



**PUBLIC BANK (HONG KONG) LIMITED**



*2006  
Annual  
Report*

## 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  
Dato' Sri Tay Ah Lek  
Dato' Chang Kat Kiam  
Dato' Yeoh Chin Kee  
Lee Chin Guan

### Company Secretary

Chan Sau Kuen

### Registered Office and Head Office

Public Bank Centre  
120 Des Voeux Road Central  
Hong Kong  
Telephone : (852) 2541 9222  
Facsimile : (852) 2541 0009  
Website : [www.publicbank.com.hk](http://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

### Principal Bankers

Bangkok Bank Public Company Limited  
Bank of China Limited  
Bank of China (Hong Kong) Limited  
China Merchants Bank Co Ltd  
China Minsheng Banking Corp. Limited  
CIMB Bank Berhad  
Standard Chartered Bank (Hong Kong) Limited  
The Bank of Tokyo – Mitsubishi UFJ Ltd  
The Hongkong and Shanghai Banking Corporation Limited

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# Branch Network



## Branch Network

## Head Office and Branches

### Head Office

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

## Hong Kong Island

- 1 Main Branch**  
G/F, Public Bank Centre  
120 Des Voeux Road  
Central  
Tel : 2541 9222  
Fax : 2545 2866  
**Manager : Wong Lam Fai, Philip**
- 2 Western Branch**  
Shop 2-3  
G/F, Kam Kwan Building  
163-173 Des Voeux Road West  
Tel : 2858 2220  
Fax : 2858 2638  
**Manager : Lau Yiu Fai, Lawrence**
- 3 Wanchai Commercial Centre**  
Unit A  
9/F, China Overseas Building  
139 Hennessy Road  
Wanchai  
Tel : 2891 4171  
Fax : 2834 1012  
**Manager : Chin Yoke Fong, Marina**
- 4 North Point Branch**  
Shop A  
G/F, Yue Yick Building  
363-365 King's Road  
North Point  
Tel : 2568 5141  
Fax : 2567 0655  
**Manager : Yam Oi Yin, Pauline**
- 5 Shek Tong Tsui Branch**  
Shop B1  
G/F, Hong Kong Plaza  
369-375 Des Voeux Road West  
Tel : 2546 2055  
Fax : 2559 7962  
**Manager : Fong Fung Mei, Marisa**
- 6 Causeway Bay Branch**  
G/F and M/F  
447 Hennessy Road  
Causeway Bay  
Tel : 2572 2363  
Fax : 2572 3033  
**Manager : So Wai Ming, Aubrey**

## Kowloon

- 7 Yaumatei Branch**  
Shop No. 1  
G/F, Ginza Square  
565-567 Nathan Road  
Tel : 2381 1678  
Fax : 2395 6398  
**Manager : Siu Kit Ching, Christina**
  - 8 Kowloon City Branch**  
G/F, 15 Nga Tsin Wai Road  
Kowloon City  
Tel : 2382 0147  
Fax : 2718 4281  
**Manager : Cheung Wing Kwong**
  - 9 Hung Hom Branch**  
G/F, Hunghom Commercial Centre  
37 Ma Tau Wai Road  
Hung Hom  
Tel : 2363 9213  
Fax : 2363 3195  
**Manager : So Tak Fai, Peter**
  - 10 Kwun Tong Branch**  
Unit 2310  
Tower 1, Millennium City 1  
388 Kwun Tong Road  
Kwun Tong  
Tel : 2389 9119  
Fax : 2389 9969  
**Manager : Kwok Ka Leung, Joe**
  - 11 Mongkok Branch**  
G/F, JCG Building  
16 Mongkok Road  
Tel : 2391 8393  
Fax : 2391 6909  
**Manager : Ngai Mo Ngan, Andy**
  - 12 San Po Kong Branch**  
G/F, 92 Shung Ling Street  
San Po Kong  
Tel : 2326 8318  
Fax : 2326 9180  
**Manager : Kwong Hon Wun, Peter**
- ## New Territories
- 13 Yuen Long Branch**  
Shop No. 5  
Fu Ho Building  
3-7 Kau Yuk Road  
Yuen Long  
Tel : 2479 4265  
Fax : 2473 3934  
**Manager : Lam Wong Kan, Kent**
  - 14 Tsuen Wan Branch**  
G/F, Victory Court  
185-187 Castle Peak Road  
Tsuen Wan  
Tel : 2490 4191  
Fax : 2490 4811  
**Manager : Choi Kam Yee, Catalina**
  - 15 Kwai Fong Branch**  
Room 809-811  
Metroplaza Tower 2  
223 Hing Fong Road  
Kwai Fong  
Tel : 2480 8822  
Fax : 2401 2367  
**Manager : Law Chan Shang, Peter**

## China

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

## Representative Offices

### Shenyang Representative Office

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

### Shanghai Representative Office

Room 302, 3/F  
7 Zhongshan Road (E1)  
Shanghai  
People's Republic of China  
Tel : (86-21) 6323 6181  
Fax : (86-21) 6323 6802  
**Representative: Cheung Ding Keung, Sammy**

## Taiwan

### Taipei Representative Office

Room 905  
No. 18 Chan-An E. Road  
Section 1  
Taipei  
Taiwan  
Tel : (88-62) 2568 3080  
Fax : (88-62) 2564 2047  
**Representative: Huang Si Lung, David**



Public Bank (Hong Kong)

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

I am pleased to present a review of the results of Public Bank (Hong Kong) Limited (the "Bank") (formerly known as Asia Commercial Bank Limited ("ACB")) for the financial year ended 31 December 2006.

### Corporate Development

In February 2006, Public Financial (Holdings) Limited ("PFHL") entered into an agreement to acquire a 100% equity interest in ACB. The acquisition was completed on 30 May 2006. ACB was later renamed Public Bank (Hong Kong) Limited to reflect its corporate identity as a member of the Public Bank group of Malaysia.

The acquisition of the Bank by PFHL is expected to bring synergies of greater economies of scale and more extensive customer reach with a broader customer base, and also provide PFHL with a platform to offer a full range of banking and financing services in Hong Kong and in the People's Republic of China ("PRC") through the Shenzhen branch of the Bank. The branch network of the Bank in Hong Kong was expanded to 15 branches with the opening of 3 new branches in December 2006, and in Shenzhen to 2 branches with the addition of a new sub-branch in the Futian District of Shenzhen which is expected to commence operations in March 2007, bringing the total number of branches of the Bank to 17.

### Business and Financial Performance of the Bank

In the second half of 2006, after its acquisition by PFHL, total loans and advances (including trade bills) of the Bank grew by 12.9% or HK\$1.16 billion to HK\$10.16 billion as at 31 December 2006 from HK\$9.0 billion as at 30 June 2006. Customer deposits also grew by 9.9% or HK\$1.21 billion to HK\$13.43 billion from HK\$12.22 billion as at 30 June 2006. When compared to 31 December 2005, total loans and advances (including trade bills) grew by 11.6% or HK\$1.05 billion while total customer deposits grew by 16.5% or HK\$1.91 billion.

## Chairman's Statement

For the year ended 31 December 2006, the Bank recorded a significant improvement in profit after tax of 68.0% to HK\$145.5 million from HK\$86.59 million in the previous year ended 31 December 2005. The significant improvement was mainly due to the increase in operating income and the decrease in impairment allowance for loans and advances in 2006.

The Bank's net interest income for the year ended 31 December 2006 increased by 8.1% or HK\$19.5 million to HK\$259.3 million when compared to the previous year. Interest income increased by 34.4% or HK\$211.3 million to HK\$826.3 million mainly due to the increase in yields on interest-bearing assets and the growth in loans and advances. Interest expense increased by 51.2% or HK\$191.8 million to HK\$566.9 million mainly due to the increase in interest cost on interest-bearing liabilities and the growth in customer deposits. Non-interest income increased by 10.0% or HK\$7.5 million to HK\$82.6 million, whilst the Bank's operating expenses increased by 4.5% or HK\$7.2 million to HK\$166.4 million. Tighter controls over operating costs together with operating synergies derived from the initial integration of some operations between the Bank and its fellow subsidiary, Public Finance Limited ("PFL") contributed to a lower cost to operating income ratio of 48.6% for the Bank for the year ended 31 December 2006 as compared to 50.5% in the previous year.

During the year under review, the Bank's impairment allowance for loans and advances decreased significantly by 93.9% or HK\$51.5 million to HK\$3.3 million mainly due to the decrease in bad debts as compared to the previous year.

Following its acquisition by PFHL, the Bank's overdue and impaired loan ratio has improved significantly from 1.5% at the end of December 2005 to 0.8% as at 31 December 2006.

The Directors do not recommend the payment of any dividend for the year ended 31 December 2006.

