大眾金融控股有限公司

PUBLIC FINANCIAL HOLDINGS LIMITED

Stock Code: 626

Excellence
is Our Commitment

Contents

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)
Lee Chin Guan
Quah Poh Keat (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

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

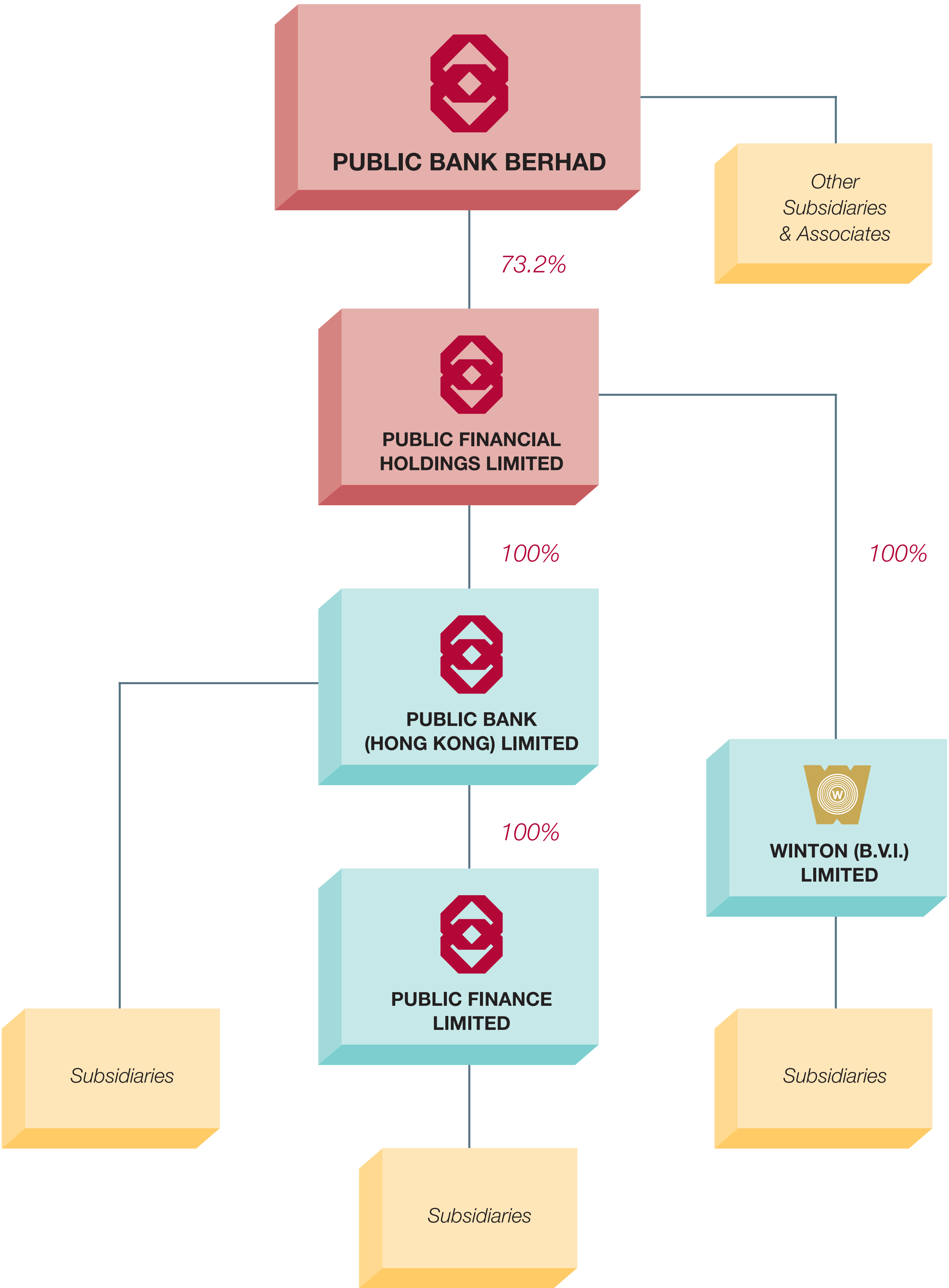
Legal Advisers

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

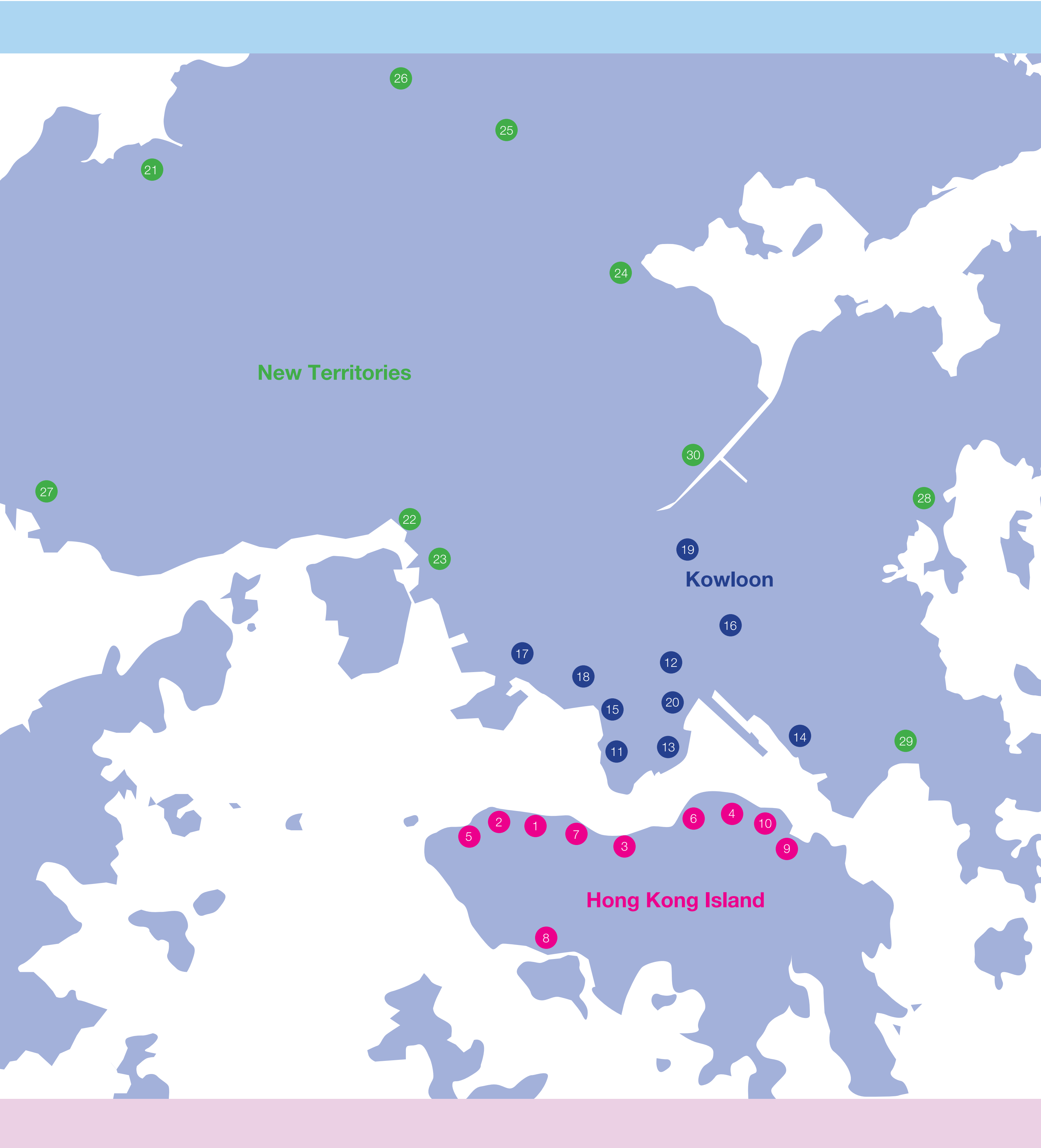
Principal Bankers

Bank of China
China Construction Bank
China Merchants Bank Co Ltd
China Minsheng Banking Corp. Ltd
CIMB Bank Berhad
CITIC Ka Wah Bank Limited
Industrial Bank Company, Limited
Oversea-Chinese Banking Corporation Limited
Public Bank Berhad
Public Bank (L) Ltd
Standard Chartered Bank
Tai Yau Bank Limited
The Bank of Tokyo – Mitsubishi UFJ Ltd
The Hongkong and Shanghai Banking Corporation Limited
Wing Lung Bank Limited

Group Structure



Public Bank (Hong Kong) Limited Branch Network



Head Office and Branches

Head Office
Public Bank Centre, 120 Des Voeux Road Central

Tel	:	2541 9222	Telex	:	73085 CBHK HKHH
P.O. BOX	:	G.P.O. BOX 824	Fax	:	2541 0009
Website	:	www.publicbank.com.hk			

Hong Kong Island

1 Main Branch
G/F, Public Bank Centre
120 Des Voeux Road Central
Tel: 25419222 Fax: 25452866
Manager: So Wai Ming, Aubrey

2 Western Branch
Shop 2-3, G/F, Kam Kwan Building
163-173 Des Voeux Road West
Tel: 28582220 Fax: 28582638
Manager: Lau Yiu Fai, Lawrence

3 Wanchai Commercial Centre
Unit A, 9/F, China Overseas Building
139 Hennessy Road, Wanchai
Tel: 28914171 Fax: 28341012
Manager: Chan Kong Hoi, Roy

4 North Point Branch
Shop 2, G/F, Two Chinachem Exchange Square,
338 King's Road, North Point
Tel: 2568 5141 Fax: 2567 0655
Manager: Yam Oi Yin, Pauline

5 Shek Tong Tsui Branch
Shop B1, G/F, Hong Kong Plaza
369-375 Des Voeux Road West
Tel: 25462055 Fax: 25597962
Manager: Chan Hiu Fai, Addy

6 Causeway Bay Branch
G/F and M/F, 447 Hennessy Road
Causeway Bay
Tel: 25722363 Fax: 25723033
Manager: Leung Siu Ying, Fanny

7 Central Branch
Unit A, G/F, Wing On House
71 Des Voeux Road Central
Tel: 21472140 Fax: 21472244
Manager: Wong Kai Ip, Jimmy

8 Aberdeen Branch
Shop C, G/F, Kong Kai Building
184 Aberdeen Main Road, Aberdeen
Tel: 28710928 Fax: 28710383
Manager: Wong Chun Hoi, Wilson

9 Shau Kei Wan Branch
Shop 2, G/F, Hong Tai Building
326-332 Shaukeiwan Road
Tel: 28843993 Fax: 28859283

10 Quarry Bay Branch
Shop 8, G/F, Oceanic Mansion
1010-1026 King's Road, Quarry Bay
Tel: 28563880 Fax: 28560833
Manager: Chui King Yan, Connie

Kowloon

11 Yaumatei Branch
Shop 6, G/F, Wing Kiu Building
530-538 Nathan Road
Tel: 23811678 Fax: 23956398
Manager: Siu Kit Ching, Christina

12 Kowloon City Branch
G/F, 15 Nga Tsin Wai Road, Kowloon City
Tel: 23820147 Fax: 27184281
Manager: Law Kwan Yin, Philip

13 Hung Hom Branch
G/F, Hunghom Commercial Centre
37 Ma Tau Wai Road, Hung Hom
Tel: 23639213 Fax: 23633195
Manager: Lee Wai Kwan, Luceta

14 Kwun Tong Branch
Unit 2310, Tower 1, Millennium City 1
388 Kwun Tong Road, Kwun Tong
Tel: 23899119 Tel: 23899969
Manager: Kwok Ka Leung, Joe

15 Mongkok Branch
G/F, JCG Building, 16 Mongkok Road
Mongkok
Tel: 23918393 Fax: 23916909
Manager: Yeung Chun Kit, Kenneth

16 San Po Kong Branch
G/F, 92 Shung Ling Street, San Po Kong
Tel: 23268318 Fax: 23269180
Manager: Kwong Hon Wun, Peter

17 Cheung Sha Wan Branch
Unit C2, G/F, 746 Cheung Sha Wan Road
Cheung Sha Wan
Tel: 27869858 Fax: 27869506
Manager: Lai Siu Yee, Flora

18 Prince Edward Branch
G/F, 751 Nathan Road, Prince Edward
Tel: 23973830 Fax: 23971006
Manager: Leung Yuen Fan, Maggie

19 Wong Tai Sin Branch
Shop 641-642, 6/F,
Tsz Wan Shan Shopping Centre,
Wong Tai Sin
Tel: 2328 7332 Fax: 2328 7991
Manager: Lau Keung Fai, David

20 To Kwa Wan Branch
Shop D, G/F, In House, No. 307 To Kwa Wan Road
To Kwa Wan
Tel: 23620238 Fax: 23623999
Manager: Lo Pui Chun, Suray

New Territories

21 Yuen Long Branch
Shop No. 5, Fu Ho Building
3-7 Kau Yuk Road, Yuen Long
Tel: 24794265 Fax: 24733934
Manager: Lam Wong Kan, Kent

22 Tsuen Wan Branch
G/F, Victory Court, 185-187 Castle Peak Road
Tsuen Wan
Tel: 24904191 Fax: 24904811
Manager: Choi Kam Yee, Catalina

23 Kwai Chung Branch
Shop 88B of Trendy Place, 3/F, Kwai Chung Plaza,
7-11 Kwai Foo Road, Kwai Chung
Tel: 2480 0002 Fax: 2401 2367
Manager: Wong Sze Mui, Rhoda

24 Tai Po Branch
Shop B, G/F, 18-24 Kwong Fuk Road, Tai Po
Tel: 26572861 Fax: 26577389
Manager: Tsang Wai Chor

25 Fanling Branch
Shop 1, G/F, Wo Fung Court
8 Wo Fung Street, Luen Wo Market, Fanling
Tel: 26691559 Fax: 26698780
Manager: Kee Ka Wai

26 Sheung Shui Branch
G/F, 73 San Fung Avenue, Sheung Shui
Tel: 26390307 Fax: 31240091
Manager: Yan Yi Kam, Patrick

27 Tuen Mun Branch
Shop E, G/F, Kam Lai Building
Nos. 1-7 Kai Man Path, Tuen Mun
Tel: 24401298 Fax: 24401398
Manager: Fong Fung Mei, Marisa

28 Sai Kung Branch
G/F, 16 Yi Chun Street, Sai Kung
Tel: 27928588 Fax: 27910077
Manager: Chong Mei Kuen, Joe

29 Tseung Kwan O Branch
G105-106, G/F, Metro City Plaza I, Tseung Kwan O
Tel: 27017688 Fax: 27017628
Manager: Lau Chi Kai, Thomas

30 Shatin Branch
Shop Nos. 4-6B, Lucky Plaza Commercial Centre, Shatin
Tel: 26016308 Fax: 26013686
Manager: So Tak Fai, Peter

Greater China

31 Shenzhen Branch
Shop No. 1, G/F, Carrianna Friendship Square
Renminnan Road, Shenzhen
People's Republic of China
Tel : (86-755) 2518 2822
Fax : (86-755) 2518 2327
Manager : Cheung Po Tung, David

32 Futian Sub-branch
1-3 Jinrun Mansion, No. 6019 Shennan Road
Futian District, Shenzhen
People's Republic of China
Tel : (86-755) 8280 0026
Fax : (86-755) 8280 0016
Manager : Cheung Ding Keung, Sammy

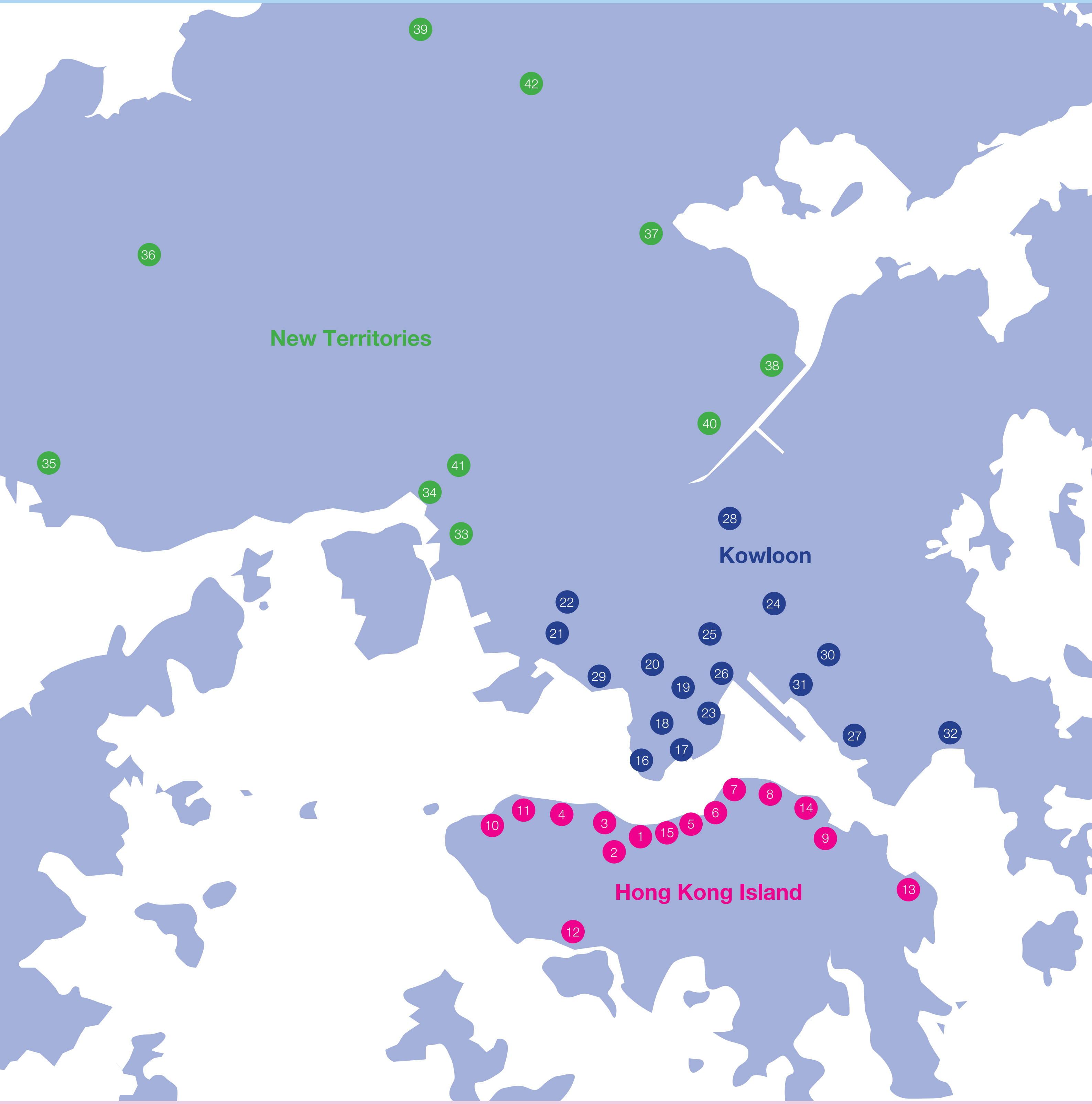
33 Shekou Sub-branch
Shop No. 155-156, Coastal Building (East Block)
Hai De San Dao, Nanshan District, Shenzhen
People's Republic of China
Tel : (86-755) 8627 1388
Fax : (86-755) 8627 0699
Manager : Pun Man Por

Shenyang Representative Office
Unit A, 18/F, Sunwah I Hi-tech Building
No. 262 Shifu Road, Shenhe District, Shenyang
Liaoning Province, People's Republic of China
Tel : (86-24) 2279 1368
Fax : (86-24) 2279 1369
Representative : Li Yu Jie

Shanghai Representative Office
Room G, 8/F Majesty Building
138 Pu Dong Avenue, Shanghai
People's Republic of China
Tel : (86-21) 5887 8851
Fax : (86-21) 5887 9951
Representative : Chen Li Hang

