PUBLIC BANK (HONG KONG) LIMITED

PUBLIC BANK (HONG KONG) LIMITED

Annual Report 2008

Corporate Information

Board of Directors

Tan Sri Dato' Sri Dr. Teh Hong Piow (Chairman)
Tan Sri Dato' Thong Yaw Hong (Co-Chairman)
Tan Yoke Kong
Chong Yam Kiang
Tan Sri Dato' Sri Tay Ah Lek
Dato' Chang Kat Kiam
Dato' Yeoh Chin Kee
Lee Chin Guan
Quah Poh Keat

Company Secretary

Chan Sau Kuen

Registered Office and Head Office

Public Bank Centre
120 Des Voeux Road Central
Central
Hong Kong
Telephone : (852) 25419222
Facsimile : (852) 25410009
Website : www.publicbank.com.hk

Auditors

Ernst & Young
Certified Public Accountants

Legal Advisers

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

Principal Bankers

Bank of China
China Construction Bank
China Merchants Bank Co Limited
China Minsheng Banking Corp. Limited
CIMB Bank Berhad
Industrial Bank Company, Limited
Public Bank Berhad
Standard Chartered Bank
The Bank of Tokyo-Mitsubishi UFJ Limited
The Hongkong and Shanghai Banking Corporation Limited

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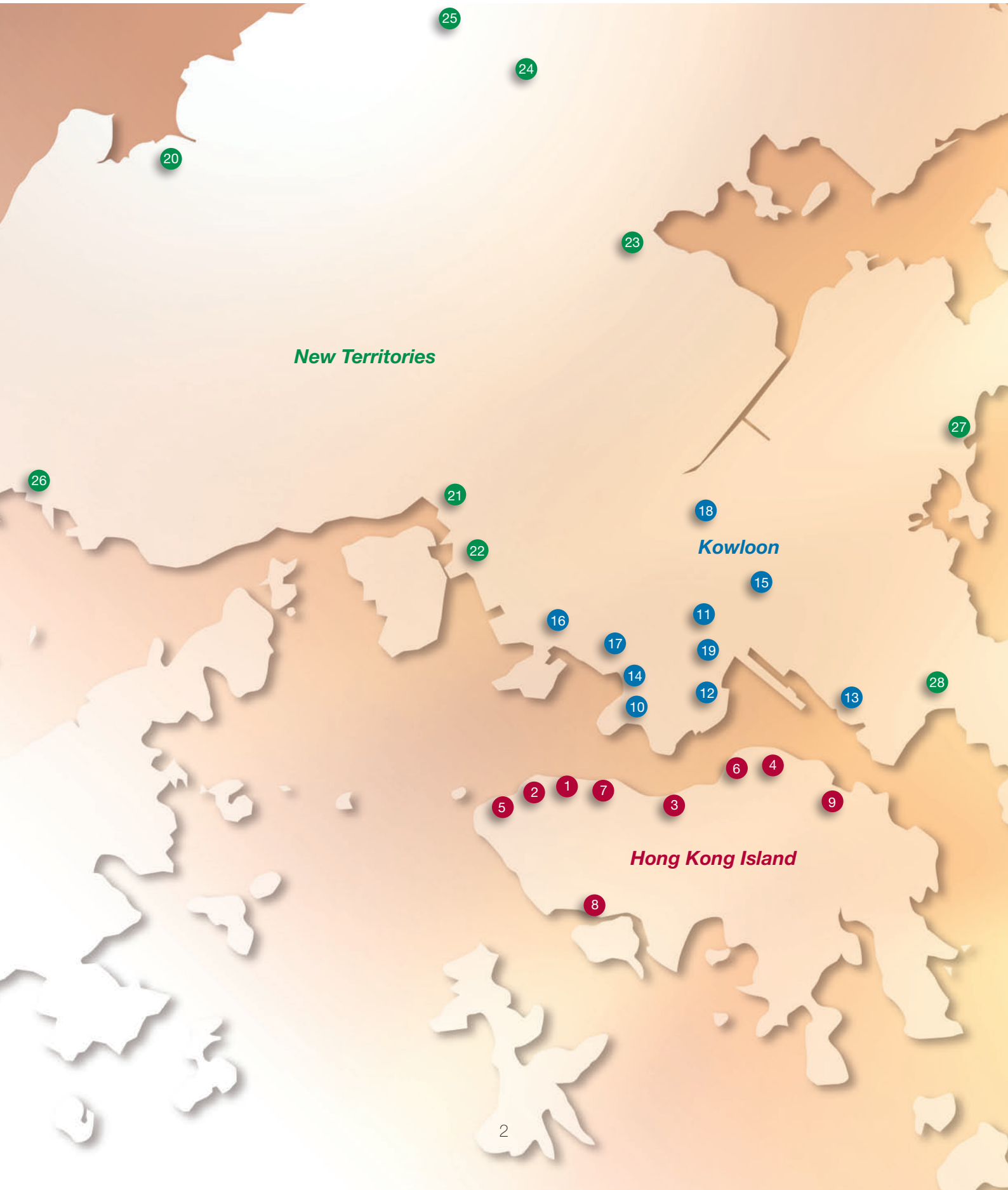
Branch Network

(As at 16 March 2009)



Head Office and Branches

Hong Kong Island

Head Office
Public Bank Centre, 120 Des Voeux Road Central
Tel : 25419222 Telex : 73085 CBHK HKHH
P.O. Box : G.P.O. Box 824 Fax : 25410009
Website : www.publicbank.com.hk

1 Main Branch
G/F, Public Bank Centre
120 Des Voeux Road Central
Tel: 25419222 Fax: 25452866
Manager: So Tak Fai, Peter

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 A, G/F, Yue Yick Building
363-365 King's Road, North Point
Tel: 25685141 Fax: 25670655
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: Chui King Yan, Connie

6 Causeway Bay Branch
G/F and M/F, 447 Hennessy Road
Causeway Bay
Tel: 25722363 Fax: 25723033
Manager: So Wai Ming, Aubrey

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
Manager: Lam Wai Kin, Ricky

Kowloon

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

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

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

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

14 Mongkok Branch
G/F, JCG Building, 16 Mongkok Road
Mongkok
Tel: 23918393 Fax: 23916909
Manager: Cheung Wing Kwong

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

16 Cheung Sha Wan Branch
Unit C2, G/F, 746 Cheung Sha Wan Road
Cheung Sha Wan
Tel: 27869858 Fax: 27869506
Manager: Ho Siu Lung, Dicky

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

18 Wong Tai Sin Branch
G/F, 89 Fung Tak Road, Wong Tai Sin
Tel: 23287332 Fax: 23287991
Manager: Lau Keung Fai, David

19 To Kwa Wan Branch
Shop D, G/F, In House, No. 307 To Kwa Wan Road
To Kwa Wan
Tel: 23620238 Fax: 23623999
Manager: Law Chan Shang, Peter

New Territories

20 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

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

22 Kwai Chung Branch
Shop 88B, Trendy Place, Kwai Chung Plaza
7-11 Kwai Foo Road, Kwai Chung
Tel: 24800002 Fax: 24012367
Manager: Wong Sze Mui, Rhoda

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

24 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

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

26 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

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

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

Greater China

29 Shenzhen Branch
Shop No.1, G/F, Carrianna Friendship Square
Renminnan Road, Shenzhen
People's Republic of China
Tel : (86-755) 25182822
Fax : (86-755) 25182327
Manager : Cheung Po Tung, David

30 Futian Sub-branch
1-3 Jinrun Mansion, No. 6019 Shennan Road
Futian District, Shenzhen
Tel : (86-755) 82800026
Fax : (86-755) 82800016
Manager: Cheung Ding Keung, Sammy

31 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) 86271388
Fax : (86-755) 86270699
Manager : Pun Man Por

Shenyang Representative Office
Unit A, 18/F, Sunwah Hi-tech Building
No. 262 Shifu Road, Shenhe District, Shenyang
Liaoning Province, People's Republic of China
Tel : (86-24) 22791368
Fax : (86-24) 22791369
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) 58878851
Fax : (86-21) 58879951
Representative: Chen Li Hang

Taipei Representative Office
Room 905, No. 18 Chan-An E. Road Section 1, Taipei, Taiwan
Tel : (886-2) 25638789
Fax : (886-2) 25642047
Representative: Lu Chia Nan, Deanna

Report of the Directors

The directors present their report and the audited financial statements of Public Bank (Hong Kong) Limited (the "Bank") and its subsidiaries (the "Group") for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activities of the Group have not changed during the year and consisted of the provision of a comprehensive range of banking, financial and related services.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2008 and the state of affairs of the Bank and of the Group at that date are set out in the financial statements on pages 8 to 111.

The directors do not recommend the payment of any dividend in respect of the year.

PROPERTY AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property and equipment and investment properties of the Bank and of the Group during the year are set out in notes 22 and 24 to the financial statements, respectively.

ACQUISITION OF PUBLIC FINANCE LIMITED

During the year, the Bank completed the acquisition of the entire issued and paid-up share capital of Public Finance Limited ("Public Finance") from its immediate holding company, Public Financial Holdings Limited ("PFHL"), as part of the internal group reorganisation.

SHARE CAPITAL

Details of movement of the Bank's share capital are set out in note 30 to the financial statements.

RESERVES

Details of movements in the reserves of the Bank and of the Group during the year are set out in note 31 to the financial statements.

DIRECTORS

The directors of the Bank during the year and up to the date of this report were as follows:

Tan Sri Dato' Sri Dr. Teh Hong Piow, *Chairman*
Tan Sri Dato' Thong Yaw Hong, *Co-Chairman*
Tan Yoke Kong
Chong Yam Kiang
Tan Sri Dato' Sri Tay Ah Lek
Dato' Chang Kat Kiam
Dato' Yeoh Chin Kee
Lee Chin Guan
Quah Poh Keat (appointed on 30 July 2008)

In accordance with Articles 105 and 106 of the New Articles of Association of the Bank, Tan Sri Dato' Sri Dr. Teh Hong Piow, Tan Sri Dato' Thong Yaw Hong and Mr. Lee Chin Guan shall retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the employees' share option scheme of PFHL, the Bank's immediate holding company, certain directors of the Bank have been granted options to subscribe for ordinary shares of PFHL.

At the balance sheet date, the interests of the directors in any rights to subscribe for ordinary shares in PFHL were as follows:

		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
PFHL	Tan Sri Dato' Sri Tay Ah Lek	1,680,000	–	450,000	1,230,000	HK$6.35	10.6.2005 to 9.6.2015
	Dato' Yeoh Chin Kee	700,000	–	150,000	550,000	HK$6.35	10.6.2005 to 9.6.2015
	Lee Chin Guan	350,000	–	–	350,000	HK$6.35	10.6.2005 to 9.6.2015
	Dato' Chang Kat Kiam	1,680,000	–	300,000	1,380,000	HK$6.35	10.6.2005 to 9.6.2015
	Tan Yoke Kong	1,928,000	–	610,000	1,318,000	HK$6.35	10.6.2005 to 9.6.2015

Note: The options to subscribe for ordinary shares of HK$0.10 each in PFHL under the Employees' Share Option Scheme of PFHL are only exercisable during certain periods as notified by its board or its 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, at no time during the year was the Bank, its immediate holding company and ultimate holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Bank's directors, their respective spouse or minor children to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or in any other body corporate.

Report of the Directors

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 35 to the financial statements, no director had a material interest, whether direct or indirect, in any contract of significance to the business of the Bank to which the Bank or any of its immediate holding company and ultimate holding company, subsidiaries and fellow subsidiaries was a party at the balance sheet date or at any time during the year.

COMPLIANCE WITH SUPERVISORY POLICY MANUALS

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

DONATIONS

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

AUDITORS

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

ON BEHALF OF THE BOARD

Tan Sri Dato' Sri Dr. Teh Hong Piow
Director

Tan Sri Dato' Thong Yaw Hong
Director

Hong Kong
14 January 2009

Independent Auditors' Report

ERNST & YOUNG
安永會計師事務所

To the shareholders of Public Bank (Hong Kong) Limited
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of Public Bank (Hong Kong) Limited (the "Bank") set out on pages 8 to 111, which comprise the consolidated and the Bank's balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Bank 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 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 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street
Hong Kong
14 January 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	**2008 HK$'000**	2007 HK$'000 (Restated)
Interest income	4	**1,044,422**	1,026,832
Interest expense	4	**(606,912)**	(761,015)
NET INTEREST INCOME		**437,510**	265,817
Other operating income	5	**164,121**	91,350
OPERATING INCOME		**601,631**	357,167
Operating expenses	6	**(339,669)**	(215,890)
(Net charge)/write-back of impairment allowances for loans and advances and receivables and held-to-maturity investments	7	**(212,193)**	6,749
Gain on disposal of properties	35(j)	**319,112**	627
Share of profits and losses of a jointly-controlled entity	19	**–**	(163)
PROFIT BEFORE TAX		**368,881**	148,490
Tax	9	**(3,431)**	(20,861)
PROFIT FOR THE YEAR		**365,450**	127,629
Attributable to:			
Equity holders of the Bank	10	**365,450**	127,629

Balance Sheet

31 December 2008

	Notes	Group 2008 HK$'000	Group 2007 HK$'000 (Restated)	Bank 2008 HK$'000	Bank 2007 HK$'000 (Restated)
ASSETS					
Cash and short term placements	11	**5,753,218**	5,792,899	**5,859,622**	5,791,877
Placements with banks and financial institutions maturing after one month but not more than twelve months	12	**173,099**	441,539	**173,099**	441,539
Financial assets designated at fair value through profit or loss	13	**–**	12,262	**–**	12,262
Derivative financial instruments	33	**1,151**	2,644	**1,151**	2,644
Loans and advances and receivables	14	**24,184,317**	15,419,881	**20,005,481**	15,419,881
Available-for-sale financial assets	16	**21,524**	6,804	**6,804**	6,804
Held-to-maturity investments	17	**969,216**	2,864,390	**969,216**	2,864,390
Interests in subsidiaries	18	**–**	–	**1,758,250**	56,952
Interests in a jointly-controlled entity	19	**1,513**	1,513	**1,500**	1,500
Other assets	20	**235,308**	192,324	**149,692**	191,513
Deferred tax assets	29	**4,279**	2,950	**2,979**	2,950
Tax recoverable		**14,452**	–	**11,677**	–
Intangible assets	21	**358**	232	**–**	–
Property and equipment	22	**69,898**	45,148	**57,705**	49,572
Land lease prepayments	23	**105,369**	158,361	**113,802**	193,468
Investment properties	24	**58,877**	17,900	**19,690**	17,900
Goodwill	25	**242,342**	–	**–**	–
Total assets		**31,834,921**	24,958,847	**29,130,668**	25,053,252
LIABILITIES					
Deposits and balances of banks and other financial institutions at amortised cost		**641,732**	2,263,902	**1,596,902**	2,263,902
Derivative financial instruments	33	**4,150**	2,381	**4,150**	2,381
Customer deposits at amortised cost	26	**24,469,410**	18,388,413	**20,834,470**	18,421,936
Certificates of deposit issued at amortised cost		**879,850**	2,049,227	**879,850**	2,049,227
Unsecured bank loans at amortised cost	27	**1,099,219**	–	**1,099,219**	–
Other liabilities	28	**360,342**	275,018	**249,763**	319,411
Current tax payable		**19,661**	1,014	**1,561**	9
Deferred tax liabilities	29	**12,958**	8,833	**10,667**	11,079
Total liabilities		**27,487,322**	22,988,788	**24,676,582**	23,067,945
EQUITY					
Issued capital	30	**1,481,600**	810,000	**1,481,600**	810,000
Reserves	31	**2,865,999**	1,160,059	**2,972,486**	1,175,307
Total equity		**4,347,599**	1,970,059	**4,454,086**	1,985,307
Total equity and liabilities		**31,834,921**	24,958,847	**29,130,668**	25,053,252