### Business Development

The Bank will continue to expand its branch network as well as to relocate branches to more prominent locations for higher visibility and convenience of access by customers. The Bank will continue to aggressively market its loans and advances and customer deposits and adopt cross-selling business strategies to grow its retail and commercial banking and consumer financing businesses through the expansion of the Bank's branch network, the provision of excellent customer service to enhance customer satisfaction and loyalty and the training of its staff to enhance their technical knowledge and skills through internal and external training courses. The Bank will continue to look for further synergies within the PFHL Group to reduce operating costs and improve operational efficiency, and seek greater economies of scale through the integration of the support functions of the Bank and PFL where appropriate.

### Acknowledgement

On behalf of the Board of Directors, I wish to take this opportunity to express our appreciation to the management and staff of the Bank for their commitment, dedication and perseverance. On behalf of the management and staff of the Bank, I wish to express our sincere gratitude to our customers for their invaluable patronage and to the Hong Kong Monetary Authority and other relevant authorities for their invaluable advice, guidance and support.

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

*Chairman*

## Report of the Directors

The directors present their report and the audited financial statements of the Bank and its subsidiaries (the “Group”) for the year ended 31 December 2006.

### Acquisition by Public Financial Holdings Limited

During the year, Public Financial Holdings Limited (“PFHL”) completed the acquisition of the entire issued and paid-up share capital of the Bank.

### Change of company name

Pursuant to a special resolution passed at the extraordinary general meeting of the Bank held on 21 June 2006 and as approved by the Registrar of Companies in Hong Kong, the name of the Bank has been changed from Asia Commercial Bank Limited 亞洲商業銀行有限公司 to Public Bank (Hong Kong) Limited 大眾銀行(香港)有限公司 with effect from 30 June 2006.

### 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 2006 and the state of affairs of the Bank and of the Group at that date are set out in the financial statements on pages 12 to 70.

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

### Property, plant and equipment and investment properties

Details of movements in the property, plant and equipment and investment properties of the Bank and of the Group during the year are set out in notes 23 and 24 to the financial statements, respectively.

### Share capital

There were no movements in either the Bank’s authorised or issued share capital during the year.

### 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.

## Report of the Directors

### 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, <i>Chairman</i>	(Appointed on 30 May 2006)
Tan Sri Dato' Thong Yaw Hong, <i>Co-Chairman</i>	(Appointed on 30 May 2006)
Tan Yoke Kong	(Appointed on 30 May 2006)
Chong Yam Kiang	(Appointed on 30 May 2006)
Dato' Sri Tay Ah Lek	(Appointed on 30 May 2006)
Dato' Chang Kat Kiam	(Appointed on 30 May 2006)
Dato' Yeoh Chin Kee	(Appointed on 30 May 2006)
Lee Chin Guan	(Appointed on 30 May 2006)
Chan Yau Hing, Robin	(Resigned on 30 May 2006)
Stephen Tan	(Resigned on 30 May 2006)
Liu Lit Man	(Resigned on 30 May 2006)
Ng Song Hin	(Resigned on 30 May 2006)
Lau Ki Chit	(Resigned on 30 May 2006)
Choedchu Sophonpanich	(Resigned on 30 May 2006)
Lam Hing Ching	(Resigned on 30 May 2006)
Bernard Charnwut Chan	(Resigned on 30 May 2006)
Ko Sog Yee, Karen	(Resigned on 30 May 2006)
Wong Wai Pat	(Resigned on 30 May 2006)
Ng Ching Fai	(Resigned on 30 May 2006)
Chow Suk Han, Anna	(Resigned on 30 May 2006)
Albert Saychuan Cheok	(Resigned on 30 May 2006)
Na Wu Beng	(Resigned on 30 May 2006)
Takashi Muraoka	(Resigned on 30 May 2006)
Kosuke Furukawa (alternate to Takashi Muraoka)	(Resigned on 30 May 2006)
Ng Tang Fai, Ernesto	(Resigned on 30 May 2006)
Ma Chiu Cheung, Andrew	(Resigned on 30 May 2006)
Ko Wing Man	(Resigned on 30 May 2006)

In accordance with Article 105 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. Tan Yoke Kong shall retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

## Report of the Directors

### Directors' rights to acquire shares

Pursuant to the share option schemes of PFHL, the Bank's immediate holding company, and Public Bank Berhad ("PBB"), the Bank's ultimate holding company, certain directors of the Bank have been granted options to subscribe for ordinary shares of PFHL and PBB.

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

Interests in	Name of director	Number of ordinary shares attached to the share options			At the end of the year	Exercise price	Exercise period
		At the date of appointment	Granted during the year	Exercised during the year			
1. PFHL	Dato' Sri Tay Ah Lek	1,680,000	–	–	1,680,000	HK\$6.35	10.6.2005 to 9.6.2015
	Dato' Yeoh Chin Kee	700,000	–	–	700,000	HK\$6.35	10.6.2005 to 9.6.2015
	Lee Chin Guan	350,000	–	–	350,000	HK\$6.35	10.6.2005 to 9.6.2015
	Dato' Chang Kat Kiam	1,680,000	–	–	1,680,000	HK\$6.35	10.6.2005 to 9.6.2015
	Tan Yoke Kong	1,928,000	–	–	1,928,000	HK\$6.35	10.6.2005 to 9.6.2015
2. PBB	Tan Sri Dato' Thong Yaw Hong	2,000,000	–	–	2,000,000	RM6.37	24.2.2005 to 24.2.2008
		500,000	–	500,000	–	RM5.67	5.12.2005 to 24.2.2008
		2,500,000	–	500,000	2,000,000		9.6.2015
	Dato' Sri Tay Ah Lek	4,500,000	–	–	4,500,000	RM6.37	24.2.2005 to 24.2.2008
		4,000,000	–	4,000,000	–	RM5.67	5.12.2005 to 24.2.2008
	8,500,000	–	4,000,000	4,500,000		9.6.2015	

## Report of the Directors

## Directors' rights to acquire shares (Continued)

Interests in	Name of director	Number of ordinary shares attached to the share options			At the end of the year	Exercise price	Exercise period
		At the date of appointment	Granted during the year	Exercised during the year			
2. PBB (Continued)	Dato' Yeoh Chin Kee	2,025,000	–	–	2,025,000	RM6.37	24.2.2005 to 24.2.2008
		2,000,000	–	–	2,000,000	RM5.67	5.12.2005 to 24.2.2008
		4,025,000	–	–	4,025,000		
	Lee Chin Guan	1,125,000	–	–	1,125,000	RM6.37	24.2.2005 to 24.2.2008
		1,250,000	–	600,000	650,000	RM5.67	5.12.2005 to 24.2.2008
		2,375,000	–	600,000	1,775,000		
	Dato' Chang Kat Kiam	123,000	–	–	123,000	RM6.37	24.2.2005 to 24.2.2008
		130,000	–	–	130,000	RM5.67	5.12.2005 to 24.2.2008
		253,000	–	–	253,000		
	Tan Yoke Kong	30,000	–	–	30,000	RM6.37	15.2.2005 to 24.2.2008
		40,000	–	–	40,000	RM5.67	5.12.2005 to 24.2.2008
		70,000	–	–	70,000		
	Chong Yam Kiang	35,000	–	–	35,000	RM6.37	15.2.2005 to 24.2.2008
		35,000	–	–	35,000	RM5.67	5.12.2005 to 24.2.2008
		70,000	–	–	70,000		

## Notes:

- The options to subscribe for ordinary shares of HK\$0.10 each in PFHL under the Share Option Scheme of PFHL (the "Scheme") 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.
- The exercise price of the share options under the Scheme has been adjusted to HK\$6.35 per share following the completion of the rights issue of PFHL during the year.
- The options to subscribe for ordinary shares of RM1.00 each in PBB were first granted on 10 April 1998 under PBB Employees' Share Option Scheme (the "ESOS"). Following approvals from the relevant authorities and the shareholders of PBB at the extraordinary general meetings held on 20 May 2002, 20 April 2004 and 30 March 2005, the ESOS has been extended for a total of five years to 25 February 2008. Hence, the exercise period of the options has also been extended up to and including 24 February 2008. The options are exercisable subject to the terms of the ESOS.
- The share options of PFHL and PBB were granted to eligible participants including the directors of the Bank before the acquisition of the Bank by PFHL.

## Report of the Directors

### Directors' rights to acquire shares (Continued)

Save as disclosed above, at no time during the year was the Bank, its holding companies 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.

### Directors' interests in contracts

Save as disclosed in note 36 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 holding companies, 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 complied with the guidelines on "Financial Disclosure by Locally Incorporated Authorised Institutions" and "Corporate Governance of Locally Incorporated Authorised Institutions" under the Supervisory Policy Manuals issued by the Hong Kong Monetary Authority.

