387	-	297,866	22.1%	8,434	2,865
Sub-total	23,374,853	78,051	85,626	477,041	393,087	11,849,069	50.7%	192,762	148,164
Loans and advances for use outside Hong Kong	1,002,654	1,042	16,274	-	-	316,066	31.5%	60,622	57,724
Total loans and advances (excluding trade bills)	24,377,507	79,093	101,900	477,041	393,087	12,165,135	49.9%	253,384	205,888

# Supplementary Information (Unaudited)

## ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS (Continued)

Group

	31 December 2007								
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	New impairment allowances charged to income statement HK\$'000	Amount of impaired loans and advances written off HK\$'000	Collateral HK\$'000	Percentage of gross advances covered by collateral	Impaired loans and advances HK\$'000	Loans and advances overdue for more than three months HK\$'000
Loans for use in Hong Kong									
Manufacturing	626,721	691	6,499	5,278	-	89,119	14.2%	14,674	7,622
Building & construction, property development and investment									
Property development	566,999	624	-	-	-	109,583	19.3%	-	-
Property investment	3,689,301	4,057	-	-	-	2,525,873	68.5%	11,991	11,990
Civil engineering works	101,880	112	-	487	1,403	7,759	7.6%	-	-
Electricity and gas	36,123	40	-	-	-	-	-	-	-
Recreational activities	543	1	-	-	-	-	-	-	-
Information technology	52	-	-	-	-	-	-	-	-
Wholesale and retail trade	27,082	30	5,739	5,737	-	3,919	14.5%	14,139	13,695
Transport and transport equipment	2,679,605	2,570	2,896	1,535	1,258	2,271,348	84.8%	2,633	697
Hotels, boarding houses & catering	9,483	10	-	-	-	6,819	71.9%	-	-
Financial concerns	94,043	103	-	-	-	49,158	52.3%	-	-
Stockbrokers									
Margin lending	80,000	88	-	-	-	-	-	-	-
Others	75,971	84	-	-	-	-	-	-	-
Non-stockbroking companies & individuals for the purchase of shares									
Margin lending	575,253	633	-	-	-	-	-	-	-
Others	29,941	33	-	-	-	-	-	-	-
Professional & private individuals									
Loans for the purchase of flats covered by the guarantee issued by the Housing Authority under Home Ownership Scheme, Private Sector Participation Scheme & Tenant Purchase Scheme	238,921	263	-	-	-	238,921	100.0%	887	887
Loans for the purchase of other residential properties	4,136,299	4,517	1,405	584	-	4,134,894	100.0%	4,032	3,281
Loans for credit card advances	17,301	19	-	306	308	-	-	-	-
Loans for other business purposes	252,385	512	-	-	-	236,514	93.7%	293	-
Loans for other private purposes	3,415,251	48,678	6,032	376,137	402,725	59,543	1.7%	72,366	69,349
Trade finance	602,676	-	3,917	4,122	2,392	50,853	8.4%	20,814	16,533
Other loans and advances	948,947	726	2,919	2,857	300	21,227	2.2%	5,291	2,842
Sub-total	18,204,777	63,791	29,407	397,043	408,386	9,805,530	53.9%	147,120	126,896
Loans and advances for use outside Hong Kong	743,184	1,167	-	-	-	197,133	26.5%	-	-
Total loans and advances (excluding trade bills)	18,947,961	64,958	29,407	397,043	408,386	10,002,663	52.8%	147,120	126,896

The advances to customers are classified by industry sector based on the industry in which the granted loans were used. In those cases where loans cannot be classified with reasonable certainty, they are classified according to the known principal activities 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 the Group's Mainland exposures to non-bank counterparties:

### Group

	On-balance sheet exposure HK\$'million	Off-balance sheet exposure HK\$'million	Total exposure HK\$'million	Individual impairment allowance HK\$'million
<b>As at 31 December 2008</b>				
Mainland entities	182	231	413	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	125	–	125	–
Other counterparties the exposures to whom are considered by the Group to be non-bank Mainland exposures	926	–	926	17
	<b>1,233</b>	<b>231</b>	<b>1,464</b>	<b>17</b>

### Group

	On-balance sheet exposure HK\$'million	Off-balance sheet exposure HK\$'million	Total exposure HK\$'million	Individual impairment allowance 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>

# 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.

### Group

	<b>Banks and other financial institutions</b>	<b>Public sector entities</b>	<b>Others</b>	<b>Total</b>
	<b>HK\$'million</b>	<b>HK\$'million</b>	<b>HK\$'million</b>	<b>HK\$'million</b>
<b>As at 31 December 2008</b>				
1. Asia Pacific excluding Hong Kong of which:	<b>3,700</b>	<b>29</b>	<b>386</b>	<b>4,115</b>
Malaysia	<b>2,399</b>	<b>-</b>	<b>45</b>	<b>2,444</b>
2. Western Europe of which:	<b>2,456</b>	<b>-</b>	<b>171</b>	<b>2,627</b>
Germany	<b>934</b>	<b>-</b>	<b>-</b>	<b>934</b>

### Group

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



## 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:

### Group

	Spot assets	Spot liabilities	Forward purchases	Forward sales	Net long/(short) position	Net structural long position
<b>As at 31 December 2008 (In HK\$'million)</b>						
United States dollar	4,672	6,200	1,694	181	(15)	
Renminbi	332	115	–	1	216	
Others	2,452	2,326	169	300	(5)	
	<b>7,456</b>	<b>8,641</b>	<b>1,863</b>	<b>482</b>	<b>196</b>	
Renminbi						<b>227</b>

### Group

	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>						
United States dollar	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>

## LIQUIDITY RATIOS

	2008	2007
<b>Average liquidity ratio for the year:</b>		
Public Bank (Hong Kong)	<b>39.32%</b>	46.50%
Public Finance	<b>61.40%</b>	61.68%

The average liquidity ratio for the year was 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:

### Group

	2008 HK\$'000	2007 HK\$'000
Core capital:		
Paid up ordinary share capital	109,792	109,390
Share premium account	4,013,296	3,988,219
Published reserves	1,127,165	887,548
Income statement	46,327	369,287
Deduct:		
Goodwill	(2,774,403)	(2,774,403)
Net deferred tax assets	-	(4,948)
Core capital before deductions	2,522,177	2,575,093
Less: Deductions from shareholdings in subsidiaries	(34,531)	(33,531)
Securitisation exposures subject to deduction	-	(34,054)
Other deductions	(38,540)	(118,122)
Total core capital after deductions	2,449,106	2,389,386
Supplementary capital:		
Regulatory reserve	206,362	161,219
Collective impairment allowances	79,090	65,719
Supplementary capital before deductions	285,452	226,938
Less: Deductions from shareholdings in subsidiaries	(34,531)	(33,531)
Securitisation exposures subject to deduction	-	(34,054)
Other deductions	(38,540)	(118,122)
Total supplementary capital after deductions	212,381	41,231
Capital base	2,661,487	2,430,617

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 of the Group are Public Bank (Nominees) 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. Deductions from the capital base included investment in subsidiaries, securitisation and other exposures.