Tan Sri Dato' Sri Dr. Teh Hong Piow
Director

Tan Sri Dato' Thong Yaw Hong
Director

Tan Yoke Kong
Director

Consolidated Summary Statement of Changes in Equity

For the year ended 31 December 2008

	2008	2007
	HK$'000	HK$'000
		(Restated)
TOTAL EQUITY		
Balance at beginning of year	**1,970,059**	1,821,030
Proceeds from issuance of shares	**2,000,110**	–
Change in fair value of available-for-sale financial assets	**(1,680)**	–
Profit for the year	**365,450**	127,629
Exchange difference	**13,660**	21,400
Balance at end of year	**4,347,599**	1,970,059

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Notes	**2008 HK$'000**	2007 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**368,881**	148,490
Adjustments for:			
Dividend income from unlisted investments	5	**(981)**	(980)
Depreciation and amortisation of land lease prepayments	6	**15,732**	10,125
Increase in fair value of investment properties	6	**(1,530)**	(4,700)
Increase/(decrease) in impairment allowances on loans and advances and receivables		**86,162**	(16,549)
(Decrease)/increase in impairment allowances for held-to-maturity investments	17	**(9,800)**	9,800
Net gains on disposal of property and equipment		**(319,104)**	(627)
Increase in impairment for intangible assets	21	**–**	367
Share of profits and losses of a jointly-controlled entity	19	**–**	163
Exchange difference		**13,718**	21,407
Hong Kong profits tax refunded/(paid)		**7,110**	(23,209)
Overseas tax paid		**(3,550)**	(2,886)
Operating profit before changes in operating assets and liabilities		**156,638**	141,401
Increase in operating assets:			
Decrease/(increase) in cash and short term placements		**195,025**	(114,905)
Decrease in placements with banks and financial institutions		**33,394**	62,848
Decrease/(increase) in financial assets designated at fair value through profit or loss		**12,262**	(2,049)
Decrease in derivative financial instruments		**1,493**	10,136
Increase in loans and advances and receivables		**(4,723,462)**	(5,243,036)
Decrease in held-to-maturity investments		**978,548**	1,550,101
Increase in intangible assets		**(126)**	–
Decrease/(increase) in other assets		**207,118**	(15,732)
		(3,295,748)	(3,752,637)
(Decrease)/increase in operating liabilities:			
(Decrease)/increase in deposits and balances of banks and other financial institutions at amortised cost		**(1,622,170)**	1,747,805
Increase in customer deposits at amortised cost		**2,889,863**	4,956,900
(Decrease)/increase in certificates of deposit issued at amortised cost		**(1,169,377)**	1,279,553
Increase/(decrease) in derivative financial instruments		**1,769**	(7,354)
Decrease in other liabilities		**(293,851)**	(56,054)
		(193,766)	7,920,850
Net cash (outflow)/inflow from operating activities		**(3,332,876)**	4,309,614

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Notes	**2008 HK$'000**	2007 HK$'000 (Restated)
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES		**(3,332,876)**	4,309,614
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries		**(1,382,574)**	–
Purchases of property, equipment and land lease prepayments	22, 23	**(77,085)**	(28,607)
Proceeds from disposal of property and equipment		**761,097**	950
Dividends received from unlisted investments		**981**	980
Net cash outflow from investing activities		**(697,581)**	(26,677)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of ordinary shares		**2,000,110**	–
New unsecured bank loan		**1,024,219**	–
Net cash inflow from financing activities		**3,024,329**	–
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(1,006,128)**	4,282,937
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**6,980,854**	2,697,917
CASH AND CASH EQUIVALENTS AT END OF YEAR		**5,974,726**	6,980,854
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and short term placements repayable on demand		**293,820**	390,241
Money at call and short notice with original maturity within three months		**5,459,398**	5,207,633
Placements with banks and financial institutions with original maturity within three months		**34,089**	269,135
Held-to-maturity investments with original maturity within three months		**187,419**	1,113,845
		5,974,726	6,980,854

During the year, the Group acquired the entire issued and paid-up share capital of Public Finance. Further details of the acquisition are included in note 25 to the financial statements. The purchase consideration for the acquisition was in the form of cash, with a total cost of HK$1,800,024,080.

The fair values of the identifiable assets and liabilities of Public Finance and its subsidiaries as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value recognised on acquisition HK$'000	Carrying amount HK$'000
Net assets acquired:		
Assets:		
Cash and short term placements	**417,450**	**417,450**
Loans and advances and receivables	**4,127,136**	**4,127,136**
Available-for-sale financial assets	**16,400**	**16,400**
Other assets	**250,102**	**250,102**
Land lease prepayments, and property and equipment	**292,496**	**292,496**
Investment properties	**99,407**	**99,407**
	5,202,991	**5,202,991**
Less		
Liabilities:		
Customer deposits at amortised cost	**3,191,134**	**3,191,134**
Bank loans at amortised cost	**75,000**	**75,000**
Other liabilities	**379,175**	**379,175**
	3,645,309	**3,645,309**
	1,557,682	**1,557,682**
Goodwill on acquisition	**242,342**	
Satisfied by cash	**1,800,024**	

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

	HK$'000
Cash paid	**1,800,024**
Cash and short term placements	**(417,450)**
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**1,382,574**

Notes to Financial Statements

1. CORPORATE INFORMATION

The Bank is a limited liability company and its registered office is located at Public Bank Centre, 120 Des Voeux Road Central, Central, Hong Kong. During the year, the Group's principal activities were the provision of a comprehensive range of commercial and retail banking, financial and related services.

Details of the principal activities of the Bank's subsidiaries are set out in note 18 to the financial statements.

The Bank is a wholly-owned subsidiary of PFHL. In the opinion of the directors, the ultimate holding company of the Bank is Public Bank Berhad ("PBB"), which is incorporated in Malaysia.

2.1 ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("the HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The preparation of financial statements has also made reference to applicable Supervisory Policy Manual and the Guideline on the Application of the Banking (Disclosure) Rules issued by the HKMA.

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

Basis of consolidation

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

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

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

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

– Public Finance Limited, 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 and Public Securities (Nominees) Limited.

2.1 ACCOUNTING POLICIES (Continued)

Basis of capital disclosures

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

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

The computation of the capital adequacy ratio of the Group is based on the ratios of the aggregate of risk weighted exposures to the aggregate of capital bases of the Bank and Public Finance for regulatory purposes.

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

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

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

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

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

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

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

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

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

(c) HK(IFRIC)–Int 12 Service Concession Arrangements

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

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

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

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

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

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

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

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

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

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

4 Effective for annual periods beginning on or after 1 October 2008

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(a) HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations: It clarify all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest.

(b) HKFRS 7 Financial Instruments: Disclosures: It removes the reference to “total interest income” as a component of finance costs.

(c) HKAS 1 Presentation of Financial Statements: It clarifies that assets and liabilities classified as held for trading in accordance with HKAS 39 are not automatically classified as current in the balance sheet.

(d) HKAS 16 Property, Plant and Equipment: It replaces the term “net selling price” with “fair value less costs to sell” and the recoverable amount of property, plant and equipment is calculated as the higher of an asset’s fair value less costs to sell and its value in use.

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

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

(f) HKAS 28 Investment in Associates: It clarifies that an investment in an associate is a single asset for the purpose of conducting the impairment test and that no impairment is separately allocated to goodwill included in the investment balance.

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

(g) HKAS 36 Impairment of Assets: When discounted cash flows are used to estimate "fair value less cost to sell", additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate "value in use".

(h) HKAS 40 Investment Property: It revises the scope such that property that is being constructed or developed for future as an investment property is classified as investment property.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Foreign currency translation

The consolidated financial statements are presented in Hong Kong dollars, which is the Group's functional and presentational currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(i) Transactions and balances

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

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at 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 presentational currency at the rates of exchange ruling at the balance sheet date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement as part of gain or loss on disposal.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(2) Financial instruments – initial recognition and subsequent measurement

(i) Date of recognition

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

(ii) Initial recognition of financial instruments

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

(iii) Derivative financial instruments

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

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

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

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis;

- the assets and liabilities are part of a group of financial assets, financial liabilities or both of which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

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

(v) Held-to-maturity investments

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(vii) Available-for-sale financial assets

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

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

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

(viii) Certificates of deposit

Issued financial instruments or their components, which are not designated at fair value through profit or loss, are classified as liabilities under 'Certificates of deposit issued at amortised cost' where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number 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.

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

When the Group had transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(4) Determination of fair value

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

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

(5) Impairment of financial assets

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Impairment of financial assets (Continued)

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

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

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

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

(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 the '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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Impairment of financial assets (Continued)

(iii) Available-for-sale financial assets

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

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

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

(6) Leases

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

(i) Group as a lessee

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(6) Leases (Continued)

(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 recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

The amounts due from the lessees under finance leases are recorded in the balance sheet as loans and advances to customers. The amount comprises the gross investment in the finance leases less gross earnings allocated to future accounting periods. The total gross earnings under finance leases are allocated to the accounting periods over the duration of the underlying agreements so as to produce an approximately constant periodic rate of return on the net cash investment for each accounting period.

(7) Recognition of 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 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.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(7) Recognition of revenue and expenditure (Continued)

(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 loans.

(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 in 'Other operating income'.

(8) Cash and cash equivalents

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

(9) Business combinations and goodwill

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(9) Business combinations and goodwill (Continued)

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(11) Joint venture companies and jointly-controlled entity

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

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

A joint venture is treated as:

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

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

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

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

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

The Group's share of the post-acquisition results and reserves of a jointly-controlled entity is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interest in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. The Group's interests in a jointly-controlled entity are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(12) Related parties

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

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

(b) the party is an associate;

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

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

(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 using a straight-line method to write off the cost of property and equipment to its residual values over its estimated useful lives. The estimated useful lives are as follows:

• Buildings	Remaining lease period
• Furniture, fixtures, equipment and motor vehicles	3 to 10 years

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

(14) Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

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

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 annual impairment, if any, is charged to the income statement.

(16) 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(16) Impairment of non-financial assets (Continued)

For assets excluding goodwill and deferred tax assets, 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.

(17) Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value less transaction costs that are directly attributable to a acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group in 'Other liabilities' measures the financial guarantee contract at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

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

(18) 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.

(19) Provisions

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(20) Income tax

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

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

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

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries and interests in 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 interests in joint venture, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(21) Employee benefits

(a) Retirement benefit schemes

The Group operates two defined contribution retirement benefit schemes for those employees who are eligible to participate. The assets of the schemes are held separately from those of the Group in independently administered funds.

Contributions are made based on a percentage of the participating employees' relevant monthly income from the Group, and are charged to the income statement as they become payable in accordance with the rules of the respective schemes. When an employee leaves the Occupational Retirement Scheme Ordinance Scheme prior to his/her interest in the Group's employer non-mandatory contributions vesting with the employee, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions. When an employee leaves the Mandatory Provident Fund Retirement Benefit Scheme, the Group's mandatory contributions vest fully with the employee.

(b) Share option scheme

PFHL operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the PFHL Group's operations. Some employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity-settled transactions.

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

(c) Employee leave entitlements

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(22) Dividends

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

Interim dividends are simultaneously proposed and declared, because the Bank's New Articles of Association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Held-to-maturity investments

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

Estimation uncertainty

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

Impairment allowances on loans and advances and receivables, and held-to-maturity investments

The Group reviews its portfolios of loans and advances and receivables and held-to-maturity investments to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the discounted estimated future cash flows from a portfolio of loans and held-to-maturity investments before the decrease can be identified with an individual loan or held-to-maturity investment in those portfolios. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Group.

For loans and advances and receivables for which no individual impairment is observed, management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the loan portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2008 was HK$242,342,000 (2007: Nil). Further details are set out in note 25 to the financial statements.

4. INTEREST INCOME AND EXPENSE

	2008	2007
	HK$'000	HK$'000
Interest income from:		
Loan and advances and receivables	**769,173**	681,474
Short term placements and placements with banks	**167,626**	222,087
Held-to-maturity investments	**107,623**	123,271
	1,044,422	1,026,832
Interest expense on:		
Deposit from banks and financial institutions	**30,464**	77,064
Deposit from customers	**542,995**	683,951
Bank loans	**14,417**	–
Other borrowings	**19,036**	–
	606,912	761,015

The interest income for the year ended 31 December 2008 amounted to HK$1,044,422,000 (2007: HK$1,026,832,000) and interest expense for the year ended 31 December 2008 amounted to HK$606,912,000 (2007: HK$761,015,000) pursuant to the adoption of effective interest method for financial assets and financial liabilities which are not designated at fair value through profit or loss. The interest income of the impaired loans and advances for the year ended 31 December 2008 amounted to HK$4,942,000 (2007: HK$4,587,000).

5. OTHER OPERATING INCOME

	Group	
	2008	2007
	HK$'000	HK$'000
Fees and commission income:		
Retail and commercial banking	**64,139**	39,254
Wealth management services, stockbroking and securities management	**75,698**	34,004
	139,837	73,258
Less: Fees and commission expenses	**(1,177)**	(1,249)
Net fees and commission income	**138,660**	72,009
Net rental income	**4,100**	3,647
Gains less losses arising from dealing in foreign currencies	**16,347**	11,960
Net losses on derivative financial instruments	**(3,263)**	(2,782)
Losses on disposal of financial assets designated at fair value through profit or loss	**(1,057)**	–
Net gains on financial assets designated at fair value through profit or loss	**–**	2,023
Dividend income from unlisted investments	**981**	980
Others	**8,353**	3,513
	164,121	91,350

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 2008 and 2007. There were also no net gains or losses on sale of available-for-sale financial assets transferred from equity and recognised in profit or loss for the years 2008 and 2007.

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

6. OPERATING EXPENSES

	Notes	Group 2008 HK$'000	2007 HK$'000 (Restated)
Staff costs (including directors' remuneration, note 8):			
Salaries and other staff costs		**171,978**	112,453
Pension contributions		**8,165**	4,756
		180,143	117,209
Premises and equipment expenses:			
Minimum lease payments under operating leases in respect of buildings		**19,203**	14,833
Others		**28,308**	18,103
		47,511	32,936
Auditors' remuneration		**2,148**	1,638
Depreciation of property and equipment, and amortisation of land lease prepayments	22, 23	**15,732**	10,125
Losses on disposal of property and equipment		**8**	–
Others		**95,657**	58,682
Operating expenses before changes in fair value of buildings and investment properties		**341,199**	220,590
Changes in fair value of investment properties	24	**(1,530)**	(4,700)
		339,669	215,890

Notes to Financial Statements

7. IMPAIRMENT ALLOWANCES

	Group	
	2008	2007
	HK$'000	HK$'000
Net charge for/(write-back of) impairment allowances:		
– Loans and advances	**172,653**	2,346
– Trade bills, accrued interest and receivables	**2,540**	(18,895)
	175,193	(16,549)
– Held-to-maturity investments	**37,000**	9,800
	212,193	(6,749)
Net charge for/(write-back of) impairment allowances:		
– Individually assessed	**202,640**	(326)
– Collectively assessed	**9,553**	(6,423)
	212,193	(6,749)
Of which:		
– new impairment allowances (including any amount directly written off during the year)	**237,778**	32,817
– releases and recoveries	**(25,585)**	(39,566)
Net charge/(write-back) to the consolidated income statement	**212,193**	(6,749)

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

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance was as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Fees	**749**	690
Other emoluments	**2,405**	1,348
	3,154	2,038

9. TAX

	Group	
	2008	2007
	HK$'000	HK$'000
Current tax charge :		
Hong Kong	**16,785**	15,627
Elsewhere	**915**	5,568
Over-provisions in prior years	**(2,173)**	(3,684)
Deferred tax (credit)/charge, net (Note 29)	**(12,096)**	3,350
	3,431	20,861

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

Group

	2008					
	Hong Kong		**Mainland China**		**Total**	
	HK$'000	**%**	**HK$'000**	**%**	**HK$'000**	**%**
Profit before tax	**363,851**		**5,030**		**368,881**	
Tax at the applicable tax rate	**60,035**	**16.5**	**905**	**18.0**	**60,940**	**16.5**
Effect on change in tax rate	**(1,186)**	**(0.3)**	**–**	**–**	**(1,186)**	**(0.3)**
Estimated tax effect of net (income)/ expenses that is not taxable	**(54,159)**	**(14.9)**	**10**	**0.2**	**(54,149)**	**(14.7)**
Estimated tax losses from previous periods utilised	**(3)**	**–**	**–**	**–**	**(3)**	**–**
Estimated tax losses not recognised	**2**	**–**	**–**	**–**	**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	**2,516**	**0.7**	**915**	**18.2**	**3,431**	**0.9**

Notes to Financial Statements

9. TAX (Continued)

Group

	2007 (Restated)					
	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	115,773		32,717		148,490	
Tax at the applicable tax rate	20,260	17.5	5,568	17.0	25,828	17.4
Estimated tax effect of net income not subject to tax	(1,171)	(1.0)	–	–	(1,171)	(0.8)
Estimated tax losses from previous periods utilised	(194)	(0.2)	–	–	(194)	(0.2)
Estimated tax losses not recognised	82	0.1	–	–	82	0.1
Adjustments in respect of current tax of previous periods	(3,684)	(3.2)	–	–	(3,684)	(2.5)
Tax charge at the Group's effective rate	15,293	13.2	5,568	17.0	20,861	14.0

10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK

The consolidated profit attributable to equity holders of the Bank for the year ended 31 December 2008 included a profit of HK$455,009,000 (2007 (restated): HK$216,044,000) which has been dealt with in the financial statements of the Bank (Note 31).