### Donations

During the year, the Group made charitable donations totalling HK\$72,100 (2005: HK\$175,000).

### 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

10 January 2007

## Independent Auditors' Report



### To the shareholders of Public Bank (Hong Kong) Limited

(formerly known as Asia Commercial Bank Limited)

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of Public Bank (Hong Kong) Limited set out on pages 12 to 70, which comprise the consolidated and the Bank's balance sheets as at 31 December 2006, 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 2006 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

10 January 2007

## Consolidated Income Statement

For the year ended 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
<b>INTEREST INCOME</b>		<b>826,252</b>	614,912
<b>INTEREST EXPENSE</b>		<b>(566,914)</b>	(375,060)
<b>NET INTEREST INCOME</b>		<b>259,338</b>	239,852
Other operating income	5	<b>82,646</b>	75,143
Operating expenses	6	<b>(166,368)</b>	(159,211)
Impairment losses and allowances	7	<b>(3,328)</b>	(54,852)
Write-back of impairment allowance against a loan to a jointly-controlled entity		<b>1,000</b>	3,500
Loss on disposal of a subsidiary		<b>(3)</b>	–
Gain on disposal of a jointly-controlled entity		<b>41</b>	–
Share of profits and losses of jointly-controlled entities		<b>176</b>	1,900
<b>PROFIT BEFORE TAX</b>		<b>173,502</b>	106,332
Tax	9	<b>(28,002)</b>	(19,740)
<b>PROFIT FOR THE YEAR</b>	10	<b>145,500</b>	86,592
Dividends:	11		
Interim		–	15,390
Proposed final		–	31,995
		<b>–</b>	<b>47,385</b>

## Consolidated Balance Sheet

31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
<b>ASSETS</b>			
Cash and short-term funds	12	<b>2,007,460</b>	2,267,267
Placements with banks and other financial institutions maturing between one and twelve months	13	<b>566,773</b>	361,675
Securities measured at fair value through profit or loss	14	<b>10,213</b>	66,020
Positive fair values of derivatives	15	<b>12,780</b>	47,855
Loans and advances and receivables	16	<b>10,160,296</b>	9,076,337
Available-for-sale securities	17	<b>6,804</b>	6,804
Held-to-maturity securities	18	<b>3,749,502</b>	3,678,422
Loan to a jointly-controlled entity	20	–	30,000
Interests in jointly-controlled entities	20	<b>1,676</b>	21,100
Other assets	21	<b>176,592</b>	192,570
Intangible assets	22	<b>599</b>	599
Property, plant and equipment	23	<b>516,859</b>	386,468
Investment properties	24	<b>23,366</b>	21,660
<b>Total assets</b>		<b>17,232,920</b>	16,156,777
<b>LIABILITIES</b>			
Deposits and balances of banks and other financial institutions	25	<b>516,097</b>	966,379
Negative fair values of derivatives	15	<b>9,735</b>	54,524
Deposits from customers	26	<b>13,431,513</b>	11,524,909
Certificates of deposit issued	27	<b>769,674</b>	1,423,451
Other liabilities	28	<b>331,072</b>	270,896
Tax payable		<b>9,597</b>	–
Deferred tax liabilities	29	<b>67,435</b>	43,931
<b>Total liabilities</b>		<b>15,135,123</b>	14,284,090
<b>EQUITY</b>			
Issued capital	30	<b>810,000</b>	810,000
Reserves	31	<b>1,287,797</b>	1,030,692
Proposed final dividend	11	–	31,995
<b>Total equity</b>		<b>2,097,797</b>	1,872,687
<b>Total equity and liabilities</b>		<b>17,232,920</b>	16,156,777

**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 2006

	Notes	2006 HK\$'000	2005 HK\$'000
Total equity at 1 January		<b>1,872,687</b>	1,803,557
Surplus on revaluation of leasehold buildings	23, 31	<b>135,279</b>	43,424
Deferred tax debited to equity	29, 31	<b>(23,674)</b>	(7,426)
Total income and expense for the year recognised directly in equity		<b>111,605</b>	35,998
Profit for the year		<b>145,500</b>	86,592
Dividends:	11		
2004 final dividend		–	(38,070)
2005 interim dividend		–	(15,390)
2005 final dividend		<b>(31,995)</b>	–
Total equity at 31 December		<b>2,097,797</b>	1,872,687

## Consolidated Cash Flow Statement

For the year ended 31 December 2006

Notes	2006 HK\$'000	2005 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax	<b>173,502</b>	106,332
Adjustments for:		
Dividend income from listed investments	5 <b>(125)</b>	(361)
Dividend income from unlisted investments	5 <b>(780)</b>	(999)
Depreciation charges	6 <b>14,686</b>	15,697
Increase in fair value of leasehold buildings	6 <b>(8,455)</b>	(1,499)
Increase in fair value of investment properties	6 <b>(5,406)</b>	(6,020)
Amortisation and impairment of intangible assets	6 <b>–</b>	144
Impairment losses and allowances on loans and advances and receivables	7 <b>3,328</b>	54,852
Net (gains)/losses on disposal/write-off of property, plant and equipment	<b>(184)</b>	20
Loss on disposal of a subsidiary	<b>3</b>	–
Write-back of impairment allowance against a loan to a jointly-controlled entity	<b>(1,000)</b>	(3,500)
Gain on disposal of a jointly-controlled entity	<b>(41)</b>	–
Share of profits and losses of jointly-controlled entities	<b>(176)</b>	(1,900)
	<b>175,352</b>	162,766
Decrease/(increase) in operating assets:		
Decrease in money at call and short notice	<b>41,067</b>	216,252
(Increase)/decrease in placements with banks and other financial institutions	<b>(20,097)</b>	566,411
Decrease/(increase) in securities measured at fair value through profit or loss	<b>55,807</b>	(9,497)
Decrease/(increase) in positive fair values of derivatives	<b>35,075</b>	(47,855)
Increase in loans and advances and receivables	<b>(1,087,287)</b>	(1,269,918)
Decrease/(increase) in other assets	<b>6,147</b>	(2,416)
Decrease in available-for-sale securities	<b>–</b>	2,075
Decrease/(increase) in held-to-maturity securities	<b>115,347</b>	(516,551)
Increase/(decrease) in operating liabilities:		
(Decrease)/increase in deposits and balances of banks and other financial institutions	<b>(450,282)</b>	373,701
Increase in deposits from customers	<b>1,906,604</b>	748,166
(Decrease)/increase in certificates of deposit issued	<b>(653,777)</b>	398,423
Increase in other liabilities	<b>60,177</b>	118,876
(Decrease)/increase in negative fair values of derivatives	<b>(44,789)</b>	54,524
Net cash generated from operating activities before tax	<b>139,344</b>	794,957
Hong Kong profits tax paid	<b>(17,446)</b>	(30,420)
Overseas tax refunded/(paid)	<b>1,700</b>	(1,025)
Net cash inflow from operating activities	<b>123,598</b>	763,512

## Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
Net cash generated from operating activities		123,598	763,512
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from disposal of a subsidiary	32	8,498	–
Proceeds from disposal of investment properties	24	3,700	–
Purchases of property, plant and equipment	23	(1,890)	(4,247)
Proceeds from disposal of jointly-controlled entities	20	19,641	–
Proceeds from disposal of a loan to a jointly controlled entity	20	31,000	–
Proceeds from disposal of property, plant and equipment		731	–
Dividends received from investments		905	1,360
Net cash inflow/(outflow) from investing activities		62,585	(2,887)
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>			
Dividends paid		(31,995)	(53,460)
Net cash outflow from financing activity		(31,995)	(53,460)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>154,188</b>	<b>707,165</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>			
		2,543,729	1,836,564
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>			
		<b>2,697,917</b>	<b>2,543,729</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and balances with banks and other financial institutions		240,584	204,882
Money at call and short notice with original maturity within three months		1,686,756	1,941,198
Placements with banks and other financial institutions with original maturity within three months		331,521	145,020
Held-to-maturity securities with original maturity within three months		439,056	252,629
		<b>2,697,917</b>	<b>2,543,729</b>

**Balance Sheet**

31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
<b>ASSETS</b>			
Cash and short-term funds	12	2,006,446	2,266,253
Placements with banks and other financial institutions maturing between one and twelve months	13	566,773	361,675
Securities measured at fair value through profit or loss	14	10,213	66,020
Positive fair values of derivatives	15	12,780	47,855
Loans and advances and receivables	16	10,160,296	9,076,337
Available-for-sale securities	17	6,804	6,804
Held-to-maturity securities	18	3,749,502	3,678,422
Investments in subsidiaries	19	56,952	66,952
Interests in jointly-controlled entities	20	1,500	39,000
Loan to a jointly-controlled entity	20	–	30,000
Other assets	21	203,336	205,804
Property, plant and equipment	23	457,786	340,487
Investment properties	24	23,366	21,660
Total assets		17,255,754	16,207,269
<b>LIABILITIES</b>			
Deposits and balances of banks and other financial institutions	25	516,097	966,379
Negative fair values of derivatives	15	9,735	54,524
Deposits from customers	26	13,485,273	11,612,973
Certificates of deposit issued	27	769,674	1,423,451
Other liabilities	28	411,414	373,509
Tax payable		9,080	–
Deferred tax liabilities	29	58,303	37,068
Total liabilities		15,259,576	14,467,904
<b>EQUITY</b>			
Issued capital	30	810,000	810,000
Reserves	31	1,186,178	897,370
Proposed final dividend	11	–	31,995
Total equity		1,996,178	1,739,365
Total equity and liabilities		17,255,754	16,207,269

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

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

**Tan Yoke Kong**  
Director

## Notes to Financial Statements

### 1. CORPORATE INFORMATION

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.