## CAPITAL DISCLOSURES (Continued)

### Group

Class of exposures	2008					
	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	371,607	–	371,607	–	–	–
Public sector entity	–	383,750	383,750	–	76,750	76,750
Bank	6,470,093	–	6,470,093	1,605,209	–	1,605,209
Securities firm	–	48,456	48,456	–	24,228	24,228
Corporate	486,389	5,855,531	6,341,920	504,583	5,855,566	6,360,149
Cash items	–	500,072	500,072	–	53,947	53,947
Regulatory retail	–	6,587,761	6,587,761	–	4,985,830	4,985,830
Residential mortgage	–	10,390,167	10,390,167	–	5,776,605	5,776,605
Past due exposures	–	106,969	106,969	–	160,431	160,431
Collective investment scheme exposures	–	–	–	–	–	–
Other non-past due exposures	–	1,121,937	1,121,937	–	1,121,937	1,121,937
Off-balance sheet:						
OTC derivative transactions						
– foreign exchange contracts	–	1,523,795	1,523,795	–	68	68
– others	–	–	–	–	–	–
Other off-balance sheet items	–	4,540,648	4,540,648	–	244,824	244,824
	<b>7,328,089</b>	<b>31,059,086</b>	<b>38,387,175</b>	<b>2,109,792</b>	<b>18,300,186</b>	<b>20,409,978</b>

# Supplementary Information (Unaudited)

## 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
	9,419,174	25,702,043	35,121,217	2,620,813	14,333,788	16,954,601

The Group did not enter into OTC derivative transactions other than foreign exchange contracts and interest rate swaps and futures with counterparties during 2008 and 2007. 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 ("External Credit Assessment Institutions"), 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.

## CAPITAL DISCLOSURES (Continued)

### Group

	2008	
	Risk weighted exposures HK\$'000	Capital requirements/ charge HK\$'000
Credit risk	20,409,978	20,409,978
Market risk – foreign exchange exposures	216,600	17,328
Operational risk	2,209,651	176,772
Deduction	(98,188)	(98,188)
	<b>22,738,041</b>	<b>22,505,890</b>

### Group

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

The Group has adopted standardised approach for the calculation of credit risk weighted exposures and the market risk weighted exposures. The Group has adopted basic indicator approach and standardised approach for the calculation of operational risk weighted exposures of Public Bank (Hong Kong) Limited and Public Finance Limited, respectively, during the years ended 31 December 2008 and 2007.

# List of Properties

## List of properties owned by the Group as at 31 December 2008

Location	Description	Current Use	Tenure	Remaining Lease Period (Expiry Date)	Age of Property	Built-up Area (sq m)	Date of Last Revaluation/ Acquisition	Carrying Amount as at 31 Dec 2008 (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 Hong Kong	A shop unit on the ground floor of a 5-storey composite building	Public Finance's Tuen Mun Branch	Leasehold 149 Years	39 Years (30-6-2047)	35 Years	84	30-6-1980	1,422
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	851 Years (26-12-2859)	19 Years	68	9-3-1990	3,875
Ground Floor Yue Yee Mansion 92 Shung Ling Street San Po Kong Kowloon Hong Kong	Ground floor of a 7-storey Chinese tenement building	Public Bank (Hong Kong)'s and Public Finance's San Po Kong Branch	Leasehold 149 Years	39 Years (30-6-2047)	44 Years	94	9-6-1990	2,385
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 as staff quarters	Leasehold 999 Years	891 Years (18-4-2899)	25 Years	91	3-10-1990 (R)	7,000

Location	Description	Current Use	Tenure	Remaining Lease Period (Expiry Date)	Age of Property	Built-up Area (sq m)	Date of Last Revaluation/ Acquisition	Carrying Amount as at 31 Dec 2008 (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	The Group's IT Centre	Leasehold 150 Years	118 Years (26-8-2126)	25 Years	293	18-3-1992	7,955
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	Staff quarter for the Group	Leasehold 150 Years	122 Years (19-10-2130)	23 Years	253	5-3-1993	9,131
Ground Floor & Open Yard Golden Dragon Mansion 751 Nathan Road Mongkok Kowloon Hong Kong	Ground floor of a 14-storey composite building	Public Bank (Hong Kong)'s and Public Finance's Prince Edward Road Branch	Leasehold 150 Years	71 Years (18-8-2079)	38 Years	130	24-5-1993	13,428
11th Floor Wing On House 71 Des Voeux Road Central Central Hong Kong	11th floor of a 31-storey office building built on a 2-storey podium	Office of the Group of which a portion is leased to Public Bank Berhad, Hong Kong Branch as office	Leasehold 999 Years	894 Years (14-8-2902)	41 Years	1,464	11-6-1993	89,699