11. CASH AND SHORT TERM PLACEMENTS

	Group		Bank	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash in hand	**129,486**	97,450	**113,761**	97,450
Placements with banks and financial institutions	**344,523**	292,791	**286,463**	291,769
Money at call and short notice	**5,279,209**	5,402,658	**5,459,398**	5,402,658
	5,753,218	5,792,899	**5,859,622**	5,791,877

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

12. PLACEMENTS WITH BANKS AND FINANCIAL INSTITUTIONS MATURING AFTER ONE MONTH AND NOT MORE THAN TWELVE MONTHS

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

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

13. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group and Bank	
	2008	2007
	HK$'000	HK$'000
Unlisted equity investment funds, at quoted market price	**–**	12,262

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

14. LOANS AND ADVANCES AND RECEIVABLES

	Group		Bank	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Loans and advances	**24,235,271**	15,252,073	**20,033,392**	15,252,073
Trade bills	**50,861**	166,087	**50,861**	166,087
	24,286,132	15,418,160	**20,084,253**	15,418,160
Accrued interest	**84,051**	46,334	**39,662**	46,334
Gross loans and advances and receivables	**24,370,183**	15,464,494	**20,123,915**	15,464,494
Less: Impairment allowances for loans and advances and receivables				
– Individually assessed	**(106,776)**	(27,554)	**(97,410)**	(27,554)
– Collectively assessed	**(79,090)**	(17,059)	**(21,024)**	(17,059)
	(185,866)	(44,613)	**(118,434)**	(44,613)
Loans and advances and receivables	**24,184,317**	15,419,881	**20,005,481**	15,419,881

There were neither loans and advances to bank nor other accounts other than trade bills and accrued interest.

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

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(a) Overdue and impaired loans and advances and receivables

	Group				Bank			
	Gross amount 2008 HK$'000	Percentage of total loans and advances 2008	Gross amount 2007 HK$'000	Percentage of total loans and advances 2007	Gross amount 2008 HK$'000	Percentage of total loans and advances 2008	Gross amount 2007 HK$'000	Percentage of total loans and advances 2007
Loans and advances overdue for:								
Six months or less but over three months	**183,440**	**0.76**	47,029	0.31	**106,594**	**0.53**	47,029	0.31
One year or less but over six months	**9,551**	**0.04**	3,964	0.03	**6,620**	**0.03**	3,964	0.03
Over one year	**12,843**	**0.05**	7,362	0.05	**12,843**	**0.07**	7,362	0.05
Loans and advances overdue for more than three months	**205,834**	**0.85**	58,355	0.39	**126,057**	**0.63**	58,355	0.39
Rescheduled loans and advances overdue for three months or less	**298**	**-**	2,765	0.01	**298**	**-**	2,765	0.01
Impaired accounts overdue for three months or less	**47,198**	**0.20**	14,695	0.09	**41,526**	**0.21**	14,695	0.09
Total overdue and impaired loans and advances	**253,330**	**1.05**	75,815	0.49	**167,881**	**0.84**	75,815	0.49

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

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

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

2008

	Group			Bank		
	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
(i) Analysis of overdue loans and advances and receivables						
Loans and advances and receivables overdue more than three months	151,357	60,278	211,635	71,580	60,278	131,858
Individual impairment allowances	66,650	16,311	82,961	57,284	16,311	73,595
Collective impairment allowances	50,455	–	50,455	–	–	–
Current market value and fair value of collateral			19,085			19,085
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	198,896	63,298	262,194	113,447	63,298	176,745
Individual impairment allowances	89,870	16,906	106,776	80,504	16,906	97,410
Collective impairment allowances	50,455	–	50,455	–	–	–
Current market value and fair value of collateral			31,371			31,371

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

2007

	Group and Bank		
	Hong Kong	Mainland China	Total
	HK$'000	HK$'000	HK$'000
(i) Analysis of overdue loans and advances and receivables			
Loans and advances and receivables overdue more than three months	61,039	–	61,039
Individual impairment allowances	21,096	–	21,096
Collective impairment allowances	–	–	–
Current market value and fair value of collateral			42,965
(ii) Analysis of impaired loans and advances and receivables			
Impaired loans and advances and receivables	80,055	–	80,055
Individual impairment allowances	27,554	–	27,554
Collective impairment allowances	–	–	–
Current market value and fair value of collateral			42,965

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.

14. 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		Bank	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	**19,085**	40,897	**19,085**	40,897
Covered portion of overdue loans and advances	**7,624**	36,644	**7,624**	36,644
Uncovered portion of overdue loans and advances	**198,210**	21,711	**118,433**	21,711

The eligibility of assets taken as collateral should satisfy 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.

The main types of guarantors for credit risk mitigation are as follows:

- Central government with grading of Aa3 or above
- Unrated public sector enterprises
- Banks with grading of Baa2 or above
- Unrated corporations
- Individual shareholders and directors of corporate customers

Notes to Financial Statements

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(d) Repossessed assets

As at 31 December 2008, there were no repossessed assets in the Group (2007: Nil).

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

	Group				Bank			
	2008		2007		**2008**		2007	
	Gross amount HK$'000	**Percentage of total loans and advances**	Gross amount HK$'000	Percentage of total loans and advances	**Gross amount HK$'000**	**Percentage of total loans and advances**	Gross amount HK$'000	Percentage of total loans and advances
Loans and advances overdue less than three months	**710,828**	**2.93**	412,888	2.70	**428,405**	**2.14**	412,888	2.70
Rescheduled but not impaired loans and advances	**505**	**–**	710	–	**505**	**–**	710	–
	711,333	**2.93**	413,598	2.70	**428,910**	**2.14**	413,598	2.70
Trade bills, accrued interest and other receivables overdue less than three months	**6,939**		6,055		**6,939**		6,055	

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

2008

	Group			Bank		
	Individual impairment allowances HK$'000	Collective impairment allowances HK$'000	Total HK$'000	Individual impairment allowances HK$'000	Collective impairment allowances HK$'000	Total HK$'000
At 1 January 2008	27,554	17,059	44,613	27,554	17,059	44,613
Amounts written off	(114,141)	–	(114,141)	(29,190)	–	(29,190)
Impairment losses and allowances charged to the income statement	191,225	9,553	200,778	103,228	3,788	107,016
Impairment losses and allowances released to the income statement	(25,585)	–	(25,585)	(4,460)	–	(4,460)
Net charge of impairment allowances	165,640	9,553	175,193	98,768	3,788	102,556
Loans and advances and receivables recovered	21,403	–	21,403	278	–	278
Acquisition of subsidiaries	6,320	52,301	58,621	–	–	–
Exchange difference	–	177	177	–	177	177
At 31 December 2008	106,776	79,090	185,866	97,410	21,024	118,434
Deducted from:						
Loans and advances	100,237	78,887	179,124	90,871	20,821	111,692
Trade bills, accrued interest and other receivables	6,539	203	6,742	6,539	203	6,742
	106,776	79,090	185,866	97,410	21,024	118,434

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

2007

	Group and Bank		
	Individual impairment allowance HK$'000	Collective impairment allowance HK$'000	Total HK$'000
At 1 January 2007	42,075	23,358	65,433
Amounts written off	(6,251)	–	(6,251)
Impairment losses and allowances charged to the income statement	23,017	–	23,017
Impairment losses and allowances released to the income statement	(33,143)	(6,423)	(39,566)
Net release of impairment losses and allowances	(10,126)	(6,423)	(16,549)
Loans and advances and receivables recovered	1,856	–	1,856
Exchange difference	–	124	124
At 31 December 2007	27,554	17,059	44,613
Deducted from:			
Loans and advances	24,265	16,146	40,411
Trade bills, accrued interest and other receivables	3,289	913	4,202
	27,554	17,059	44,613

14. 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:

2008

	Group		Bank	
	Minimum lease payments HK$'000	Present value of minimum lease payments HK$'000	Minimum lease payments HK$'000	Present value of minimum lease payments HK$'000
Amounts receivable under finance leases:				
Within one year	**471,633**	**372,781**	**420,907**	**332,373**
In the second to fifth years, inclusive	**922,666**	**654,543**	**795,021**	**558,140**
Over five years	**3,020,088**	**2,390,931**	**2,665,393**	**2,089,290**
	4,414,387	**3,418,255**	**3,881,321**	**2,979,803**
Less: Unearned finance income	**(996,132)**		**(901,518)**	
Present value of minimum lease payments receivable	**3,418,255**		**2,979,803**	

2007

	Group and Bank	
	Minimum lease payments HK$'000	Present value of minimum lease payments HK$'000
Amounts receivable under finance leases:		
Within one year	432,247	328,631
In the second to fifth years, inclusive	769,793	488,626
Over five years	2,122,594	1,484,347
	3,324,634	2,301,604
Less: Unearned finance income	(1,023,030)	
Present value of minimum lease payments receivable	2,301,604	

The Group and the Bank 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.

Notes to Financial Statements

15. OTHER PAST DUE AND RESCHEDULED ASSETS

There were no other overdue or rescheduled advances to banks and other financial institutions or other assets (other than loans and advances and receivables and held-to-maturity investments) as at 31 December 2008 and 2007.

There were no impairment allowances for other assets (other than loans and advances and receivables, held-to-maturity investments and intangible assets) as at 31 December 2008 and 2007, and no impairment allowances and losses were charged to the income statement for such other assets for the years ended 31 December 2008 and 2007.

16. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Bank	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Listed security investments in Hong Kong, at quoted market price:				
At 1 January	**–**	–	**–**	–
Acquisition of subsidiaries	**14,720**	–	**–**	–
At 31 December	**14,720**	–	**–**	–
Unlisted security investments, at cost:				
At 1 January and 31 December	**6,804**	6,804	**6,804**	6,804
	21,524	6,804	**6,804**	6,804

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

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

17. HELD-TO-MATURITY INVESTMENTS

	Group and Bank	
	2008	2007
	HK$'000	HK$'000
Certificates of deposit held	**40,000**	175,696
Treasury bills (including Exchange Fund Bills)	**319,721**	297,478
Other debt securities	**609,495**	2,401,016
	969,216	2,874,190
Less: Individual impairment allowance	**–**	(9,800)
	969,216	2,864,390
Listed or unlisted:		
– listed in Hong Kong	**19,994**	19,986
– unlisted	**949,222**	2,844,404
	969,216	2,864,390
Analysed by issuers:		
– Central government	**319,720**	297,478
– Banks and other financial institutions	**649,496**	2,418,655
– Corporate entities	**–**	148,257
	969,216	2,864,390
Market value of listed held-to-maturity investments		
– Hong Kong	**20,214**	19,810

17. HELD-TO-MATURITY INVESTMENTS (Continued)

Movements on impairment allowances of held-to-maturity investments

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

Overdue analysis of impaired held-to-maturity investments

	Group			
	2008		2007	
	Gross amount HK$'000	Percentage of total held-to-maturity investments	Gross amount HK$'000	Percentage of total held-to-maturity investments
Overdue less than three months but impaired	–	–	77,907	2.71
Less: Individual impairment allowances	–		(9,800)	
	–		68,107	

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

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

18. INTERESTS IN SUBSIDIARIES

	Bank	
	2008 HK$'000	2007 HK$'000
Unlisted shares, at cost	**1,758,950**	56,952
Provision for investment in subsidiaries	**(700)**	–
	1,758,250	56,952

18. INTERESTS IN SUBSIDIARIES (Continued)

On 17 October 2008, PFHL disposed of its 100% interest in Public Finance to the Bank. The consideration paid for such acquisition was HK$1,800,024,080.

On 30 September 2008 and 17 October 2008, PFHL had made additional investment of HK$200,135,040 and HK$1,800,024,080 in ordinary share capital of the Bank, respectively, to strengthen its capital position.

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

Particulars of the Bank's subsidiaries, which are all incorporated and operate in Hong Kong, are as follows:

Name	Nominal value of issued ordinary share capital HK$'000	Percentage of equity directly attributable to the Bank	Nature of business
Public Bank (Nominees) Limited	100	100	Provision of nominee services
Public Financial Securities Limited	28,000	100	Securities brokerage
Public Investments Limited	5,000	100	Dormant
Public Realty Limited	100	100	Dormant
Public Credit Limited	5,000	100	Dormant
Public Futures Limited	20,000	100	Dormant
Public Pacific Securities Limited	12,000	100	Dormant
Public Finance Limited	258,800	100	Deposit-taking and financing
Public Financial Limited	10,100	100	Investment holding
Public Securities Limited	10,000	100	Securities brokerage
Public Securities (Nominees) Limited	10	100	Provision of nominee services

19. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group		Bank	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted shares, at cost	**–**	–	**1,500**	1,500
Share of net assets other than goodwill	**1,513**	1,513	**–**	–
	1,513	1,513	**1,500**	1,500

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

Name	**Business structure**	**Place of incorporation and operations**	**Percentage of 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 the jointly-controlled entity:

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

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.

20. OTHER ASSETS

	Group		Bank	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Interest receivables from authorised institutions	**13,487**	35,744	**15,449**	35,744
Other debtors, deposits and prepayments	**221,821**	156,580	**134,243**	155,769
	235,308	192,324	**149,692**	191,513

21. INTANGIBLE ASSETS

	Group	
	2008	2007
	HK$'000	HK$'000
Cost:		
At beginning of year	**1,437**	1,437
Acquisition of subsidiaries	**126**	–
At end of year	**1,563**	1,437
Accumulated impairment:		
At beginning of year	**1,205**	838
Impairment recognised in the income statement during the year	**–**	367
At end of year	**1,205**	1,205
Net carrying amount:		
At the beginning of year	**232**	232
Acquisition of subsidiaries	**126**	–
At end of year	**358**	232

The trading rights are retained for stock trading and stockbroking activities, and are of indefinite useful lives. They represent four units (2007: three units) of Stock Exchange Trading Right and one unit (2007: one unit) of Futures Exchange Trading Right in Hong Kong Exchanges and Clearing Limited.

No intangible assets were held by the Bank as at 31 December 2008 and 2007.