The Bank is a wholly-owned subsidiary of Public Financial Holdings Limited (“PFHL”). In the opinion of the directors, the ultimate holding company of the Group is Public Bank Berhad, which is incorporated in Malaysia.

### 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, buildings, derivative financial instruments, securities measured at fair value through profit or loss and available-for-sale securities, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand unless otherwise indicated.

#### Basis of consolidation

The consolidated financial statements include the financial statements of the Bank and its subsidiaries for the year ended 31 December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

### 2.2 IMPACT OF NEW AND REVISED HKFRSs

The Group has adopted the following new and revised HKFRSs for the first time for the current year’s financial statements. The adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	The Fair Value Option
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a Lease

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

The principal changes in accounting policies are as follows:

### (a) HKAS 21 “The Effects of Changes in Foreign Exchange Rates”

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group’s net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

### (b) HKAS 39 “Financial Instruments: Recognition and Measurement”

#### (i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered as insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets” and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 “Revenue”. The adoption of this amendment has had no material impact on these financial statements.

#### (ii) Amendment for the fair value option

This amendment has extended the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

#### (iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

### (c) HK(IFRIC) – Int 4 “Determining whether an Arrangement contains a Lease”

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

## Notes to Financial Statements

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

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

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives

HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. This revised standard will affect the disclosures of qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Bank regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HK(IFRIC) – Int 8 and HK(IFRIC) – Int 9 shall be applied for annual periods beginning on or after 1 May 2006 and 1 June 2006, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. In the opinion of the directors, while the adoption of HKAS 1 Amendment and HKFRS 7 will result in new or amended disclosures, these new and revised HKFRSs should not have any significant impact on the Group's results of operations and financial position.

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### Joint venture companies

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 venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Joint venture companies (Continued)

A joint venture is treated as:

- (a) a subsidiary, if 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 the joint venture's financial and operating policies;
- (b) a jointly-controlled entity, if the Bank does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Bank 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 Bank 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.

### Jointly-controlled entities

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

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds the present value of its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

## Notes to Financial Statements

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

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

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 of an asset other than certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

#### 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.

#### Property, plant and equipment, and depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment 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, plant 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, plant 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property, plant and equipment, and depreciation (Continued)

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Leasehold buildings with residual lease periods of not more than 50 years are depreciated in equal annual instalments over the terms of leases excluding any renewal period. Leasehold buildings with residual lease periods of more than 50 years are depreciated on a reducing balance basis at 2% per annum.

Furniture, fixtures, equipment and motor vehicles are depreciated to write off the cost of each asset over its estimated useful life of 3 to 10 years.

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

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

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

### 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.

## Notes to Financial Statements

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

#### Investment properties (Continued)

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

#### Intangible assets

Intangible assets, representing eligibility rights to trade on or through Hong Kong Exchanges and Clearing Limited, are stated at net book value as at 1 January 2006. The carrying amount of intangible assets is subject to an impairment test, and impairment, if any, is charged to the income statement.

#### Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

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

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in investment properties and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as either securities measured at fair value through profit or loss, loans and advances and receivables, available-for-sale securities, and held-to-maturity securities, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not measured at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

### Securities measured at fair value through profit or loss

Financial assets held for trading are included in the category “Securities measured at fair value through profit or loss”. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement.

### Held-to-maturity securities

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity securities when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

### Loans and advances and receivables

Loans and advances and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and advances and receivables are derecognised or impaired, as well as through the amortisation process.

## Notes to Financial Statements

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued) Investments and other financial assets (Continued)

#### Available-for-sale securities

Available-for-sale securities are those non-derivative financial assets in listed and unlisted securities that are designated as available-for-sale or are not classified in any of the other three categories. After initial recognition, available-for-sale securities are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

#### Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; a discounted cash flow analysis and option pricing models.

#### Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

#### Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and advances and receivables or held-to-maturity securities carried at amortised cost 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 credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined 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 that group is also collectively assessed 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, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment of financial assets (Continued)

#### Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

#### Available-for-sale securities

If an available-for-sale security is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through the income statement.

Impairment losses on debt instruments are reversed through income statement, if the increase in fair value of the instrument can be objectively related to an event, occurring after the impairment loss was recognised in the income statement.

#### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

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

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

Where continuing involvement takes the form of a written put 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.

## Notes to Financial Statements

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

#### Reposessed assets

Collateral assets for loans and advances and receivables are reposessed by the Group when the borrowers are unable to service their repayments, and would be realised in satisfaction of outstanding debts. Advances with reposessed collateral assets will continue to be accounted for as customer advances, except for those where the Group has taken the legal title of the reposessed collateral assets, in which cases, the reposessed 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 reposessed assets and the outstanding advances.

Reposessed assets are recognised at the lower of their carrying amount of the related loans and advances and receivables and fair value less costs to sell.

#### Financial liabilities at amortised cost

Financial liabilities including interest-bearing loans and borrowings, and creditors and other payables are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

#### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

When 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 a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

#### Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement for the year.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and short-term highly liquid investments, including treasury bills and other debt securities, which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

### 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 finance costs in the income statement.

### 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 ventures, 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 ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

## Notes to Financial Statements

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued) Income tax (Continued)

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

#### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial assets;
- (ii) fees and commission income are recognised when services are rendered;
- (iii) rental income is recognised on an accrual basis; and
- (iv) dividend income is recognised when the Group's right to receive payment has been established.

#### Staff retirement schemes

The Group operates a defined contribution provident fund (the "Fund") and a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for its employees. Contributions to the Fund and the MPF Scheme are charged to the income statement as incurred. The amount of contributions by the Group is based on a specified percentage of the monthly relevant income of eligible employees. Forfeited contributions of the Fund in respect of employees who left before they became fully vested are available to the Group to reduce its ongoing funding and retirement scheme costs. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully. The assets of the Fund and the MPF Scheme are held separately from those of the Group and placed in an independently administered fund.

#### Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance (the "Employment Ordinance") in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of 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 memorandum and 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.

### Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Bank's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates 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.

## 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 securities

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 securities 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

The Group reviews its loan portfolios to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. 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. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the 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.

## Notes to Financial Statements

### 4. CORPORATE AFFILIATION

A portion of the Group's business is represented by transactions to which Asia Financial Holdings Limited, the former ultimate holding company of the Bank, and its subsidiaries (the "AFHL Group") and PFHL and its subsidiaries (the "PFHL Group"), are parties and these financial statements reflect the effect of these transactions which were conducted on corresponding bases determined within the AFHL Group and the PFHL Group. Further details of the transactions with the AFHL Group and the PFHL Group are set out in note 36 to the financial statements.