Taipei Representative Office
Room 905, No. 18 Chan-An E. Road Section 1, Taipei, Taiwan
Tel : (886-2) 2563 8789
Fax : (886-2) 2564 2047
Representative : Lu Chia Nan, Deanna

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: Caponpon D.C. Felisa

2 Queen Victoria Street Central Branch
G/F, 14 Queen Victoria Street, Central, Hong Kong
Tel: 25266415 Fax: 28779088
Manager: Louie Kin Cheong, Daniel

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: Ho Wai Ming Ian

6 Tin Lok Lane Branch
G/F, Foo Tak Building, 365 Hennessy Road
Tel: 28917028 Fax: 28933769
Manager: Chan Wing Kit Jimmy

7 Causeway Bay Branch
G/F, 449 Hennessy Road, Causeway Bay
Tel: 28936575 Fax: 28932770
Manager: Chan Chiu Ming Peter

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: Yuen Chuk Kwan Raymond

12 Aberdeen Branch
Shop A, G/F, Kong Kai Bldg
184-188 Aberdeen Main Road
Tel: 25538231 Fax: 25543897
Manager: Tong Ka Ling, Tony

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: Hui Kam Tong Samson

15 Admiralty Branch
Shop 2010, 2/F, United Centre
95 Queensway, Admiralty
Tel: 25201323 Fax: 25206889
Manager: Chan Siu Sung Jeffrey

Kowloon

16 Star House Branch
Basement, Shop B9-B10, Star House Plaza, TST
Tel: 27308395 Fax: 27302346
Manager: Ho Mei Yu Denise

17 Tsimshatsui Branch
Shop No. 51-53, 1/F, Harbour Crystal Centre
100 Granville Rd, TST East
Tel: 23693236 Fax: 23110433
Manager: Tong Woon Shing

18 Jordan Road Branch
Shop B, G/F, Dao Hing Building, 34 Jordan Rd
Tel: 27364711 Fax: 23148432
Manager: Law Shue Sum Dennis

19 Nathan Road Branch
G/F, 480 Nathan Road
Tel: 27715285 Tel: 27704127
Manager: Ho Kwok Sin Tom

20 Mongkok Branch
Flat B, 1/F, JCG Building, 16 Mongkok Rd
Tel: 23940253 Fax: 27875630
Manager: Cheng Ho Fat Ricky

21 Shamshuipo Branch
G/F, 27 Castle Peak Road
Tel: 27282347 Fax: 27299685
Manager: Wu Kin Sang Wilson

22 Cheung Sha Wan Branch
Unit C1, G/F, 746 Cheung Sha Wan Road
Tel: 27445416 Fax: 27853634
Manager: Chan Ching Yeung

23 Hunghom Branch
G/F, 130 Ma Tau Wai Road
Tel: 23344307 Fax: 27644876
Manager: Ng Chung Tak

24 Sanpokong Branch
G/F, 92 Shung Ling Street
Tel: 23283175 Fax: 23254504
Manager: Li Wai Yin

25 Kowloon City Branch
Shop B, G/F, 45-47 Lung Kong Road, Kowloon City
Tel: 23824893 Fax: 27164819
Manager: Li Kit Shing Joe

26 Tokwawan Branch
G/F, 289 Tokwawan Road, Kowloon
Tel: 23657061 Fax: 27642832
Manager: Man Wing Sun Ethan

27 Kwun Tong Branch
G/F, 367 Ngau Tau Kok Road
Tel: 23440264 Fax: 27635427
Manager: Lee Man Fai Eric

28 Wong Tai Sin Branch
G/F, 89 Fung Tak Road
Tel: 23205112 Fax: 27260106
Manager: Lai Wing Yee Maggie

29 Prince Edward Branch
G/F, 751 Nathan Road
Tel: 23803260 Fax: 23804100
Manager: Leung Sze Wan Irene

30 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

31 Kowloon Bay Branch
Shop No. 7, G/F, Exchange Tower
33 Wang Chiu Road, Kowloon Bay
Tel: 27567320 Fax: 27585706
Manager: Wong Shing To Alfred

32 Tseung Kwan O Branch
Shop G29, G/F, Metro City Plaza, Phase II
Tel: 31944312 Fax: 31944377
Manager: Leung Kwok Chung Solomon

New Territories

33 Kwai Chung Branch
Shop 86A and 88A, 3/F, Kwai Chung Plaza
7-11 Kwai Foo Road
Tel: 24200121 Fax: 24850590
Manager: Cheung Chu Ming Albert

34 Tsuen Wan Branch
G/F, 281 Sha Tsui Road
Tel: 24934187 Fax: 24174497
Manager: Kwan Wai Choi Samuel

35 Tuen Mun Branch
Shop 7, G/F, Mei Hang Bldg, Kai Man Path
Tel: 24572901 Fax: 24402503
Manager: Wong Wai Keung Thomas

36 Yuen Long Branch
G/F, 182 Main Road
Tel: 24762146 Fax: 24759903
Manager: Ho Kam Ming

37 Tai Po Branch
Shop B, G/F, 18-24 Kwong Fuk Road
Tel: 26565207 Fax: 26577019
Manager: Kan Yuk Lun Taylor

38 Shatin Branch
Portion of Shop 4-6B, Lucky Plaza Commercial Centre
Tel: 26995633 Fax: 26914588
Manager: Cheng Man Kwong Ringo

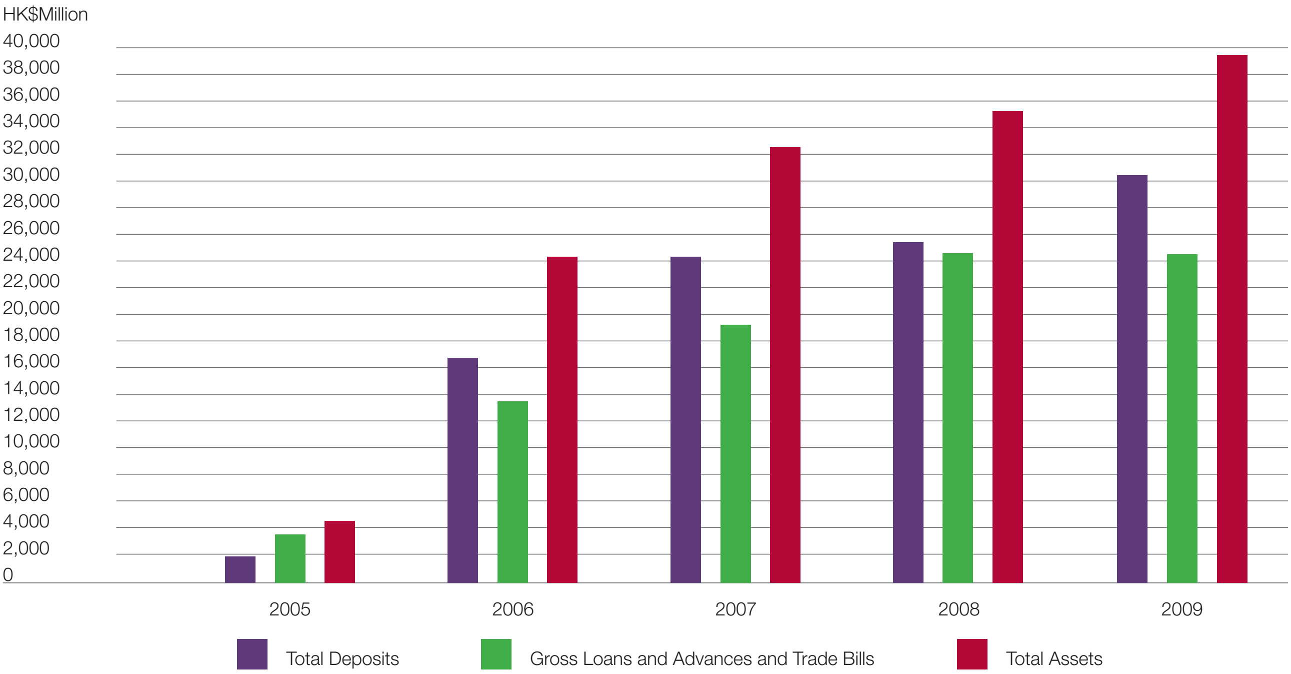
39 Sheung Shui Branch
G/F, 99 San Fung Avenue
Tel: 26732729 Fax: 26739278
Manager: Kam Ying Wah

40 Tai Wai Branch
Shop 2C, G/F, 11-13 Chik Fai Street
Tel: 26092611 Fax: 26094088
Manager: Cheung Wa Wai Victor

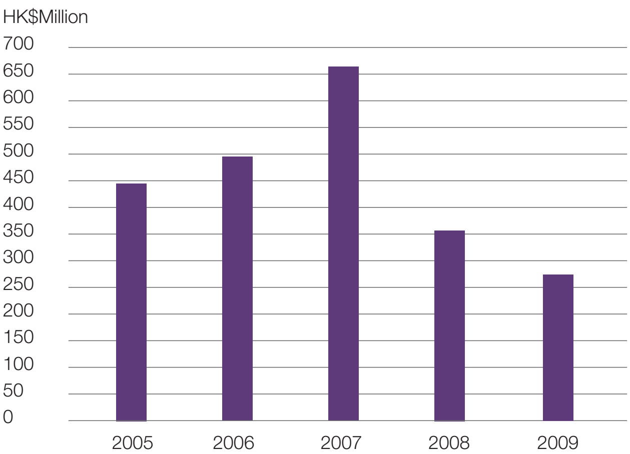
41 Nan Fung Centre Branch
Rm 1523, Nan Fung Centre
264-298 Castle Peak Road, Tsuen Wan
Tel: 24141198 Fax: 24131624
Manager: Chan Sze Mou Ken

42 Fanling Branch
Shop 1, G/F, Wo Fung Court
8 Wo Fung Street, Luen Wo Market
Tel: 26690260 Fax: 26691187
Manager: Li Chu Wai Frankie

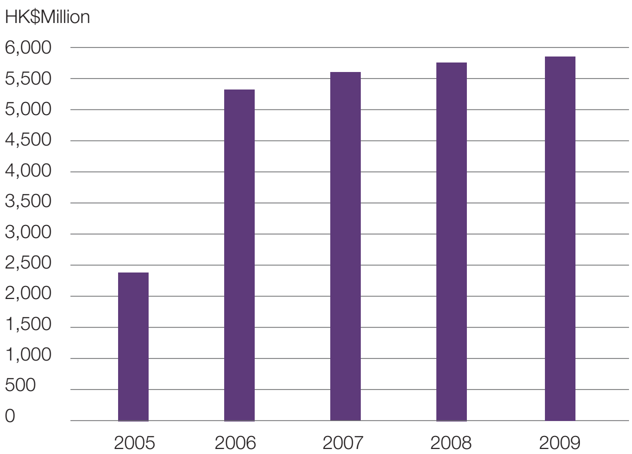
Five-year Financial Summary



Profit



Equity



2009 Financial Highlights

Profit for the year:	**HK$275.1 million**
Gross loans and advances and trade bills:	**HK$24,587.2 million**
Total deposits:	**HK$30,388.9 million**
Equity:	**HK$5,832.2 million**
Earnings per share:	
Basic	**HK$0.251**
Diluted	**HK$0.251**
Total dividends per share:	**HK$0.180**

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				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cash and short term placements, and placements with banks and financial institutions	**6,474,103**	5,958,371	6,323,774	2,861,992	458,009
Gross loans and advances and trade bills	**24,587,228**	24,428,368	19,114,048	13,774,978	3,583,800
Held-to-maturity investments	**4,216,634**	969,216	2,858,708	3,679,604	–
Other assets	**4,095,089**	3,973,710	4,382,282	3,927,823	421,613
Total assets	**39,373,054**	35,329,665	32,678,812	24,244,397	4,463,422
Deposits and balances of banks and other financial institutions at amortised cost	**1,024,628**	641,732	2,263,902	516,097	–
Customer deposits at amortised cost	**29,364,238**	24,184,416	20,501,549	14,853,655	1,641,978
Certificates of deposit issued at amortised cost	**–**	879,850	2,049,227	769,674	–
Dividend payable	**142,729**	197,625	273,474	218,779	291,706
Unsecured bank loans at amortised cost	**2,178,679**	3,249,219	1,100,000	2,000,000	–
Other liabilities	**830,562**	407,317	836,439	566,144	136,304
Total liabilities	**33,540,836**	29,560,159	27,024,591	18,924,349	2,069,988
Equity	**5,832,218**	5,769,506	5,654,221	5,320,048	2,393,434
Profit for the year	**275,073**	358,187	665,331	496,637	446,297
Basic earnings per share (HK$)	**0.251**	0.327	0.608	0.500	0.623
Diluted earnings per share (HK$)	**0.251**	0.327	0.608	0.500	0.622

Chairman's Statement

Group Financial Performance

The Group recorded a profit after tax of HK$275.1 million for the year ended 31 December 2009 amidst a very challenging operating environment for the banking industry in Hong Kong and deterioration of asset quality of the unsecured consumer lending sector due in part to the higher level of personal bankruptcies in the year under review. Total assets of the Group grew by HK$4.04 billion to HK$39.37 billion as at 31 December 2009, from HK$35.33 billion as at the end of the previous year. Total loans and advances (including trade bills) of the Group increased by HK$0.16 billion to HK$24.59 billion as at 31 December 2009 from HK$24.43 billion as at 31 December 2008. Deposits from customers of the Group increased strongly by 21.4% or HK$5.18 billion to HK$29.36 billion as at 31 December 2009 from HK$24.18 billion as at 31 December 2008.

The lower profit after tax of HK$275.1 million for the year under review as compared to the previous year's profit after tax of HK$358.2 million was mainly due to the one-off income received in the previous year of HK$47.3 million from the ING Group in relation to the regional strategic alliance agreement to distribute ING insurance products, full impairment amounting to HK$43.0 million in relation to the Lehman Brothers Minibonds repurchased from customers pursuant to an agreement between the distributing banks of Lehman Brothers Minibonds and the regulatory authorities, and the increase in impairment allowances for consumer finance loans arising from higher levels of personal bankruptcies and debt restructurings of some unsecured consumer finance loans.

The Group's basic earnings per share for the year 2009 was HK$0.251. The Board of Directors had declared a first interim and a second interim dividend of HK$0.05 per share in June 2009 and HK$0.13 per share in December 2009 respectively. The Board of Directors does not recommend the payment of any final dividend, making a total dividend of HK$0.18 per share for 2009 (2008: HK$0.23 per share). The total dividend declared for the year amounted to HK$197.6 million, representing approximately 72% of the profit after tax of the year.

Business Development of the Group

During the year under review, Public Bank (Hong Kong) Limited ("Public Bank (Hong Kong)") continued to expand its network of branches with the opening of 2 new branches in Hong Kong bringing its branch network to 30 branches in Hong Kong and 3 branches in the Peoples' Republic of China ("PRC"). Together with the 42 branches of Public Finance Limited ("Public Finance") and the 8 branches of Winton Financial Limited ("Winton Financial"), a subsidiary of the company operating under a money lenders licence, the Group has a total combined branch network of 83 branches as at 31 December 2009.

I am pleased to present a review of the performance of the Group for the year ended 31 December 2009.

Tan Sri Dato' Sri Dr. Teh Hong Piow
Chairman

During the year under review, the Group registered a growth in loans and advances (including trade bills) of 0.7% or HK$0.16 billion to HK$24.59 billion as at 31 December 2009. The Group's deposits from customers registered a strong growth of 21.4% or HK$5.18 billion to HK$29.36 billion as at 31 December 2009 from HK$24.18 billion as at the end of the previous year.

The growth in deposits from customers in 2009 was attributed to extensive marketing and competitive pricing strategies coupled with the continued building of the "Public Bank" brand in Hong Kong to further expand the customer base of the Group.

The Group will adopt cautious but flexible business strategies under the current volatile market conditions, and is committed to provide quality, professional and comprehensive financial services to its customers.

Financial Review

For the year under review, the Group's net interest income increased by 11.6% or HK$121.5 million to HK$1,173.0 million from HK$1,051.5 million in the previous year due to widening net interest margins. Other operating income of the Group decreased by 14.6% or HK$44.2 million to HK$258.1 million, due mainly to the one-off income of HK$47.3 million received in 2008 from the ING Group and a decrease in loan transaction fees of HK$36.5 million from the unsecured consumer finance business. Total operating costs and overheads increased by 8.4% or HK$43.9 million to HK$567.8 million, giving rise to an operating profit, before full impairment for the Lehman Brothers Minibonds repurchased and impairment allowances for loans and advances, of HK$863.3 million, representing an increase of 4% or HK$33.4 million from HK$829.9 million for the previous year.

However, the Group's impairment allowances for financial assets increased by HK$70.4 million to HK$511.9 million for 2009 from HK$441.5 million for the previous year, due to an increase in impairment allowances for unsecured consumer finance loans arising from higher levels of personal bankruptcies and debt restructuring of some consumer finance loans. Together with the full impairment of HK$43.0 million for the Lehman Brothers Minibonds repurchased, the profit after tax of the Group decreased by 23.2% to HK$275.1 million.

The expansion of the branch network of Public Bank (Hong Kong) with the opening of new branches and increased staff force, coupled with extensive advertising and promotional activities in building the "Public Bank" brand, had caused an increase in the Group's operating expenses.

Loans and Deposits

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

Public Bank (Hong Kong), Public Finance and Winton Financial will target the respective selected market segments 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 businesses as well as enhance its operating costs efficiency through cross selling of loans and wealth management products and the progressive integration of the back office support operations in the combined branch networks 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 our sincere gratitude to our customers for their invaluable patronage, and to the shareholders for their continued confidence in and 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

The implementation of the economic stimulus package in the PRC, easy monetary policy and improved domestic consumption had contributed to the healthy economic growth in the PRC with its benefits flowing to the economy of Hong Kong in the year under review.

The economy of Hong Kong showed signs of stabilising and a gradual recovery in the second half of the year under review after the sharp recession due to the adverse impact of the global financial crisis and the global recessionary economic conditions. With intensified competition for business, deterioration of asset quality, and the Lehman Brothers Minibonds issues, operating environment of the banking industry in Hong Kong was very difficult and challenging in the year under review. Operating under such a challenging environment in Hong Kong, the Group recorded a profit after tax of HK$275.1 million.

Group Financial Performance

Loans and advances, deposits from customers and total assets

The Group's total loans and advances (including trade bills) increased marginally by 0.7% or HK$0.16 billion to HK$24.59 billion as at 31 December 2009 from HK$24.43 billion as at 31 December 2008. Deposits from customers increased strongly by 21.4% or HK$5.18 billion to HK$29.36 billion as at 31 December 2009 from HK$24.18 billion as at 31 December 2008.

Total assets of the Group increased by HK$4.04 billion to HK$39.37 billion as at 31 December 2009 from HK$35.33 billion as at 31 December 2008.

Revenue and earnings

For the year ended 31 December 2009, the Group recorded a profit after tax of HK$275.1 million, a decrease of HK$83.1 million when compared to the profit after tax of HK$358.2 million in the previous year. The decrease in profit after tax is mainly attributed to the higher bad debt charge for impaired unsecured personal loans amidst increased personal bankruptcies and restructured loans, and full impairment of the Lehman Brothers Minibonds repurchased in the year under review.

The Group's basic earnings per share for 2009 was HK$0.251. The Board of Directors had declared a first interim dividend and a second interim dividend of HK$0.05 per share in June 2009 and HK$0.13 per share in December 2009 respectively. The Board of Directors does not recommend the payment of any final dividend, making a total dividend of HK$0.18 per share for the year (2008: HK$0.23 per share).

For the year under review, the Group recorded an increase in total operating income of 5.7% or HK$77.3 million to HK$1,431.1 million from HK$1,353.8 million in the previous year, contributed by an increase in net interest income, whilst total operating costs and overheads increased by 8.4% or HK$43.9 million to HK$567.8 million, resulting in an increase of HK$33.4 million in operating profit, before impairment allowances for loans and advances and impairment for Lehman Brothers Minibonds repurchased, to HK$863.3 million.