22. PROPERTY AND EQUIPMENT

	2008					
	Group			Bank		
	Buildings HK$'000	Furniture, fixtures, equipment and motor vehicles HK$'000	Total HK$'000	Buildings HK$'000	Furniture, fixtures, equipment and motor vehicles HK$'000	Total HK$'000
At cost:						
At 1 January 2008 (Restated)	25,740	167,161	192,901	29,224	159,039	188,263
Additions	1,406	30,233	31,639	1,406	30,340	31,746
Disposals/write-off	(23,668)	(5,234)	(28,902)	(15,743)	(5,233)	(20,976)
Acquisition of subsidiaries	12,366	12,834	25,200	–	–	–
At 31 December 2008	15,844	204,994	220,838	14,887	184,146	199,033
Accumulated depreciation:						
At 1 January 2008 (Restated)	8,804	138,949	147,753	7,771	130,920	138,691
Provided during the year	562	13,363	13,925	567	12,357	12,924
Disposals/write-off	(5,570)	(5,226)	(10,796)	(5,119)	(5,226)	(10,345)
Exchange difference	35	23	58	35	23	58
At 31 December 2008	3,831	147,109	150,940	3,254	138,074	141,328
Net book value:						
At 31 December 2008	12,013	57,885	69,898	11,633	46,072	57,705
At 31 December 2007 (Restated)	16,936	28,212	45,148	21,453	28,119	49,572

Management of the Group has made a voluntary change in the accounting policy for property, plant and equipment from revaluation model to cost model in the current financial year according to paragraph 14(6) of HKAS 8. The purpose of such change of accounting policy is to be consistent within the PFHL Group. According to HKAS 8, when an entity applies a new accounting policy retrospectively, it applies the new accounting policy to comparative information for prior period as far as is practicable. In this case, by doing so, certain comparative figures such as property and equipment, land lease prepayment, deferred tax liabilities, reserves and depreciation expenses have been restated to conform to the current year's presentation.

22. PROPERTY AND EQUIPMENT (Continued)

	2007					
	Group			Bank		
	Buildings HK$'000 (Restated)	Furniture, fixtures, equipment and motor vehicles HK$'000	Total HK$'000 (Restated)	Buildings HK$'000 (Restated)	Furniture, fixtures, equipment and motor vehicles HK$'000	Total HK$'000 (Restated)
At cost:						
At 1 January 2007 (Reported)						
– cost	–	176,581	176,581	–	167,674	167,674
– valuation	508,634	–	508,634	449,704	–	449,704
Restatement due to change in accounting policy (Note 39)	(484,025)	–	(484,025)	(427,339)	–	(427,339)
At 1 January 2007 (Restated)	24,609	176,581	201,190	22,365	167,674	190,039
Transfer from investment properties	1,131	–	1,131	1,131	–	1,131
Additions	–	28,607	28,607	–	28,607	28,607
Disposals/write-off	–	(38,027)	(38,027)	–	(37,242)	(37,242)
Transfer from group company	–	–	–	5,728	–	5,728
At 31 December 2007 (Restated)	25,740	167,161	192,901	29,224	159,039	188,263
At 31 December 2007 (Reported)	613,850	167,161	781,011	613,850	159,039	772,889
Restatement due to change in accounting policy (Note 39)	(588,110)	–	(588,110)	(584,626)	–	(584,626)
At 31 December 2007 (Restated)	25,740	167,161	192,901	29,224	159,039	188,263

22. PROPERTY AND EQUIPMENT (Continued)

	2007					
	Group			Bank		
	Buildings HK$'000 (Restated)	Furniture, fixtures, equipment and motor vehicles HK$'000	Total HK$'000 (Restated)	Buildings HK$'000 (Restated)	Furniture, fixtures, equipment and motor vehicles HK$'000	Total HK$'000 (Restated)
Accumulated depreciation:						
At 1 January 2007 (Reported)	–	168,356	168,356	–	159,592	159,592
Restatement due to change in accounting policy (Note 39)	8,282	–	8,282	7,223	–	7,223
At 1 January 2007 (Restated)	8,282	168,356	176,638	7,223	159,592	166,815
Provided during the year	515	8,297	8,812	541	8,248	8,789
Disposals/write-off	–	(37,704)	(37,704)	–	(36,920)	(36,920)
Exchange difference	7	–	7	7	–	7
At 31 December 2007 (Restated)	8,804	138,949	147,753	7,771	130,920	138,691
At 31 December 2007 (Reported)	–	138,949	138,949	–	130,920	130,920
Restatement due to change in accounting policy (Note 39)	8,804	–	8,804	7,771	–	7,771
At 31 December 2007 (Restated)	8,804	138,949	147,753	7,771	130,920	138,691
Net book value:						
At 31 December 2007 (Reported)	613,850	28,212	642,062	613,850	28,119	641,969
Restatement due to change in accounting policy (Note 39)	(596,914)	–	(596,914)	(592,397)	–	(592,397)
At 31 December 2007 (Restated)	16,936	28,212	45,148	21,453	28,119	49,572
At 31 December 2006 (Reported)	508,634	8,225	516,859	449,704	8,082	457,786
Restatement due to change in accounting policy (Note 39)	(492,307)	–	(492,307)	(434,562)	–	(434,562)
At 31 December 2006 (Restated)	16,327	8,225	24,552	15,142	8,082	23,224

23. LAND LEASE PREPAYMENTS

	Group HK$'000 (Restated)	Bank HK$'000 (Restated)
Cost:		
At 1 January 2007 (Reported)	–	–
Restatement due to change in accounting policy (Note 39)	170,022	149,716
At 1 January 2007 (Restated)	170,022	149,716
Transfer from investment properties	9,035	9,035
Transfer from group company	–	53,202
Exchange difference	–	–
At 31 December 2007 and 1 January 2008 (Restated)	**179,057**	**211,953**
At 1 January 2008 (Reported)	**–**	**–**
Restatement due to change in accounting policy (Note 39)	**179,057**	**211,953**
At 1 January 2008 (Restated)	**179,057**	**211,953**
Additions	**45,446**	**45,446**
Acquisition of subsidiaries	**267,296**	**–**
Disposals	**(366,765)**	**(125,706)**
At 31 December 2008	**125,034**	**131,693**
Accumulated amortisation and impairment:		
At 1 January 2007 (Reported)	–	–
Restatement due to change in accounting policy (Note 39)	19,383	16,993
At 1 January 2007 (Restated)	19,383	16,993
Provided during the year	1,313	1,492
Exchange difference	–	–
At 31 December 2007 and 1 January 2008 (Restated)	**20,696**	**18,485**
At 1 January 2008 (Reported)	**–**	**–**
Restatement due to change in accounting policy (Note 39)	**20,696**	**18,485**
At 1 January 2008 (Restated)	**20,696**	**18,485**
Provided during the year	**1,807**	**1,791**
Disposals	**(2,838)**	**(2,385)**
Exchange difference	**–**	**–**
At 31 December 2008	**19,665**	**17,891**
Net carrying amount:		
At 31 December 2008	**105,369**	**113,802**
At 31 December 2007	**158,361**	**193,468**

23. LAND LEASE PREPAYMENTS (Continued)

	Group		Bank	
	2008	2007	**2008**	2007
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)
Net book value:				
Medium term leases	**98,175**	43,467	**101,347**	57,530
Long term leases	**7,194**	114,894	**12,455**	135,938
	105,369	158,361	**113,802**	193,468

Carrying amount of land lease prepayments was revalued to HK$701,137,000 on 22 December 2008, the date of disposal of properties, to immediate holding company, PFHL, at arm's length. The amount of sales proceeds is based on the valuation report of properties issued by C S Surveyors Limited, a firm of independent professionally qualified valuers, on an open market value, based on their existing use.

24. INVESTMENT PROPERTIES

	Group		Bank	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Carrying amount at 1 January	**17,900**	23,366	**17,900**	23,366
Acquisition of subsidiaries	**99,407**	–	**–**	–
Disposals	**(59,960)**	–	**–**	–
Transfer to owner-occupied property	**–**	(10,166)	**–**	(10,166)
Carrying amount before change in fair value	**57,347**	13,200	**17,900**	13,200
Change in fair value (Note 6)	**1,530**	4,700	**1,790**	4,700
Carrying amount at 31 December	**58,877**	17,900	**19,690**	17,900

Investment properties with a carrying amount of HK$59,960,000 was disposed at a consideration of HK$59,960,000 to the Bank's immediate holding company, PFHL, at arm's length.

On 31 December 2008, investment properties with a carrying amount of HK$57,347,000 were revalued at HK$58,877,000 based on the revaluation report issued by C S Surveyors Limited, a firm of independent professionally qualified valuers, on an open market value, based on their existing use. The investment properties are leased to third parties under operating lease, further details of which are included in Note 34(a) to the financial statements.

The Group's and the Bank's investment properties are situated in Hong Kong and are held under medium term leases in Hong Kong.

25. GOODWILL

	Group	
	2008	2007
	HK$'000	HK$'000
Cost:		
At beginning of year	**–**	–
Additions	**242,342**	–
At end of year	**242,342**	–

On 17 October 2008, the Group and Public Financial Holdings Limited ("PFHL") entered into a share purchase agreement ("SPA") pursuant to which PFHL agreed to sell and the Group agreed to purchase, the entire issued and paid-up share capital of Public Finance Limited for a consideration of HK$1,800,024,080 (the "Consideration"). The fair value of net assets and the carrying amount of goodwill amounted to HK$1,557,681,952 and HK$242,342,128 respectively.

Impairment test of goodwill

Goodwill acquired through business combinations was allocated to the cash-generating unit (the "CGU") representing an operating entity within the business segment identified by the Group. The acquired subsidiaries are involved in mainly the consumer finance businesses. The recoverable amounts of the CGU are determined based on a value in use for calculation. The calculation uses cash flow projections based on financial budgets approved by management covering a three-year period and assumed growth rates are used to extrapolate the cash flows in the following 47 years. All cash flows are discounted at discount rates of 4% to 6%. Management's financial model assumes an average of growth rates from 4% to 5% per annum from forth to fiftieth year. The discount rates used is based on the rate which reflects specific risks relating to the CGU.

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

26. CUSTOMER DEPOSITS AT AMORTISED COST

	Group		Bank	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Demand deposits and current accounts	**913,456**	774,497	**971,483**	807,802
Savings deposits	**2,988,709**	2,363,790	**2,988,933**	2,364,008
Time, call and notice deposits	**20,567,245**	15,250,126	**16,874,054**	15,250,126
	24,469,410	18,388,413	**20,834,470**	18,421,936

Notes to Financial Statements

27. UNSECURED BANK LOANS AT AMORTISED COST

	Group and Bank	
	2008	2007
	HK$'000	HK$'000
Unsecured bank loans	**1,099,219**	–
Repayable:		
within one year	**1,099,219**	–

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.

28. OTHER LIABILITIES

	Group		Bank	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Interest payable	**112,374**	46,334	**89,740**	46,334
Creditors, accruals and other payables	**247,968**	228,684	**137,626**	227,770
Due to subsidiaries	**–**	–	**22,397**	45,307
	360,342	275,018	**249,763**	319,411

The amounts due to subsidiaries included in the Bank's other liabilities were unsecured, interest-free and have no fixed terms of repayment.

29. DEFERRED TAX

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

Group – 2008

Deferred tax assets

	Collective impairment allowances HK$'000
At 1 January 2008	**2,950**
Acquisition of subsidiaries	**1,018**
Effect of change in tax rates charged to income statement	**(227)**
Deferred tax credited to the income statement during the year	**538**
Deferred tax assets at 31 December 2008	**4,279**

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation HK$'000	Revaluation of investment properties HK$'000	Total HK$'000
At 1 January 2008 (Restated)	**6,010**	**2,823**	**8,833**
Acquisition of subsidiaries	**15,910**	**–**	**15,910**
Effect of change in tax rates charged to income statement	**(1,252)**	**(161)**	**(1,413)**
Deferred tax (credited)/charged to the income statement during the year (Note 9)	**(10,837)**	**465**	**(10,372)**
Deferred tax liabilities at 31 December 2008	**9,831**	**3,127**	**12,958**

29. DEFERRED TAX (Continued)

Bank – 2008

Deferred tax assets

	Collective impairment allowance HK$'000
At 1 January 2008	**2,950**
Effect of change in tax rates charged to income statement	**(169)**
Deferred tax credited to the income statement during the year	**198**
Deferred tax assets at 31 December 2008	**2,979**

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation HK$'000	Revaluation of investment properties HK$'000	Total HK$'000
At 1 January 2008 (Restated)	**8,256**	**2,823**	**11,079**
Effect of change in tax rates charged to income statement	**(472)**	**(161)**	**(633)**
Deferred tax charged/(credited) to the income statement during the year	**(244)**	**465**	**221**
Deferred tax liabilities at 31 December 2008	**7,540**	**3,127**	**10,667**

29. DEFERRED TAX (Continued)

Group – 2007

Deferred tax assets

	Collective impairment allowance HK$'000
At 1 January 2007	3,700
Deferred tax charged to the income statement during the year	(750)
Deferred tax assets at 31 December 2007	2,950

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation HK$'000	Revaluation of buildings HK$'000 (Restated)	Revaluation of investment properties HK$'000	Total HK$'000 (Restated)
At 1 January 2007 (Reported)	943	68,192	2,000	71,135
Restatement due to change in accounting policy (Note 39)	3,290	(68,192)	–	(64,902)
At 1 January 2007 (Restated)	4,233	–	2,000	6,233
Deferred tax charged to the income statement during the year (Note 9)	1,777	–	823	2,600
Deferred tax liabilities at 31 December 2007 (Restated)	6,010	–	2,823	8,833

Deferred tax liabilities at 31 December 2007 (Reported)	91,665
Restatement due to change in accounting policy (Note 39)	(82,832)
Deferred tax liabilities at 31 December 2007 (Restated)	8,833

29. DEFERRED TAX (Continued)

Bank – 2007

Deferred tax assets

	Collective impairment allowance HK$'000
At 1 January 2007	3,700
Deferred tax charged to the income statement during the year	(750)
Deferred tax assets at 31 December 2007	2,950

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation HK$'000	Revaluation of buildings HK$'000 (Restated)	Revaluation of investment properties HK$'000	Total HK$'000 (Restated)
At 1 January 2007 (Reported)	1,043	58,960	2,000	62,003
Restatement due to change in accounting policy (Note 39)	5,436	(58,960)	–	(53,524)
At 1 January 2007 (Restated)	6,479	–	2,000	8,479
Deferred tax charged to the income statement during the year	1,777	–	823	2,600
Deferred tax liabilities at 31 December 2007 (Restated)	8,256	–	2,823	11,079

Deferred tax liabilities at 31 December 2007 (Reported)	82,460
Restatement due to change in accounting policy (Note 39)	(71,381)
Deferred tax liabilities at 31 December 2007 (Restated)	11,079

The Group has tax losses arising in Hong Kong of HK$35,890,000 (2007: HK$35,895,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have incurred losses for some time and it is not considered probable that taxable profit will be available against which tax losses can be utilized.

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

30. SHARE CAPITAL

	Group and Bank	
	2008	2007
	HK$'000	HK$'000
Authorised:		
20,000,000 (2007: 10,000,000) ordinary shares of HK$100 each (Note (a))	**2,000,000**	1,000,000

	Number of ordinary shares of HK$100 each		**Share capital**	
	2008	2007	**2008**	2007
			HK$'000	HK$'000
Issued and fully paid:				
At 1 January	**8,100,000**	8,100,000	**810,000**	810,000
Shares issued (Note (b))	**6,716,000**	–	**671,600**	–
At 31 December	**14,816,000**	8,100,000	**1,481,600**	810,000

Notes:

(a) Pursuant to an ordinary resolution passed on 15 October 2008, the authorised share capital of the Bank was increased from HK$1,000,000,000 to HK$2,000,000,000 by the creation of 10,000,000 additional shares of HK$100 each ranking pari passu in all respects with the existing shares of the Bank.

(b) The increase in issued share capital represented the allotments of 672,000 shares and 6,044,000 shares to PFHL on 30 September 2008 and 17 October 2008 respectively. The first allotment was a capital injection of HK$200,135,040 by PFHL while the second allotment was the payment in satisfaction of the consideration for the purchase of all the shares in Public Finance at HK$1,800,024,080.

