



大眾金融控股有限公司*

PUBLIC FINANCIAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 626; Website: www.publicfinancial.com.hk)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

The Board of Directors (the “Board”) of Public Financial Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2008 with comparative figures as follows:

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
		2008	2007
	Notes	HK\$'000	HK\$'000
Interest income	4	1,744,046	1,919,885
Interest expense	4	(692,465)	(918,103)
NET INTEREST INCOME		1,051,581	1,001,782
Gains less losses from disposal of available-for-sale listed securities		–	108,545
Other operating income	5	302,279	283,133
Non-interest income		302,279	391,678
OPERATING INCOME		1,353,860	1,393,460
Operating expenses	6	(523,932)	(431,218)
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		829,928	962,242
Impairment allowances for loans and advances and receivables, held-to-maturity investments and available-for-sale financial assets	7	(441,534)	(176,973)
OPERATING PROFIT		388,394	785,269
SHARE OF PROFITS AND LOSSES OF A JOINTLY-CONTROLLED ENTITY		–	(163)
PROFIT BEFORE TAX		388,394	785,106
Tax	8	(30,207)	(119,775)
PROFIT FOR THE YEAR		358,187	665,331
Attributable to:			
Equity holders of the Company		358,187	665,331
DIVIDENDS			
Interim	9	252,521	328,169
EARNINGS PER SHARE (HK\$)	10		
Basic		0.327	0.608
Diluted		0.327	0.608

* for identification purpose only

CONSOLIDATED BALANCE SHEET

		31 December 2008 HK\$'000	31 December 2007 HK\$'000
	Notes		
ASSETS			
Cash and short term placements		5,785,272	5,882,235
Placements with banks and financial institutions		173,099	441,539
Financial assets designated at fair value			
through profit or loss		–	12,262
Derivative financial instruments		1,151	2,644
Loans and advances and receivables	11	24,384,943	19,165,638
Available-for-sale financial assets		21,524	51,044
Held-to-maturity investments	13	969,216	2,858,708
Inventories of taxi licences		21,805	25,299
Investment properties		165,346	146,492
Property and equipment		119,110	98,007
Land lease prepayments		667,990	628,664
Interest in a jointly-controlled entity		1,513	1,513
Deferred tax assets		9,168	5,668
Goodwill		2,774,403	2,774,403
Intangible assets		358	358
Other assets		234,767	584,338
TOTAL ASSETS		35,329,665	32,678,812
EQUITY AND LIABILITIES			
LIABILITIES			
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		24,184,416	20,501,549
Certificates of deposit issued at amortised cost		879,850	2,049,227
Dividend payable		197,625	273,474
Unsecured bank loans at amortised cost		3,249,219	1,100,000
Current tax payable		6,403	32,186
Deferred tax liabilities		24,122	69,243
Other liabilities		372,642	732,629
TOTAL LIABILITIES		29,560,159	27,024,591
EQUITY			
Issued capital		109,792	109,390
Reserves	14	5,659,714	5,544,831
TOTAL EQUITY		5,769,506	5,654,221
TOTAL EQUITY AND LIABILITIES		35,329,665	32,678,812

CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

	Year ended 31 December	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
TOTAL EQUITY		
Balance at beginning of year	5,654,221	5,320,048
Proceeds from issuance of shares upon exercise of share options, net of expenses	25,479	–
Exchange difference	13,660	21,400
(Deficit)/surplus on revaluation of available-for-sale financial assets	(29,520)	84,156
Transfer to income statement on disposal of available-for-sale financial assets	–	(108,545)
Profit for the year	358,187	665,331
Dividends paid/declared on shares	(252,521)	(328,169)
	105,666	337,162
Balance at end of year	<u>5,769,506</u>	<u>5,654,221</u>

NOTES TO FINANCIAL STATEMENTS

1.1 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 is 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.

1.2 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 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

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.

1.3 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 ¹ |
| • HKFRS 2 Amendments | Amendments to HKFRS 2 Share-based Payment-Vesting Conditions and Cancellations ¹ |
| • HKFRS 3 (Revised) | Business Combinations ² |
| • HKFRS 8 | Operating Segments ¹ |
| • HKAS 1 (Revised) | Presentation of Financial Statements ¹ |
| • HKAS 23 (Revised) | Borrowing Costs ¹ |
| • HKAS 27 (Revised) | Consolidated and Separate Financial Statements ² |
| • HKAS 32 and HKAS 1 Amendments | Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements-Putable Financial Instruments and Obligations Arising on Liquidation ¹ |
| • HKAS 39 Amendment | Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items ² |
| • HK(IFRIC)-Int 13 | Customer Loyalty Programmes ³ |
| • HK(IFRIC)-Int 15 | Agreements for the Construction of Real Estate ¹ |
| • HK(IFRIC)-Int 16 | Hedges of a Net Investment in a Foreign Operation ⁴ |
| • HK(IFRIC)-Int 17 | Distribution of Non-cash Assets to Owners ² |

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.