# 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	Carrying Amount as at 31 Dec 2008 (HK\$'000)
Shop B Ground Floor and Office B 1st to 17th Floor JCG Building 16 Mongkok Road Mongkok Kowloon Hong Kong	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)'s & Public Finance's Mongkok Branch; and office; and office space leased to third parties	Leasehold 150 Years	42 Years (27-5-2050)	21 Years	2,215	30-6-1994 (R)	102,100
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	Staff quarters for Public Bank (Hong Kong)	Leasehold 999 Years	891 Years (18-4-2899)	24 Years	76	1-8-1995	4,544
Ground Floor Ruby Commercial Building 480 Nathan Road Yau Ma Tei Kowloon Hong Kong	Ground floor of a 16-storey commercial building	Public Finance's Nathan Road Branch	Leasehold 150 Years	59 Years (22-10-2067)	26 Years	110	14-1-2000	10,590
Shop Nos. 51 to 53 1st Floor Harbour Crystal Centre 100 Granville Road Tsimshatsui Kowloon Hong Kong	3 commercial units on the 1st floor of a 16-storey commercial building	Public Finance's Tsimshatsui Branch	Leasehold 150 Years	120 Years (10-12-2128)	26 Years	131	1-11-2000	2,436

Location	Description	Current Use	Tenure	Remaining Lease Period (Expiry Date)	Age of Property	Built-up Area (sq m)	Date of Last Revaluation/ Acquisition	Carrying Amount as at 31 Dec 2008 (HK\$'000)
Ground Floor Section B Lot No. 3704 DD120 Yuen Long New Territories Hong Kong	Ground floor of a 5-storey composite building	Public Finance's Yuen Long Branch	Leasehold 149 Years	39 Years (30-6-2047)	51 Years	102	23-4-2001	14,458
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	894 Years (14-8-2902)	41 Years	113	15-10-2003	52,878
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 Hong Kong	3 workshop units on the ground floor and a unit on the 9th floor of a 12-storey industrial building with 9th to 11th floors designated for workers' quarters	Portion of workshops on ground floor and the whole flat E on 9th floor are leased to third parties; other portion is occupied by the Group as office	Leasehold 149 Years	39 Years (27-6-2047)	43 Years	Workshop A, B, C 682 Flat E 68	24-7-1992 (R)	17,409
Workshops E1 and F1 10th Floor Hang Fung Industrial Building Phase 1 2G Hok Yuen Street Hunghom Kowloon Hong Kong	2 workshops on the 10th floor of a 13-storey industrial building	Occupied by the Group as storeroom	Leasehold 150 Years	39 Years (15-9-2047)	29 Years	962	24-7-1992	1,703



# 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	Carrying Amount as at 31 Dec 2008 (HK\$'000)
11th Floor Argyle Centre Phase 1 688 Nathan Road 65 Argyle Street Mongkok Kowloon Hong Kong	Office space on the 11th Floor of a 21-storey commercial building	The Group's office; office space leased to third parties	Leasehold 150 Years	52 Years (18-5-2060)	26 Years	1,465	2-5-1994 (R)	113,846
4th Floor 581 Nathan Road Mongkok Kowloon Hong Kong	4th floor of a 7-storey composite building with shops and domestic flats	Leased to third parties	Leasehold 150 Years	29 Years (25-12-2037)	39 Years	55	14-6-1984	1,100
Unit 3 5th Floor Telford House 16 Wang Hoi Road Kowloon Bay Kowloon Hong Kong	An office unit on 5th floor of a 23-storey commercial building	Leased to third parties	Leasehold 149 Years	39 Years (30-6-2047)	14 Years	90	30-5-2006** (R)	6,600
Shop 3C 1st Floor Telford House 16 Wang Hoi Road Kowloon Bay Kowloon Hong Kong	A shop unit on 1st floor of a 23-storey commercial building	Leased to third parties	Leasehold 149 Years	39 Years (30-6-2047)	14 Years	47	30-5-2006** (R)	13,090
Ground Floor 17 South Wall Road and the whole block of 19 South Wall Road Kowloon Hong Kong	A shop unit on ground floor of a 5-storey tenement block and the whole block of a 5-storey tenement block	Public Bank (Hong Kong)'s Kowloon City Branch on ground floor	Leasehold 149 Years	39 Years (30-6-2047)	31 Years	432	30-5-2006**	18,187