Notes to Financial Statements

31. RESERVES

	Group		Bank	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Share premium:				
At 1 January	**43,935**	43,935	**43,935**	43,935
Issue of shares	**1,328,510**	–	**1,328,510**	–
At 31 December	**1,372,445**	43,935	**1,372,445**	43,935
Group reconstruction reserve:				
At 1 January and 31 December	**3,065**	3,065	**–**	–
Translation reserve:				
At 1 January	**21,400**	–	**21,400**	–
Exchange difference	**13,660**	21,400	**13,660**	21,400
At 31 December	**35,060**	21,400	**35,060**	21,400
General reserve:				
At 1 January	**232,640**	232,640	**230,640**	230,640
Transfer to retained profits	**(232,640)**	–	**(230,640)**	–
At 31 December	**–**	232,640	**–**	230,640
Capital reserve:				
At 1 January and 31 December	**17,660**	17,660	**3,660**	3,660
Regulatory reserve (Note):				
At 1 January	**137,123**	78,286	**137,123**	78,286
Transfer from retained profits	**167,428**	58,837	**65,280**	58,837
At 31 December	**304,551**	137,123	**202,403**	137,123
Available-for-sale financial assets revaluation reserve:				
At 1 January	**–**	–	**–**	–
Change in fair value recognised directly in equity	**(1,680)**	–	**–**	–
At 31 December	**(1,680)**	–	**–**	–
Asset revaluation reserve:				
At 1 January (Reported)		323,342		279,819
Restatement due to change in accounting policy (Note 39)		(323,342)		(279,819)
At 1 January (Restated)	**–**	–	**–**	–
At 31 December (Reported)		408,492		364,620
Restatement due to change in accounting policy (Note 39)		(408,492)		(364,620)
At 31 December (Restated)	**–**	–	**–**	–

31. RESERVES (Continued)

	Group		Bank	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Retained profits:				
At 1 January (Reported)	**651,465**	588,869	**701,477**	549,838
Restatement due to change in accounting policy (Note 39)	**52,771**	46,575	**37,072**	31,504
At 1 January (Restated)	**704,236**	635,444	**738,549**	581,342
Net profit for the year (reported)	**–**	121,433	**–**	210,476
Restatement due to change in accounting policy (Note 39)	**–**	6,196	**–**	5,568
Net profit for the year (restated)	**365,450**	127,629	**455,009**	216,044
Transfer from general reserve	**232,640**	–	**230,640**	–
Transfer to regulatory reserve	**(167,428)**	(58,837)	**(65,280)**	(58,837)
At 31 December	**1,134,898**	704,236	**1,358,918**	738,549
At 31 December (Reported)		651,465		701,477
Restatement due to change in accounting policy (Note 39)		52,771		37,072
At 31 December (Restated)		704,236		738,549
Total:				
At 1 January (Reported)	**1,515,780**	1,287,797	**1,502,855**	1,186,178
Restatement due to change in accounting policy (Note 39)	**(355,721)**	(276,767)	**(327,548)**	(248,315)
At 1 January (Restated)	**1,160,059**	1,011,030	**1,175,307**	937,863
At 31 December (Reported)		1,515,780		1,502,585
Restatement due to change in accounting policy (Note 39)		(355,721)		(327,278)
At 31 December (Restated)	**2,865,999**	1,160,059	**2,972,486**	1,175,307

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 and the Bank's collective impairment allowance were included as supplementary capital in the Group's capital base at 31 December 2008 as defined in the Guideline. The regulatory reserve is held as a buffer of capital to absorb potential financial losses in excess of requirements of accounting standards pursuant to the direction of the HKMA.

32. LOANS TO DIRECTORS AND OFFICERS

Loans granted by the Bank to directors and officers disclosed pursuant to Section 161B (9) and (10) of the Hong Kong Companies Ordinance were as follows:

	Group and Bank	
	2008	2007
	HK$'000	HK$'000
Aggregate amount of principal and interest outstanding at end of year	**237**	266
Maximum aggregate amount of principal and interest outstanding during the year	**782**	557

The loans to directors and officers are granted on essentially the same terms with those granted to other customers, and/or at prevailing market rates and have no fixed terms of repayment.

33. OFF-BALANCE SHEET EXPOSURE

(a) Contingent liabilities and commitments

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

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 (Note 33(b)):					
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 an 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	**3,952,542**	**–**	**–**	**–**	**–**
	6,556,106	**506,662**	**244,892**	**1,151**	**4,150**
Capital commitment:					
Contracted, but not provided for	**5,183**				

33. OFF-BALANCE SHEET EXPOSURE (Continued)

(a) Contingent liabilities and commitments (Continued)

Bank – 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 (Note 33(b)):					
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 an 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	**3,862,402**	**–**	**–**	**–**	**–**
	6,465,966	**506,662**	**244,892**	**1,151**	**4,150**
Capital commitment:					
Contracted, but not provided for	**5,183**				

33. OFF-BALANCE SHEET EXPOSURE (Continued)

(a) Contingent liabilities and commitments (Continued)

Group and Bank – 2007

	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	287,899	287,899	81,595	–	–
Transaction-related contingencies	3,844	1,922	958	–	–
Trade-related contingencies	197,345	39,469	37,208	–	–
Forward asset purchases	85,898	85,898	17,180	–	–
	574,986	415,188	136,941	–	–
Derivatives held for trading (Note 33(b)):					
Foreign exchange rate contracts	2,021,126	9,535	866	2,591	2,342
Interest rate swaps and future contracts	400,000	–	–	53	39
	2,421,126	9,535	866	2,644	2,381
Other commitments with an original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	508,023	254,011	254,011	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,777,456	–	–	–	–
	7,281,591	678,734	391,818	2,644	2,381
Capital commitments:					
Contracted, but not provided for	9,210				

33. OFF-BALANCE SHEET EXPOSURE (Continued)

(a) Contingent liabilities and commitments (Continued)

The Group and the Bank had not entered into any bilateral netting arrangements and accordingly the above amounts are shown on a gross basis. The credit risk weighted amounts are calculated in accordance with the Third Schedule of the Banking Ordinance and guidelines issued by the HKMA. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments and from 0% to 50% for exchange rate contracts.

As at 31 December 2008 and 2007, the Group and the Bank had no other material outstanding contingent liabilities and commitments save as disclosed above.

(b) Derivative financial instruments

The Group uses the following derivative instruments:

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

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 and the Bank'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 and the Bank assess counterparties using the same techniques as for its lending activities.

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

34. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group and the Bank lease its investment properties (Note 24) under operating lease arrangements, and the terms of the leases range from one to five years.

At 31 December 2008, the Group and the Bank had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	Group		Bank	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**2,167**	1,211	**1,369**	1,211
In the second to fifth years, inclusive	**1,499**	331	**870**	331
	3,666	1,542	**2,239**	1,542

(b) As lessee

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

At 31 December 2008, the Group and the Bank had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	Group		Bank	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**56,279**	19,157	**21,552**	19,157
In the second to fifth years, inclusive	**33,471**	17,728	**16,023**	17,728
	89,750	36,885	**37,575**	36,885

Notes to Financial Statements

35. RELATED PARTY TRANSACTIONS

The Bank had the following material transactions with related parties in the normal course of business. In addition to those disclosed elsewhere in the financial statements, the details of related party transactions, related expenses and income for the year and outstanding balances as at year end were as follows:

		Group		Bank	
		2008	2007	**2008**	2007
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Related party transactions included in the income statement:					
Management fees from the ultimate holding company	(a)	**55**	–	**–**	–
Management fees from the immediate holding company	(a)	**720**	433	**720**	433
Management fees from fellow subsidiaries	(a)	**43**	–	**–**	–
Management fees to the immediate holding company	(a)	**2,857**	1,920	**1,920**	1,920
Rental income from the ultimate holding company	(b)	**134**	–	**–**	–
Rent paid to the ultimate holding company	(c)	**420**	140	**420**	140
Rent paid to the immediate holding company	(c)	**3,000**	2,250	**3,000**	2,250
Rent paid to fellow subsidiaries	(c)	**698**	3,809	**510**	3,809
Interest income from the ultimate holding company	(d)	**28,797**	–	**28,797**	–
Interest income from key management personnel	(e)	**3**	–	**–**	–
Interest paid to the ultimate holding company	(f)	**5,235**	26,036	**5,235**	26,036
Interest paid to the immediate holding company	(f)	**21,375**	3,741	**19,894**	3,741
Interest paid to fellow subsidiaries	(f)	**27,357**	6,392	**24,051**	6,392
Interest paid to key management personnel	(f)	**657**	663	**657**	663
Commission paid to a fellow subsidiary	(g)	**228**	803	**213**	803
Building management fee from fellow subsidiaries	(c)	**22**	–	**–**	–
Key management personnel compensation:					
Short-term employee benefits	(h)	**578**	–	**–**	–
Post employment benefits	(h)	**26**	–	**–**	–
Post employment benefits for employees other than key management personnel	(h)	**1,358**	–	**–**	–
Gain on disposal of property and equipment, land lease prepayments and investment properties to the immediate holding company	(j)	**319,112**	–	**300,736**	–

35. RELATED PARTY TRANSACTIONS (Continued)

Details of compensation for key management personnel, which are the directors of the Bank are included in note 8 to the financial statements.

		Group		Bank	
		2008	2007	**2008**	2007
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Related party transactions included in the assets and liabilities:					
Cash and short term funds with the ultimate holding company	(d)	**1,937,677**	–	**1,937,510**	–
Interest receivable from the ultimate holding company	(d)	**393**	–	**393**	–
Deposits from the ultimate holding company	(f)	**63,968**	1,654,659	**63,968**	1,654,659
Deposits from the immediate holding company	(f)	**277,391**	32,026	**127,391**	32,026
Deposits from fellow subsidiaries and an affiliated company	(f)	**2,275,747**	396,165	**1,795,747**	396,165
Customer deposits from key management personnel	(f)	**22,598**	19,497	**22,598**	19,497
Interest payable to the ultimate holding company	(f)	**119**	961	**119**	961
Interest payable to the immediate holding company	(f)	**1,583**	10	**1**	10
Interest payable to fellow subsidiaries	(f)	**30,751**	108	**27,936**	108
Interest payable to key management personnel	(f)	**22**	–	**22**	–
Loans to key management personnel	(e)	**834**	28	**16**	28
Rental deposits from the ultimate holding company	(b)	**47**	–	**–**	–
Rental deposits to the immediate holding company	(c)	**500**	500	**500**	500
Rental deposits to fellow subsidiaries	(c)	**299**	786	**128**	786
Interest and other payables to a fellow subsidiary included in other liabilities	(i)	**53**	–	**–**	–
Amounts due from a fellow subsidiary included in other assets	(i)	**729**	–	**–**	–

35. RELATED PARTY TRANSACTIONS (Continued)

Notes:

(a) The management fees arose from administrative services provided by the immediate holding company to the Group in 2008. They were charged based on cost incurred by the immediate holding company during the year.

(b) The rental income and deposits were derived from properties leased to the ultimate holding company as its staff quarters and office.

(c) The rent paid, rental deposits and building management fee were derived from properties rented from the ultimate holding company, the immediate holding company and fellow subsidiaries as the Bank's offices during the year.

(d) The Group and the Bank placed deposits with the ultimate holding company and the immediate holding company. Interest was received/receivable from the ultimate holding company. The balances of the said deposits and interest receivable were included in cash and short term placements and other assets, respectively, in the balance sheet.

(e) These balances represented a mortgage loan granted to a director of Public Finance and credit card receivables due from directors of the Bank. Interest income was received in respect of the mortgage loan.

(f) The ultimate holding company, immediate holding company, fellow subsidiaries, an affiliated company and key management personnel placed deposits with the Group and the Bank at the prevailing market rates. Interest expense/payables were paid by the Group and the Bank for the year in respect of these placements. The balances were included in customer deposits in the balance sheet. In addition, there was loan interest paid to the immediate holding company and the loan had been fully paid in the year.

(g) The commission expenses represented commission paid for the referrals of taxi financing loans from a fellow subsidiary during the year.

(h) Post employment benefit plan for the benefit of employees paid by one of the subsidiaries.

(i) These balances include other receivables and payables to a fellow subsidiary.

(j) During the year, the Bank's holding company, PFHL, has decided to consolidate the leasehold land and buildings used in the Group's operations at the holding company's level. As at 31 December 2008, property and equipment, land lease prepayments as well as investment properties with a carrying value of HK$441,985,000 have been disposed at a consideration of HK$761,097,000 by the Group to PFHL. The centralised management of the properties is believed to enhance the cost effectiveness and efficiency of property management operations of the Group.

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Group

	2008			2007		
	Carrying value HK$'000	**Fair value HK$'000**	**Unrecognised loss HK$'000**	Carrying value HK$'000	Fair value HK$'000	Unrecognised loss HK$'000
Financial assets						
Cash and short term placements	**5,753,218**	**5,753,218**	**–**	5,792,899	5,792,899	–
Placements with banks and financial institutions maturing after one month but not more than twelve months	**173,099**	**173,099**	**–**	441,539	441,539	–
Financial assets designated at fair value through profit or loss	**–**	**–**	**–**	12,262	12,262	–
Derivative financial instruments	**1,151**	**1,151**	**–**	2,644	2,644	–
Loans and advances and receivables	**24,184,317**	**24,184,317**	**–**	15,419,881	15,419,881	–
Held-to-maturity investments	**969,216**	**957,557**	**(11,659)**	2,864,390	2,860,158	(4,232)
Other assets	**235,308**	**235,308**	**–**	192,324	192,324	–
Financial liabilities						
Deposits and balances of banks and other financial institutions at amortised cost	**641,732**	**641,732**	**–**	2,263,902	2,263,902	–
Derivative financial instruments	**4,150**	**4,150**	**–**	2,381	2,381	–
Customer deposits at amortised cost	**24,469,410**	**24,469,410**	**–**	18,388,413	18,388,413	–
Certificates of deposit issued at amortised cost	**879,850**	**879,850**	**–**	2,049,227	2,049,227	–
Unsecured bank loans at amortised cost	**1,099,219**	**1,099,219**	**–**	–	–	–
Other liabilities	**360,342**	**360,342**	**–**	275,018	275,018	–
Total unrecognised change in unrealised fair value			**(11,659)**			(4,232)

36. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Bank

	2008			2007		
	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	**5,859,622**	**5,859,622**	**–**	5,791,877	5,791,877	–
Placements with banks and financial institutions maturing after one month but not more than twelve months	**173,099**	**173,099**	**–**	441,539	441,539	–
Financial assets designated at fair value through profit or loss	**–**	**–**	**–**	12,262	12,262	–
Derivative financial instruments	**1,151**	**1,151**	**–**	2,644	2,644	–
Loans and advances and receivables	**20,005,481**	**20,005,481**	**–**	15,419,881	15,419,881	–
Held-to-maturity investments	**969,216**	**957,557**	**(11,659)**	2,864,390	2,860,158	(4,232)
Other assets	**149,692**	**149,692**	**–**	191,513	191,513	–
Financial liabilities						
Deposits and balances of banks and other financial institutions at amortised cost	**1,596,902**	**1,596,902**	**–**	2,263,902	2,263,902	–
Derivative financial instruments	**4,150**	**4,150**	**–**	2,381	2,381	–
Customer deposits at amortised cost	**20,834,470**	**20,834,470**	**–**	18,421,936	18,421,936	–
Certificates of deposit issued at amortised cost	**879,850**	**879,850**	**–**	2,049,227	2,049,227	–
Unsecured bank loans at amortised cost	**1,099,219**	**1,099,219**	**–**	–	–	–
Other liabilities	**249,763**	**249,763**	**–**	319,411	319,411	–
Total unrecognised change in unrealised fair value			**(11,659)**			(4,232)

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

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

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

36. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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 value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates. For those certificates of deposit issued and customer deposits where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

Financial instruments recorded at fair value

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

Group – 2008

	Quoted market price HK$'000	**Valuation techniques – market observable inputs HK$'000**	**Total HK$'000**
Financial assets:			
Available-for-sale listed securities	**14,720**	**–**	**14,720**
Derivative financial instruments	**–**	**1,151**	**1,151**
	14,720	**1,151**	**15,871**
Financial liabilities:			
Derivative financial instruments	**–**	**4,150**	**4,150**

Group – 2007

	Quoted market price HK$'000	Valuation techniques – market observable inputs HK$'000	Total HK$'000
Financial assets:			
Financial assets designated at fair value through profit or loss	12,262	–	12,262
Derivative financial instruments	–	2,644	2,644
	12,262	2,644	14,906
Financial liabilities:			
Derivative financial instruments	–	2,381	2,381

36. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Financial instruments recorded at fair value (Continued)

Bank – 2008

	Quoted market price HK$'000	Valuation techniques – market observable inputs HK$'000	Total HK$'000
Financial assets:			
Derivative financial instruments	**–**	**1,151**	**1,151**
Financial liabilities:			
Derivative financial instruments	**–**	**4,150**	**4,150**

Bank – 2007

	Quoted market price HK$'000	Valuation techniques – market observable inputs HK$'000	Total HK$'000
Financial assets:			
Financial assets designated at fair value through profit or loss	12,262	–	12,262
Derivative financial instruments	–	2,644	2,644
	12,262	2,644	14,906
Financial liabilities:			
Derivative financial instruments	–	2,381	2,381

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

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

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

37. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The tables below show an analysis of financial assets and financial liabilities analysed by principal amount according to when they are expected to be recovered or settled. The Group's and the Bank's contractual undiscounted repayment obligations are shown in section "Liquidity risk management" of note 38 to the consolidated financial statements.