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 July 2009

³ Effective for annual periods beginning on or after 1 July 2008

⁴ 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.

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.

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.

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.

- (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. 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).

3. 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 operation 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 leading 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.

The following tables present revenue, profit and certain assets and liabilities 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)							
Segment revenue										
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 [#]	(1,057)	-	-	108,545	-	-	-	-	(1,057)	108,545
Elimination of inter-segment transactions	-	-	-	-	247	1,030	(247)	(1,030)	-	-
Operating income	<u>1,223,666</u>	<u>1,180,299</u>	<u>114,658</u>	<u>191,473</u>	<u>15,783</u>	<u>22,718</u>	<u>(247)</u>	<u>(1,030)</u>	<u>1,353,860</u>	<u>1,393,460</u>
Segment results	<u>357,217</u>	<u>586,092</u>	<u>26,381</u>	<u>175,962</u>	<u>4,796</u>	<u>23,215</u>	<u>-</u>	<u>-</u>	<u>388,394</u>	<u>785,269</u>
Share of profits and losses of a jointly-controlled entity									-	(163)
Profit before tax									388,394	785,106
Tax									<u>(30,207)</u>	<u>(119,775)</u>
Profit for the year									<u>358,187</u>	<u>665,331</u>
Segment assets	<u>32,051,675</u>	<u>29,093,187</u>	<u>306,910</u>	<u>633,405</u>	<u>187,151</u>	<u>171,791</u>	<u>-</u>	<u>-</u>	<u>32,545,736</u>	<u>29,898,383</u>
Unallocated assets:										
Goodwill									2,774,403	2,774,403
Intangible assets									358	358
Deferred tax assets									<u>9,168</u>	<u>5,668</u>
Total assets									<u>35,329,665</u>	<u>32,678,812</u>
Segment liabilities	<u>29,163,996</u>	<u>26,129,142</u>	<u>155,090</u>	<u>501,655</u>	<u>12,923</u>	<u>18,891</u>	<u>-</u>	<u>-</u>	<u>29,332,009</u>	<u>26,649,688</u>
Unallocated liabilities:										
Dividend payable									197,625	273,474
Deferred tax liabilities and current tax payable									<u>30,525</u>	<u>101,429</u>
Total liabilities									<u>29,560,159</u>	<u>27,024,591</u>
Other segment information										
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 losses/(gains) on disposal of property and equipment	<u>74</u>	<u>(4,503)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>74</u>	<u>(4,503)</u>

[#] gains on disposal of listed securities in 2007

(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.

4. INTEREST INCOME AND EXPENSE

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

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).

5. OTHER OPERATING INCOME

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

6. OPERATING EXPENSES

	Year ended 31 December	
	2008	2007
	HK\$'000	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

7. IMPAIRMENT ALLOWANCES

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

8. TAX

	Year ended 31 December	
	2008	2007
	HK\$'000	HK\$'000
Current tax charge:		
Hong Kong	80,086	99,715
Elsewhere	915	5,568
Over-provisions in prior years	(2,173)	(2,600)
Deferred tax charge	(48,621)	17,092
	<u>30,207</u>	<u>119,775</u>

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:

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

	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 from previous periods utilised	(903)	(0.1)	–	–	(903)	(0.1)
Estimated tax losses not recognised	82	–	–	–	82	–
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>

9. DIVIDENDS

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

10. 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 end 31 December 2008 and 2007 has not been disclosed as the share options outstanding during these years has an anti-dilutive effect on the Group's profit 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.

11. LOANS AND ADVANCES AND RECEIVABLES

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

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

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

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

	2008		2007	
	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
One year or less but over six months	9,551	0.04	7,017	0.04
Over one year	12,843	0.05	8,111	0.04
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
Total overdue and impaired loans and advances	253,384	1.04	147,120	0.78
			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
Total overdue and impaired trade bills, accrued interest and other receivables			5,801	2,684

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.