However, the increase in impairment allowances for loans and advances, and full impairment of HK$43.0 million in relation to the Lehman Brothers Minibonds repurchased had caused profit after tax to decline by 23.2% or HK$83.1 million to HK$275.1 million from HK$358.2 million for the previous year.

The Group's net interest income increased by 11.6% or HK$121.5 million to HK$1,173.0 million due to widening net interest margin on loans and advances.

Non-interest income decreased by 14.6% or HK$44.2 million to HK$258.1 million when compared to the previous year mainly due to the one-off income of HK$47.3 million received from the ING Group in 2008 in relation to the goodwill payment for the regional strategic alliance agreement to distribute insurance products of the ING Group.

The Group's operating expenses increased by 8.4% or HK$43.9 million to HK$567.8 million when compared to the previous year. The expansion of the branch network of the Group's banking subsidiary, Public Bank (Hong Kong), in the previous three years had resulted in a moderate increase in total staff costs by 11.7% or HK$32.6 million and branch premises related costs by HK$17.0 million, and had contributed to the overall increase in the operating expenses of the Group.

Group Financial Performance (Continued)

Revenue and earnings (Continued)

The increase in personal bankruptcies and debt restructuring of some consumer finance loans had resulted in the Group's impairment allowances for financial assets increasing to HK$511.9 million for the year under review.

In July 2009, Public Bank (Hong Kong) and 15 other distributing banks of Lehman Brothers Minibonds in Hong Kong had entered into a settlement agreement with the regulatory authorities to repurchase the minibonds distributed through the respective banks from eligible customers. Full impairment has been made for the Lehman Brothers Minibonds distributed by Public Bank (Hong Kong) and repurchased from eligible customers in the year under review.

Branch network

During the year under review, Public Bank (Hong Kong) opened 2 new branches in Hong Kong bringing its branch network to 30 branches in Hong Kong and 3 branches in Shenzhen in the PRC. Another subsidiary of the Company, Winton Financial, which operates under a money lenders licence, also expanded its branch network to 8 branches in Hong Kong to provide personal financing to its target customer segment. Together with the 42 branches of Public Finance, the Group currently has a combined branch network of 83 branches.

Business development of Public Bank (Hong Kong)

During the year under review, total loans and advances (including trade bills) of Public Bank (Hong Kong) increased marginally by 1.0% or HK$0.21 billion to HK$20.29 billion as at 31 December 2009 from HK$20.08 billion as at 31 December 2008. Deposits from customers grew strongly by 25.3% or HK$5.27 billion to HK$26.06 billion as at 31 December 2009 from HK$20.79 billion as at 31 December 2008.

The consolidated capital adequacy ratio of Public Bank (Hong Kong) stood at 19% and there was no exposure attributed directly to structured investment vehicles and US-subprime mortgages as at 31 December 2009.

Public Bank (Hong Kong) will continue to identify suitable locations for the expansion of its branch network and further develop its banking and banking related financial services business and expand its customer base.

Segmental information

The Group's business comprise three main segments: (i) retail and commercial banking and lending, (ii) stockbroking and wealth management services, and (iii) other businesses. In 2009, 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 6.6% or HK$81.0 million to HK$1,304.7 million. Profit before tax from retail and commercial banking and lending for 2009 decreased by 21.9% or HK$78.1 million to HK$279.1 million as a result of higher impairment allowances for impaired loans and advances.

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) as 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. In 2009, the Group created a charge over a bank deposit of HK$27 million by Public Bank (Hong Kong)'s Shenzhen Branch which remained in place as at 31 December 2009, to secure a floating-rate loan of RMB20 million to fund its lending business in the PRC. Other than as disclosed above, the Group had no other charge over the assets of the Group as at 31 December 2009. There was no charge over the assets of the Group as at 31 December 2008.

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 growth in loans and advances and to generate reasonable returns from available funds. The Group also encourages its subsidiaries to be self-reliant in the funding of their business growth.

Operational Review (Continued)

Funding and capital management (Continued)

The Group relies 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$2.18 billion as at the end of 2009. Based on the level of bank borrowings to the equity of the Group, the Group's gearing ratio stood at a healthy level of 0.37 times as at 31 December 2009. The bank borrowings have remaining maturity periods ranging from 1 year to 3 years. In the normal course of its commercial banking business, Public Bank (Hong Kong) had entered into foreign exchange and interest rate swap and forward contracts to reduce foreign exchange rate risk and interest rate risk exposures of the Group. Exposures to fluctuations in foreign exchange rates and interest rates were minimal during the year under review.

Asset quality

The Group's impaired loans to total loans ratio increased to 2.2% as at 31 December 2009 from 1.0% as at 31 December 2008 due to the deterioration of the asset quality of the Group's unsecured consumer finance loans amidst the economic downturn. The Group will continue to adopt a prudent credit risk management strategy and pursue the recovery of impaired loans diligently.

Human resource management

The objectives of the Group's human resource management activities are 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 by 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 skills and understanding of business strategies. 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 employees share option scheme approved by shareholders on 28 February 2002. In 2009, no share options to subscribe for shares in the Company were exercised by employees of the Group. As at 31 December 2009, options to subscribe for 29,325,000 shares in the Company remained unexercised.

As at 31 December 2009, the Group's staff force stood at 1,302 employees, an increase of 121 employees in 2009. The Group's total staff and related costs for 2009 amounted to HK$312.7 million.

Prospects

The outlook on the sustainability of any rebound in the global economy and that of the Hong Kong economy in 2010 remains uncertain, despite signs of gradual stabilisation of global economic conditions. With the effects of the global financial crisis subsiding in the latter half of 2009, it is anticipated that the economic conditions in Hong Kong and the PRC will stabilise in the first half of 2010. However, the operating environment for financial institutions in Hong Kong and in the PRC is anticipated to remain very challenging with more stringent regulatory control measures introduced to address a volatile market. Competition in the banking and financing industry in Hong Kong will remain keen with financial institutions seeking greater market share.

The Group will continue to focus on expanding its retail and commercial banking business and consumer finance business with new innovative products and marketing strategies, further improving customer service, and implementing appropriate cost savings measures and staff incentives. The Group will proactively seek greater synergies within its business operations by increasing cross-selling of products and services throughout the combined branch networks of Public Bank (Hong Kong) and Public Finance in the year ahead.

The possible cessation of the full deposit guarantee scheme by the Hong Kong Government at the end of 2010 will have an impact on increasing the cost of funds of customer deposits. This will have an impact on the net interest margin of financial institutions. The impact on net interest margin, however, is anticipated to be marginal or moderate in 2010. The Group will continue to safeguard its financial strength and capital adequacy, manage risks cautiously and set prudent yet flexible business development strategies to strike a balance between business growth and risk management.

Barring unforeseen circumstances, the Group expects to register moderate growth in its lending and deposit-taking businesses and in its financial performance. The Group is also committed to fostering a healthy and strong corporate culture to enhance the Group's cohesiveness with shared vision and values by everyone in the Group.

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, *Chairman* 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* Lee Chin Guan Quah Poh Keat (Re-designated as Independent Non-executive Director on 13 January 2009) Dato' Yeoh Chin Kee (Resigned on 15 January 2009)
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 2009 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 Practices (Continued)

Board of Directors (Continued)

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 2009	Attendance rate
Tan Sri Dato' Sri Dr. Teh Hong Piow, *Chairman* (Note)	6	60%
Tan Sri Dato' Thong Yaw Hong, *Co-Chairman*	10	100%
Tan Yoke Kong	10	100%
Lee Huat Oon	10	100%
Chong Yam Kiang	10	100%
Tan Sri Dato' Sri Tay Ah Lek	10	100%
Dato' Chang Kat Kiam	10	100%
Lee Chin Guan	10	100%
Quah Poh Keat	10	100%
Dato' Yeoh Chin Kee (Resigned on 15 January 2009)	1	100%

Note: Tan Sri Dato' Sri Dr. Teh Hong Piow attended 6 of the Company's board meetings and was on medical leave for the remaining 4 meetings.

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.

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.

Corporate Governance Practices (Continued)

Remuneration Committee

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

The Remuneration Committee was formed in January 2005 and meetings shall be held at least once a year. Three meetings were held in 2009. The attendance of each member is set out as follows:

Name of member	Number of meetings attended in 2009	Attendance rate
Tan Sri Dato' Sri Dr. Teh Hong Piow, *Chairman* (Note)	2	67%
Tan Sri Dato' Thong Yaw Hong	3	100%
Tan Sri Dato' Sri Tay Ah Lek	3	100%
Lee Chin Guan	3	100%
Quah Poh Keat	3	100%
Dato' Yeoh Chin Kee (Resigned on 15 January 2009)	–	N/A

Note: Tan Sri Dato' Sri Dr. Teh Hong Piow attended 2 of the Company's Remuneration Committee meetings and was on medical leave for the remaining 1 meeting.

At the meetings held during the year, the directors' fees and meeting allowances of the Group for the year 2008 and the promotion, secondment and terms of employment of the management staff within the Group in 2009 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 35 to the financial statements. The emolument payable to directors will depend on their respective contractual terms under employment contracts, if any, and as recommended by the Remuneration Committee. Details of the directors' emoluments are set out in note 9 to the financial statements.

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

1. To review annually and recommend to the board the overall remuneration policy for the directors, the Chief Executive and key senior management officers.

2. To review annually the performance of the executive directors, the Chief Executive and key senior management officers and recommend to the board specific adjustments in remuneration and/or reward payments.

3. To ensure that the level of remuneration for non-executive directors and independent non-executive directors are linked to their level of responsibilities undertaken and contribution to the effective functioning of the boards of the respective companies in the Group.

4. To keep abreast of the terms and conditions of service of the executive directors, the Chief Executive and key senior management officers. Review and recommends changes to the board whenever necessary.

5. 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.

6. To review and approve compensation arrangements relating to dismissal or removal of directors for misconduct.

7. To ensure that no director or any of his associates is involved in deciding his own remuneration.

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

Corporate Governance Practices (Continued)

Nomination Committee

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

The Nomination Committee was formed in January 2005 and meetings shall be held at least once a year. Three meetings were held in 2009. The attendance of each member is set out as follows:

Name of member	Number of meetings attended in 2009	Attendance rate
Tan Sri Dato' Sri Dr. Teh Hong Piow, *Chairman* (Note)	2	67%
Tan Sri Dato' Thong Yaw Hong	3	100%
Tan Sri Dato' Sri Tay Ah Lek	3	100%
Lee Chin Guan	3	100%
Quah Poh Keat	3	100%
Dato' Yeoh Chin Kee (Resigned on 15 January 2009)	–	N/A

Note: Tan Sri Dato' Sri Dr. Teh Hong Piow attended 2 of the Company's Nomination Committee meetings and was on medical leave for the remaining 1 meeting.

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.

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 2009, the directors have selected suitable accounting policies and have applied them consistently, adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and have prepared the accounts on the going concern basis.

Audit Committee

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

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

Name of member	Number of meetings attended in 2009	Attendance rate
Tan Sri Dato' Thong Yaw Hong, *Chairman*	8	100%
Tan Sri Dato' Sri Tay Ah Lek	8	100%
Lee Chin Guan	8	100%
Quah Poh Keat	8	100%
Dato' Yeoh Chin Kee (Resigned on 15 January 2009)	2	100%

Accountability and Audit (Continued)

Audit Committee (Continued)

During the meetings held in 2009, the Audit Committee had performed the following work:

(i) reviewed the financial reports for the year ended 31 December 2008 and for the six months ended 30 June 2009;

(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) approve the audit plan for 2009 prepared by the Internal Audit Department;

(iv) reviewed the effectiveness of internal control system;

(v) reviewed the examination reports issued by the HKMA and the management's replies;

(vi) reviewed the external auditors' statutory audit plan and engagement letters;

(vii) reviewed and recommended for approval by the board the 2009 audit scope and fees;

(viii) agreed and recommended the revised terms of reference of Audit Committees (for the Company and Public Bank (Hong Kong)) and revised Audit Charters for approval by the board;

(ix) reviewed a letter from external auditors regarding the declaration of independence pursuant to the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants for the 2008 audit;

(x) reviewed the external auditors' reports issued pursuant to Sections 63(3) and 63(3A)(a) of the Banking Ordinance; and

(xi) reviewed the external auditors' management letter regarding the audit of Public Securities Limited for the year ended 31 December 2008.

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

1. To draw up, review and update periodically a written charter for the board of directors' approval.

2. To appoint a suitably qualified Head of Internal Audit.

3. To approve the Audit Charter drawn up and updated periodically by the Head of Internal Audit.

4. 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.

5. To discuss with the external auditors the nature and scope of the audit.

6. To review the interim and annual financial statements before submission to the board of directors.

7. To discuss problems and reservations arising from the interim audit review and final audits, and any matters the auditors may wish to discuss.

8. To review the Group's financial controls, internal control and risk management systems.

9. To approve the audit plan and 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.

10. To consider the major findings of internal investigations and management's response and significant recommendations made by Internal Audit Department.

11. To review the external auditors' management letters and management's response.

12. To report to the board of directors on the matters set out in the "Code on Corporate Governance Practices" under the Listing Rules and on the work performed by the Audit Committee and its significant findings.

Accountability and Audit (Continued)

Audit Committee (Continued)

13. 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:

Services rendered	**Fees paid/ payable HK$'000**
Audit services	3,490
Non-audit services	226
Total:	3,716

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 effectiveness of the system of internal control of the Group and 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 resources, qualifications and experience of staff of the Group's accounting and financial functions, and their training programmes and budget are adequate.

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

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

- The Board Executive Committees under Public Bank (Hong Kong) and Public Finance consist of executive directors and non-executive directors and are responsible for the management of the businesses of Public Bank (Hong Kong) and Public Finance in all aspects and the implementation of strategic business plans and policies approved and formulated by the respective boards of directors.

- The Management Committees are established by the respective boards of Public Bank (Hong Kong) and Public Finance to ensure the effectiveness of the Group's daily operations and that the Group's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.

- The Audit Committees are established at the Group level as well as at the bank level to review internal control issues identified by the Internal Audit 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.

Accountability and Audit (Continued)

Internal Control (Continued)

- 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) reviews and assesses independently the credit risk profile, conducts stress-testing and post-mortem analysis on credit risk and sets concentration risk limits of Public Bank (Hong Kong) and provides advice to Public Finance and other group companies, and implements 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 Committees 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.

  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.

Accountability and Audit (Continued)

Internal Control (Continued)

- 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 report 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 43 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 20 clear business days before the 2009 AGM.

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 2009, 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 2009 was HK$4,874,754,224 (issued share capital: 1,097,917,618 shares at closing market price: HK$4.44 per share). The public float is around 26.8%.

The 2010 AGM will be held at Kowloon Room I, Kowloon Shangri-La Hotel, 64 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on Monday, 1 March 2010 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 79, 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 60 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 79, 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 directorship in public listed companies over the last 3 years was in Berjaya Land Berhad (resigned on 1 September 2007).

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 57, has 28 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). Prior to his transfer to the current appointment in Public Bank (Hong Kong), Mr. Tan held the position of Chief Executive/Executive Director of Public Finance, and had served as Vice Chairman of The DTC Association and as a member of The Deposit-taking Companies Advisory Committee for several years. 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.

Mr. Lee Huat Oon

Mr. Lee Huat Oon, aged 47, has 22 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.

He is currently a member of the Executive Committee of The DTC Association and a member of The Deposit-taking Companies Advisory Committee.

Tan Sri Dato' Sri Tay Ah Lek

Tan Sri Dato' Sri Tay Ah Lek, aged 67, has 49 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 55, has 35 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.

Mr. Lee Chin Guan

Mr. Lee Chin Guan, aged 51, has 17 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 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 57, 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, Risk Management Committee, Remuneration Committee and Nomination 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.

Mr. Quah is also an Independent Non-executive Director of LPI Capital Berhad, IOI Corporation 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

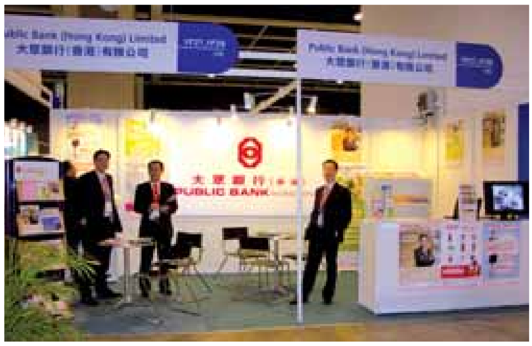
Mr. Chong Yam Kiang, aged 59, has 40 years of experience in the banking and finance industry. He was appointed a Non-executive Director of the Company in January 2009 and is an Executive Director of Public Bank (Hong Kong) and a Non-executive Director of Public Finance. He is currently the Alternate 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 & Recreational Activities

The Company's 2009 Annual General Meeting held at Kowloon Shangri-La Hotel on 23 February 2009.

Mr. Tan Yoke Kong, Executive Director, together with representatives of the 8 participating banks at the signing ceremony of a HK$1.5 billion term loan facility granted to the Group.

Senior Management visited the booth of Public Bank (Hong Kong) at the World SME Expo held in the Hong Kong Convention Centre.



Public Bank (Hong Kong) participated in the World SME Expo.

Senior Management of Public Bank, Malaysia at a business dialogue with the Heads of Business Units and Branch Managers during their visit to Public Bank (Hong Kong) in October 2009.

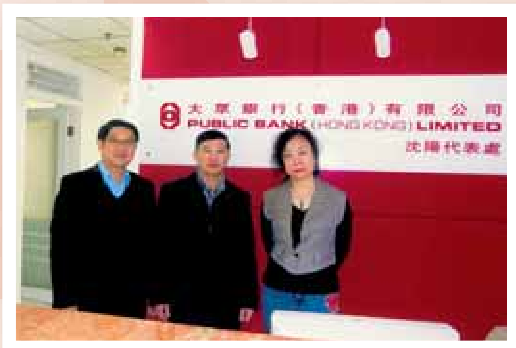
Branch Managers and Heads of Business Units actively participated at the business dialogue.

Opening of Public Bank (Hong Kong)'s 30th branch, Shatin Branch, in June 2009.

Winton Financial Limited opened Shamshuipo Branch in March 2009.

Group photo with the staff of Quarry Bay Branch at the opening of the new branch.

Senior Management of Public Bank (Hong Kong) paid a courtesy visit to the CBRC, Shenyang office in October 2009.



Executive Directors paid a visit to Public Bank (Hong Kong) Shenyang Representative Office in October 2009.

Our Corporate Family
Corporate Events & Recreational Activities

The Group Chairman, Tan Sri Dato' Sri Dr. Teh Hong Piow, accompanied by other members of the Board, cut the birthday cake in celebration of his 79th birthday in Hong Kong.

A poster gift of a Chinese character "Shou" which means longevity, and, made of Hong Kong dollar notes, was presented by Mr. Tan Yoke Kong to Tan Sri Chairman at his birthday celebration dinner.

The staff performed "I will follow him" at the birthday dinner of Tan Sri Chairman.

A group photo taken with the staff performers.

Artist, Ms. Eliza Chan, entertaining the audience with her popular hits at the birthday dinner.

Mr. Tan Yoke Kong tossed the ball to start-off the inter-house basketball competition organised by the Sports Club of the Group.

The "Together we are the Best" team from Public Bank (Hong Kong) Group.

Staff and their family members enjoyed a pleasant trip during the Group's Annual Outing 2009 to Shenzhen.

Press conference organised by TVB to unveil the new TV programme sponsored by Public Bank (Hong Kong) at the Royal Plaza Hotel, Hong Kong.

Our Corporate Family
Marketing and Promotions


大眾銀行(香港)「美化家居」私人貸款
居企裝修稱心
家人笑容由心
0.118%
HK$1,000,000
60個月
大眾銀行(香港)
PUBLIC BANK
8107 0818


按揭貸款
找卡數
PAID
創業
進修
投資
2526 1090
2848 1888
大眾財務有限公司
PUBLIC FINANCE LIMITED


大眾銀行(香港)
PUBLIC BANK


大眾銀行(香港) PUBLIC BANK

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 2009.