Included in the following balance sheet captions were balances with other members of the AFHL Group and the PFHL Group:

	Group		Bank	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Other assets:				
Ultimate holding company	–	2,075	–	2,075
Fellow subsidiaries	<b>461</b>	3,808	<b>461</b>	3,808
Subsidiaries	–	–	<b>28,010</b>	14,156
	<b>461</b>	5,883	<b>28,471</b>	20,039
Deposits from customers:				
Ultimate holding company	–	1,333	–	1,333
Immediate holding company	<b>682,284</b>	–	<b>682,284</b>	–
Fellow subsidiaries	<b>179,214</b>	354,431	<b>179,214</b>	354,431
Subsidiaries	–	–	<b>53,800</b>	88,063
	<b>861,498</b>	355,764	<b>915,298</b>	443,827
Other liabilities:				
Immediate holding company	<b>736</b>	–	<b>736</b>	–
Fellow subsidiaries	<b>116</b>	3,998	<b>116</b>	3,998
Subsidiaries	–	–	<b>97,227</b>	123,549
	<b>852</b>	3,998	<b>98,079</b>	127,547
	<b>862,350</b>	359,762	<b>1,013,377</b>	571,374

## Notes to Financial Statements

## 5. OTHER OPERATING INCOME

	Group	
	2006	2005
	HK\$'000	HK\$'000
Fees and commission income:		
Retail and commercial banking	33,486	33,832
Securities	21,596	13,641
	<b>55,082</b>	47,473
Fees and commission expenses	(168)	(1,595)
Net fees and commission income	<b>54,914</b>	45,878
Gross rental income	3,807	3,505
Less: Direct operating expenses	(9)	(15)
Net rental income	<b>3,798</b>	3,490
Gains less losses arising from dealing in foreign currencies	<b>14,662</b>	11,365
Gain on disposal of securities measured at fair value through profit or loss	<b>3,477</b>	9,280
Fair value gains on securities measured at fair value through profit or loss	<b>1,931</b>	2,438
Dividend income from listed investments	<b>125</b>	361
Dividend income from unlisted investments	<b>780</b>	999
Others	<b>2,959</b>	1,332
	<b>82,646</b>	75,143

## Notes to Financial Statements

## 6. OPERATING EXPENSES

	Notes	Group	
		2006 HK\$'000	2005 HK\$'000
Staff costs (including directors' remuneration, note 8):			
Salaries and other staff costs		<b>97,684</b>	92,265
Provident fund contributions		<b>4,075</b>	4,042
		<b>101,759</b>	96,307
Buildings and equipment expenses:			
Minimum lease payments under operating leases in respect of leasehold buildings		<b>5,145</b>	4,941
Others		<b>13,744</b>	12,489
		<b>18,889</b>	17,430
Auditors' remuneration		<b>1,291</b>	1,210
Amortisation of intangible assets	22	–	56
Impairment loss of intangible assets	22	–	88
Depreciation charges	23	<b>14,686</b>	15,697
Net (gain)/loss on disposal of property, plant and equipment		<b>(184)</b>	20
Increase in fair value of leasehold buildings	23	<b>(8,455)</b>	(1,499)
Increase in fair value of investment properties	24	<b>(5,406)</b>	(6,020)
Others		<b>43,788</b>	35,922
		<b>166,368</b>	159,211

## Notes to Financial Statements

## 7. IMPAIRMENT LOSSES AND ALLOWANCES

	Group	
	2006	2005
	HK\$'000	HK\$'000
Impairment/(write-back of impairment) against:		
– Loans and advances	7,244	27,380
– Trade bills, accrued interest and receivables	(3,916)	27,472
	<b>3,328</b>	54,852
Net charge/(write-back) of impairment losses and allowances:		
– Individually assessed	4,944	61,634
– Collectively assessed	(1,616)	(6,782)
	<b>3,328</b>	54,852
Of which		
– new impairment losses and allowances (including any amount directly written off in the year)	12,044	99,966
– releases	(8,716)	(45,114)
Net charge to the consolidated income statement	<b>3,328</b>	54,852

## 8. DIRECTORS' REMUNERATION

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

	Group	
	2006	2005
	HK\$'000	HK\$'000
Fees	1,065	745
Other emoluments	7,129	10,290
	<b>8,194</b>	11,035

## Notes to Financial Statements

### 9. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 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.

	Group	
	2006 HK\$'000	2005 HK\$'000
Current tax charge for the year:		
Hong Kong	26,786	17,334
Elsewhere	3,086	1,521
Over-provisions of current tax in prior years	(1,700)	(1,543)
Deferred tax (credit)/charge, net (note 29)	(170)	2,428
	<b>28,002</b>	<b>19,740</b>

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the Bank and its subsidiaries and jointly-controlled entities 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, were as follows:

	Group – 2006					
	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<b>152,927</b>		<b>20,575</b>		<b>173,502</b>	
Tax at the applicable tax rate	26,762	17.5	3,086	15.0	29,848	17.2
Share of profits and losses attributable to a jointly-controlled entity	(37)	–	–	–	(37)	–
Estimated tax effect of net income not subject to tax	(135)	(0.1)	–	–	(135)	(0.1)
Estimated tax losses not recognised	26	–	–	–	26	–
Adjustments in respect of current tax of previous periods	–	–	(1,700)	(8.3)	(1,700)	(1.0)
Tax charge at the Group's effective rate	<b>26,616</b>	<b>17.4</b>	<b>1,386</b>	<b>6.7</b>	<b>28,002</b>	<b>16.1</b>

## Notes to Financial Statements

## 9. TAX (Continued)

	Hong Kong		Group – 2005 Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	<u>111,107</u>		<u>(4,775)</u>		<u>106,332</u>	
Tax at the applicable tax rate	19,444	17.5	(716)	15.0	18,728	17.5
Share of profits and losses attributable to jointly-controlled entities	(332)	(0.3)	–	–	(332)	(0.3)
Estimated tax effect of net expense that is not deductible for tax	918	0.9	2,237	(46.8)	3,155	3.0
Tax losses not recognised	(268)	(0.3)	–	–	(268)	(0.2)
Adjustments in respect of current tax of previous periods	(1,543)	(1.4)	–	–	(1,543)	(1.4)
Tax charge at the Group's effective rate	<u>18,219</u>	16.4	<u>1,521</u>	(31.8)	<u>19,740</u>	18.6

The share of tax attributable to jointly-controlled entities amounting to HK\$37,000 (2005: HK\$332,000) is included in "Share of profits and losses of jointly-controlled entities" on the face of the consolidated income statement.

## 10. NET PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK

The consolidated profit attributable to equity holders of the Bank dealt with in the financial statements of the Bank for the year ended 31 December 2006 was HK\$188,709,000 (2005: HK\$79,005,000) (note 31).

## 11. DIVIDENDS

	2006 HK\$'000	2005 HK\$'000
Interim dividend (2005: HK\$1.90 per ordinary share)	–	15,390
Proposed final dividend (2005: HK\$3.95 per ordinary share)	–	31,995
	<u>–</u>	<u>47,385</u>

## Notes to Financial Statements

## 12. CASH AND SHORT-TERM FUNDS

	Group		Bank	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Cash in hand	65,793	53,058	65,793	53,058
Placement with banks and other financial institutions	174,791	151,824	173,777	150,810
Money at call and short notice	1,766,876	2,062,385	1,766,876	2,062,385
	<b>2,007,460</b>	2,267,267	<b>2,006,446</b>	2,266,253

## 13. PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS MATURING BETWEEN ONE AND TWELVE MONTHS

The maturity profile of the placements with banks and other financial institutions maturing between one and twelve months as at the balance sheet date was as follows:

	Group and Bank	
	2006 HK\$'000	2005 HK\$'000
With a residual maturity of:		
Three months or less	481,966	270,944
One year or less but over three months	84,807	90,731
	<b>566,773</b>	361,675

## 14. SECURITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group and Bank	
	2006 HK\$'000	2005 HK\$'000
Listed equity securities, at market value:		
– in Hong Kong	–	27,922
– outside Hong Kong	–	11,847
	–	39,769
Unlisted investment funds, at quoted market price	10,213	26,251
Total	<b>10,213</b>	66,020

## Notes to Financial Statements

## 15. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses the following derivative instruments:

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

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

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Bank and an over-the-counter customer. The Bank is exposed to credit risk on purchased options only, and only to the extent of their carrying amounts, which are their fair values.

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 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. The fair values of derivative instruments held are set out below.

	Contract/notional amount HK\$'000	Group and Bank Fair values	
		Assets HK'000	Liabilities HK\$'000
Derivatives held for trading			
Foreign exchange rate contracts	5,286,409	11,434	8,129
Interest rate swaps and future contracts	227,780	1,346	1,606
	5,514,189	12,780	9,735

## Notes to Financial Statements

## 15. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

	Credit risk weighted amount	
	2006	2005
	HK\$'000	HK\$'000
Foreign exchange rate contracts	10,575	17,557
Interest rate swaps and future contracts	–	150
	<b>10,575</b>	<b>17,707</b>

## 16. LOANS AND ADVANCES AND RECEIVABLES

	Group		Bank	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loans and advances	10,066,010	9,075,903	10,066,010	9,075,903
Trade bills	98,381	35,056	98,381	35,056
	<b>10,164,391</b>	<b>9,110,959</b>	<b>10,164,391</b>	<b>9,110,959</b>
Accrued interest	61,338	58,731	61,338	58,731
	<b>10,225,729</b>	<b>9,169,690</b>	<b>10,225,729</b>	<b>9,169,690</b>
Gross loans and advances and receivables				
Less: Impairment losses and allowances for loans and advances and receivables				
– Individually assessed	(42,075)	(68,379)	(42,075)	(68,379)
– Collectively assessed	(23,358)	(24,974)	(23,358)	(24,974)
	<b>(65,433)</b>	<b>(93,353)</b>	<b>(65,433)</b>	<b>(93,353)</b>
Loans and advances and receivables	<b>10,160,296</b>	<b>9,076,337</b>	<b>10,160,296</b>	<b>9,076,337</b>

The Group's and Bank's accrued interest were current in nature as at 31 December 2006 and 2005.