Location	Description	Current Use	Tenure	Remaining Lease Period (Expiry Date)	Age of Property	Built-up Area (sq m)	Date of Last Revaluation/ Acquisition	Carrying Amount as at 31 Dec 2008 (HK\$'000)
Shop 5 Ground Floor Fu Ho Building 3-7 Kau Yuk Road Yuen Long New Territories Hong Kong	A shop unit on ground floor of a 14-storey composite building	Public Bank (Hong Kong)'s Yuen Long Branch	Leasehold 149 Years	39 Years (30-6-2047)	29 Years	82	30-5-2006**	11,691
Shop B Ground Floor Victory Court 185-187 Castle Peak Road Tsuen Wan New Territories Hong Kong	A shop unit on ground floor of a 14-storey composite building	Public Bank (Hong Kong)'s Tsuen Wan Branch	Leasehold 149 Years	39 Years (30-6-2047)	28 Years	149	30-5-2006**	12,527
Units 801, 808-812 Metroplaza Tower 2 223 Hing Fong Road Kwai Fong New Territories Hong Kong	6 office units on level 8 of a 35-storey office building on a 9-storey commercial carpark podium	Public Bank (Hong Kong)'s backup office	Leasehold 149 Years	39 Years (30-6-2047)	16 Years	527	30-5-2006**	21,620
Units 1-5 24th Floor Luen Cheong Can Centre Tuen Mun New Territories Hong Kong	5 industrial units on the 24th floor of a 26-storey industrial building	Public Bank (Hong Kong)'s warehouse	Leasehold 149 Years	39 Years (30-6-2047)	16 Years	1,053	30-5-2006**	2,413
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 Office and branch office	Leasehold 999 Years	834 Years (26-6-2842)	31 Years	5,451	30-5-2006**	249,207

# 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	Carrying Amount as at 31 Dec 2008 (HK\$'000)
Unit 40-41 Ground Floor Hung Hom Commercial Centre 37-39 Ma Tau Wai Road Kowloon Hong Kong	2 shop units on ground floor of a 14-storey commercial building	Public Bank (Hong Kong)'s Hung Hom Branch	Leasehold 149 Years	39 Years (15-9-2047)	26 Years	184	30-5-2006**	14,850
Shop B1 Ground Floor Hong Kong Plaza 188 Connaught 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 (for Lot No. 289) Leasehold 999 Years (for Lot No. 302)	46 Years (27-12-2054) 894 Years (3-9-2902)	25 Years	180	30-5-2006**	13,395
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	33 Years (17-12-2041)	11 Years	168	30-5-2006**	26,470
Shops Nos.4, 5A, 5B, 6A and 6B on Level 1 of Shatin New Town Nos. 1-15 Wang Pok Street Shatin New Territories, Hong Kong	5 shops on level 1 of a commercial podium under eight blocks of 22-storey residential blocks	Public Bank (Hong Kong)'s Shatin Branch	Leasehold 149 Years	39 Years (30-6-2047)	25 Years	203	1-12-2008	46,751

Notes:

(R) Revaluation was performed as at 31 December 2008.

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

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