Principal activities

The Company is an investment and property 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 24 to the financial statements.

Results and dividends

The Group's profit for the year ended 31 December 2009 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 41 to 127.

The first interim dividend of HK$0.05 (2008: HK$0.05) per ordinary share was paid on 7 August 2009. The second interim dividend of HK$0.13 (2008: HK$0.18) per ordinary share was declared on 29 December 2009 and will be payable on 25 February 2010 to shareholders of the Company whose names appear on the register of members on 27 January 2010. The directors do not recommend the payment of a final dividend for the year (2008: 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 21, 22, and 23 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 34 and 35 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 37 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 2009, the Company's reserves available for cash distribution and/or distribution in specie amounted to approximately HK$1,309,577,000 (inclusive of the Company's contributed surplus) are set out in note 37 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$4,013,344,000 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 the 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)

Independent Non-executive Directors:
Tan Sri Dato' Thong Yaw Hong, *Co-Chairman*
Lee Chin Guan
Quah Poh Keat (Re-designated as Independent Non-executive Director on 13 January 2009)
Dato' Yeoh Chin Kee (Resigned on 15 January 2009)

Executive Directors:
Tan Yoke Kong
Lee Huat Oon

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

Directors' remuneration and the five highest paid individuals

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

Directors' service contracts

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

Directors' interests in contracts

Except as detailed in note 40 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 end of the reporting period or at any time during the year.

Loan agreement with covenants relating to specific performance of the controlling shareholder

In May 2009, the Company entered into a facility agreement (the "Facility Agreement") with a total of eight banks as the original lenders and Citic Ka Wah Bank Limited as the agent (the "Agent") for a 36-month transferable term loan facility in an aggregate amount of up to HK$1,500,000,000. As at 31 December 2009, the outstanding loan principal and amortised cost were HK$1,500,000,000 and HK$1,478,679,000 respectively.

The Facility Agreement provides, among other things, that it is an event of default if Public Bank, the controlling shareholder (currently holding approximately 73.2% interest) of the Company does not or ceases to beneficially own, directly or indirectly, more than 50% of the issued share capital of, and ownership interests in, the Company free from any security, or Public Bank does not or ceases to exercise management control over the Company.

If an event of default occurs, the Agent may, among other things, demand immediate repayment of all or any of the loans made to the Company together with accrued interest. The circumstances giving rise to the obligation under Rule 13.18 of the Listing Rules continue to exist.

Directors' interests and short positions in shares and underlying shares

At 31 December 2009, the directors' interests and short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code were as follows:

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

			Number of ordinary shares				
Interests in		Name of director	Directly beneficially owned	Through spouse or minor children	Through controlled corporations	Total	Percentage of interests in the issued share capital
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
		Tan Yoke Kong	540,000	–	–	540,000	0.0492
		Lee Huat Oon	20,000	–	–	20,000	0.0018
		Chong Yam Kiang	20,000	–	–	20,000	0.0018
2.	Public Bank, the ultimate holding company	Tan Sri Dato' Sri Dr. Teh Hong Piow	22,139,228	–	808,939,118	831,078,346	23.5305
		Tan Sri Dato' Thong Yaw Hong	7,522,714	360,000	321,428	8,204,142	0.2323
		Tan Sri Dato' Sri Tay Ah Lek	6,798,968	205,714	143,467	7,148,149	0.2024
		Lee Chin Guan	1,040,057	–	–	1,040,057	0.0294
		Dato' Chang Kat Kiam	112,561	–	–	112,561	0.0032
		Tan Yoke Kong	40,000	–	–	40,000	0.0011
		Lee Huat Oon	56,571	–	–	56,571	0.0016
		Chong Yam Kiang	16,880	–	–	16,880	0.0005

Directors' interests and short positions in shares and underlying shares (Continued)

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

			Number of ordinary shares				
Interests in		Name of director	Directly beneficially owned	Through spouse or minor children	Through controlled corporations	Total	Percentage of interests in the issued share capital
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 831,078,346 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.

(b) Long positions in underlying shares of the Company

		Number of ordinary shares attached to the share options					
Interests in	Name of director	At the beginning of the year	Granted during the year	Exercised during the year	At the end of the year	Exercise price	Exercise period
The Company	Tan Sri Dato' Sri Tay Ah Lek	1,230,000	–	–	1,230,000	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	1,380,000	–	–	1,380,000	HK$6.35	10.6.2005 to 9.6.2015
	Tan Yoke Kong	1,318,000	–	–	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

Note: 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.

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 end of the reporting period.

Directors' rights to acquire shares or debentures

Save as disclosed in the section "Directors' interests and short positions in shares and underlying shares" above and set out in note 35 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 31 December 2009, 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 shareholders 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
Substantial shareholder			
1. Public Bank	Beneficial owner	804,017,920	73.2312
Other person			
2. Aberdeen Asset Management Plc and its subsidiaries (together "the AA Group") on behalf of accounts managed by the AA Group	Investment manager	66,032,000	6.0143

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 end of the reporting period.

Donations

During the year, the Group made charitable donations totalling HK$2,000 (2008: HK$7,000).

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 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.

Report of the Directors

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
18 January 2010

ERNST & YOUNG
安 永 會 計 師 事 務 所

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 41 to 127, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated summary statement of changes in equity and the consolidated statement of cash flows 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.

Independent Auditors' Report

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 2009 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

18 January 2010

Consolidated Income Statement

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Interest income	5	**1,481,193**	1,744,046
Interest expense	5	**(308,145)**	(692,465)
NET INTEREST INCOME		**1,173,048**	1,051,581
Gains less losses from disposal of available-for-sale financial assets		**26,035**	–
Other operating income	6	**232,048**	302,279
Non-interest income		**258,083**	302,279
OPERATING INCOME		**1,431,131**	1,353,860
Operating expenses	7	**(567,801)**	(523,932)
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		**863,330**	829,928
Impairment allowance in relation to the Lehman Brothers Minibonds repurchased		**(42,962)**	–
		820,368	829,928
Impairment allowances for loans and advances and receivables, held-to-maturity investments and available-for-sale securities	8	**(511,879)**	(441,534)
OPERATING PROFIT		**308,489**	388,394
SHARE OF PROFITS AND LOSSES OF A JOINTLY-CONTROLLED ENTITY	25	**–**	–
PROFIT BEFORE TAX		**308,489**	388,394
Tax	11	**(33,416)**	(30,207)
PROFIT FOR THE YEAR		**275,073**	358,187
Attributable to:			
Owners of the Company	12	**275,073**	358,187
EARNINGS PER SHARE (HK$)	14		
Basic		**0.251**	0.327
Diluted		**0.251**	0.327

Details of interim dividend paid/payable are disclosed in note 13 to the financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

		2009 HK$'000	2008 HK$'000
PROFIT FOR THE YEAR		**275,073**	358,187
OTHER COMPREHENSIVE INCOME/(LOSS):			
Exchange (loss)/gain on translating foreign operations		**(80)**	13,660
Gain/(deficit) on revaluation of available-for-sale financial assets		**11,379**	(29,520)
Transfer to income statement for disposal of available-for-sale financial assets		**(26,035)**	–
OTHER COMPREHENSIVE LOSS FOR THE YEAR	Note 1	**(14,736)**	(15,860)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**260,337**	342,327
ATTRIBUTABLE TO:			
Owners of the Company		**260,337**	342,327

Note:

1. There were no tax effects arising from "other comprehensive loss" in years 2008 and 2009.

Statement of Financial Position

31 December 2009

	Notes	Group 2009 HK$'000	Group 2008 HK$'000	Company 2009 HK$'000	Company 2008 HK$'000
ASSETS					
Cash and short term placements	15	**5,605,620**	5,785,272	**74,243**	309,081
Placements with banks and financial institutions	16	**868,483**	173,099	**–**	–
Derivative financial instruments		**11,657**	1,151	**–**	–
Loans and advances and receivables	17	**24,444,780**	24,384,943	**–**	–
Available-for-sale financial assets	19	**6,804**	21,524	**–**	–
Held-to-maturity investments	20	**4,216,634**	969,216	**–**	–
Inventories of taxi licences		**15,084**	21,805	**–**	–
Investment properties	21	**184,342**	165,346	**1,078,190**	982,980
Property and equipment	22	**124,130**	119,110	**228**	–
Land lease prepayments	23	**668,590**	667,990	**–**	–
Interests in subsidiaries	24	**–**	–	**6,667,998**	6,660,283
Interest in a jointly-controlled entity	25	**1,513**	1,513	**–**	–
Deferred tax assets	32	**16,234**	9,168	**2,129**	–
Goodwill	27	**2,774,403**	2,774,403	**–**	–
Intangible assets	28	**718**	358	**–**	–
Other assets	26	**434,062**	234,767	**1,483**	7,014
TOTAL ASSETS		**39,373,054**	35,329,665	**7,824,271**	7,959,358
EQUITY AND LIABILITIES					
LIABILITIES					
Deposits and balances of banks and other financial institutions at amortised cost		**1,024,628**	641,732	**–**	–
Derivative financial instruments		**1,668**	4,150	**–**	–
Customer deposits at amortised cost	30	**29,364,238**	24,184,416	**–**	–
Certificates of deposit issued at amortised cost		**–**	879,850	**–**	–
Dividend payable	13	**142,729**	197,625	**142,729**	197,625
Unsecured bank loans at amortised cost	31	**2,178,679**	3,249,219	**2,178,679**	2,150,000
Current tax payable		**2,726**	6,403	**–**	–
Deferred tax liabilities	32	**21,562**	24,122	**19,227**	4,800
Other liabilities	33	**804,606**	372,642	**5,158**	3,401
TOTAL LIABILITIES		**33,540,836**	29,560,159	**2,345,793**	2,355,826
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY					
Issued capital	34	**109,792**	109,792	**109,792**	109,792
Reserves	37	**5,722,426**	5,659,714	**5,368,686**	5,493,740
TOTAL EQUITY		**5,832,218**	5,769,506	**5,478,478**	5,603,532
TOTAL EQUITY AND LIABILITIES		**39,373,054**	35,329,665	**7,824,271**	7,959,358

Tan Yoke Kong
Director

Lee Huat Oon
Director

Consolidated Summary Statement of Changes in Equity

For the year ended 31 December 2009

	2009 HK$'000	2008 HK$'000
TOTAL EQUITY		
Balance at the beginning of the year	**5,769,506**	5,654,221
Profit for the year	**275,073**	358,187
Other comprehensive losses	**(14,736)**	(15,860)
Total comprehensive income for the year	**260,337**	342,327
Proceeds from issuance of shares upon exercise of share options, net of expenses	**–**	25,479
Dividends declared on shares	**(197,625)**	(252,521)
Balance at the end of the year	**5,832,218**	5,769,506

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Group 2009 HK$'000	2008 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**308,489**	388,394
Depreciation and amortisation of land lease prepayments	**30,274**	23,851
Net losses on disposal of property and equipment	**46**	74
Increase in impairment allowances for loans and advances and receivables	**82,922**	87,867
Impairment allowances for held-to-maturity investments	**–**	37,000
Write-off of impairment allowances for held-to-maturity investments	**–**	(46,800)
Dividends from listed investments	**(360)**	(1,178)
Dividends from unlisted investments	**(994)**	(980)
Increase in fair value of investment properties	**(27,689)**	(18,541)
Exchange differences	**(80)**	13,718
Profits tax paid	**(46,719)**	(104,611)
Operating profit before changes in operating assets and liabilities	**345,889**	378,794
Increase in operating assets:		
(Increase)/decrease in cash and short term placements	**(411,634)**	195,025
(Increase)/decrease in placements with banks and financial institutions	**(546,371)**	33,394
Decease in financial assets designated at fair value through profit or loss and available-for-sale financial assets	**64**	12,262
Increase in loans and advances and receivables	**(142,759)**	(5,307,173)
Decrease in held-to-maturity investments	**159,606**	972,866
(Increase)/decrease in other assets	**(199,295)**	349,572
(Increase)/decrease in derivative financial instruments	**(10,506)**	1,493
Decrease in inventories of taxi licences	**6,721**	3,494
	(1,144,174)	(3,739,067)
Increase in operating liabilities:		
Increase/(decrease) in deposits and balances from banks and other financial institutions at amortised cost	**382,896**	(1,622,170)
Increase in customer deposits at amortised cost	**5,179,822**	3,682,867
Decrease in certificates of deposit issued at amortised cost	**(879,850)**	(1,169,377)
(Decrease)/increase in derivative payables	**(2,482)**	1,769
Increase/(decrease) in other liabilities	**432,012**	(359,994)
(Decrease)/increase in an amount due to the ultimate holding company	**(47)**	6
	5,112,351	533,101
Net cash inflow/(outflow) from operating activities	**4,314,066**	(2,827,172)

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Note	Group 2009 HK$'000	2008 HK$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES		**4,314,066**	(2,827,172)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment		**(29,956)**	(38,964)
Sales proceeds of property and equipment		**2,709**	–
Purchases of investment properties and land lease prepayments		**–**	(45,760)
Dividends from listed investments		**360**	1,178
Dividends from unlisted investments		**994**	980
Purchase of intangible assets		**(360)**	–
Net cash outflow from investing activities		**(26,253)**	(82,566)
CASH FLOWS FROM FINANCING ACTIVITIES			
New unsecured bank loans		**–**	2,149,219
Repayment of unsecured bank loans		**(1,070,540)**	–
Dividends paid on shares		**(252,521)**	(328,370)
Proceeds from issuance of shares upon exercise of share options, net of expenses		**–**	25,479
Net cash (outflow)/inflow from financing activities		**(1,323,061)**	1,846,328
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**2,964,752**	(1,063,410)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**6,006,780**	7,070,190
CASH AND CASH EQUIVALENTS AT END OF YEAR		**8,971,532**	6,006,780
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and short term placements repayable on demand	42	**726,251**	475,138
Money at call and short notice with original maturity within three months		**4,467,735**	5,310,134
Placements with banks and financial institutions with original maturity within three months		**183,102**	34,089
Held-to-maturity investments with original maturity within three months		**3,594,444**	187,419
		8,971,532	6,006,780

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 24 to the financial statements.

In the opinion of the directors, the ultimate holding company of the Company is Public Bank Berhad ("Public Bank"), which was incorporated in Malaysia.

2.1 Accounting Policies

The consolidated 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").

2.2 Basis of Preparation

The consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of land lease prepayments, 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 that of 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 25 to the financial statements.

2.2 Basis of Preparation (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 followed 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 the Company, Public Bank (Hong Kong) Limited and Public Finance Limited for regulatory purpose.

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. A portion of retained profits, based on a percentage of gross loans and advances, is set aside for non-distributable regulatory reserve as part of supplementary capital included in capital base pursuant to the HKMA capital requirements.

2.3 Impact of New and Revised Hong Kong Financial Reporting Standards

The HKICPA has issued a number of new HKFRSs, HKASs and Interpretations ("Int"), which are generally effective for accounting periods beginning on or after 1 January 2009. The Group has adopted the following HKFRSs and HKASs issued up to 31 December 2009 which are pertinent to its operations and relevant to 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
• HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment — Vesting Conditions and Cancellations
• HKFRS 7 Amendments	Financial Instruments: Disclosures
• HKFRS 8	Operating Segments
• HKAS 1 (Revised)	Presentation of Financial Statements
• HKAS 23 (Revised)	Borrowing Costs
• HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation
• HK(IFRIC)-Int 9 and HKAS 39 Amendments	Reassessment of Embedded Derivative
• HK(IFRIC)-Int 13	Customer Loyalty Programmes
• HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
• HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation
• HK(IFRIC)-Int 18	Transfer of Assets from Customers

2.3 Impact of New and Revised Hong Kong Financial Reporting Standards (Continued)

Apart from the above, the HKICPA has also issued Improvements to HKFRSs* which set out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Amendments are effective for annual periods beginning on or after 1 January 2009 although there is separate transitional provision for each standard.

* 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 Amendments remove the definition of the cost method and require all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the separate financial statements. HKFRS 1 Amendments allow first-time adopters of HKFRSs to measure the 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.

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 have had no impact on its accounting for share-based payments.

HKFRS 7 Amendments require additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, a reconciliation between the beginning and ending balances is now required for Level 3 fair value measurement, as well as significant transfer between Level 1 and Level 2 fair value measurements. Further details of fair value of financial instruments are included in note 41 to the financial statements. The amendments also clarify the requirement for liquidity risk disclosures.

HKFRS 8 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. Further details of segment information are included in note 4 to the financial statements.

2.3 Impact of New and Revised 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" 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 has elected to present comprehensive income in two separate statements of income and comprehensive income. Information about the individual components of comprehensive income as well as the tax effects have been disclosed in the notes to the financial statements. The Group has not provided a restated comparative set of financial position for the earliest comparative period, as it has not adopted any new accounting policies retrospectively, or has made a retrospective restatement, or retrospectively reclassified items in the financial statements.

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 applies 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 have had no financial impact on the Group.

Amendments to HK(IFRIC)-Int 9 introduce new condition under which the Group should perform subsequent reassessment on whether embedded derivative should be separated from host contract.

In addition to a change in the terms of contract that significantly modified the cash flows that otherwise would have been required under the contract, the amendments require a subsequent reassessment to be performed when there is a reclassification of a financial asset out of the fair value through profit or loss category, which shall be made on the basis of the circumstances existed on the later date of: (a) when the entity first became a party to the contract; and a change in the terms of the contract; and (b) a change in the terms of contract that significantly modified the cash flows that otherwise would have been required under the contract. The amendments to the Interpretation have had no financial impact on the Group.

2.3 Impact of New and Revised Hong Kong Financial Reporting Standards (Continued)

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 applicable customer loyalty award credits, the Interpretation is not applicable to the Group and therefore has had no financial impact on the Group.

HK(IFRIC)-Int 15 replaces 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 has had no 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 has had no financial impact on the Group.

HK(IFRIC)-Int 18 applies to accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. Under the scope of this Interpretation, the property, plant and equipment that the entities receive must be used either to connect the customers to a network or to provide ongoing access to a supply of goods or services, or both. As the Group currently has no such transactions, the Interpretation has had no financial impact on the financial position or results of operations of the Group.

In October 2008, the HKICPA issued its first Improvements to HKFRSs which set out 35 amendments to 20 HKFRSs, primarily with a view to removing inconsistencies and clarifying wording. The Group adopted the following amendments to HKFRSs from 1 January 2009. There is separate transitional provision 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 7 Financial Instruments: Disclosures: It removes the reference to "total interest income" as a component of finance costs.

(b) 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 statement of financial position.

2.3 Impact of New and Revised Hong Kong Financial Reporting Standards (Continued)

(c) HKAS 10 clarifies that if dividends are declared (i.e., the dividends are appropriately authorised and no longer at the discretion of the entity) after the reporting period but before the financial statements are authorised for issue, the dividends are not recognised as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with HKAS 1 Presentation of Financial Statements.

(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 18 Revenue: It replaces the term "direct costs" with "transaction costs" as defined in HKAS 39 for recognition of revenue for financial service fees.

(f) 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.

(g) 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.

(h) 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".

(i) 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.

Adoption of these new HKFRS interpretations did not have any material effect on the financial position or performance of the Group, nor resulted in restatement of comparative figures.