The carrying amounts of the Group's and the Bank's loans and advances and receivables approximate to their fair values.

## Notes to Financial Statements

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

	Group and Bank	
	2006 HK\$'000	2005 HK\$'000
Gross impaired loans and advances	78,353	138,194
Individual impairment allowances made in respect of such loans	(19,764)	(41,452)
As a percentage of total loans and advances	0.77%	1.52%

Interest accrual of overdue and impaired loans and advances amounted to less than 1% of total gross loans and advances and is considered immaterial to the Group and the Bank. Accordingly, the aforesaid interest accrual is not disclosed in the financial statements.

Movements in impairment losses and allowances on loans and advances and receivables:

## Group and Bank

	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000	Total HK\$'000
At 1 January 2006	68,379	24,974	93,353
Amounts written off	(33,197)	–	(33,197)
Impairment losses and allowances charged to the income statement	12,044	–	12,044
Impairment losses and allowances released to the income statement	(7,100)	(1,616)	(8,716)
Net charge of impairment losses and allowances	4,944	(1,616)	3,328
Loans recovered	1,949	–	1,949
At 31 December 2006	42,075	23,358	65,433
Deducted from:			
Loans and advances	19,764	23,358	43,122
Trade bills and accrued interest	22,311	–	22,311
	42,075	23,358	65,433

## Notes to Financial Statements

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

## Group and Bank

	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000	Total HK\$'000
At 1 January 2005	67,895	31,756	99,651
Amounts written off	(64,365)	–	(64,365)
Impairment losses and allowances charged to the income statement	99,966	–	99,966
Impairment losses and allowances released to the income statement	(38,332)	(6,782)	(45,114)
Net charge of impairment losses and allowances	61,634	(6,782)	54,852
Loans recovered	3,215	–	3,215
At 31 December 2005	68,379	24,974	93,353
Deducted from:			
Loans and advances	41,452	24,974	66,426
Trade bills and accrued interest	26,927	–	26,927
	68,379	24,974	93,353

## Notes to Financial Statements

**16. LOANS AND ADVANCES AND RECEIVABLES (Continued)****Finance lease receivables**

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

**Group and Bank**

	<b>Minimum lease payments 2006 HK\$'000</b>	Minimum lease payments 2005 HK\$'000	<b>Present value of minimum lease payments 2006 HK\$'000</b>	Present value of minimum lease payments 2005 HK\$'000
Amounts receivable under finance leases:				
Within one year	<b>346,816</b>	237,382	<b>258,432</b>	206,021
In the second to fifth years, inclusive	<b>607,193</b>	327,957	<b>342,146</b>	282,110
Over five years	<b>2,098,568</b>	148,477	<b>1,201,171</b>	104,890
	<b>3,052,577</b>	713,816	<b>1,801,749</b>	593,021
Less: Unearned finance income	<b>(1,250,828)</b>	(120,795)		
Present value of minimum lease payments receivable	<b>1,801,749</b>	593,021		

The Group has entered into finance lease arrangements with customers in respect of motor vehicles and equipment. The terms of the finance leases entered into range from 1 to 25 years.

The maturity profile of the loans and advances and receivables at the balance sheet date was as follows:

	<b>Group</b>		<b>Bank</b>	
	<b>2006 HK\$'000</b>	2005 HK\$'000	<b>2006 HK\$'000</b>	2005 HK\$'000
Repayable on demand	<b>433,243</b>	639,043	<b>433,243</b>	639,043
With a residual maturity of:				
Three months or less	<b>1,485,134</b>	1,490,372	<b>1,485,134</b>	1,490,372
One year or less but over three months	<b>837,654</b>	1,048,761	<b>837,654</b>	1,048,761
Five years or less but over one year	<b>2,851,746</b>	2,645,647	<b>2,851,746</b>	2,645,647
Over five years	<b>4,360,134</b>	3,192,361	<b>4,360,134</b>	3,192,361
Undated	<b>98,099</b>	59,719	<b>98,099</b>	59,719
	<b>10,066,010</b>	9,075,903	<b>10,066,010</b>	9,075,903

## Notes to Financial Statements

## 17. AVAILABLE-FOR-SALE SECURITIES

	Group and Bank	
	2006	2005
	HK\$'000	HK\$'000
Unlisted equity	6,804	6,804

## 18. HELD-TO-MATURITY SECURITIES

	Group and Bank	
	2006	2005
	HK\$'000	HK\$'000 (Restated)
Debt securities, at amortised cost:		
– listed in Hong Kong	19,980	19,978
– listed outside Hong Kong	46,661	85,734
– unlisted*	3,682,861	3,572,710
	<b>3,749,502</b>	3,678,422
Market value of listed held-to-maturity securities	66,158	103,306

\* Included certificate of deposits held of HK\$564,186,000 (2005: HK\$572,321,000) and treasury bills including Exchange Fund Bills of HK\$99,224,000 (2005: HK\$99,371,000).

The treasury bills including Exchange Fund Bills are all unlisted debt securities issued by central governments and central banks. The maturity profile of treasury bills as at the balance sheet date was as follows:

	Group and Bank	
	2006	2005
	HK\$'000	HK\$'000
With a residual maturity of:		
Three months or less	49,893	69,705
One year or less but over three months	49,331	29,666
	<b>99,224</b>	99,371

## Notes to Financial Statements

**18. HELD-TO-MATURITY SECURITIES (Continued)**

The held-to-maturity securities analysed by issuer as at the balance sheet date were as follows:

	<b>Group and Bank</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
		(Restated)
Public sector entities	<b>23,329</b>	23,262
Banks and other financial institutions	<b>3,284,098</b>	3,171,573
Corporate entities	<b>442,075</b>	483,587
	<b>3,749,502</b>	3,678,422

The maturity profile of held-to-maturity securities as at the balance sheet date was as follows:

	<b>Group and Bank</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
		(Restated)
With a residual maturity of:		
Three months or less	<b>1,133,079</b>	708,077
One year or less but over three months	<b>506,222</b>	418,364
Five years or less but over one year	<b>1,967,321</b>	2,409,797
Over five years	<b>142,880</b>	142,184
	<b>3,749,502</b>	3,678,422

## Notes to Financial Statements

### 19. INVESTMENTS IN SUBSIDIARIES

	<b>Bank</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b>56,952</b>	66,952

The amounts due from and to subsidiaries included in the Bank's other assets and other liabilities set out in note 4 are unsecured, interest-free and have no fixed terms of repayment.

The carrying amounts of the amounts due from and to subsidiaries approximate to their fair values.

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

<b>Name</b>	<b>Nominal value of issued ordinary share capital HK\$'000</b>	<b>Percentage of equity directly attributable to the Bank</b>	<b>Nature of business</b>
Public Bank (Nominees) Limited (Formerly known as Asia Commercial Bank (Nominees) Limited)	100	100	Provision of nominee services
PB Finance Limited (Formerly known as ACB Finance Limited)	25,000	100	Dormant
Public Investments Limited (Formerly known as Hocomban Investments Limited)	5,000	100	Property investment
Public Realty Limited (Formerly known as Hocomban Realty Limited)	100	100	Dormant
Public Credit Limited (Formerly known as AFH Credit Limited)	5,000	100	Dormant
Public Futures Limited (Formerly known as Asia Financial (Futures) Limited)	20,000	100	Dormant
Public Pacific Securities Limited (Formerly known as Asia Financial Pacific (Securities) Limited)	12,000	100	Dormant
Public Financial Securities Limited (Formerly known as Asia Financial (Securities) Limited)	15,000	100	Securities brokerage

## Notes to Financial Statements

## 20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group		Bank	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Unlisted shares, at cost	–	–	1,500	39,000
Share of net assets other than goodwill	1,676	21,100	–	–
	<b>1,676</b>	21,100	<b>1,500</b>	39,000
Loan to a jointly-controlled entity	–	31,000	–	31,000
Less: Impairment	–	(1,000)	–	(1,000)
	–	30,000	–	30,000

During the year, the Group has disposed of its entire 13.33% equity interest in Bank Consortium Holdings Limited and the related shareholder's loan to Asia Financial Holdings Limited ("AFHL"), the then ultimate holding company, at a consideration of HK\$31,000,001 in aggregate, resulting in a gain of HK\$1,000,000, which was credited to the Group's income statement.