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

	2008			2007		
	Hong Kong	Mainland China	Total	Hong Kong	Mainland China	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000

(i) Analysis of overdue loans and advances and receivables

Loans and advances and receivables overdue more than three months	<u>151,411</u>	<u>60,278</u>	<u>211,689</u>	<u>129,580</u>	<u>–</u>	<u>129,580</u>
Individual impairment allowances	<u>68,306</u>	<u>16,311</u>	<u>84,617</u>	<u>27,532</u>	<u>–</u>	<u>27,532</u>
Collective impairment allowances	<u>50,455</u>	<u>–</u>	<u>50,455</u>	<u>42,965</u>	<u>–</u>	<u>42,965</u>
Current market value and fair value of collateral			<u>19,085</u>			<u>40,897</u>

(ii) Analysis of impaired loans and advances and receivables

Impaired loans and advances and receivables	<u>198,950</u>	<u>63,298</u>	<u>262,248</u>	<u>151,360</u>	<u>–</u>	<u>151,360</u>
Individual impairment allowances	<u>91,526</u>	<u>16,906</u>	<u>108,432</u>	<u>33,990</u>	<u>–</u>	<u>33,990</u>
Collective impairment allowances	<u>50,455</u>	<u>–</u>	<u>50,455</u>	<u>42,965</u>	<u>–</u>	<u>42,965</u>
Current market value and fair value of collateral			<u>31,371</u>			<u>48,878</u>

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.

- (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:**

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

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

	2008 Gross amount <i>HK\$'000</i>	Percentage of total loans and advances	2007 Gross amount <i>HK\$'000</i>	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	<u>505</u>	–	<u>710</u>	–
	<u>718,773</u>	<u>2.95</u>	<u>625,219</u>	<u>3.30</u>
Trade bills, accrued interest and other receivables overdue less than three months	<u>6,939</u>		<u>6,055</u>	

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

	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	<u>108,432</u>	<u>79,296</u>	<u>187,728</u>
Deducted from:			
Loans and advances	101,893	79,093	180,986
Trade bills, accrued interest and other receivables	<u>6,539</u>	<u>203</u>	<u>6,742</u>
	<u>108,432</u>	<u>79,296</u>	<u>187,728</u>
	Individual impairment allowance HK\$'000	2007 Collective impairment allowance HK\$'000	Total HK\$'000
At 1 January 2007	104,785	157,946	262,731
Amount written off	(408,386)	–	(408,386)
Impairment losses and allowances charged to the income statement	397,043	–	397,043
Impairment losses and allowances released to the income statement	(137,795)	(92,075)	(229,870)
Net charge of impairment losses and allowances	259,248	(92,075)	167,173
Loans and advances and receivables recovered	<u>78,343</u>	<u>–</u>	<u>78,343</u>
At 31 December 2007	<u>33,990</u>	<u>65,871</u>	<u>99,861</u>
Deducted from:			
Loans and advances	29,407	64,958	94,365
Trade bills, accrued interest and other receivables	<u>4,583</u>	<u>913</u>	<u>5,496</u>
	<u>33,990</u>	<u>65,871</u>	<u>99,861</u>

(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:

	Minimum lease payments		Present value of minimum lease payments	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	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
	4,508,719	3,966,847	3,506,408	2,778,605
Less: Unearned finance income	(1,002,311)	(1,188,242)		
Present value of minimum lease payments receivable	3,506,408	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.

12. 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.

13. HELD-TO-MATURITY INVESTMENTS

	2008 HK\$'000	2007 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
	969,216	2,868,508
Less : Individual impairment allowance	—	(9,800)
	969,216	2,858,708
Listed or unlisted:		
– listed in Hong Kong	19,994	19,986
– unlisted	949,222	2,838,722
	969,216	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
	969,216	2,858,708
Market value of listed held-to-maturity investments:		
– Hong Kong	20,214	19,810
– outside Hong Kong	—	—
	20,214	19,810

Movement on impairment allowance of held-to-maturity investments

	2008 HK\$'000	2007 HK\$'000
Balance at beginning of year	9,800	—
Individual impairment allowance charged to the income statement for the year	37,000	9,800
	46,800	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 <i>HK\$'000</i>	Percentage of total held- to-maturity Investments	Gross amount <i>HK\$'000</i>	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.

14. RESERVES

	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	–	–	–	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	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(328,169)</u>	<u>–</u>	<u>(328,169)</u>
At 31 December 2007 and 1 January 2008	3,988,219	829	96,116	44,176	45,765	161,219	1,187,107	21,400	5,544,831
Change in fair value and total income and expense recognised directly in equity	–	–	–	(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	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(252,521)</u>	<u>–</u>	<u>(252,521)</u>
At 31 December 2008	<u>4,013,296</u>	<u>829</u>	<u>96,116</u>	<u>14,656</u>	<u>45,765</u>	<u>304,551</u>	<u>1,149,441</u>	<u>35,060</u>	<u>5,659,714</u>

15. 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:

	2008 HK\$'000	2007 HK\$'000
Within one year	8,559	7,807
In the second to fifth years, inclusive	3,532	2,584
	12,091	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:

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

16. OFF-BALANCE SHEET EXPOSURE

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:

2008

	Contractual amount <i>HK\$'000</i>	Credit equivalent amount <i>HK\$'000</i>	Credit risk weighted amount <i>HK\$'000</i>	Positive fair value-assets <i>HK\$'000</i>	Negative fair value- liabilities <i>HK\$'000</i>
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	-	-
	419,149	361,126	115,276	-	-
Derivatives held for trading:					
Foreign exchange rate contracts	1,925,319	15,988	68	1,151	4,150
Interest rate swaps	-	-	-	-	-
	1,925,319	15,988	68	1,151	4,150
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	3,862,542	-	-	-	-
	<u>6,466,106</u>	<u>506,662</u>	<u>244,892</u>	<u>1,151</u>	<u>4,150</u>
Capital commitment contracted for, but not provided in the financial statements	<u>5,192</u>	<u>-</u>	<u>5,192</u>	<u>-</u>	<u>-</u>

	Contractual amount <i>HK\$'000</i>	Credit equivalent amount <i>HK\$'000</i>	Credit risk weighted amount <i>HK\$'000</i>	Positive fair value- assets <i>HK\$'000</i>	Negative fair value- liabilities <i>HK\$'000</i>
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	<u>85,898</u>	<u>85,898</u>	<u>17,180</u>	<u>–</u>	<u>–</u>
	574,986	415,188	136,941	–	–
Derivatives held for trading:					
Foreign exchange rate contracts	2,021,126	9,535	866	2,591	2,342
Interest rate swaps	<u>400,000</u>	<u>–</u>	<u>–</u>	<u>53</u>	<u>39</u>
	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	<u>3,777,592</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>7,281,727</u>	<u>678,734</u>	<u>391,818</u>	<u>2,644</u>	<u>2,381</u>
Capital commitment contracted for, but not provided in the financial statements	<u>9,284</u>	<u>–</u>	<u>9,284</u>	<u>–</u>	<u>–</u>

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.

17. 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.

	Repayable on demand	Up to 1 month	2008			Over 5 years	Repayable within an indefinite period	Total
			Over 1 month but not more than 3 months	Over 3 months but not more than 12 months	Over 1 year but not more than 5 years			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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
Total financial assets	<u>1,012,441</u>	<u>6,921,894</u>	<u>1,570,998</u>	<u>3,127,911</u>	<u>8,399,341</u>	<u>10,269,581</u>	<u>455,534</u>	<u>31,757,700</u>
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
Total financial liabilities	<u>3,932,626</u>	<u>10,746,277</u>	<u>6,681,449</u>	<u>7,690,520</u>	<u>15,223</u>	<u>-</u>	<u>265,914</u>	<u>29,332,009</u>

	2007							Total
	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	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
Total financial assets	1,017,679	8,216,385	2,286,368	3,445,194	6,816,145	7,092,524	233,774	29,108,069
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
Total financial liabilities	2,992,714	14,666,755	4,036,504	3,023,116	1,930,558	–	41	26,649,688

COMPLIANCE WITH SUPERVISORY POLICY MANUALS

The Group has followed the disclosure requirements of “Guideline on the Application of the Banking (Disclosure) Rules” and “Corporate Governance of Locally Incorporated Authorised Institutions” under the Supervisory Policy Manuals issued by the HKMA.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting year covered by the 2008 annual report, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules except for the deviation in respect of the service term under code provision A.4.1 of the Listing Rules.

Under code provision A.4.1 of the Listing Rules, non-executive directors should be appointed for specific terms and subject to re-election. 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.

The Board will keep on reviewing the relevant Bye-laws and propose any amendment, if necessary, to ensure compliance with the Code on Corporate Governance Practices as set out in the Listing Rules.

DIVIDENDS

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).

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 19 February 2009 and 23 February 2009, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the forthcoming annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 18 February 2009.

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.

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 People's Republic of China ("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.

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.

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.

REVIEW BY AUDIT COMMITTEE

The 2008 annual results have been reviewed by the Company's Audit Committee which comprises four Independent Non-executive Directors and one Non-executive Director.

By Order of the Board
Tan Sri Dato' Sri Dr. Teh Hong Piow
Chairman

Hong Kong, 14 January 2009

As at the date of this announcement, the Board of Directors of the Company comprises Tan Sri Dato' Sri Dr. Teh Hong Piow, Tan Sri Dato' Sri Tay Ah Lek, Dato' Chang Kat Kiam and Mr. Chong Yam Kiang as Non-executive Directors, Mr. Tan Yoke Kong and Mr. Lee Huat Oon as Executive Directors, and Tan Sri Dato' Thong Yaw Hong, Dato' Yeoh Chin Kee, Mr. Lee Chin Guan and Mr. Quah Poh Keat as Independent Non-executive Directors.