2.4 Impact of Issued But Not Yet Effective Hong Kong Financial Reporting Standards

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

• HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards — Additional Exemptions for First-time Adopters[2]
• HKFRS 1 (Revised)	First Time Adoption of Hong Kong Financial Reporting Standards[1]
• HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment — Group Cash-settled Share-based Payment Transactions[2]
• HKFRS 3 (Revised)	Business Combinations[1]
• HKFRS 9	Financial Instruments[6]
• HKAS 18 Amendments	Revenue[2]
• HKAS 24 (Revised)	Related Party Disclosure[5]
• HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
• HKAS 32 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation — Classification of Rights Issues[3]
• HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement — Eligible Hedged Items[1]
• HK(IFRIC)-Int 14 Amendment	Prepayment of a Minimum Funding Requirement[5]
• HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners[1]
• HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[4]
• HK-Int 4 Amendment	Determination of Length of Lease Term in respect of Hong Kong Land Leases[2]

Apart from the above, the HKICPA has also issued Improvements to HKFRSs* which set out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int16 which are effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2010 although there is separate transitional provision for each standard.

1 effective for annual periods beginning on or after 1 July 2009
2 effective for annual periods beginning on or after 1 January 2010
3 effective for annual periods beginning on or after 1 February 2010
4 effective for annual periods beginning on or after 1 July 2010
5 effective for annual periods beginning on or after 1 January 2011
6 effective for annual periods beginning on or after 1 January 2013
* Improvements to HKFRSs contain amendments to HKFRS 2, HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 18, HKAS 36, HKAS 38, HKAS 39, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16.

HKFRS 1 Amendments address the retrospective application of HKFRSs to particular situations (such as exempt entities using full cost method from retrospective application of HKFRSs for oil and gas assets or existing leasing contracts from reassessing the classification of those contracts in accordance with HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease when the application of their other accounting requirement produced the same result) and are aimed at ensuring that entities applying HKFRSs will not face undue cost or effort in the transition process. The amendments are unlikely to have any financial impact on the Group.

HKFRS 1 (Revised) was issued with an aim to improve the structure of the standard. The revised version of the standard does not make any changes to the substance of accounting by first-time adopters. As the Group is not a first-time adopter of HKFRS, the revisions are unlikely to have any financial impact on the Group.

2.4 Impact of Issued But Not Yet Effective Hong Kong Financial Reporting Standards (Continued)

HKFRS 2 Amendments clarify its scope and the accounting for group companies' cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when that entity has no obligation to settle the share-based payment transaction. The amendments are unlikely to have any financial impact on the Group.

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 the minority interests) at fair value; (ii) recognising gains or losses from re-measuring 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. The amendments are unlikely to have any financial impact on the Group.

HKFRS 9 represents the completion of the first part of a three-part project to replace HKAS 39 Financial Instruments: Recognition and Measurement. HKFRS 9 uses business model and contractual cash flow characteristics to determine whether a financial asset is measured at amortised cost or fair value, replacing the four category classification in HKAS 39. The approach is also based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The Group expects to adopt HKFRS 9 from 1 January 2010.

HKAS 18 Amendments provides additional guidance to determine whether an entity is acting as principal or agent. The additional guidance is unlikely to have any financial impact on the Group.

HKAS 24 (Revised) simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Government-related entities are now defined as entities that are controlled, jointly-controlled or significantly influenced by the government. The revised standard still requires disclosures that are important to users of financial statements but eliminates requirements to disclose information that is costly to gather and of less value to users. It achieves this balance by requiring disclosure about these transactions only if they are significant. The amendments are unlikely to have any financial impact on the Group.

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 amendments are unlikely to have any financial impact on the Group.

Amendments to HKAS 32 address the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. However, the amendments contained in this update require that, provided that certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. The amendments are unlikely to have any financial impact on the Group.

2.4 Impact of Issued But Not Yet Effective Hong Kong Financial Reporting Standards (Continued)

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. The amendments are unlikely to have any financial impact on the Group.

The amendments to HK(IFRIC)-Int 14 requires entities to recognise as an economic benefit any prepayment of minimum funding requirement contributions. As the Group has no defined benefit scheme, the amendments are 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 Reporting Period 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.

HK(IFRIC)-Int 19 addresses the accounting by an entity when the terms of a financial liability are re-negotiated and resulted in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The Group expects to adopt the Interpretation from 1 January 2011. As the Group has not re-negotiated the terms of a financial liability and issued equity instruments to settle the financial liability, the Interpretation is unlikely to have any material financial impact on the Group.

HK-Interpretation 4 was revised in December 2009 as a consequence of amendment to HKAS 17 made by Improvements to HKFRSs issued in May 2009. The amendment to HKAS 17 removes the specific guidance which stated that land held under a lease should be classified as an operating lease unless title to the land is expected to pass at the end of the lease term. The new guidance, paragraph 15A, indicates that entities should use judgment to decide whether the lease transfers the significant risks and rewards of ownership of the land in accordance with the criteria set out in HKAS 17. A lease of land is therefore classified as a finance lease if the lease transfers substantially all the risks and rewards incidental to ownership to the lessee. Following this amendment, the scope of this Interpretation has been expanded to cover all land leases, including those classified as finance leases. As a result, this Interpretation is applicable to all leases of properties accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40. The Interpretation is unlikely to have any material financial impact on the Group.

In May 2009, the HKICPA issued Improvements to HKFRSs which set out amendments to HKFRSs, primarily with a view to removing inconsistencies and clarifying wording. The Group expects to adopt the amendments to HKFRSs from 1 January 2010. There is separate transitional provision 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.

HKFRS 2 Share-based Payment: It revises the scope that transaction in which entity acquires goods as part of the net assets acquired in a business combination, in a combination of entities or business under common controls, or the contribution of a business on the formation of a joint venture does not fall under the scope of this HKFRS.

2.4 Impact of Issued But Not Yet Effective Hong Kong Financial Reporting Standards (Continued)

HKFRS 5 Amendments clarify that an entity that is committed to a sale plan involving loss of control of a subsidiary shall have relevant disclosures when the subsidiary is a disposal group that meets the definition of a discontinued operation.

HKFRS 8 Operating Segments: It clarifies that a measure of total assets for each reportable segment should be reported only if such information is regularly provided to the chief operating decision maker.

HKAS 7 Cash Flow Statements: It specifies that only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities.

HKAS 17 Lease: It removes the previous classification on leases with both land and building elements and requires separate assessment of each element as a finance or an operating lease accordingly.

HKAS 36 Impairment of Assets: It clarifies that each unit or group of units to which the goodwill is so allocated should not be larger than an operating segment before aggregation.

HKAS 38 Intangible Assets: It introduces amendments to measurement of fair value of an intangible asset acquired in a business combination. Intangible asset acquired in business combination might be separable together with a related contract and identifiable liability in addition to identifiable asset. Additional consequential amendments to this HKAS arising from revised HKFRS 3 were also incorporated.

Amendment to HKAS 39 Financial Instruments: Recognition and Measurement: It 1) clarifies that prepayment option is considered closely related to the host contract when the exercise price of prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract; 2) clarifies that this HKAS is not applicable to forward contract between acquirer and selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date; and 3) also replaces the term “assets acquired or liability assumed” under cash flow hedges with “hedged forecast cash flows”.

HK(IFRIC)-Int 9 Reassessment of Embedded Derivatives: It revises the scope that this Interpretation does not apply to embedded derivatives in contracts acquired in a business combination, a combination of entities or businesses under common control, or the formation of a joint venture.

2.5 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 rates of exchange ruling at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rates of exchange ruling at the end of the reporting period. 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 operation 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 rates of exchange ruling at the end of the reporting period, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement as part of gain or loss on disposal.

(2) Financial instruments – initial recognition and subsequent measurement

(i) Date of recognition

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

2.5 Summary of Significant Accounting Policies (Continued)

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

(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 gain or loss 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.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position 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 maturity 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, held-to-maturity investments and available-for-sale securities".

2.5 Summary of Significant Accounting Policies (Continued)

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

(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 markets 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 asset revaluation reserve".

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

2.5 Summary of Significant Accounting Policies (Continued)

(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 right 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
- the Group has transferred its right to receive cash flows from the assets and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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 end of the reporting period 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.

2.5 Summary of Significant Accounting Policies (Continued)

(5) Impairment of financial assets

The Group assesses at each end of the reporting period 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, that it is possible that they will enter bankruptcy or other financial reorganisation and that there are observable data indicating 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.

2.5 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 end of the reporting period 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.

2.5 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 statement of financial position. 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 risks 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 statement of financial position 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.

2.5 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.

(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".

2.5 Summary of Significant Accounting Policies (Continued)

(8) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, 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.

(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.

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 becomes 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.

2.5 Summary of Significant Accounting Policies (Continued)

(11) Joint venture companies and jointly-controlled entities

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

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

A joint venture is treated as:

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

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

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

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

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

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. 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 interest in jointly-controlled entities is stated in the consolidated statement of financial position 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 interest in jointly-controlled entities is treated as non-current asset and is stated at cost less any impairment losses.

2.5 Summary of Significant Accounting Policies (Continued)

(12) Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

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

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

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

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

(13) Property and equipment, and depreciation

The building component of owner-occupied properties and other property and equipment, other than investment properties, is stated at cost, except for certain buildings transferred from investment properties, which are stated at deemed cost at the date of transfer, less accumulated depreciation and impairment. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on 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% to 4%
Leasehold improvements:	
Own leasehold buildings	20% to 33 $^{1}/_{3}$%
Others	Over the shorter of the remaining lease terms and seven years
Furniture, fixtures and equipment	10% to 33 $^{1}/_{3}$%
Motor vehicles	20% to 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 end of the reporting period.

2.5 Summary of Significant Accounting Policies (Continued)

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

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 end of the reporting period. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

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

2.5 Summary of Significant Accounting Policies (Continued)

(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 in "Other liabilities" at fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contact, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group 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.

(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 end of the reporting period 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 end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.5 Summary of Significant Accounting Policies (Continued)

(21) Income tax (Continued)

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries and interest in a joint venture, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, 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 end of the reporting period 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 end of the reporting period 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 end of the reporting period.

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 participates in 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.

2.5 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 end of the reporting period, 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 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 end of the reporting period.

(23) Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within reserves in the statement of financial position, 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 end of the reporting period, 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 2009 was HK$2,774,403,000 (2008: HK$2,774,403,000). Further details are set out in note 27 to the financial statements.

4. Segment Information

In accordance with the Group's internal financial reporting, the Group has identified operating segments based on similar economic characteristics, products and services and delivery methods. The operating segments are identified by Senior Management who is designated as "Chief Operating Decision Maker" to make decisions about resource allocation to the segments and assess their performance. Summary details of the operating segments are as follows:

– 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 and the overall funding management of the Group;

– the wealth management services, stockbroking and securities management segment comprises management of investments in debts and equity securities, securities dealing and receipt of commission income and provision of authorised wealth management products and services; and

– other business segments comprise taxi trading and the leasing of taxis and letting of investment properties.

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

4. Segment Information (Continued)

The following tables represent revenue and profit information for operating segments for the years ended 31 December 2009 and 2008, and certain asset and liability information regarding operating segments as at 31 December 2009 and 2008.

	Retail and commercial banking and lending		Wealth management services, stockbroking and securities management		Other businesses		Eliminated on consolidation		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue										
External:										
Net interest income	**1,172,988**	1,051,226	**60**	355	**–**	–	**–**	–	**1,173,048**	1,051,581
Other operating income:										
Fees and commission income	**117,396**	154,562	**84,218**	113,125	**612**	630	**–**	–	**202,226**	268,317
Others	**14,299**	18,935	**360**	1,178	**15,163**	14,906	**–**	–	**29,822**	35,019
Profits/(losses) on sale of available-for-sale financial assets	**–**	(1,057)	**26,035**	–	**–**	–	**–**	–	**26,035**	(1,057)
Inter-segment transactions:										
Fee and commission income	**–**	–	**–**	–	**245**	247	**(245)**	(247)	**–**	–
Operating income	**1,304,683**	1,223,666	**110,673**	114,658	**16,020**	15,783	**(245)**	(247)	**1,431,131**	1,353,860
Segment results	**279,118**	357,217	**17,289**	26,381	**12,082**	4,796	**–**	–	**308,489**	388,394
Share of profits and losses of a jointly-controlled entity									**–**	–
Profit before tax									**308,489**	388,394
Tax									**(33,416)**	(30,207)
Profit for the year									**275,073**	358,187
Segment assets other than interest in a jointly–controlled entity and intangible assets	**35,730,967**	32,050,162	**649,793**	306,910	**199,426**	187,151	**–**	–	**36,580,186**	32,544,223
Interest in a jointly–controlled entity	**1,513**	1,513	**–**	–	**–**	–	**–**	–	**1,513**	1,513
Intangible assets	**–**	–	**718**	358	**–**	–	**–**	–	**718**	358
Goodwill	**2,774,403**	2,774,403	**–**	–	**–**	–	**–**	–	**2,774,403**	2,774,403
	38,506,883	34,826,078	**650,511**	307,268	**199,426**	187,151	**–**	–	**39,356,820**	35,320,497
Unallocated assets:										
Deferred tax assets									**16,234**	9,168
Total assets									**39,373,054**	35,329,665
Segment liabilities	**32,831,767**	29,163,996	**526,033**	155,090	**16,019**	12,923	**–**	–	**33,373,819**	29,332,009
Unallocated liabilities:										
Deferred tax liabilities and tax payable									**24,288**	30,525
Dividend payable									**142,729**	197,625
Total liabilities									**33,540,836**	29,560,159
Other segment information										
Additions to non-current assets – capital expenditure	**29,956**	84,416	**–**	–	**–**	–	**–**	–	**29,956**	84,416
Amortisation and depreciation of land lease prepayments	**30,274**	23,849	**–**	–	**–**	–	**–**	–	**30,274**	23,849
Changes in fair value of investment properties	**–**	–	**–**	–	**(27,689)**	(18,541)	**–**	–	**(27,689)**	(18,541)
Impairment allowances for loans and advances and receivables, held-to-maturity investments and available-for-sale securities	**511,879**	441,534	**–**	–	**–**	–	**–**	–	**511,879**	441,534
Net losses on disposal of property and equipment	**46**	74	**–**	–	**–**	–	**–**	–	**46**	74

4. Segment Information (Continued)

Geographical information

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

Operating income or revenue from major customers

Operating income or revenue from transactions with each external customer amounts to less than 10% of the Group's total operating income or revenue.

5. Interest Income and Expense

	Year ended 31 December	
	2009	2008
	HK$'000	HK$'000
Interest income from:		
Loans and advances and receivables	**1,379,815**	1,462,931
Short term placements and placements with banks	**47,958**	167,810
Held-to-maturity investments	**53,420**	113,305
	1,481,193	1,744,046
Interest expense on:		
Deposits from banks and financial institutions	**41,720**	83,239
Deposits from customers	**238,038**	563,464
Bank loans	**28,387**	45,762
	308,145	692,465

The interest income for the year ended 31 December 2009 amounted to HK$1,481,193,000 (2008: HK$1,744,046,000) and interest expense for the year ended 31 December 2009 amounted to HK$308,145,000 (2008: HK$692,465,000) pursuant to the adoption of the effective interest method for financial assets and financial liabilities which are not designated at fair value through profit or loss. The interest income of the impaired loans and advances for the year ended 31 December 2009 amounted to HK$10,645,000 (2008: HK$4,942,000).

6. Other Operating Income

	Year ended 31 December 2009 HK$'000	2008 HK$'000
Fees and commission income:		
Retail and commercial banking	**119,087**	156,370
Wealth management services, stockbroking and securities management	**84,218**	113,125
	203,305	269,495
Less: Fees and commission expense	**(1,079)**	(1,178)
Net fees and commission income	**202,226**	268,317
Gross rental income	**13,336**	12,689
Less: Direct operating expenses	**(89)**	(117)
Net rental income	**13,247**	12,572
Gains less losses arising from dealing in foreign currencies	**272**	16,361
Losses on disposal of financial assets designated at fair value through profit or loss	**–**	(1,057)
Net losses on disposal of property and equipment	**(46)**	(74)
Dividends from listed investments	**360**	1,178
Dividends from unlisted investments	**994**	980
Net income/(expense) on derivative financial instruments	**9,989**	(3,263)
Others	**5,006**	7,265
	232,048	302,279

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 2009 and 2008.

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 2009 HK$'000	2008 HK$'000
Staff costs:		
Salaries and other staff costs	**297,178**	265,863
Pension contributions	**15,541**	14,261
Less: Forfeited contributions	**(8)**	(52)
Net retirement benefit schemes	**15,533**	14,209
	312,711	280,072
Other operating expenses:		
Operating lease rentals on leasehold buildings	**45,743**	39,232
Amortisation and depreciation of land lease prepayments	**30,274**	23,849
Auditors' remuneration	**3,490**	3,625
Administrative and general expenses	**56,372**	49,426
Others	**146,900**	146,269
Operating expenses before changes in fair value of investment properties	**595,490**	542,473
Changes in fair value of investment properties	**(27,689)**	(18,541)
	567,801	523,932

As at 31 December 2009, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years (2008: Nil). The current year credits arose in respect of staff who left the schemes during the year.

8. Impairment Allowances

	Year ended 31 December	
	2009	2008
	HK$'000	HK$'000
Net charge for/(write-back of) impairment allowances:		
– Loans and advances	**516,571**	370,778
– Trade bills, accrued interest and receivables	**(4,692)**	2,540
	511,879	373,318
– Held-to-maturity investments	**–**	37,000
– Available-for-sale financial assets	**–**	31,216
	511,879	441,534
Net charge for impairment allowances:		
– Individually assessed	**481,393**	428,286
– Collectively assessed	**30,486**	13,248
	511,879	441,534
Of which:		
– new impairment losses and allowances (including any amount directly written off during the year)	**631,562**	553,257
– releases and recoveries	**(119,683)**	(111,723)
Net charge to the consolidated income statement	**511,879**	441,534

9. Directors' Remuneration

The remuneration of each director for the years ended 31 December 2009 and 2008 is set out below:

Group

Name of director	Fees HK$'000	Salaries and other benefits HK$'000 (Note 1)	Bonuses HK$'000	Retirement benefit contributions HK$'000	Total HK$'000
	2009				
Tan Sri Dato' Sri Dr. Teh Hong Piow	325	–	–	–	325
Tan Sri Dato' Thong Yaw Hong	240	–	–	–	240
Tan Yoke Kong (Note 2)	100	1,571	353	170	2,194
Lee Huat Oon	50	1,116	257	123	1,546
Chong Yam Kiang (Appointed on 1 January 2009)	100	1,406	187	64	1,757
Tan Sri Dato' Sri Tay Ah Lek	200	–	–	–	200
Dato' Chang Kat Kiam	150	–	–	–	150
Dato' Yeoh Chin Kee (Resigned on 15 January 2009)	8	–	–	–	8
Lee Chin Guan	200	–	–	–	200
Quah Poh Keat (Re-designated as Independent Non-executive Director on 13 January 2009)	200	–	–	–	200
	1,573	4,093	797	357	6,820

Group

Name of director	Fees HK$'000	Salaries and other benefits HK$'000 (Note 1)	Bonuses HK$'000	Retirement benefit contributions HK$'000	Total HK$'000
	2008				
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
	1,586	2,705	960	293	5,544

9. Directors' Remuneration (Continued)

Notes:

1. Salaries and other benefits included basic salaries, housing allowance, other allowances, and benefits in kind and employee share option benefits. No employee share option benefits were paid in 2009 (2008: Nil) and the employee share option benefits represented 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.

2. The director occupies a property of the Group rent free. The estimated monetary value of the accommodation provided to him during the year which was not charged to the income statement was HK$780,000 (2008: HK$780,000).

10. Five Highest Paid Individuals

The five highest paid individuals during the year included three (2008: two) directors, details of whose remuneration are set out in note 9 above.