The Group has also disposed of its entire 8.33% equity interest in Hong Kong Life Insurance Company Limited to Asia Insurance Company, Limited, a then fellow subsidiary, at a consideration of HK\$19,641,000, resulting in a gain of HK\$41,000, which was credited to the Group's income statement.

Particulars of the jointly-controlled entity of the Group as at 31 December 2006 were as follows:

Name	Business structure	Place of incorporation and operations	Percentage of ownership interest and profit sharing	Voting power	Principal activity
Net Alliance Co. Limited	Corporate	Hong Kong	17.6	2 out of 8 <sup>#</sup>	Provision of electronic banking support services

# Representing the number of votes on the board of directors attributable to the Group.

## Notes to Financial Statements

### 20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	2006 HK\$'000	2005 HK\$'000
Share of the jointly-controlled entities' assets and liabilities:		
Assets	2,010	154,741
Liabilities	(334)	(135,910)
Net assets	1,676	18,831
Share of the jointly-controlled entities' profits and losses:		
Turnover	1,672	53,807
Other revenue	72	3,587
Total revenue	1,744	57,394
Total expenses	(1,531)	(55,162)
Tax	(37)	(332)
Profit after tax	176	1,900

### 21. OTHER ASSETS

	Group		Bank	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Interest receivable on bank placements and held-to-maturity securities	51,125	46,248	51,125	46,248
Tax recoverable	-	2,829	-	2,834
Other debtors, deposits and prepayments	125,467	143,493	152,211	156,722
	176,592	192,570	203,336	205,804

The Group's and the Bank's other assets were current in nature as at 31 December 2006 and 2005.

The carrying amounts of other assets approximate to their fair values.

## Notes to Financial Statements

## 22. INTANGIBLE ASSETS

	Group	
	2006 HK\$'000	2005 HK\$'000
Cost and carry value:		
At 1 January	1,437	1,437
Accumulated amortisation and impairment:		
At 1 January	838	694
Amortisation provided during the year (note 6)	–	56
Impairment during the year recognised in the income statement (note 6)	–	88
At 31 December	838	838
Net book value:		
At 31 December	599	599

The intangible assets represent three units of Stock Exchange Trading Right and one unit of Futures Exchange Trading Right in Hong Kong Exchanges and Clearing Limited.

## Notes to Financial Statements

## 23. PROPERTY, PLANT AND EQUIPMENT

	Group			Bank		
	Furniture, fixtures, equipment and motor			Furniture, fixtures, equipment and motor		
	Buildings HK\$'000	vehicles HK\$'000	Total HK\$'000	Buildings HK\$'000	vehicles HK\$'000	Total HK\$'000
Cost or valuation:						
At 1 January 2006	372,870	175,431	548,301	326,899	166,671	493,570
Additions	–	1,890	1,890	–	1,743	1,743
Disposals/write-off	–	(740)	(740)	–	(740)	(740)
Surplus on revaluation	135,764	–	135,764	122,805	–	122,805
At 31 December 2006	508,634	176,581	685,215	449,704	167,674	617,378
Accumulated depreciation:						
At 1 January 2006	–	161,833	161,833	–	153,083	153,083
Charge for the year	7,970	6,716	14,686	6,985	6,702	13,687
Disposals/write-off	–	(193)	(193)	–	(193)	(193)
Write-back on revaluation	(7,970)	–	(7,970)	(6,985)	–	(6,985)
At 31 December 2006	–	168,356	168,356	–	159,592	159,592
Net book value:						
As at 31 December 2006	508,634	8,225	516,859	449,704	8,082	457,786
As at 31 December 2005	372,870	13,598	386,468	326,899	13,588	340,487
Analysis of cost or valuation:						
At cost	–	8,225	8,225	–	8,082	8,082
At 31 December 2006 valuation	508,634	–	508,634	449,704	–	449,704
	508,634	8,225	516,859	449,704	8,082	457,786

## Notes to Financial Statements

## 23. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Group			Bank		
	Furniture, fixtures, equipment and motor			Furniture, fixtures, equipment and motor		
	Buildings HK\$'000	vehicles HK\$'000	Total HK\$'000	Buildings HK\$'000	vehicles HK\$'000	Total HK\$'000
Cost or valuation:						
At 1 January 2005	335,111	171,208	506,319	291,929	162,448	454,377
Additions	–	4,247	4,247	–	4,247	4,247
Write-off	–	(24)	(24)	–	(24)	(24)
Surplus on revaluation	37,759	–	37,759	34,970	–	34,970
At 31 December 2005	372,870	175,431	548,301	326,899	166,671	493,570
Accumulated depreciation:						
At 1 January 2005	–	153,304	153,304	–	144,663	144,663
Charge for the year	7,164	8,533	15,697	6,248	8,424	14,672
Write-off	–	(4)	(4)	–	(4)	(4)
Write-back on revaluation	(7,164)	–	(7,164)	(6,248)	–	(6,248)
At 31 December 2005	–	161,833	161,833	–	153,083	153,083
Net book value:						
As at 31 December 2005	372,870	13,598	386,468	326,899	13,588	340,487
As at 31 December 2004	335,111	17,904	353,015	291,929	17,785	309,714
Analysis of cost or valuation:						
At cost	–	13,598	13,598	–	13,588	13,588
At 31 December 2005 valuation	372,870	–	372,870	326,899	–	326,899
	372,870	13,598	386,468	326,899	13,588	340,487

## Notes to Financial Statements

### 23. PROPERTY, PLANT AND EQUIPMENT (Continued)

All of the Group's and the Bank's buildings were revalued as at 31 December 2006 by C S Surveyors Limited, a firm of professionally qualified valuers, at an open market value, based on their existing use. The revaluation surpluses of HK\$135,279,000 (2005: HK\$43,424,000) and HK\$121,332,000 (2005: HK\$39,719,000) of the Group and the Bank respectively, have been credited to the asset revaluation reserve (note 31), while a surplus of HK\$8,455,000 (2005: HK\$1,499,000) has been credited to the respective income statement (note 6). The net book value of the buildings comprises:

	Group		Bank	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Long term leases in Hong Kong	372,584	256,441	332,654	226,470
Medium term leases in Hong Kong	107,050	87,600	88,050	71,600
Medium term leases outside Hong Kong	29,000	28,829	29,000	28,829
	<b>508,634</b>	372,870	<b>449,704</b>	326,899

Had the Group's and the Bank's revalued buildings been carried at cost less accumulated depreciation, they would have been included in the financial statements at approximately HK\$144,363,000 (2005: HK\$147,682,000) and HK\$129,981,000 (2005: HK\$132,985,000), respectively.

### 24. INVESTMENT PROPERTIES

	Group and Bank	
	2006 HK\$'000	2005 HK\$'000
Carrying amount at 1 January	21,660	15,640
Disposal	(3,700)	–
Increase in fair value adjustment (note 6)	5,406	6,020
Carrying amount at 31 December	<b>23,366</b>	21,660

Investment properties with a carrying amount of HK\$17,960,000 were revalued at HK\$23,366,000 based on the revaluation report issued by C S Surveyors Limited, a firm of professionally qualified valuers on an open market value, existing use basis. The investment properties are leased to third parties under operating lease, further details of which are included in note 35(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.

## Notes to Financial Statements

## 25. DEPOSITS AND BALANCES OF BANKS AND OTHER FINANCIAL INSTITUTIONS

The maturity profile of the Group's and the Bank's deposits and balance of banks and other financial institutions at the balance sheet date was as follows:

	Group and Bank	
	2006 HK\$'000	2005 HK\$'000
Repayable on demand	12,811	81,169
With a residual maturity of:		
Three months or less	493,324	832,836
One year or less but over three months	9,962	52,374
	<b>516,097</b>	966,379

## 26. DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Demand deposits and current accounts	655,436	588,805	707,689	635,869
Savings deposits	2,016,059	1,833,032	2,017,566	1,834,532
Time, call and notice deposits	10,760,018	9,103,072	10,760,018	9,142,572
	<b>13,431,513</b>	11,524,909	<b>13,485,273</b>	11,612,973

The maturity profile of the Group's and the Bank's deposits from customers as at the balance sheet date was as follows:

	Group		Bank	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Repayable on demand	2,671,495	2,421,837	2,725,255	2,470,401
With a residual maturity of:				
Three months or less	10,042,464	8,682,477	10,042,464	8,721,977
One year or less but over three months	685,465	405,616	685,465	405,616
Five years or less but over one year	32,089	14,979	32,089	14,979
	<b>13,431,513</b>	11,524,909	<b>13,485,273</b>	11,612,973

## Notes to Financial Statements

### 27. CERTIFICATES OF DEPOSIT ISSUED

All the certificates of deposits issued are measured at amortised cost. The maturity profile of the Group's and the Bank's certificates of deposit issued at the balance sheet date was as follows:

	Group and Bank	
	2006	2005
	HK\$'000	HK\$'000
With a residual maturity of:		
Three months or less	249,979	99,992
One year or less but over three months	419,751	404,726
Five years or less but over one year	99,944	918,733
	<b>769,674</b>	<b>1,423,451</b>

### 28. OTHER LIABILITIES

	Group		Bank	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest payable	57,923	64,013	57,923	64,024
Bills payable	37,513	50,481	37,513	50,481
Creditors, accruals and other payables	235,636	156,402	260,671	135,455
Due to subsidiaries	–	–	55,307	123,549
	<b>331,072</b>	<b>270,896</b>	<b>411,414</b>	<b>373,509</b>

The Group's and the Bank's interest payable and bills payable were current in nature as at 31 December 2006 and 2005.