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	474,009	5,279,209	–	–	–	–	–	5,753,218
Placements with banks and financial institutions, maturing after one month but not more than twelve months	–	–	34,089	139,010	–	–	–	173,099
Derivative financial instruments	–	877	274	–	–	–	–	1,151
Loans and advances and receivables	537,303	1,375,197	1,296,954	2,530,372	8,199,015	10,220,650	210,692	24,370,183
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	–	13,487	–	–	–	–	221,821	235,308
Total financial assets	1,011,312	6,886,180	1,562,290	3,087,013	8,302,217	10,220,650	454,037	31,523,699
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	3,908,231	10,517,077	6,518,993	3,509,886	15,223	–	–	24,469,410
Certificates of deposit issued at amortised cost	–	–	–	879,850	–	–	–	879,850
Unsecured bank loans at amortised cost	–	–	–	1,099,219	–	–	–	1,099,219
Derivative financial instruments	–	4,026	124	–	–	–	–	4,150
Other liabilities	–	112,374	–	–	–	–	247,968	360,342
Total financial liabilities	3,938,555	11,032,023	6,680,414	5,540,520	15,223	–	247,968	27,454,703

37. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

Bank – 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	400,224	5,459,398	–	–	–	–	–	5,859,622
Placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	34,089	139,010	–	–	–	173,099
Derivative financial instruments	–	877	274	–	–	–	–	1,151
Loans and advances and receivables	514,960	1,162,931	959,103	1,288,604	6,354,687	9,722,448	121,182	20,123,915
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	–	217,410	230,973	417,631	103,202	–	–	969,216
Other assets	–	15,449	–	–	–	–	134,243	149,692
Total financial assets	915,184	6,856,065	1,224,439	1,845,245	6,457,889	9,722,448	262,229	27,283,499
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	76,494	1,307,546	161,297	51,565	–	–	–	1,596,902
Customer deposits at amortised cost	3,960,416	9,414,200	4,350,850	3,095,151	13,853	–	–	20,834,470
Certificates of deposit issued at amortised cost	–	–	–	879,850	–	–	–	879,850
Unsecured bank loans at amortised cost	–	–	–	1,099,219	–	–	–	1,099,219
Derivative financial instruments	–	4,026	124	–	–	–	–	4,150
Other liabilities	–	89,740	–	–	–	–	160,023	249,763
Total financial liabilities	4,036,910	10,815,512	4,512,271	5,125,785	13,853	–	160,023	24,664,354

37. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

Group – 2007

	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$'000	Over 1 year but not more than 5 years HK$'000	Over 5 years HK$'000	Repayable within an indefinite period HK$'000	Total HK$'000
Financial assets:								
Cash and short term placements	390,241	5,402,658	–	–	–	–	–	5,792,899
Placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	301,175	140,364	–	–	–	441,539
Financial assets designated at fair value through profit or loss	–	–	–	–	–	–	12,262	12,262
Derivative financial instruments	–	475	1,580	589	–	–	–	2,644
Loans and advances and receivables	567,414	1,222,931	1,083,126	823,360	4,965,344	6,708,204	94,115	15,464,494
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	–	1,293,378	580,093	781,432	219,287	–	–	2,874,190
Other assets	–	53,295	–	139,029	–	–	–	192,324
Total financial assets	957,655	7,972,737	1,965,974	1,884,774	5,184,631	6,708,204	113,181	24,787,156
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	36,074	2,130,542	35,244	62,042	–	–	–	2,263,902
Customer deposits at amortised cost	3,138,288	11,952,573	2,501,911	773,340	22,301	–	–	18,388,413
Certificates of deposit issued at amortised cost	–	–	99,995	1,149,723	799,509	–	–	2,049,227
Derivative financial instruments	–	1,560	285	536	–	–	–	2,381
Other liabilities	–	72,243	–	202,775	–	–	–	275,018
Total financial liabilities	3,174,362	14,156,918	2,637,435	2,188,416	821,810	–	–	22,978,941

Notes to Financial Statements

37. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

Bank – 2007

	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$'000	Over 1 year but not more than 5 years HK$'000	Over 5 years HK$'000	Repayable within an indefinite period HK$'000	Total HK$'000
Financial assets								
Cash and short term placements	389,219	5,402,658	–	–	–	–	–	5,791,877
Placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	301,175	140,364	–	–	–	441,539
Financial assets designated at fair value through profit or loss	–	–	–	–	–	–	12,262	12,262
Derivative financial instruments	–	475	1,580	589	–	–	–	2,644
Loans and advances and receivables	567,414	1,222,931	1,083,126	823,360	4,965,344	6,708,204	94,115	15,464,494
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	–	1,293,378	580,093	781,432	219,287	–	–	2,874,190
Other assets	–	53,295	–	138,218	–	–	–	191,513
Total financial assets	956,633	7,972,737	1,965,974	1,883,963	5,184,631	6,708,204	113,181	24,785,323
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	36,074	2,130,542	35,244	62,042	–	–	–	2,263,902
Customer deposits at amortised cost	3,171,811	11,952,573	2,501,911	773,340	22,301	–	–	18,421,936
Certificates of deposit issued at amortised cost	–	–	99,995	1,149,723	799,509	–	–	2,049,227
Derivative financial instruments	–	1,560	285	536	–	–	–	2,381
Other liabilities	–	72,243	–	247,168	–	–	–	319,411
Total financial liabilities	3,207,885	14,156,918	2,637,435	2,232,809	821,810	–	–	23,056,857

38. 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 operation.

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

Risk Management

The Group has established systems, policies and procedures for the control and monitoring of interest rate, credit, liquidity, capital, foreign currency, market 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, Credit Committee, Asset and Liability Management Committee, Operational Risk Management Committee and other designated committees or working groups. Material risks are identified and measured by designated committees and/or working groups before the launch of new products or business activities, and monitored, documented and controlled against applicable risk limits after the implementation of new products or services or business activities. The internal auditors of the Bank also perform regular audits to ensure the compliance with the policies and procedures.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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 monthly by the Asset and Liability Management Committee against limits approved by the board of directors.

Interest rate risk exposures in banking book:
The relevant principal interest rate risk arise from repricing risk and basis risk.

Repricing risk is one of the sources of interest rate risks which arises from timing differences in interest rate changes and cash flows that occur in the repricing and maturity of fixed and floating rate assets, liabilities and off-balance sheet financial instruments. Should the interest rate increase by 200 basis points and the positive net interest gap be HK$2,214 million up to twelve months, profit before tax would increase by HK$61 million for the next twelve months after the reporting date.

Based on the positive net interest gap of HK$4,248 million up to five years, economic value would increase by positive HK$62 million.

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

(i) Interest rate on managed-rate assets would decrease by 200 basis points whilst interest rate on other interest-bearing assets and interest-bearing liabilities would be kept unchanged. Based on this scenario assumption, profit before tax would decrease by HK$272 million for the next twelve months;

(ii) Interest rate on interest-bearing assets and liabilities, except for interest rate on fixed rate assets and managed-rate assets would increase by 200 basis points. Based on this scenario assumption, profit before tax would decrease by HK$353 million for the next twelve months.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market Risk Management (Continued)

(a) Interest Rate Risk (Continued)

The carrying amounts of financial instruments exposed to interest rate risk based on maturity or repricing as at 31 December 2008 and 2007 are detailed as follows:

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	5,226,210	-	-	-	-	-	474,008	5,700,218
Placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	-	-	-	-	-	-
Loans and advances and receivables	2,394,190	1,099,018	663,968	237,741	48,906	-	84,812	4,528,635
Derivative financial instruments	-	-	-	-	-	-	1,151	1,151
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	-	-
Available-for-sale financial assets	-	-	-	-	-	-	21,524	21,524
Held-to-maturity investments	694,531	-	-	-	-	-	-	694,531
Other assets	-	-	-	-	-	-	-	-
	8,314,931	1,099,018	663,968	237,741	48,906	-	581,495	10,946,059
Floating rate financial assets								
Cash and short term placements	53,000	-	-	-	-	-	-	53,000
Placements with banks and financial institutions maturing after one month but not more than twelve months	173,099	-	-	-	-	-	-	173,099
Loans and advances and receivables	19,841,548	-	-	-	-	-	-	19,841,548
Held-to-maturity investments	274,685	-	-	-	-	-	-	274,685
	20,342,332	-	-	-	-	-	-	20,342,332
Less:								
Liabilities:								
Fixed rate financial liabilities								
Deposits and balances of banks and other financial institutions at amortised cost	611,420	-	-	-	-	-	30,312	641,732
Customer deposits at amortised cost	20,430,568	13,725	1,089	-	409	-	-	20,445,791
Derivative financial instruments	-	-	-	-	-	-	4,150	4,150
	21,041,988	13,725	1,089	-	409	-	34,462	21,091,673
Floating rate financial liabilities								
Customer deposits at amortised cost	3,422,684	-	-	-	-	-	600,935	4,023,619
Certificates of deposit issued at amortised cost	879,850	-	-	-	-	-	-	879,850
Unsecured bank loans at amortised cost	1,099,219	-	-	-	-	-	-	1,099,219
Other liabilities	-	-	-	-	-	-	-	-
	5,401,753	-	-	-	-	-	600,935	6,002,688
Total interest sensitivity gap	2,213,522	1,085,293	662,879	237,741	48,497	-	(53,902)	4,194,030

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market Risk Management (Continued)

(a) Interest Rate Risk (Continued)

Bank – 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	5,406,398	-	-	-	-	-	400,224	5,806,622
Placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	-	-	-	-	-	-
Loans and advances and receivables	611,162	173,724	109,027	42,454	22,172	-	-	958,539
Derivative financial instruments	-	-	-	-	-	-	1,151	1,151
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	-	-
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	694,531	-	-	-	-	-	-	694,531
Other assets	-	-	-	-	-	-	-	-
	6,712,091	173,724	109,027	42,454	22,172	-	408,179	7,467,647
Floating rate financial assets								
Cash and short term placements	53,000	-	-	-	-	-	-	53,000
Placements with banks and financial institutions maturing after one month but not more than twelve months	173,099	-	-	-	-	-	-	173,099
Loans and advances and receivables	19,165,376	-	-	-	-	-	-	19,165,376
Held-to-maturity investments	274,685	-	-	-	-	-	-	274,685
	19,666,160	-	-	-	-	-	-	19,666,160
Less:								
Liabilities:								
Fixed rate financial liabilities								
Deposits and balances of banks and other financial institutions at amortised cost	1,520,420	-	-	-	-	-	76,482	1,596,902
Customer deposits at amortised cost	16,738,747	12,355	1,089	-	409	-	-	16,752,600
Derivative financial instruments	-	-	-	-	-	-	4,150	4,150
	18,259,167	12,355	1,089	-	409	-	80,632	18,353,652
Floating rate financial liabilities								
Customer deposits at amortised cost	3,422,909	-	-	-	-	-	658,961	4,081,870
Certificates of deposit issued at amortised cost	879,850	-	-	-	-	-	-	879,850
Unsecured bank loans at amortised cost	1,099,219	-	-	-	-	-	-	1,099,219
Other liabilities	-	-	-	-	-	-	-	-
	5,401,978	-	-	-	-	-	658,961	6,060,939
Total interest sensitivity gap	2,717,106	161,369	107,938	42,454	21,763	-	(331,414)	2,719,216

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market Risk Management (Continued)

(a) Interest Rate Risk (Continued)

Group – 2007

	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	5,352,658	–	–	–	–	–	390,241	5,742,899
Placements with banks and financial institutions maturing after one month but not more than twelve months	292,538	–	–	–	–	–	–	292,538
Loans and advances and receivables	597,600	157,198	91,674	43,967	25,970	–	–	916,409
Derivative financial instruments	–	–	–	–	–	–	2,644	2,644
Financial assets designated at fair value through profit or loss	–	–	–	–	–	–	12,262	12,262
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	2,292,535	19,985	–	–	–	–	–	2,312,520
Other assets	400,000	–	–	–	–	–	–	400,000
	8,935,331	177,183	91,674	43,967	25,970	–	411,951	9,686,076
Floating rate financial assets								
Cash and short term placements	50,000	–	–	–	–	–	–	50,000
Placements with banks and financial institutions maturing after one month but not more than twelve months	149,001	–	–	–	–	–	–	149,001
Loans and advances and receivables	14,548,085	–	–	–	–	–	–	14,548,085
Held-to-maturity investments	561,670	–	–	–	–	–	–	561,670
	15,308,756	–	–	–	–	–	–	15,308,756
Less:								
Liabilities:								
Fixed rate financial liabilities								
Deposits and balances of banks and other financial institutions at amortised cost	2,227,839	–	–	–	–	–	36,063	2,263,902
Customer deposits at amortised cost	15,008,775	21,714	586	–	–	–	–	15,031,075
Derivative financial instruments	–	–	–	–	–	–	2,381	2,381
	17,236,614	21,714	586	–	–	–	38,444	17,297,358
Floating rate financial liabilities								
Customer deposits at amortised cost	2,746,611	–	–	–	–	–	610,727	3,357,338
Certificates of deposit issued at amortised cost	2,049,227	–	–	–	–	–	–	2,049,227
Other liabilities	400,000	–	–	–	–	–	–	400,000
	5,195,838	–	–	–	–	–	610,727	5,806,565
Total interest sensitivity gap	1,811,635	155,469	91,088	43,967	25,970	–	(237,220)	1,890,909

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market Risk Management (Continued)

(a) Interest Rate Risk (Continued)

Bank – 2007

	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	5,352,658	–	–	–	–	–	389,219	5,741,877
Placements with banks and financial institutions maturing after one month but not more than twelve months	292,538	–	–	–	–	–	–	292,538
Loans and advances and receivables	597,600	157,198	91,674	43,967	25,970	–	–	916,409
Derivative financial instruments	–	–	–	–	–	–	2,644	2,644
Financial assets designated at fair value through profit or loss	–	–	–	–	–	–	12,262	12,262
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	2,292,535	19,985	–	–	–	–	–	2,312,520
Other assets	400,000	–	–	–	–	–	–	400,000
	8,935,331	177,183	91,674	43,967	25,970	–	410,929	9,685,054
Floating rate financial assets								
Cash and short term placements	50,000	–	–	–	–	–	–	50,000
Placements with banks and financial institutions maturing after one month but not more than twelve months	149,001	–	–	–	–	–	–	149,001
Loans and advances and receivables	14,548,085	–	–	–	–	–	–	14,548,085
Held-to-maturity investments	561,670	–	–	–	–	–	–	561,670
	15,308,756	–	–	–	–	–	–	15,308,756
Less:								
Liabilities:								
Fixed rate financial liabilities								
Deposits and balances of banks and other financial institutions at amortised cost	2,227,839	–	–	–	–	–	36,063	2,263,902
Customer deposits at amortised cost	15,008,775	21,714	586	–	–	–	–	15,031,075
Derivative financial instruments	–	–	–	–	–	–	2,381	2,381
	17,236,614	21,714	586	–	–	–	38,444	17,297,358
Floating rate financial liabilities								
Customer deposits at amortised cost	2,746,829	–	–	–	–	–	644,032	3,390,861
Certificates of deposit issued at amortised cost	2,049,227	–	–	–	–	–	–	2,049,227
Other liabilities	400,000	–	–	–	–	–	–	400,000
	5,196,056	–	–	–	–	–	644,032	5,840,088
Total interest sensitivity gap	1,811,417	155,469	91,088	43,967	25,970	–	(271,547)	1,856,364

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market Risk Management (Continued)

(a) Interest Rate Risk (Continued)

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

	2008 Rate (%)	2007 Rate (%)
Assets		
Placements with banks and financial institutions (including short term placements)	**2.63**	5.44
Loans and advances and receivables (including trade bills)	**5.93**	5.43
Held-to-maturity investments	**3.55**	3.84
Liabilities		
Deposits and balances of banks and other financial institutions at amortised cost	**1.55**	4.94
Customer deposits at amortised cost	**2.03**	4.00
Certificates of deposit issued at amortised cost	**2.38**	4.85
Unsecured bank loans at amortised cost	**1.42**	–

(b) Currency Risk

Currency risk is the risk that the holding of foreign currencies will affect the Bank's position as a result of a change in foreign currency exchange rates. The Group's foreign exchange risk positions arise from foreign exchange dealing, commercial banking operations and structural foreign currency exposures. All foreign exchange positions are managed by the Group's Treasury Department within limits approved by the board of directors. The Group has no significant foreign currency risk as the Group's assets and liabilities are mainly denominated in Hong Kong dollars and United States dollars of which the exchange rates have remained relatively stable among each other for the years ended 31 December 2008 and 2007. Accordingly, no quantitative market risk disclosures for currency risk have been prepared.