Details of the remaining two (2008: three) highest paid individuals' remuneration in 2009 are as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Basic salaries, housing, other allowances and benefits in kind	**2,018**	3,397
Bonuses paid and payable	**407**	884
Retirement benefit scheme contributions	**171**	243
	2,596	4,524

The number of highest paid individuals in 2009 whose remuneration fell within the bands set out below is as follows:

	2009 Number of Individuals	2008 Number of Individuals
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**2**	2
HK$1,500,001 to HK$2,000,000	**–**	1
	2	3

11. Tax

	Group 2009 HK$'000	Group 2008 HK$'000
Current tax charge:		
Hong Kong	**40,185**	80,086
Elsewhere	**3,905**	915
Over-provisions in prior years	**(1,048)**	(2,173)
Deferred tax credit (Note 32)	**(9,626)**	(48,621)
	33,416	30,207

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) 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, 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:

	2009					
	Hong Kong		**Mainland China**		**Total**	
	HK$'000	**%**	**HK$'000**	**%**	**HK$'000**	**%**
Profit before tax	**284,045**		**24,444**		**308,489**	
Tax at the applicable tax rate	**46,867**	**16.5**	**4,889**	**20.0**	**51,756**	**16.8**
Effect on change in tax rates	**–**	**–**	**119**	**0.5**	**119**	**–**
Estimated tax effect of net (income)/ expenses that is not (taxable)/deductible	**(443)**	**(0.2)**	**17**	**0.1**	**(426)**	**(0.1)**
Estimated tax losses not recognised	**13**	**–**	**–**	**–**	**13**	**–**
Estimated tax losses from previous periods utilised	**(2,346)**	**(0.8)**	**–**	**–**	**(2,346)**	**(0.8)**
Adjustments in respect of deferred tax of previous periods	**(12,787)**	**(4.5)**	**(1,865)**	**(7.6)**	**(14,652)**	**(4.7)**
Adjustments in respect of current tax of previous periods	**(71)**	**–**	**(977)**	**(4.0)**	**(1,048)**	**(0.4)**
Tax charge at the Group's effective rate	**31,233**	**11.0**	**2,183**	**9.0**	**33,416**	**10.8**

11. Tax (Continued)

	2008					
	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	383,364		5,030		388,394	
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)/ expenses that is not (taxable)/deductible	(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	29,292	7.7	915	18.2	30,207	7.8

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 2009 includes a profit of HK$72,571,000 (2008: HK$1,499,075,000) which has been dealt with in the financial statements of the Company (Note 37).

13. Dividends

	2009 HK$ per ordinary share	2008 HK$ per ordinary share	**2009 HK$'000**	2008 HK$'000
Interim:				
First	**0.05**	0.05	**54,896**	54,896
Second	**0.13**	0.18	**142,729**	197,625
	0.18	0.23	**197,625**	252,521

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$275,073,000 (2008: HK$358,187,000) and the weighted average number of ordinary shares of 1,097,917,618 (2008: 1,096,354,200) in issue during the year.

(b) Diluted earnings per share

The share options outstanding during the years ended 31 December 2009 and 2008 had nil effect on the basis earnings per share for these years. The calculation of diluted earnings per share for the year ended 31 December 2009 was based on the profit for the year of HK$275,073,000 (2008: HK$358,187,000) and on the weighted average number of ordinary shares of 1,097,917,618 (2008: 1,096,354,200), being the weighted average number of ordinary shares of 1,097,917,618 (2008: 1,096,354,200) in issue during the year as used in the basic earnings per share calculation.

15. Cash and Short Term Placements

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash in hand	**122,412**	129,548	**–**	–
Placements with banks and financial institutions	**603,840**	345,590	**24,032**	4,256
Money at call and short notice	**4,879,368**	5,310,134	**50,211**	304,825
	5,605,620	5,785,272	**74,243**	309,081

Over 90% of the placements are rated with a 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	
	2009	2008
	HK$'000	HK$'000
Placements with banks and financial institutions	**868,483**	173,099

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

17. Loans and Advances and Receivables

	Group 2009 HK$'000	Group 2008 HK$'000
Loans and advances	**24,516,942**	24,377,507
Trade bills	**70,286**	50,861
	24,587,228	24,428,368
Accrued interest	**72,955**	86,165
	24,660,183	24,514,533
Other receivables	**55,247**	58,138
Gross loans and advances and receivables	**24,715,430**	24,572,671
Less: Impairment allowances for loans and advances and receivables		
– Individually assessed	**(160,868)**	(108,432)
– Collectively assessed	**(109,782)**	(79,296)
	(270,650)	(187,728)
Loans and advances and receivables	**24,444,780**	24,384,943

Over 90% of the loans and advances and receivables are unrated exposures. Collateral for the Group's secured loans and advances and receivables include properties, cash, listed shares and taxi licences.

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

	Group 2009 Gross amount HK$'000	Group 2009 Percentage of total loans and advances	Group 2008 Gross amount HK$'000	Group 2008 Percentage of total loans and advances
Loans and advances overdue for:				
Six months or less but over three months	**175,862**	**0.72**	183,494	0.76
One year or less but over six months	**72,266**	**0.30**	9,551	0.04
Over one year	**103,731**	**0.42**	12,843	0.05
Loans and advances overdue for more than three months	**351,859**	**1.44**	205,888	0.85
Rescheduled loans and advances overdue for three months or less	**79,383**	**0.32**	298	–
Impaired accounts overdue for three months or less	**95,924**	**0.39**	47,198	0.19
Total overdue and impaired loans and advances	**527,166**	**2.15**	253,384	1.04

17. Loans and Advances and Receivables (Continued)

(ii) Overdue and impaired trade bills, accrued interest and other receivables

	Group 2009 HK$'000	2008 HK$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	**2,492**	3,251
One year or less but over six months	**329**	437
Over one year	**3,573**	2,113
Trade bills, accrued interest and other receivables overdue for more than three months	**6,394**	5,801
Impaired accounts overdue for three months or less	**77**	3,063
Total overdue and impaired trade bills, accrued interest and other receivables	**6,471**	8,864

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

	Group 2009 Hong Kong HK$'000	2009 Mainland China HK$'000	2009 Total HK$'000	2008 Hong Kong HK$'000	2008 Mainland China HK$'000	2008 Total HK$'000
(i) Analysis of overdue loans and advances and receivables						
Loans and advances and receivables overdue more than three months	**227,420**	**130,833**	**358,253**	151,411	60,278	211,689
Individual impairment allowances	**68,888**	**37,739**	**106,627**	68,306	16,311	84,617
Collective impairment allowances	**72,375**	**–**	**72,375**	50,455	–	50,455
Current market value and fair value of collateral			**182,720**			19,085
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	**402,804**	**130,833**	**533,637**	198,950	63,298	262,248
Individual impairment allowances	**123,129**	**37,739**	**160,868**	91,526	16,906	108,432
Collective impairment allowances	**72,375**	**–**	**72,375**	50,455	–	50,455
Current market value and fair value of collateral			**262,374**			31,371

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.

17. 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	
	2009	2008
	HK$'000	HK$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	**182,720**	19,085
Covered portion of overdue loans and advances	**91,885**	7,624
Uncovered portion of overdue loans and advances	**259,974**	198,264

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 2009, the total value of repossessed assets of the Group amounted to HK$25,715,000 (2008: Nil).

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

	Group			
	2009		2008	
	Gross amount HK$'000	**Percentage of total loans and advances**	Gross amount HK$'000	Percentage of total loans and advances
Loans and advances overdue less than three months	**476,162**	**1.94**	718,268	2.95
Rescheduled but not impaired loans and advances	**–**	**–**	505	–
	476,162	**1.94**	718,773	2.95
Trade bills, accrued interest and other receivables overdue less than three months	**2,375**		6,939	

17. Loans and Advances and Receivables (Continued)

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

Group

	2009		
	Individual impairment allowance HK$'000	Collective impairment allowance HK$'000	Total HK$'000
At 1 January 2009	108,432	79,296	187,728
Amount written off	(538,870)	–	(538,870)
Impairment losses and allowances charged to the income statement	600,998	30,564	631,562
Impairment losses and allowances released to the income statement	(119,605)	(78)	(119,683)
Net charge of impairment losses and allowances	481,393	30,486	511,879
Loans and advances and receivables recovered	109,921	–	109,921
Exchange difference	(8)	–	(8)
At 31 December 2009	160,868	109,782	270,650
Deducted from:			
Loans and advances	159,254	109,346	268,600
Trade bills, accrued interest and other receivables	1,614	436	2,050
	160,868	109,782	270,650

17. Loans and Advances and Receivables (Continued)

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

Group

	2008		
	Individual impairment allowance HK$'000	Collective impairment allowance HK$'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	108,432	79,296	187,728
Deducted from:			
Loans and advances	101,893	79,093	180,986
Trade bills, accrued interest and other receivables	6,539	203	6,742
	108,432	79,296	187,728

17. 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	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts receivable under finance leases:				
Within one year	**372,656**	504,367	**273,611**	402,799
In the second to fifth years, inclusive	**1,072,706**	984,264	**789,937**	712,678
Over five years	**3,218,630**	3,020,088	**2,559,516**	2,390,931
	4,663,992	4,508,719	**3,623,064**	3,506,408
Less: Unearned finance income	**(1,040,928)**	(1,002,311)		
Present value of minimum lease payments receivable	**3,623,064**	3,506,408		

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.

18. 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 2009 and 2008.

There were no impairment allowances for other assets (other than loans and advances and receivables, held-to-maturity investments, available-for-sale securities, Lehman Brothers Minibonds and intangible assets) as at 31 December 2009 and 2008, and no impairment allowances and losses were charged to the income statement for such other assets for the years ended 31 December 2009 and 2008.

19. Available-for-sale Financial Assets

	Group 2009 HK$'000	2008 HK$'000
Listed security investment in Hong Kong, at quoted market price:		
At the beginning of the year	**14,720**	44,240
Disposals	**(26,035)**	–
Change in fair value	**11,315**	(29,520)
Sub-total	**–**	14,720
Unlisted equity investments, at fair value:		
At the beginning and the end of the year	**6,804**	6,804
Total at the end of the year	**6,804**	21,524
Analysed by type of issuer:		
Corporate entities	**6,804**	21,524

The unlisted investment is measured at fair value based on present value of cash flows over a period of 10 years.

20. Held-to-maturity Investments

	Group 2009 HK$'000	2008 HK$'000
Certificates of deposit held	**812,130**	40,000
Treasury bills (including Exchange Fund Bills)	**499,746**	319,721
Other debt securities	**2,904,758**	609,495
	4,216,634	969,216
Listed or unlisted:		
– listed in Hong Kong	**–**	19,994
– unlisted	**4,216,634**	949,222
	4,216,634	969,216
Analysed by type of issuer:		
– Central government	**499,746**	319,720
– Banks and other financial institutions	**3,716,888**	649,496
	4,216,634	969,216
Market value of listed held-to-maturity investments:		
– Hong Kong	**–**	20,214

20. Held-to-maturity Investments (Continued)

Movements in impairment allowance of held-to-maturity investments

	Group	
	2009	2008
	HK$'000	HK$'000
Balance at the beginning of the year	**–**	9,800
Individual impairment allowance charged to the income statement for the year	**–**	37,000
	–	46,800
Less: Amount written off	**–**	(46,800)
Balance at the end of the year	**–**	–

There were neither impaired nor overdue held-to-maturity investments as at 31 December 2009 and 2008.

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.

21. Investment Properties

	Group	**Company**
	HK$'000	**HK$'000**
At valuation:		
At 1 January 2008	146,492	58,900
Additions	313	923,574
Change in fair value	18,541	506
At 31 December 2008 and 1 January 2009	**165,346**	**982,980**
Additions	**–**	**7,900**
Legal cost	**6**	**6**
Transfer to property and equipment	**(803)**	**–**
Transfer to land lease prepayments	**(7,896)**	**–**
Change in fair value	**27,689**	**87,304**
At 31 December 2009	**184,342**	**1,078,190**

21. Investment Properties (Continued)

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

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
At valuation:				
Medium term leases	**67,099**	66,197	**165,344**	150,289
Long term leases	**117,243**	99,149	**912,846**	832,691
	184,342	165,346	**1,078,190**	982,980

In the current year, the carrying amounts of the investment properties were transferred to owner-occupied properties on the basis of their fair values at the date of transfer.

At 31 December 2009, investment properties with a carrying amount of HK$156,653,000 (2008: HK$146,805,000) were revalued at HK$184,342,000 (2008: HK$165,346,000) according to a revaluation report issued by C S Surveyors Limited, a firm of independent professionally qualified valuers, on an open market value, existing use basis. The increase in the fair value of HK$27,689,000 (2008: HK$18,541,000) 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 38(a) to the financial statements.

22. Property and Equipment

	Group				Company
	Buildings HK$'000	Leasehold Improvement, furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000	Leasehold Improvement, furniture, fixtures and equipment HK$'000
Cost:					
At 1 January 2008	68,848	113,551	2,984	185,383	–
Additions	1,406	37,558	–	38,964	–
Disposals/write-off	–	(6,590)	–	(6,590)	–
At 31 December 2008 and 1 January 2009	**70,254**	**144,519**	**2,984**	**217,757**	**–**
Additions	**–**	**29,947**	**–**	**29,947**	**485**
Transfer from investment properties	**803**	**–**	**–**	**803**	**–**
Disposals/write-off	**–**	**(13,214)**	**–**	**(13,214)**	**–**
At 31 December 2009	**71,057**	**161,252**	**2,984**	**235,293**	**485**
Accumulated depreciation:					
At 1 January 2008	9,256	75,426	2,694	87,376	–
Provided during the year	1,539	16,092	99	17,730	–
Exchange difference	35	23	–	58	–
Disposals/write-off	–	(6,517)	–	(6,517)	–
At 31 December 2008 and 1 January 2009	**10,830**	**85,024**	**2,793**	**98,647**	**–**
Provided during the year	**1,616**	**21,328**	**33**	**22,977**	**257**
Exchange difference	**–**	**–**	**–**	**–**	**–**
Disposals/write-off	**–**	**(10,461)**	**–**	**(10,461)**	**–**
At 31 December 2009	**12,446**	**95,891**	**2,826**	**111,163**	**257**
Net carrying amount:					
At 31 December 2009	**58,611**	**65,361**	**158**	**124,130**	**228**
At 31 December 2008	59,424	59,495	191	119,110	–

No valuation has been made for the above property and equipment for the years ended 31 December 2009 and 2008.

23. Land Lease Prepayments

	Group HK$'000
Cost:	
At 1 January 2008	667,402
Additions	45,447
At 31 December 2008 and 1 January 2009	**712,849**
Transfer from investment properties	**7,896**
At 31 December 2009	**720,745**
Accumulated amortisation and impairment:	
At 1 January 2008	38,738
Amortised during the year	6,121
At 31 December 2008 and 1 January 2009	**44,859**
Amortised during the year	**7,296**
At 31 December 2009	**52,155**
Net carrying amount:	
At 31 December 2009	**668,590**
At 31 December 2008	667,990

23. Land Lease Prepayments (Continued)

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

	Group	
	2009	2008
	HK$'000	HK$'000
Net book value:		
Medium term leases	**227,307**	225,353
Long term leases	**441,283**	442,637
	668,590	667,990

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 the land leases (2008: Nil) was credited to the income statement. The fair value less costs of the land leases was determined with reference to a qualified external valuer's valuation.

The current and non-current portions of the land lease prepayments were HK$8,359,000 (2008: HK$7,200,000) and HK$660,231,000 (2008: HK$660,790,000) respectively.

24. Interests in Subsidiaries

	Company	
	2009	2008
	HK$'000	HK$'000
Unlisted shares, at cost	**6,593,507**	6,593,507
Amounts due from subsidiaries	**74,491**	66,776
	6,667,998	6,660,283

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 2009 and 2008. The non-interest-bearing amounts due from subsidiaries were HK$74,491,000 (2008: HK$66,776,000) and non-current in nature.

24. 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 Direct	Indirect	Principal activities
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	200	–	100	Dormant
Public Realty Limited	100,000	–	100	Dormant
Public Credit Limited	5,000,000	–	100	Dormant
Public Futures Limited	2	–	100	Dormant
Public Pacific Securities Limited	12,000,000	–	100	Dormant
Public Financial Securities Limited	48,000,000	–	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 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 and mortgage 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 subsidiaries were incorporated in Hong Kong. Except for Public Bank (Hong Kong) Limited, which operates in Hong Kong, Mainland China and Taiwan, all subsidiaries operate in Hong Kong.

25. Interest in a Jointly-controlled Entity

	Group 2009 HK$'000	2008 HK$'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:

	2009 HK$'000	2008 HK$'000
Share of the jointly-controlled entity's assets and liabilities:		
Assets	**1,893**	2,020
Liabilities	**(380)**	(507)
Net assets	**1,513**	1,513
Share of the jointly-controlled entity's profits and losses		
Total income	**1,440**	1,405
Total expenses	**(1,440)**	(1,405)
Profit/ (loss) after tax	**–**	–

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

26. Other Assets

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Interest receivable from authorised institutions	**2,187**	13,488	**1**	1,583
Other debtors, deposits and prepayments	**431,875**	221,279	**1,482**	5,431
	434,062	234,767	**1,483**	7,014

27. Goodwill

	Group	
	2009	2008
	HK$'000	HK$'000
Cost:		
At the beginning and at the end of the year	**2,774,403**	2,774,403

Impairment test of goodwill

There are two cash-generating units (the "CGUs") namely Public Finance Limited and Public Bank (Hong Kong) Limited which represent the main operating entities within the business segment "Retail and commercial banking and lending businesses" identified by the Group. Goodwill acquired through business combinations is allocated on pro-rata basis to the two CGUs based on the ratio of recoverable amounts of a CGU to those of the other CGU at the date of acquisition. The recoverable amounts of the CGUs at each subsequent reporting date are determined based on the value in use using the present value of cash flows taking into account the expected operating synergy and profitability and growth of businesses arising from the acquisition of Public Bank (Hong Kong) Limited and its subsidiaries. The cash flow projections are based on financial budgets approved by management covering a 10-year period and assumed growth rates are used to extrapolate the cash flows in the following 40 years. The financial budgets are prepared based on 10-year business plan which is appropriate after consideration of sustainability of business growth, stability of core business developments, long term economic cycle and achievement of business targets extrapolated from track record of financial results. All cash flows are discounted at a discount rate of 2% to 6%. Management's financial model assumes an average of growth rates from 6% to 7% per annum from the eleventh to fiftieth year taking into account long term gross domestic product growth and other relevant economic factors. The discount rate used is based on the rate which reflects specific risks relating to the CGUs.

No impairment loss has been recognised in respect of goodwill for the years ended 31 December 2009 and 2008 as its value in use exceeds the carrying amount.

28. Intangible Assets

	Group 2009 HK$'000	2008 HK$'000
Cost:		
At the beginning and at the end of the year	**725**	725
Addition	**360**	–
At the end of the year	**1,085**	725
Accumulated impairment:		
At the beginning of the year and at the end of the year	**(367)**	(367)
Net carrying amount:		
At the end of the year	**718**	358

The trading rights are retained for stock trading and stockbroking activities, and are of indefinite useful lives. They represent five units (2008: four units) of Stock Exchange Trading Right and one unit (2008: one unit) of Futures Exchange Trading Right in Hong Kong Exchanges and Clearing Limited.

29. 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:

	Group 2009 HK$'000	2008 HK$'000
Aggregate amount of principal and interest outstanding at the end of the year	**752**	834
Maximum aggregate amount of principal and interest outstanding during the year	**1,381**	1,435

The loans to directors and officers are granted on essentially the same terms as those to other customers, and/or at prevailing market rates and have no fixed terms of repayment, apart from a loan of HK$696,409 to an officer, which is repayable on 25 December 2015 and was secured by a property at a fair value of HK$3,600,000 as at 31 December 2009.

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

30. Customer Deposits at Amortised Cost

	Group	
	2009	2008
	HK$'000	HK$'000
Demand deposits and current accounts	**1,430,609**	928,778
Savings deposits	**5,938,345**	2,988,709
Time, call and notice deposits	**21,995,284**	20,266,929
	29,364,238	24,184,416

31. Unsecured Bank Loans at Amortised Cost

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unsecured bank loans	**2,178,679**	3,249,219	**2,178,679**	2,150,000
Repayable:				
Within one year	**700,000**	3,249,219	**700,000**	2,150,000
In the second to fifth years, inclusive	**1,478,679**	–	**1,478,679**	–
	2,178,679	3,249,219	**2,178,679**	2,150,000

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.

32. Deferred Tax

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

Group

Deferred tax assets:

	At 1 January 2008 HK$'000	Effect of change in tax rates charged to income statement HK$'000	Deferred tax credited/ (charged) to income statement HK$'000	**At 31 December 2008 and 1 January 2009 HK$'000**	**Effect of change in tax rates charged to income statement HK$'000**	**Deferred tax credited/ (charged) to income statement HK$'000**	**At 31 December 2009 HK$'000**
Impairment allowances for loans and advances and receivables	4,312	(246)	567	**4,633**	**–**	**3,585**	**8,218**
Recoverable tax loss	–	–	4,200	**4,200**	**–**	**3,574**	**7,774**
Unrealised profit in inventories	355	(20)	–	**335**	**–**	**(93)**	**242**
Fair value adjustment on held-to-maturity investments	1,001	(57)	(944)	**–**	**–**	**–**	**–**
	5,668	(323)	3,823	**9,168**	**–**	**7,066**	**16,234**

Deferred tax liabilities:

	At 1 January 2008 HK$'000	Effect of change in tax rates credited to income statement HK$'000	Deferred tax credited to income statement HK$'000	**At 31 December 2008 and 1 January 2009 HK$'000**	**Effect of change in tax rates charged to income statement HK$'000**	**Deferred tax credited to income statement HK$'000**	**At 31 December 2009 HK$'000**
Accelerated tax depreciation and revaluation surplus of investment properties	69,243	(3,957)	(41,164)	**24,122**	**119**	**(2,679)**	**21,562**

32. Deferred Tax (Continued)

Company

Deferred tax assets:

	At 1 January 2008 HK$'000	Effect of change in tax rates charged to income statement HK$'000	Deferred tax credited/ (charged) to income statement HK$'000	**At 31 December 2008 and 1 January 2009 HK$'000**	**Deferred tax credited to income statement HK$'000**	**At 31 December 2009 HK$'000**
Recoverable tax loss	–	–	–	**–**	**2,129**	**2,129**

Deferred tax liabilities:

	At 1 January 2008 HK$'000	Effect of change in tax rates charged to income statement HK$'000	Deferred tax credited/ (charged) to income statement HK$'000	**At 31 December 2008 and 1 January 2009 HK$'000**	**Deferred tax charged to income statement HK$'000**	**At 31 December 2009 HK$'000**
Accelerated tax depreciation and revaluation surplus of investment properties	4,800	–	–	**4,800**	**14,427**	**19,227**

The Group has tax losses arising in Hong Kong of HK$36,593,000 (2008: HK$62,925,000) 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 utilised.

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

33. Other Liabilities

	Group 2009 HK$'000	Group 2008 HK$'000	Company 2009 HK$'000	Company 2008 HK$'000
Creditors, accruals and interest payable	**804,606**	372,595	**5,158**	3,401
Amount due to the ultimate holding company	**–**	47	**–**	–
	804,606	372,642	**5,158**	3,401

34. Share Capital

	Company 2009 HK$'000	Company 2008 HK$'000
Ordinary shares		
Authorised:		
2,000,000,000 (2008: 2,000,000,000) ordinary shares of HK$0.10 each	**200,000**	200,000

Issued and fully paid:	Number of ordinary shares of HK$0.10 each 2009	2008	Share capital 2009 HK$'000	2008 HK$'000	Share Premium 2009 HK$'000	2008 HK$'000
At 1 January	**1,097,917,618**	1,093,896,618	**109,792**	109,390	**4,013,296**	3,988,219
Shares issued on exercise of share options	**–**	4,021,000	**–**	402	**–**	25,077
At 31 December	**1,097,917,618**	1,097,917,618	**109,792**	109,792	**4,013,296**	4,013,296

35. 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.

35. 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: (i) the closing price of the ordinary shares on the Stock Exchange at the offer date; (ii) the average closing price of the ordinary shares on the Stock Exchange for 5 business days immediately preceding the offer date; and (iii) the nominal value of an ordinary share.
Vesting condition	:	Nil, subject to open exercise periods to be determined by the board of directors or the Share Option Committee.
The remaining life of the ESOS	:	The ESOS remains in force until 27 February 2012.

35. Share Option Scheme (Continued)

(b) Movement of share options

	Number of share options				
Name	**Outstanding at the beginning of the year**	**Exercised during the year**	**Lapsed during the year**	**Outstanding at the end of the year**	**Exercise price HK$**
Directors					
Tan Sri Dato' Sri Tay Ah Lek	1,230,000	–	–	1,230,000	6.35
Dato' Yeoh Chin Kee (Resigned on 15 January 2009)	550,000	–	550,000	–	6.35
Lee Chin Guan	350,000	–	–	350,000	6.35
Dato' Chang Kat Kiam	1,380,000	–	–	1,380,000	6.35
Tan Yoke Kong	1,318,000	–	–	1,318,000	6.35
Lee Huat Oon	3,170,000	–	–	3,170,000	6.35
Wong Kong Ming (Deceased on 2 October 2008)	3,920,000	–	3,920,000	–	6.35
Employees working under "continuous contracts" for the purposes of the Employment Ordinance other than the directors as disclosed above	23,201,000	–	1,324,000	21,877,000	6.35
	35,119,000	–	5,794,000	29,325,000	6.35

Notes:

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

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

(iii) There was no option granted during the year.

(iv) The remaining contractual life of the 29,325,000 outstanding options was 5.44 years as at 31 December 2009.

(v) The share options outstanding at the end of 2009 can only be exercised in future open exercise periods.

(c) Had all the outstanding share options been fully exercised on 31 December 2009, the last trading date of 2009, the Group would have received proceeds of HK$186,213,750 (2008: HK$223,005,650). The market value of the shares issued based on the closing price of HK$4.44 (2008: HK$2.90) per share on that date would have been HK$130,203,000 (2008: HK$101,845,100). The directors and employees concerned under the ESOS would have made no gain from the exercise of the share options (2008: Nil).

36. Employee Share-based Compensation Reserve

	Group 2009 HK$'000	2008 HK$'000
Employee share option benefits	**45,765**	45,765

There was no movement in the reserve during the years ended 31 December 2009 and 2008.

37. 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 2008	3,988,219	829	96,116	44,176	45,765	161,219	1,187,107	21,400	5,544,831
Profit for the year	–	–	–	–	–	–	358,187	–	358,187
Other comprehensive gains/(losses)	–	–	–	(29,520)	–	–	–	13,660	(15,860)
Premium, net of expenses arising on share options exercised	25,077	–	–	–	–	–	–	–	25,077
Transfer from retained profits	–	–	–	–	–	143,332	(143,332)	–	–
Dividends for 2008 (note 13)	–	–	–	–	–	–	(252,521)	–	(252,521)
At 31 December 2008 and 1 January 2009	**4,013,296**	**829**	**96,116**	**14,656**	**45,765**	**304,551**	**1,149,441**	**35,060**	**5,659,714**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**275,073**	**–**	**275,073**
Other comprehensive loss	**–**	**–**	**–**	**(14,656)**	**–**	**–**	**–**	**(80)**	**(14,736)**
Transfer to retained profits	**–**	**–**	**–**	**–**	**–**	**(38,170)**	**38,170**	**–**	**–**
Dividends for 2009 (note 13)	**–**	**–**	**–**	**–**	**–**	**–**	**(197,625)**	**–**	**(197,625)**
At 31 December 2009	**4,013,296**	**829**	**96,116**	**–**	**45,765**	**266,381**	**1,265,059**	**34,980**	**5,722,426**

37. Reserves (Continued)

Company

	Share premium account HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Available-for-sale financial assets revaluation reserve HK$'000	Employee share-based compensation reserve HK$'000	Regulatory reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2008	3,988,219	829	194,176	–	45,765	–	(6,928)	4,222,061
Premium, net of expense, arising on share options exercised	25,125	–	–	–	–	–	–	25,125
Dividends for 2008 (note 13)	–	–	–	–	–	–	(252,521)	(252,521)
Profit for the year	–	–	–	–	–	–	1,499,075	1,499,075
At 31 December 2008 and 1 January 2009	**4,013,344**	**829**	**194,176**	**–**	**45,765**	**–**	**1,239,626**	**5,493,740**
Premium, net of expense, arising on share options exercised	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Dividends for 2009 (note 13)	**–**	**–**	**–**	**–**	**–**	**–**	**(197,625)**	**(197,625)**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**72,571**	**72,571**
At 31 December 2009	**4,013,344**	**829**	**194,176**	**–**	**45,765**	**–**	**1,114,572**	**5,368,686**

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 2009 was positive goodwill of HK$98,406,000 (2008: 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 2009 as defined in the Guideline.

38. 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 2009, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Within one year	**7,349**	8,559
In the second to fifth years, inclusive	**2,003**	3,532
	9,352	12,091

(b) The Group has 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 2009, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Within one year	**38,580**	37,759
In the second to fifth years, inclusive	**27,183**	32,391
	65,763	70,150

39. 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 end of the reporting period:

Group

	2009				
	Contractual amount HK$'000	Credit equivalent amount HK$'000	Credit risk-weighted amount HK$'000	Positive fair value-assets HK$'000	Negative fair value-liabilities HK$'000
Direct credit substitutes	256,225	256,225	50,611	–	–
Transaction-related contingencies	2,653	1,327	197	–	–
Trade-related contingencies	100,655	20,131	16,203	–	–
Forward forward deposits placed	186,651	186,651	37,330	–	–
Forward asset purchases	21,570	21,570	4,314	–	–
	567,754	485,904	108,655	–	–
Derivatives held for trading:					
Foreign exchange rate contracts	1,542,301	25,920	59	11,657	1,668
Interest rate swaps	–	–	–	–	–
	1,542,301	25,920	59	11,657	1,668
Other commitments with original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	185,230	92,615	92,615	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	2,677,481	–	–	–	–
	4,972,766	604,439	201,329	11,657	1,668
Capital commitment contracted for, but not provided in the financial statements	6,723				

39. Off-balance Sheet Exposure (Continued)

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

Group

	2008				
	Contractual amount HK$'000	Credit equivalent amount HK$'000	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	–	–
	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	–	–	–	–
	6,466,106	506,662	244,892	1,151	4,150
Capital commitment contracted for, but not provided for in the financial statements	5,192				

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 2009 and 2008, the Group had no material outstanding contingent liabilities and commitments save as disclosed above.

39. 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 statement of financial position 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 risk. 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.

40. 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 the same prevailing market rates as those offered to other customers or suppliers.

	Notes	Group 2009 HK$'000	Group 2008 HK$'000
Related party transactions included in the consolidated income statement:			
Interest income from the ultimate holding company	(a)	**20,818**	32,656
Rental income from the ultimate holding company	(b)	**711**	842
Management fees from the ultimate holding company	(c)	**241**	449
Interest paid and payable to a fellow subsidiary and the ultimate holding company	(d)	**31,062**	58,011
Key management personnel compensation:	(e)		
– short-term employee benefits		**6,464**	5,251
– post-employment benefits		**356**	293
		6,820	5,544
Interest income received from key management personnel	(f)	**6**	22
Interest expense paid to key management personnel	(g)	**2**	654
Commission fee income from key management personnel	(h)	**35**	20
Post-employment benefits for employees other than key management personnel	(i)	**15,177**	13,915
Related party transactions included in the consolidated statement of financial position:			
Cash and short term funds with the ultimate holding company	(a)	**736,218**	1,937,677
Deposits and placements with financial institutions with the ultimate holding company	(a)	**620,408**	–
Interest receivable from the ultimate holding company	(a)	**541**	393
Deposits from the ultimate holding company, a fellow subsidiary and an affiliated company	(d)	**828,258**	2,332,673
Bank loan from a fellow subsidiary	(j)	**700,000**	1,050,000
Interest payable to fellow subsidiaries and the ultimate holding company	(d)	**251**	31,002
Rental deposits from the ultimate holding company	(b)	**–**	47
A mortgage loan to key management personnel	(f)	**696**	818
Deposits from key management personnel	(g)	**18,421**	22,355

40. Related Party Transactions (Continued)

Notes:

(a) 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 statement of financial position.

(b) 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 for the period from 1 January 2009 to 30 September 2009 after which Public Bank ceased to rent the premises; and

(ii) Public Bank as its office for the related lease arrangement which was revised on 1 January 2009 for a term of three years at a monthly rental of HK$35,775. The lease arrangement was early terminated on 31 December 2009.

(c) 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.

(d) Fixed deposits were also accepted from PB Trust (L) Ltd ("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, Public Bank and the affiliated company by Public Bank (Hong Kong) in respect of the placements. The balances of the said fixed deposits accepted from PB Trust, Public Bank and the affiliated company and the interest payable were included in customer deposits, deposits from banks and financial institutions and other liabilities, respectively, in the statement of financial position. The interests were paid/payable to Public Bank (L) Ltd for the year by the Company and the interest payable was included in other liabilities in the statement of financial position.

(e) Further details of the post-employment benefits and directors' remuneration are included in notes 7 and 9 to the financial statements respectively.

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

(g) During the year, fixed deposits were accepted from four of the directors by Public Bank (Hong Kong) and deposits to savings accounts were accepted from two of the directors by Public Bank (Hong Kong). Interests were paid to the directors.

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

(i) The Group's post-employment benefit plan for the benefits of employees was detailed in note 7 to the financial statements.

(j) During the year, a bank loan was borrowed from Public Bank (L) Ltd, a fellow subsidiary. The interests were paid/payable to Public Bank (L) Ltd for the year by the Company and the interest payable was included in other liabilities in the statement of financial position.

During prior year, a syndicated loan amounted to HK$2,000,000,000 of the Company was granted 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) Ltd. The bank loan was repaid in full in 2009.

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

41. 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

	2009			2008		
	Carrying value HK$'000	Fair value HK$'000	Unrecognised loss HK$'000	Carrying value HK$'000	Fair value HK$'000	Unrecognised loss HK$'000
Financial assets						
Cash and short term placements	5,605,620	5,605,620	–	5,785,272	5,785,272	–
Placements with banks and financial institutions	868,483	868,483	–	173,099	173,099	–
Derivative financial instruments	11,657	11,657	–	1,151	1,151	–
Loans and advances and receivables	24,444,780	24,444,780	–	24,384,943	24,384,943	–
Available-for-sale financial assets (excluding unlisted equity investment, at cost)	–	–	–	14,720	14,720	–
Held-to-maturity investments	4,216,634	4,214,088	(2,546)	969,216	957,557	(11,659)
Other assets	434,062	434,062	–	234,767	234,767	–
Financial liabilities						
Deposits and balances of banks and other financial institutions at amortised cost	1,024,628	1,024,628	–	641,732	641,732	–
Derivative financial instruments	1,668	1,668	–	4,150	4,150	–
Customer deposits at amortised cost	29,364,238	29,364,238	–	24,184,416	24,184,416	–
Certificates of deposit issued at amortised cost	–	–	–	879,850	879,850	–
Unsecured bank loans at amortised cost	2,178,679	2,178,679	–	3,249,219	3,249,219	–
Other liabilities	804,606	804,606	–	372,642	372,642	–
Total unrecognised change in unrealised fair value			(2,546)			(11,659)

(a) Assets and liabilities for which fair value approximates to carrying value

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:

Liquid or/and very short term and variable rate financial instruments

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months), it is assumed that the carrying amounts approximate 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 the 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.

41. Fair Value of Financial Instruments (Continued)

(b) Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repackaging);
Level 2: quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data; and
Level 3: valuation techniques for which any significant input are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	2009			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Financial assets:				
Derivative financial instruments	**–**	**11,657**	**–**	**11,657**
Available-for-sale financial assets	**–**	**–**	**6,804**	**6,804**
	–	**11,657**	**6,804**	**18,461**
Financial liabilities:				
Derivative financial instruments	**–**	**1,668**	**–**	**1,668**

	2008			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets:				
Derivative financial instruments	–	1,151	–	1,151
Available-for-sale financial assets	14,720	–	6,804	21,524
	14,720	1,151	6,804	22,675
Financial liabilities:				
Derivative financial instruments	–	4,150	–	4,150

There were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

There were no issues and settlements related to the Level 3 financial instruments. Lehman Brothers Minibonds were purchased during 2009 and they were fully impaired as at 31 December 2009.

There was a loss of HK$42,962,000 and nil comprehensive income reported in Income Statement and Statement of Comprehensive Income respectively related to the level 3 financial instruments.

For fair value measurements in Level 3, changing one or more of the inputs to reasonably possible alternative assumptions would not change fair value significantly.

There were no financial assets and financial liabilities that offset against each other at 31 December 2009 and 2008.

42. 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 the section "Liquidity Risk Management" in note 43 to the consolidated financial statements.

Group

	2009							
	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	726,251	4,879,369	–	–	–	–	–	5,605,620
Placements with banks and financial institutions	–	–	779,485	88,998	–	–	–	868,483
Loans and advances and receivables	963,795	1,560,843	1,115,379	2,920,641	7,076,453	10,736,956	341,363	24,715,430
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	–	2,859,338	903,823	411,646	41,827	–	–	4,216,634
Other assets	12	385,687	749	276	162	–	47,176	434,062
Foreign exchange contracts (gross)	–	949,956	592,345	–	–	–	–	1,542,301
Total financial assets	1,690,058	10,635,193	3,391,781	3,421,561	7,118,442	10,736,956	395,343	37,389,334
Financial liabilities :								
Deposits and balances of banks and other financial institutions at amortised cost	273,574	364,312	345,383	41,359	–	–	–	1,024,628
Customer deposits at amortised cost	7,289,672	10,726,313	8,109,281	3,234,638	4,334	–	–	29,364,238
Certificates of deposit issued at amortised cost	–	–	–	–	–	–	–	–
Unsecured bank loans at amortised cost	–	–	–	700,000	1,478,679	–	–	2,178,679
Other liabilities	47	656,481	14,939	13,195	534	–	119,410	804,606
Foreign exchange contracts (gross)	–	946,802	585,510	–	–	–	–	1,532,312
Total financial liabilities	7,563,293	12,693,908	9,055,113	3,989,192	1,483,547	–	119,410	34,904,463

42. Maturity Analysis of Financial Assets and Financial Liabilities (Continued)

Group

	2008							
	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	475,138	5,310,134	–	–	–	–	–	5,785,272
Placements with banks and financial institutions	–	–	34,089	139,010	–	–	–	173,099
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
Foreign exchange contracts (gross)	–	1,246,816	678,502	–	–	–	–	1,925,318
Total financial assets	1,012,441	8,167,833	2,249,226	3,127,911	8,399,341	10,269,581	455,534	33,681,867
Financial liabilities :								
Deposits and balances of banks and other financial institutions at amortised cost	30,324	398,546	161,297	51,565	–	–	–	641,732
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
Foreign exchange contracts (gross)	–	1,249,965	678,352	–	–	–	–	1,928,317
Total financial liabilities	3,932,626	11,992,216	7,359,677	7,690,520	15,223	–	265,914	31,256,176

43. Financial Risk Management Objectives and Policies

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

The Group also enters into derivative transactions, including principally interest rate swaps and forward currency contracts held for trading. The purpose is to manage or mitigate interest rate risk and currency risk arising from the Group's operations.

The main risks arising from the Group's financial instruments are market risk, credit risk, liquidity risk and operational risk. The board reviews and 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 2.5 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 assessed 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 the 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 risk 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/decrease by 200 basis points and the positive net interest gap of HK$668 million (2008: HK$505 million) be up to 12 months, profit before tax would increase/decrease by HK$30 million (2008: HK$28 million) for the next 12 months after the reporting date.

Based on the positive net interest gap of HK$2,745 million (2008: HK$2,577 million) up to five years, the economic value would increase positively by HK$61 million (2008: HK$62 million).