(c) Price Risk

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

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

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

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit Risk Management

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

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

The Group manages its credit risk within a conservative framework. Its credit policy is regularly revised, taking into account factors such as prevailing business and economic conditions, regulatory requirements and its capital resources. Its policy on connected lending exposures defines and states connected parties, statutory and applicable connected lending limits, types of connected transactions, taking of collateral, capital adequacy treatment detailed procedures and controls for monitoring of connected lending exposures. In general, interest rates and other terms and conditions applying to connected lending should not be more favourable than loans granted to non-connected borrowers under similar circumstances. The terms and conditions should be determined on normal commercial terms at arm's length and in the ordinary course of business of the Group.

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

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

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

The Credit Risk Management Committee of the Bank 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 collateral such as cash, properties, taxi licences and cabs and securities.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit Risk Management (Continued)

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

	Group		Bank	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Loans and advances and other receivables	**24,370,183**	15,464,494	**20,123,915**	15,464,494
Loan commitments	**1,796,134**	2,547,639	**1,796,134**	2,547,639
Other credit related contingent liabilities	**387,207**	489,088	**387,207**	489,088
Other credit related commitments	**2,447,446**	1,823,738	**2,357,306**	1,823,738
Placements with banks and financial institutions	**173,099**	441,539	**173,099**	441,539
Short term placements (excluding cash in hand)	**5,623,732**	5,695,449	**5,745,861**	5,694,427
Held-to-maturity investments	**969,216**	2,864,390	**969,216**	2,864,390
Derivative financial instruments	**1,151**	2,644	**1,151**	2,644
Interest in a jointly-controlled entity	**1,513**	1,513	**1,500**	1,500

Other quantitative data about credit risk exposure to loans and advances are disclosed in Note 14 "Loans and advances and receivables" and the significant concentrations of credit risk attributed to loans and advances managed by industry sector and geographical region are detailed in "Advances to customers by industry sectors" of Supplementary Information.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity Risk Management

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

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

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

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
Net amount of foreign currency contracts	–	465	2,359	175	–	–	–	2,999
Gross loan commitments	1,232,870	273,811	30,357	7,363	230,157	21,576	–	1,796,134
Customer deposits at amortised cost	3,909,599	10,562,042	6,563,100	3,595,597	16,475	–	–	24,646,813
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	–	1,257	2,263	1,104,573	–	–	–	1,108,093
Other liabilities	–	111,097	1,277	–	–	–	247,968	360,342
	5,172,793	11,374,980	6,767,102	5,648,212	246,632	21,576	247,968	29,479,263

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity Risk Management (Continued)

Group – 2007

	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$,000	Over 1 year but not more than 5 years HK$'000	Over 5 years HK$'000	Repayable within an indefinite period HK$'000	Total HK$'000
Forward assets purchase	–	84,027	1,935	–	–	–	–	85,962
Net amount of interest rate swaps	–	–	–	40	–	–	–	40
Net amount of foreign currency contracts	–	1,560	285	496	–	–	–	2,341
Gross loan commitments	1,537,619	402,345	93,585	6,067	406,553	101,470	–	2,547,639
Customer deposits at amortised cost	3,142,947	12,003,217	2,531,806	800,483	24,501	–	–	18,502,954
Deposits and balances of banks and other financial institutions at amortised cost	36,074	2,136,868	36,230	63,590	–	–	–	2,272,762
Certificates of deposit issued at amortised cost	–	–	100,942	1,178,740	847,842	–	–	2,127,524
Other liabilities	–	72,243	–	202,775	–	–	–	275,018
	4,716,640	14,700,260	2,764,783	2,252,191	1,278,896	101,470	–	25,814,240

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity Risk Management (Continued)

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

Bank – 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
Net amount of foreign currency contracts	–	465	2,359	175	–	–	–	2,999
Gross loan commitments	1,142,730	273,811	30,357	7,363	230,157	21,576	–	1,705,994
Customer deposits at amortised cost	3,918,782	9,444,846	4,377,837	3,173,826	15,046	–	–	20,930,337
Deposits and balances of banks and other financial institutions at amortised cost	76,494	1,311,002	163,496	54,488	–	–	–	1,605,480
Certificates of deposit issued at amortised cost	–	972	4,250	886,016	–	–	–	891,238
Unsecured bank loans at amortised cost	–	1,257	2,263	1,104,573	–	–	–	1,108,093
Other liabilities	–	89,740	–	–	–	–	160,023	249,763
	5,138,006	11,145,439	4,580,562	5,226,441	245,203	21,576	160,023	26,517,250

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity Risk Management (Continued)

Bank – 2007

	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$'000	Over 1 year but not more than 5 years HK$'000	Over 5 years HK$'000	Repayable within an indefinite period HK$'000	Total HK$'000
Forward assets purchase	–	84,027	1,935	–	–	–	–	85,962
Net amount of interest rate swaps	–	–	–	40	–	–	–	40
Net amount of foreign currency contracts	–	1,560	285	496	–	–	–	2,341
Gross loan commitments	1,537,619	402,345	93,585	6,067	406,553	101,470	–	2,547,639
Customer deposits at amortised cost	3,176,471	12,003,217	2,531,806	800,483	24,501	–	–	18,536,478
Deposits and balances of banks and other financial institutions at amortised cost	36,074	2,136,868	36,230	63,590	–	–	–	2,272,762
Certificates of deposit issued at amortised cost	–	–	100,942	1,178,740	847,842	–	–	2,127,524
Other liabilities	–	72,243	–	247,168	–	–	–	319,411
	4,750,164	14,700,260	2,764,783	2,296,584	1,278,896	101,470	–	25,892,157

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Operational Risk Management

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

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

Capital Management

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

The Bank's policy is to maintain a strong capital base to support the development of the Bank'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 Bank depending on the risk taken by each business division and in accordance with the requirements of relevant regulatory bodies, taking into account current and future activities within a time frame of three years.

Capital adequacy and core capital ratios

	Group		Bank	
	2008	2007	**2008**	2007
Capital adequacy ratio	**18.88%**	13.16%	**15.34%**	13.16%
Core capital ratio	**17.82%**	11.81%	**15.34%**	11.81%

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Disclosures

The components of the total capital base include the following items:

2008

	Group HK$'000	Bank HK$'000
Core capital:		
Paid up ordinary share capital	**1,481,600**	**1,481,600**
Share premium account	**1,372,445**	**1,372,445**
Published reserves	**793,943**	**942,753**
Income statement	**332,962**	**454,885**
Deduct:		
Goodwill	**(242,342)**	**–**
Core capital before deductions	**3,738,608**	**4,251,683**
Less: Deductions from shareholdings in subsidiaries	**(34,531)**	**(1,543,763)**
Other deductions	**(5,152)**	**(5,152)**
Total core capital after deductions	**3,698,925**	**2,702,768**
Supplementary capital:		
Property revaluation reserve	**–**	**–**
Regulatory reserve	**181,956**	**199,315**
Collective impairment allowances	**79,090**	**21,024**
Supplementary capital before deductions	**261,046**	**220,339**
Less: Deductions from shareholdings in subsidiaries	**(34,531)**	**(215,187)**
Other deductions	**(5,152)**	**(5,152)**
Total supplementary capital after deductions	**221,363**	**–**
Capital base	**3,920,288**	**2,702,768**

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 and Public Securities (Nominees) Limited. Deductions from the capital base included investment in subsidiaries, securitisation and other exposures.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Disclosures (Continued)

The components of the total capital base include the following items:

2007

	Group and Bank HK$'000
Core capital:	
Paid up ordinary share capital	810,000
Share premium account	43,935
Published reserves	746,316
Income statement	210,860
Core capital before deductions	1,811,111
Less: Deductions from shareholdings in subsidiaries	(33,628)
Securitisation exposures subject to deduction	(34,053)
Total core capital after deductions	1,743,430
Supplementary capital:	
Property revaluation reserve	112,890
Regulatory reserve	137,123
Collective impairment allowances	17,059
Supplementary capital before deductions	267,072
Less: Deductions from shareholdings in subsidiaries	(33,628)
Securitisation exposures subject to deduction	(34,054)
Total supplementary capital after deductions	199,390
Capital base	1,942,820

Capital adequacy ratio at 31 December 2008 was compiled on both solo and consolidated basis in accordance with Banking (Capital) Rules under Section 98A of the Banking Ordinance for the implementation of the "Basel II" capital accord. The subsidiaries consolidated into capital base and risk weighted exposures included the Bank and Public Finance. Capital adequacy ratio at 31 December 2007 was compiled on solo basis.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Disclosures (Continued)

Group

Class of exposures	2008					
	Exposures*			Risk-weighted amounts		
	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	6,358,126	–	6,358,126	1,582,817	–	1,582,817
Securities firm	–	48,456	48,456	–	24,228	24,228
Corporate	486,389	5,855,531	6,341,920	504,584	5,855,566	6,360,150
Cash items	–	500,072	500,072	–	53,947	53,947
Regulatory retail	–	6,587,761	6,587,761	–	4,985,830	4,985,830
Residential mortgage	–	10,390,167	10,390,167	–	5,776,605	5,776,605
Past due exposures	–	106,969	106,969	–	160,431	160,431
Collective investment scheme exposures	–	–	–	–	–	–
Other non-past due exposures	–	405,094	405,094	–	405,094	405,094
Off-balance sheet:						
OTC derivative transactions						
– foreign exchange contracts	–	1,523,795	1,523,795	–	68	68
– others	–	–	–	–	–	–
Other off-balance sheet items	–	4,630,787	4,630,787	–	244,824	244,824
	7,216,122	30,432,382	37,648,504	2,087,401	17,583,343	19,670,744

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Disclosures (Continued)

Bank

Class of exposures	2008					
	Exposures*			Risk-weighted amounts		
	Rated# HK$'000	Unrated HK$'000	Total HK$'000	Rated HK$'000	Unrated HK$'000	Total HK$'000
On-balance sheet:						
Sovereign	371,607	–	371,607	–	–	–
Public sector entity	–	383,750	383,750	–	76,750	76,750
Bank	6,561,168	–	6,561,168	1,623,424	–	1,623,424
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	–	480,748	480,748	–	53,947	53,947
Regulatory retail	–	2,694,452	2,694,452	–	2,065,735	2,065,735
Residential mortgage	–	10,126,259	10,126,259	–	5,684,239	5,684,239
Past due exposures	–	30,888	30,888	–	46,309	46,309
Collective investment scheme exposures	–	–	–	–	–	–
Other non-past due exposures	–	328,443	328,443	–	328,443	328,443
Off-balance sheet:						
OTC derivative transactions	–	1,523,795	1,523,795	–	68	68
– foreign exchange contracts	–	–	–	–	–	–
– others	–	–	–	–	–	–
Other off-balance sheet items	–	4,540,648	4,540,648	–	244,824	244,824
	7,419,164	26,012,970	33,432,134	2,128,007	14,380,109	16,508,116

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Disclosures (Continued)

Group and Bank

	2007					
Class of exposures	Exposures*			Risk-weighted amounts		
	Rated#	Unrated	Total	Rated	Unrated	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
On-balance sheet:						
Sovereign	416,374	–	416,374	–	–	–
Public sector entity	–	397,362	397,362	–	79,472	79,472
Bank	8,434,245	316,276	8,750,521	2,093,602	107,495	2,201,097
Securities firm	–	156,376	156,376	–	78,188	78,188
Corporate	501,268	4,929,153	5,430,421	513,754	4,929,153	5,442,907
Cash items	–	365,892	365,892	–	17,068	17,068
Regulatory retail	–	2,135,545	2,135,545	–	1,601,659	1,601,659
Residential mortgage	–	6,748,539	6,748,539	–	3,370,243	3,370,243
Past due exposures	–	36,783	36,783	–	46,106	46,106
Collective investment scheme exposures	–	12,262	12,262	–	12,262	12,262
Other non-past due exposures	–	868,795	868,795	–	868,795	868,795
Off-balance sheet:						
OTC derivative transactions						
– foreign exchange contracts	–	741,382	741,382	–	866	866
– others	–	400,000	400,000	–	–	–
Other off-balance sheet items	–	4,860,466	4,860,466	–	390,952	390,952
	9,351,887	21,968,831	31,320,718	2,607,356	11,502,259	14,109,615

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

\# Exposures are rated by the Bank's ECAI ("External Credit Assessment Institutions"), Moody's, with ECAI issue specific rating or with ECAI inferred rating. Risk weights are determined based on ECAI ratings pursuant to Banking (Capital) Rules.

The Group did not enter into OTC derivative transactions other than foreign exchange contracts and interest rate swaps and futures with counterparties during years 2008 and 2007. The credit exposures attributed to such transactions are considered insignificant.

Deductions from the capital base of the Bank included investment in subsidiaries of which their risk weighted exposures of the Group. The subsidiaries not consolidated into the risk weighted assets of the Group included Public Bank (Nominees) Limited, Public Investments Limited, Public Realty Limited, Public Credit Limited, Public Futures Limited, Public Pacific Securities Limited and Public Financial Securities Limited.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital disclosures (Continued)

2008

	Group		Bank	
	Risk weighted exposures HK$'000	**Capital requirements/ charge HK$'000**	**Risk weighted exposures HK$'000**	**Capital requirements/ charge HK$'000**
Credit risk	**19,670,744**	**19,670,744**	**16,508,116**	**16,508,116**
Market risk – foreign exchange exposures	**216,600**	**17,328**	**216,600**	**17,328**
Operational risk	**996,338**	**79,707**	**902,438**	**72,195**
Deduction	**(122,595)**	**(122,595)**	**(3,087)**	**(3,087)**
	20,761,087	**19,645,184**	**17,624,067**	**16,594,552**

2007

	Group and Bank	
	Risk weighted exposures HK$'000	Capital requirements/ charge HK$'000
Credit risk	14,109,615	14,109,615
Market risk – foreign exchange exposures	221,763	17,741
Operational risk	717,288	57,383
Deduction	(280,167)	(280,167)
	14,768,499	13,904,572

The Group and the Bank have adopted standardised approach for calculation of credit risk weighted exposures and market risk weighted exposures and adopted basic indicator approach to calculate operational risk weighted exposures during the years ended 31 December 2008 and 2007.