43. Financial Risk Management Objectives and Policies (Continued)

Market risk management (Continued)

(a) Interest rate risk (Continued)

Basis risk is one of the sources of interest rate risk 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 the sensitivity analysis:

(i) Interest rates on managed-rate assets would decrease by 200 basis points whilst interest rates 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$300 million (2008: HK$274 million) for the next 12 months.

(ii) Interest rates on interest-bearing assets and liabilities, except for interest rates 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$480 million (2008: HK$388 million) for the next 12 months.

43. 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 the earlier of maturity dates and contractual repricing as at 31 December 2009 and 2008 are detailed as follows:

Group

	2009							
	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$'000	Total HK$'000
Assets:								
Fixed rate financial assets								
Cash and short term placements	4,879,369	–	–	–	–	–	726,251	5,605,620
Placements with banks and financial institutions	868,483	–	–	–	–	–	–	868,483
Derivative financial instruments	–	–	–	–	–	–	11,657	11,657
Loans and advances and receivables	2,508,866	1,193,211	616,437	224,562	46,985	107,810	242,785	4,940,656
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	4,094,190	–	–	–	–	–	–	4,094,190
	12,350,908	1,193,211	616,437	224,562	46,985	107,810	987,497	15,527,410
Floating rate financial assets								
Cash and short term placements	–	–	–	–	–	–	–	–
Placements with banks and financial institutions	–	–	–	–	–	–	–	–
Loans and advances and receivables	19,774,334	–	–	–	–	–	440	19,774,774
Held-to-maturity investments	122,444	–	–	–	–	–	–	122,444
	19,896,778	–	–	–	–	–	440	19,897,218
Less:								
Liabilities:								
Fixed rate financial liabilities								
Deposits and balances of banks and other financial institutions at amortised cost	751,054	–	–	–	–	–	273,574	1,024,628
Derivative financial instruments	–	–	–	–	–	–	1,668	1,668
Customer deposits at amortised cost	21,913,785	3,678	244	409	–	–	–	21,918,116
	22,664,839	3,678	244	409	–	–	275,242	22,944,412
Floating rate financial liabilities								
Customer deposits at amortised cost	6,736,280	–	–	–	–	–	709,842	7,446,122
Certificates of deposit issued at amortised cost	–	–	–	–	–	–	–	–
Unsecured bank loans at amortised cost	2,178,679	–	–	–	–	–	–	2,178,679
	8,914,959	–	–	–	–	–	709,842	9,624,801
Total interest sensitivity gap	667,888	1,189,533	616,193	224,153	46,985	107,810	2,853	2,855,415

43. Financial Risk Management Objectives and Policies (Continued)

Market risk management (Continued)

(a) Interest rate risk (Continued)

Group

	2008							
	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$'000	Total HK$'000
Assets:								
Fixed rate financial assets								
Cash and short term placements	5,257,134	–	–	–	–	–	475,138	5,732,272
Placements with banks and financial institutions	–	–	–	–	–	–	–	–
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
	8,369,936	1,113,108	673,767	245,521	54,595	33,027	582,679	11,072,633
Floating rate financial assets								
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:								
Liabilities:								
Fixed rate financial liabilities								
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
Floating rate financial liabilities								
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
	7,551,753	–	–	–	–	–	594,443	8,146,196
Total interest sensitivity gap	504,997	1,099,383	672,678	245,521	54,186	33,027	(46,226)	2,563,566

43. 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:

	Group	
	2009 Rate (%)	2008 Rate (%)
Assets		
Cash and short term placements	**0.27**	2.62
Placements with banks and financial institutions	**0.56**	2.77
Loans and advances and receivables (including trade bills)	**5.65**	5.95
Held-to-maturity investments	**1.94**	3.55
Liabilities		
Deposits and balances of banks and other financial institutions at amortised cost	**1.32**	1.55
Customer deposits at amortised cost	**0.63**	2.03
Certificates of deposit issued at amortised cost	**–**	2.38
Unsecured bank loans at amortised cost	**1.45**	1.13

(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 2009 and 2008. 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 price 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.

43. Financial Risk Management Objectives and Policies (Continued)

Market risk management (Continued)

(c) Price risk (Continued)

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.

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, the taking of collateral, the 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 the "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.

43. 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:

	Group	
	2009	2008
	HK$'000	HK$'000
Loans and advances and receivables	**24,715,430**	24,572,671
Irrevocable loan commitment	**1,290,284**	1,796,134
Other credit related contingent liabilities	**359,533**	387,207
Other credit related commitments	**1,780,648**	2,357,446
Placements with banks and financial institutions	**868,483**	173,099
Short term placements (excluding cash in hand)	**5,483,208**	5,655,724
Held-to-maturity investments	**4,216,634**	969,216
Derivative financial instruments	**11,657**	1,151
Interest in a jointly-controlled entity	**1,513**	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.

43. 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 flows, is as follows:

Group

	2009							
	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
Forward assets purchase	–	21,570	–	–	–	–	–	21,570
Foreign currency contracts (gross)	–	946,802	585,510	–	–	–	–	1,532,312
Gross loan commitments	733,332	291,260	53,110	152,282	60,300	–	–	1,290,284
Customer deposits at amortised cost	7,289,721	10,731,685	8,125,099	3,269,041	13,631	–	–	29,429,177
Deposits and balances of banks and other financial institutions at amortised cost	273,574	364,526	349,914	41,568	–	–	–	1,029,582
Certificates of deposit issued at amortised cost	–	–	–	–	–	–	–	–
Unsecured bank loans at amortised cost	–	–	–	700,512	1,502,333	–	–	2,202,845
Other liabilities	–	644,680	–	–	–	–	119,410	764,090
	8,296,627	13,000,523	9,113,633	4,163,403	1,576,264	–	119,410	36,269,860

Group

	2008							
	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
Forward assets purchase	–	23,346	–	–	–	–	–	23,346
Foreign currency contracts (gross)	–	1,249,965	678,352	–	–	–	–	1,928,317
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	12,340,844	7,448,236	7,808,617	246,632	21,576	265,914	33,298,682

43. Financial Risk Management Objectives and Policies (Continued)

Operational risk management

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

Capital management

Capital of the Group for regulatory and risk management purposes includes 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 the 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 the capital adequacy ratio, core capital ratio and capital base is disclosed in the section "Capital disclosures" of the Supplementary Information.

Capital adequacy and core capital ratios

	2009	2008
Group:		
Consolidated capital adequacy ratio	**11.9%**	11.7%
Consolidated core capital ratio	**11.0%**	10.8%
Public Bank (Hong Kong):		
Consolidated capital adequacy ratio	**19.1%**	18.9%
Consolidated core capital ratio	**18.0%**	17.8%

44. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 18 January 2010.

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 2009								
	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	679,618	826	41,755	43,683	38,455	317,442	46.7	79,403	64,628
Building and construction and property development and investment									
Property development	570,549	634	–	–	–	60,658	10.6	–	–
Property investment	5,446,731	6,045	–	–	–	4,547,101	83.5	907	–
Civil engineering works	112,441	124	–	–	–	30,456	27.1	–	–
Electricity and gas	27,765	31	–	–	–	–	–	–	–
Recreational activities	3,039	3	–	–	–	3,039	100.0	–	–
Information technology	2,992	3	–	–	–	2,505	83.7	–	–
Wholesale and retail trade	90,760	101	461	461	–	73,329	80.8	1,872	9
Transport and transport equipment	3,595,266	3,470	3,066	2,610	3,204	3,477,280	96.7	3,362	3,190
Hotels, boarding houses and catering	306,399	340	–	–	–	17,444	5.7	–	–
Financial concerns	453,249	503	–	–	–	387,419	85.5	–	–
Stockbrokers									
Margin lending	87,019	97	–	–	–	33,235	38.2	–	–
Others	56,771	63	–	–	–	1,316	2.3	–	–
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	49,015	54	–	–	–	11,666	23.8	–	–
Others	87,519	97	–	–	–	87,519	100.0	–	–
Professional and 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	204,443	227	–	–	43	204,443	100.0	292	292
Loans for the purchase of other residential properties	6,656,486	7,241	413	258	258	6,631,499	99.6	2,696	1,497
Loans for credit card advances	18,110	20	91	760	690	–	–	91	45
Loans for other business purposes	409	–	–	–	–	409	100.0	–	–
Loans for other private purposes	4,207,486	84,671	46,065	524,324	461,988	547,290	13.0	183,652	105,713
Trade finance	537,736	597	9,960	12,754	29,532	455,373	84.7	107,460	29,054
Other loans and advances	109,933	122	–	24,443	3,006	103,984	94.6	–	–
Sub-total	23,303,736	105,269	101,811	609,293	537,176	16,993,407	72.9	379,735	204,428
Loans and advances for use outside Hong Kong	1,213,206	4,077	57,443	21,240	–	497,394	41.0	147,431	147,431
Total loans and advances (excluding trade bills)	24,516,942	109,346	159,254	630,533	537,176	17,490,801	71.3	527,166	351,859

Advances to Customers by Industry Sector (Continued)

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

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.

Supplementary Information (Unaudited)

Non-bank Mainland Exposures

The following table illustrates the disclosure required to be made 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**
As at 31 December 2009				
Mainland entities	**98**	**142**	**240**	**–**
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	**124**	**–**	**124**	**–**
Other counterparties to which the exposures are considered by the Group to be non-bank Mainland exposures	**741**	**–**	**741**	**38**
	963	**142**	**1,105**	**38**

Group

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

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 the table has been prepared in accordance with the guidelines issued by the HKMA.

Group

	Banks and other financial institutions HK$'million	Public sector entities HK$'million	Others HK$'million	Total HK$'million
As at 31 December 2009				
1. Asia Pacific excluding Hong Kong of which:	**4,426**	**9**	**372**	**4,807**
Malaysia	**1,971**	**–**	**93**	**2,064**
2. Western Europe of which:	**4,526**	**–**	**135**	**4,661**
France	**1,181**	**–**	**–**	**1,181**

Group

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

Supplementary Information (Unaudited)

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 follows:

Group

	Spot assets	Spot liabilities	Forward purchases	Forward sales	Net long/(short) position	Net structural long position
As at 31 December 2009 (In HK$'million)						
United States dollar	4,105	3,579	511	1,028	9	
Renminbi	370	133	–	–	237	
Others	3,257	3,141	154	275	(5)	
	7,732	6,853	665	1,303	241	
Renminbi						227

Group

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

Liquidity Ratios

	2009	2008
Average liquidity ratio for the year:		
Public Bank (Hong Kong)	48.0%	39.3%
Public Finance	111.5%	61.4%

The average liquidity ratios above are computed on solo basis using the arithmetic mean of each calendar month's average liquidity ratio as reported in the return relating to liquidity position submitted by the Group to the HKMA pursuant to Section 63 of the Banking Ordinance in respect of the annual reporting period.

Capital Disclosures

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

Group	2009 HK$'000	2008 HK$'000
Core capital:		
Paid up ordinary share capital	109,792	109,792
Share premium account	4,013,296	4,013,296
Published reserves	1,187,568	1,127,165
Income statement	79,103	46,327
Deduct:		
Goodwill	(2,774,403)	(2,774,403)
Net deferred tax assets	–	–
Core capital before deductions	2,615,356	2,522,177
Less: Deductions from shareholdings in subsidiaries	(33,054)	(34,531)
Other deductions	(42,397)	(38,540)
Total core capital after deductions	2,539,905	2,449,106
Supplementary capital:		
Regulatory reserve	180,987	206,362
Collective impairment allowances	109,654	79,090
Supplementary capital before deductions	290,641	285,452
Less: Deductions from shareholdings in subsidiaries	(33,054)	(34,531)
Other deductions	(42,397)	(38,540)
Total supplementary capital after deductions	215,190	212,381
Capital base	2,755,095	2,661,487

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

Capital Disclosures (Continued)

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 include investments in subsidiaries and other exposures.

Group	2009					
	Exposures*			Risk-weighted amounts		
Class of exposures	Rated#	Unrated	Total	Rated	Unrated	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
On-balance sheet:						
Sovereign	773,342	–	773,342	–	–	–
Public sector entity	–	336,416	336,416	–	67,283	67,283
Bank	9,881,660	–	9,881,660	2,307,857	–	2,307,857
Securities firm	–	142,608	142,608	–	71,304	71,304
Corporate	450,000	5,589,531	6,039,531	450,000	5,589,531	6,039,531
Cash items	–	798,027	798,027	–	61,998	61,998
Regulatory retail	–	7,559,839	7,559,839	–	5,669,880	5,669,880
Residential mortgage	–	8,796,448	8,796,448	–	4,022,952	4,022,952
Past due exposures	–	281,395	281,395	–	414,278	414,278
Other non-past due exposures	–	1,896,111	1,896,111	–	1,896,111	1,896,111
Off-balance sheet:						
OTC derivative transactions						
– foreign exchange contracts	–	1,438,553	1,438,553	–	59	59
Other off-balance sheet items	–	3,680,465	3,680,465	–	201,270	201,270
	11,105,002	30,519,393	41,624,395	2,757,857	17,994,666	20,752,523

Capital Disclosures (Continued)

Group

	2008					
		Exposures*			Risk-weighted amounts	
Class of exposures	Rated#	Unrated	Total	Rated	Unrated	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'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
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
Other off-balance sheet items	–	4,540,648	4,540,648	–	244,824	244,824
	7,328,089	31,059,086	38,387,175	2,109,792	18,300,186	20,409,978

The Group did not enter into OTC derivative transactions other than foreign exchange contracts and interest rate swaps and futures with counterparties during 2009 and 2008. 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 ratings or with ECAI inferred ratings. Risk weights are determined based on ECAI ratings pursuant to the Banking (Capital) Rules.

Capital Disclosures (Continued)

Group

	2009	
	Risk-weighted Exposures HK$'000	**Capital requirements/ charge HK$'000**
Credit risk	**20,752,523**	**20,752,523**
Market risk – foreign exchange exposures	**238,250**	**19,060**
Operational risk	**2,260,488**	**180,839**
Deduction	**(85,394)**	**(85,394)**
	23,165,867	**20,867,028**

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)
	22,738,041	20,505,890

The Group has adopted a standardised approach for the calculation of credit risk-weighted exposures and the market risk-weighted exposures. The Group has adopted a basic indicator approach and a standardised approach for the calculation of operational risk-weighted exposures of Public Bank (Hong Kong) and Public Finance, respectively, during the years ended 31 December 2009 and 2008.

List of properties owned by the Group as at 31 December 2009

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 2009 (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	38 Years (30-6-2047)	36 Years	84	30-6-1980	1,384
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	850 Years (26-12-2859)	20 Years	68	9-3-1990	3,865
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	38 Years (30-6-2047)	45 Years	94	9-6-1990	2,322
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 (Hong Kong) as staff quarters	Leasehold 999 Years	890 Years (18-4-2899)	26 Years	91	3-10-1990 (R)	8,257
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	117 Years (26-8-2126)	26 Years	293	18-3-1992	7,871
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 quarters for the Group	Leasehold 150 Years	121 Years (19-10-2130)	24 Years	253	5-3-1993	9,039
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	70 Years (18-8-2079)	39 Years	130	24-5-1993	13,235
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	The Group's office	Leasehold 999 Years	893 Years (14-8-2902)	42 Years	1,464	11-6-1993	89,276

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 2009 (HK$'000)
Shop B, Ground Floor and Office B 1st to 17th Floors JCG Building 16 Mongkok Road Mongkok Kowloon Hong Kong	A shop unit on the ground floor and all B units on the 1st to 17th floors of an 18-storey commercial building with shops and offices	Public Bank (Hong Kong)'s and Public Finance's Mongkok Branch; and office; and office space leased to third parties	Leasehold 150 Years	41 Years (27-5-2050)	22 Years	2,215	30-6-1994 (R)	105,363
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	890 Years (18-4-2899)	25 Years	76	1-8-1995	4,536
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	58 Years (22-10-2067)	27 Years	110	14-1-2000	10,405
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	119 Years (10-12-2128)	27 Years	131	1-11-2000	2,404
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	38 Years (30-6-2047)	52 Years	102	23-4-2001	14,083
Ground Floor Wing On House 71 Des Voeux Road Central 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	893 Years (14-8-2902)	42 Years	113	15-10-2003	52,812
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	A portion of workshops on the ground floor are leased to third parties; The whole flat E on the 9th floor and the other portion are occupied by the Group as office	Leasehold 149 Years	38 Years (27-6-2047)	44 Years	Workshops A, B and C 682 Flat E 68	24-7-1992 (R)	20,303

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 2009 (HK$'000)
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 storerooms	Leasehold 150 Years	38 Years (15-9-2047)	30 Years	962	24-7-1992	1,508
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	51 Years (18-5-2060)	27 Years	1,465	2-5-1994 (R)	130,483
4th Floor 581 Nathan Road Mongkok Kowloon Hong Kong	4th floor of a 7-storey composite building with shops and residential flats	Leased to third parties	Leasehold 150 Years	28 Years (25-12-2037)	40 Years	55	14-6-1984	1,284
Unit 3, 5th Floor Telford House 16 Wang Hoi Road Kowloon Bay Kowloon Hong Kong	An office unit on the 5th floor of a 23-storey commercial building	Leased to third parties	Leasehold 149 Years	38 Years (30-6-2047)	15 Years	90	30-5-2006** (R)	6,099
Shop 3C, 1st Floor Telford House 16 Wang Hoi Road Kowloon Bay Kowloon Hong Kong	A shop unit on the 1st floor of a 23-storey commercial building	Leased to third parties	Leasehold 149 Years	38 Years (30-6-2047)	15 Years	47	30-5-2006** (R)	14,900
Ground Floor 17 South Wall Road and the whole block of 19 South Wall Road Kowloon Hong Kong	A shop unit on the 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	38 Years (30-6-2047)	32 Years	432	30-5-2006**	17,714
Shop 5, Ground Floor Fu Ho Building 3–7 Kau Yuk Road Yuen Long New Territories Hong Kong	A shop unit on the ground floor of a 14-storey composite building	Public Bank (Hong Kong)'s Yuen Long Branch	Leasehold 149 Years	38 Years (30-6-2047)	30 Years	82	30-5-2006**	11,388
Shop B, Ground Floor Victory Court 185–187 Castle Peak Road Tsuen Wan New Territories Hong Kong	A shop unit on the ground floor of a 14-storey composite building	Public Bank (Hong Kong)'s Tsuen Wan Branch	Leasehold 149 Years	38 Years (30-6-2047)	29 Years	149	30-5-2006**	12,201

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 2009 (HK$'000)
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	38 Years (30-6-2047)	17 Years	527	30-5-2006**	21,058
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	38 Years (30-6-2047)	17 Years	1,053	30-5-2006**	2,350
Basement, Ground Floor, 1st–12th Floors, Flats 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 Central Hong Kong	A shop unit on the 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	833 Years (26-6-2842)	32 Years	5,451	30-5-2006**	248,381
Units 40–41, Ground Floor Hung Hom Commercial Centre 37–39 Ma Tau Wai Road Kowloon Hong Kong	2 shop units on the ground floor of a 14-storey commercial building	Public Bank (Hong Kong)'s Hung Hom Branch	Leasehold 149 Years	38 Years (15-9-2047)	27 Years	184	30-5-2006**	14,466
Shop B1, Ground Floor Hong Kong Plaza 188 Connaught Road West Hong Kong	A shop unit on the 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)	45 Years (27-12-2054) 893 Years (3-9-2902)	26 Years	180	30-5-2006**	13,352
Shop 1, Ground Floor Carrianna Friendship Square Renminnan Road Shenzhen PRC	A shop unit on the ground floor of a 33-storey composite building	Public Bank (Hong Kong)'s Shenzhen Branch	Leasehold 50 Years	32 Years (17-12-2041)	12 Years	168	30-5-2006**	25,668
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 22-storey residential buildings	Public Bank (Hong Kong) and Public Finance's Shatin Branch	Leasehold 149 Years	38 Years (30-6-2047)	26 Years	203	1-12-2008	45,536

Notes:

(R) Revaluation was performed as at 31 December 2009.

** 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 the Hong Kong SAR.