39. CHANGE IN AN ACCOUNTING POLICY

Due to group restructuring, the Group revisited its accounting policy for property and equipment and changed its accounting policy for property and equipment from revaluation model to cost model in the current financial year for consistency in accounting policies of other group companies.

Upon the adoption of the new accounting policy, adjustments are required for the amounts of retained earnings, asset revaluation reserve, deferred tax liabilities, as well as land lease prepayments and buildings in carrying amounts.

On the Group's balance sheet as at 31 December 2007, upon the adoption of the new accounting policy, the carrying amounts of buildings, deferred tax liabilities and asset revaluation reserve have decreased by HK$596,914,000, HK$82,832,000 and HK$408,492,000 respectively whilst the carrying amounts of land lease prepayments and retained profits have increased by HK$158,361,000 and HK$52,771,000 respectively.

On the Bank's balance sheet as of 31 December 2007, upon the adoption of the new accounting policy, the carrying amounts of buildings, deferred tax liabilities and asset revaluation reserve have decreased by HK$592,397,000, HK$71,381,000 and HK$364,620,000 respectively whilst the carrying amounts of land lease prepayments and retained profits have increased by HK$193,468,000 and HK$37,072,000 respectively.

In the Group's consolidated income statement for the year ended 31 December 2007, upon the adoption of the new accounting policy, the amounts of depreciation and amortisation charges and changes in fair value of buildings have decreased by HK$9,275,000 and HK$3,079,000 respectively resulting in an increase of HK$6,196,000 in the Group's consolidated income.

40. COMPARATIVE AMOUNTS

As further explained in note 39 to the financial statements, due to the change in accounting policy during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new accounting policy. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

41. APPROVAL OF THE FINANCIAL STATEMENTS

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

Supplementary Information (Unaudited)

The following information does not form part of the financial statements on which the audit opinion is issued.

SEGMENT INFORMATION

(a) By geographical area

The Group operates predominantly in Hong Kong. The geographical analysis is based on the location of the principal operations of the Bank, its subsidiaries and branches which are responsible for reporting the results or booking the assets.

For the years 2008 and 2007, over 90% of the Group's total operating income (net of interest expense), profit before tax, loans and advances to customers, impaired loans and advances, collective and individual impairment allowances for loans and advances, total assets, total liabilities, contingent liabilities and commitments were derived from the operations of the Group's banking business in Hong Kong.

In addition, over 90% of the Group's gross advance to customers, overdue and impaired loans and other types of credit exposures, including those arising from off-balance sheet transactions, in 2008 and 2007 were located in Hong Kong, after taking into account the transfer of risk in respect of such advances, where appropriate.

(b) By business segments

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

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

- wealth management services, stockbroking and securities management; and

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

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

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

SEGMENT INFORMATION (Continued)

(b) By business segments (Continued)

2008

	Retail and commercial banking and lending HK$'000	Wealth management services, stockbroking and securities management HK$'000	Other businesses HK$'000	Total HK$'000
Segment revenue				
Net interest income	**437,510**	**–**	**–**	**437,510**
Other operating income:				
Fees and commission income	**59,413**	**79,247**	**–**	**138,660**
Others	**21,361**	**–**	**4,100**	**25,461**
	518,284	**79,247**	**4,100**	**601,631**
Profit before tax and unallocated item	**322,995**	**40,256**	**5,630**	**368,881**
Tax				**(3,431)**
Profit after tax				**365,450**
Assets	**31,477,483**	**298,561**	**58,877**	**31,834,921**

Supplementary Information (Unaudited)

SEGMENT INFORMATION (Continued)

(b) By business segments (Continued)

2007
(Restated)

	Retail and commercial banking and lending HK$'000	Wealth management services, stockbroking and securities management HK$'000	Other businesses HK$'000	Total HK$'000
Segment revenue				
Net interest income	265,817	–	–	265,817
Other operating income:				
Fees and commission income	34,947	37,062	–	72,009
Others	18,120	–	1,221	19,341
	318,884	37,062	1,221	357,167
Profit before tax and unallocated item	116,225	26,535	5,893	148,653
Unallocated item:				
Share of losses of a jointly-controlled entity				(163)
				148,490
Tax				(20,861)
Profit after tax				127,629
Assets	24,809,799	131,123	17,925	24,958,847

SEGMENT INFORMATION (Continued)

(c) Advances to customers by industry sectors

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

Group

	31 December 2008								
	Gross loans and advances HK$'000	Collective impairment allowances HK$'000	Individual impairment allowances HK$'000	New impairment allowances charged to income statement HK$'000	Amount of impaired loans and advances written off HK$'000	Collateral HK$'000	Percentage of gross advances covered by collateral	Impaired loans and advances HK$'000	Loans and advances overdue for more than three months HK$'000
Loans for use in Hong Kong									
Manufacturing	542,760	608	34,808	38,750	9,860	71,477	13.2	42,963	39,459
Building and 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	3,332,725	3,038	3,777	2,293	239	433,005	13.0	6,185	4,674
Hotels, boarding houses and 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 and individuals for the purchase of shares									
Margin Lending	243,798	253	-	-	-	-	-	-	-
Others	2,303	2	-	-	-	-	-	-	-
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 and 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	94,451	85,674	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	23,232,617	77,845	83,970	192,777	114,141	11,740,303	50.5	192,708	148,110
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)	24,235,271	78,887	100,244	192,777	114,141	12,056,369	49.7	253,330	205,834

Supplementary Information (Unaudited)

SEGMENT INFORMATION (Continued)

(c) Advances to customers by industry sectors (Continued)

Bank

	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	531,477	552	34,808	38,750	9,860	68,887	13.0	42,930	39,426
Building and construction, property development and investment									
Property development	595,746	619	-	344	344	56,769	9.5	-	-
Property investment	5,716,276	5,941	-	-	-	4,193,728	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	36,355	38	-	6,450	11,678	26,479	72.8	889	-
Transport and transport equipment	2,922,777	3,038	3,777	2,293	239	23,155	0.8	6,185	4,674
Hotels, boarding houses and catering	10,218	11	-	-	-	9,278	90.8	-	-
Financial concerns	156,033	162	-	-	-	21,910	14.0	-	-
Stockbrokers									
Margin Lending	-	-	-	-	-	-	-	-	-
Others	52,223	54	-	-	-	3,454	6.6	-	-
Non-stockbroking companies and individuals for the purchase of shares									
Margin Lending	243,798	253	-	-	-	-	-	-	-
Others	2,303	2	-	-	-	-	-	-	-
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 and Tenant Purchase Scheme	234,704	244	32	29	-	234,672	100.0	32	32
Loans for the purchase of other residential properties	6,043,061	6,281	859	35	-	6,042,202	100.0	2,578	825
Loans for credit card advances	18,945	20	31	410	379	-	-	31	31
Loans for other business purposes	534	1	-	-	-	534	100.0	-	-
Loans for other private purposes	361,497	376	1,552	689	723	27,171	7.5	3,351	3,049
Trade finance	623,706	648	30,559	33,628	5,967	45,418	7.3	38,521	17,431
Other loans and advances	1,349,122	1,402	2,986	16,387	-	297,318	22.0	8,434	2,865
Sub-total	19,030,738	19,779	74,604	99,015	29,190	11,061,571	58.1	107,259	68,333
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)	20,033,392	20,821	90,878	99,015	29,190	11,377,637	56.8	167,881	126,057

SEGMENT INFORMATION (Continued)

(c) Advances to customers by industry sectors (Continued)

Group and Bank

	31 December 2007								
	Gross loans and advances HK$'000	Collective impairment allowances HK$'000	Individual impairment allowances HK$'000	New impairment allowances charged to income statement HK$'000	Amount of impaired loans and advances written off HK$'000	Collateral HK$'000	Percentage of gross advances covered by collateral	Impaired loans and advances HK$'000	Loans and advances overdue for more than three months HK$'000
Loans for use in Hong Kong									
Manufacturing	626,603	688	6,499	5,278	–	89,119	14.2	14,674	7,622
Building and construction, property development and investment									
Property development	566,999	624	–	–	–	109,583	19.3	–	–
Property investment	3,689,103	4,057	–	–	–	2,525,675	68.5	11,991	11,990
Civil engineering works	101,880	112	–	487	1,403	7,759	7.6	–	–
Electricity and gas	36,123	40	–	–	–	–	–	–	–
Recreational activities	543	1	–	–	–	–	–	–	–
Information technology	52	–	–	–	–	–	–	–	–
Wholesale and retail trade	27,082	30	5,739	5,737	–	3,919	14.5	14,139	13,695
Transport and transport equipment	2,197,836	2,418	2,451	1,535	558	1,735,123	78.9	2,628	692
Hotels, boarding houses and catering	9,483	10	–	–	–	6,819	71.9	–	–
Financial concerns	94,043	103	–	–	–	49,158	52.3	–	–
Stockbrokers									
Margin Lending	80,000	88	–	–	–	–	–	–	–
Others	75,971	84	–	–	–	–	–	–	–
Non-stockbroking companies and individuals for the purchase of shares									
Margin Lending	575,253	633	–	–	–	–	–	–	–
Others	29,941	33	–	–	–	–	–	–	–
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 and Tenant Purchase Scheme	238,921	263	–	–	–	238,921	100.0	887	887
Loans for the purchase of other residential properties	4,105,925	4,517	656	34	–	4,105,269	100.0	3,283	2,532
Loans for credit card advances	17,301	19	–	306	308	–	–	–	–
Loans for other business purposes	236,935	261	–	–	–	236,382	99.8	–	–
Loans for other private purposes	247,272	272	2,084	1,195	1,290	8,391	3.4	2,108	1,562
Trade finance	602,676	–	3,917	4,122	2,392	50,853	8.4	20,814	16,533
Other loans and advances	948,947	726	2,919	2,857	300	21,227	2.2	5,291	2,842
Sub-total	14,508,889	14,979	24,265	21,551	6,251	9,188,198	63.3	75,815	58,355
Loans and advances for use outside Hong Kong	743,184	1,167	–	–	–	197,133	26.5	–	–
Total loans and advances (excluding trade bills)	15,252,073	16,146	24,265	21,551	6,251	9,385,331	61.5	75,815	58,355

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

Supplementary Information (Unaudited)

NON-BANK MAINLAND EXPOSURES

The following table illustrates the disclosure required to make in respect of the Group's and the Bank's Mainland exposures to non-bank counterparties:

Group and Bank

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

Group and Bank

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

CROSS-BORDER CLAIMS

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

Group and Bank

	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:	**3,669**	**29**	**386**	**4,084**
Malaysia	**2,368**	**–**	**45**	**2,413**
2. Western Europe of which:	**2,456**	**–**	**171**	**2,627**
Germany	**934**	**–**	**–**	**934**
As at 31 December 2007				
1. Asia Pacific excluding Hong Kong of which:	3,444	4	322	3,770
Australia	1,012	–	–	1,012
2. Western Europe of which:	4,854	–	256	5,110
Germany	1,596	–	1	1,597
United Kingdom	884	–	92	976

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 and the Bank are as follow:

Group and Bank

	Spot assets	Spot liabilities	Forward purchases	Forward sales	Net long/(short) position	Net structural long position
As at 31 December 2008						
(In HK$'million)						
US Dollars	**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**

Group and Bank

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

LIQUIDITY RATIOS

	2008	2007
Average liquidity ratios for the year:		
the Bank	**39.32%**	46.50%
Public Finance	**61.40%**	61.68%

The average liquidity ratios are computed on a non-consolidated basis and includes only the Head Office and branches of the Bank operating in Hong Kong, and computed on the basis of the arithmetic mean of each calender month's average liquidity ratios as reported in the return relating to the liquidity position submitted by the Bank to the HKMA pursuant to Section 63 of the Banking Ordinance in respect of the annual reporting period.

CORPORATE GOVERNANCE

The Bank is committed to high standards of corporate governance and complies with the guidelines issued by the HKMA in the supervisory policy manual "Corporate Governance of Locally Authorised Institutions" in material aspects. To accomplish this, the Bank exercises corporate governance through the following Committees:

1. Board Executive Committee

The Board Executive Committee consists of executive and non-executive directors and is responsible for the management of the businesses of the Bank in all aspects and the implementation of strategic business plans and policies approved and formulated by the directors.

2. Management Committee

The Management Committee is established by the board to ensure the effectiveness of the daily operations and that the 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. It comprises Chief Executive, Alternate Chief Executive, Senior Deputy General Manager, Head of Treasury, Head of Operations, Head of Credit, Financial Controller and Heads of business units.

3. Audit Committee

The Audit Committee is authorised by the directors to review and investigate where necessary any activity within its terms of reference. Its main duties include discussion with external auditors about the nature and scope of the audit, to review the Bank's financial statements before submission to the directors and to review the Bank's internal audit programme, internal control and compliance systems. The Audit Committee comprises non-executive directors appointed by the directors, and a majority of them are independent non-executive directors.

4. Credit Committee

The Credit Committee is responsible for making decisions on application for all types of credit facilities within its limits set out in the Credit Policy and in particular, to monitor the lending portfolio for managing the overall credit risk of the Bank. It comprises the Chief Executive, Alternate Chief Executive, Senior Deputy General Manager, Assistant General Managers, and Head of Credit.

Supplementary Information (Unaudited)

5. Asset and Liability Management Committee

The Asset and Liability Management Committee reviews and assesses the risk profile and balance sheet structure of the Bank, sets out the objectives for the asset and liability management function and implements relevant risk management strategy. This is monitored and managed within a framework of approved policies and limits, and is reported regularly to the Board Executive Committee or board of directors. The Asset and Liability Management Committee comprises the Executive Chairman, Chief Executive, Alternate Chief Executive, non-executive directors, Head of Treasury, Financial Controller and Risk Manager.

6. Credit Risk Management Committee

The Credit Risk Management Committee 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. It comprises Chief Executive, Alternate Chief Executive, Financial Controller and Risk Manager.

7. Operational Risk Management Committee

The Operational Risk Management Committee is responsible for the implementation of the operational risk management framework approved by the board of directors, and the development of specific policies, processes and procedures for managing operational risk in the material products, activities, processes and systems. It comprises Chief Executive, Alternate Chief Executive, Head of Information Technology, Head of Operations, Financial Controller and Risk Manager.

8. IT Steering Committee

The IT Steering Committee is responsible for establishing policies and strategies for the computerisation of the Bank, recommending to management on major acquisitions of computer hardware and software, and monitoring the progress of the implementation of all information technology related projects. The Committee comprises the Chief Executive, Alternate Chief Executive, Heads of business units, Head of Internal Audit, Head of Operations, Financial Controller and Head of Information Technology.

9. Finance Committee

The Finance Committee assists the board of directors in the financial planning and budgeting process of the business of the Bank and the review of the business performance, statutory and half year accounts. The Finance Committee comprises the Chief Executive, Alternate Chief Executive, Senior Deputy General Manager, Heads of business units, Head of Credit and Financial Controller.

10. Human Resources Committee

The Human Resources Committee assists the board in formulating and implementing human resources policies including staff recruitment, promotion, career development, performance appraisal and remuneration of all staff. The Human Resources Committee comprises Chief Executive, Alternate Chief Executive, Senior Deputy General Manager and Head of Human Resources.

11. Anti-money Laundering ("AML") and Counter Terrorist Financing ("CTF") Committee

The AML and CTF Committee is responsible for overseeing whether the Bank was in compliance with the laws and regulations of Hong Kong on combating of money laundering and traffickering and fighting against terrorist financing, updating the Bank's policy on prevention of money laundering and terrorist financing, providing major tracing to all employees of the Bank on AML and CTF guidelines and overseeing the Bank's implementation of the Guidelines on Prevention of Money Laundering and Anti-terrorist Financing in meeting the AML objectives. It comprises Chief Executive, Alternate Chief Executive, Senior Deputy General Manager, Financial Controller, Head of Compliance Department, Head of Internal Audit Department and Business Unit and Department Heads.