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

The carrying amounts of other liabilities approximate to their fair values.

## Notes to Financial Statements

**29. DEFERRED TAX**

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

**Group - 2006****Deferred tax liabilities**

	Depreciation allowance in excess of related depreciation HK\$'000	Revaluation of buildings HK\$'000	Revaluation of investment properties HK\$'000	Total HK\$'000
At 1 January 2006	1,871	44,518	1,054	47,443
Deferred tax debited to equity during the year (note 31)	–	23,674	–	23,674
Deferred tax charged/(credited) to the income statement during the year (note 9)	(928)	–	946	18
Gross deferred tax liabilities at 31 December 2006	943	68,192	2,000	71,135

**Deferred tax assets**

	Collective impairment allowance HK\$'000
At 1 January 2006	3,512
Deferred tax credited to the income statement during the year (note 9)	188
Gross deferred tax assets at 31 December 2006	3,700
Net deferred tax liabilities at 31 December 2006	67,435

## Notes to Financial Statements

## 29. DEFERRED TAX (Continued)

Bank - 2006

## Deferred tax liabilities

	Depreciation allowance in excess of related depreciation HK\$'000	Revaluation of buildings HK\$'000	Revaluation of investment properties HK\$'000	Total HK\$'000
At 1 January 2006	1,799	37,727	1,054	40,580
Deferred tax debited to equity during the year (note 31)	–	21,233	–	21,233
Deferred tax charged/(credited) to the income statement during the year	(756)	–	946	190
Gross deferred tax liabilities at 31 December 2006	1,043	58,960	2,000	62,003

## Deferred tax assets

	Collective impairment allowance HK\$'000
At 1 January 2006	3,512
Deferred tax credited to the income statement during the year	188
Gross deferred tax assets at 31 December 2006	3,700
Net deferred tax liabilities at 31 December 2006	58,303

## Notes to Financial Statements

**29. DEFERRED TAX (Continued)**

Group - 2005

**Deferred tax liabilities**

	Depreciation allowance in excess of related depreciation HK\$'000	Revaluation of buildings HK\$'000	Revaluation of investment properties HK\$'000	Total HK\$'000
At 1 January 2005	1,871	37,092	–	38,963
Deferred tax debited to equity during the year (note 31)	–	7,426	–	7,426
Deferred tax charged to the income statement during the year (note 9)	–	–	1,054	1,054
Gross deferred tax liabilities at 31 December 2005	1,871	44,518	1,054	47,443

**Deferred tax assets**

	Collective impairment allowance HK\$'000
At 1 January 2005	4,886
Deferred tax charged to the income statement during the year (note 9)	(1,374)
Gross deferred tax assets at 31 December 2005	3,512
Net deferred tax liabilities at 31 December 2005	43,931

## Notes to Financial Statements

### 29. DEFERRED TAX (Continued)

Bank - 2005

#### Deferred tax liabilities

	Depreciation allowance in excess of related depreciation HK\$'000	Revaluation of buildings HK\$'000	Revaluation of investment properties HK\$'000	Total HK\$'000
At 1 January 2005	1,799	30,949	–	32,748
Deferred tax debited to equity during the year (note 31)	–	6,778	–	6,778
Deferred tax charged to the income statement during the year	–	–	1,054	1,054
Gross deferred tax liabilities at 31 December 2005	1,799	37,727	1,054	40,580

#### Deferred tax assets

	Collective impairment allowance HK\$'000
At 1 January 2005	4,886
Deferred tax charged to the income statement during the year	(1,374)
Gross deferred tax assets at 31 December 2005	3,512
Net deferred tax liabilities at 31 December 2005	37,068

The Group has tax losses arising in Hong Kong of HK\$36,536,000 (2005: HK\$36,390,000) 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 been loss-making for some time.

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

### 30. SHARE CAPITAL

	2006 HK\$'000	2005 HK\$'000
Authorised:		
10,000,000 ordinary shares of HK\$100 each	1,000,000	1,000,000
Issued and fully paid:		
8,100,000 ordinary shares of HK\$100 each	810,000	810,000

## Notes to Financial Statements

## 31. RESERVES

Notes	Group		Bank	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Share premium:				
At beginning of year and balance sheet date	<b>43,935</b>	43,935	<b>43,935</b>	43,935
Group reconstruction reserve:				
At beginning of year and balance sheet date	<b>3,065</b>	3,065	–	–
General reserve:				
At beginning of year and balance sheet date	<b>232,640</b>	232,640	<b>230,640</b>	230,640
Capital reserve:				
At beginning of year and balance sheet date	<b>17,660</b>	17,660	<b>3,660</b>	3,660
Regulatory reserve (Note):				
At beginning of year	<b>66,136</b>	47,108	<b>66,136</b>	47,108
Transfer from retained profits	<b>12,150</b>	19,028	<b>12,150</b>	19,028
At balance sheet date	<b>78,286</b>	66,136	<b>78,286</b>	66,136
Asset revaluation reserve:				
At beginning of year	<b>211,737</b>	175,739	<b>179,720</b>	146,779
Surplus on revaluation	23 <b>135,279</b>	43,424	<b>121,332</b>	39,719
Deferred tax charge	29 <b>(23,674)</b>	(7,426)	<b>(21,233)</b>	(6,778)
At balance sheet date	<b>323,342</b>	211,737	<b>279,819</b>	179,720
Retained profits:				
At beginning of year	<b>455,519</b>	435,340	<b>373,279</b>	360,687
Net profit for the year	<b>145,500</b>	86,592	<b>188,709</b>	79,005
Transfer to regulatory reserve	<b>(12,150)</b>	(19,028)	<b>(12,150)</b>	(19,028)
Interim dividend	11 –	(15,390)	–	(15,390)
Proposed final dividend	11 –	(31,995)	–	(31,995)
At balance sheet date	<b>588,869</b>	455,519	<b>549,838</b>	373,279
Total at beginning of year	<b>1,030,692</b>	955,487	<b>897,370</b>	832,809
Total at balance sheet date	<b>1,287,797</b>	1,030,692	<b>1,186,178</b>	897,370

Note: In accordance with the Hong Kong Monetary Authority's guideline "Impact of the New Hong Kong Accounting Standards on Authorised Institutions' Capital Base and Regulatory Reserve" (the "Guideline"), the regulatory reserve, together with the Bank's collective impairment allowance were included as supplementary capital in the Group's capital base at 31 December 2006 as defined in the Guideline.

## Notes to Financial Statements

## 32. DISPOSAL OF A SUBSIDIARY

	2006 HK\$'000
Net assets disposed of:	
Cash and bank balances	2,601
Statutory deposit	1,500
Prepayment and other receivables	7,002
Other liabilities	(1)
	<b>11,102</b>
Loss on disposal of a subsidiary	(3)
	<b>11,099</b>
Satisfied by:	
Cash	<b>11,099</b>

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	HK\$'000
Cash consideration	11,099
Cash and bank balances disposed of	(2,601)
Net cash inflow of cash and cash equivalent in respect of the disposal of a subsidiary	<b>8,498</b>

## Notes to Financial Statements

**33. LOANS TO DIRECTORS AND OFFICERS**

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

	<b>Group and Bank</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Aggregate amount of principal and interest outstanding at end of year	<b>301</b>	740
Maximum aggregate amount of principal and interest outstanding during the year	<b>8,104</b>	6,183

The loans to directors and officers are granted on essentially the same terms with those granted to other customers, and/or at prevailing market rates and have no fixed terms of repayment, apart from the loan to an officer as below, which is repayable on 25 December 2016.

Included in the above balance was a loan granted by the Group to an officer, which was secured by a property at a fair value of HK\$380,000 as at 31 December 2006.

**34. OFF-BALANCE SHEET EXPOSURE****(a) Commitments and contingent liabilities**

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:

	<b>Group and Bank</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Direct credit substitutes	<b>90,111</b>	62,226
Transaction-related contingencies	<b>6,842</b>	1,629
Trade-related contingencies	<b>169,626</b>	210,134
Forward forward deposits placed	<b>3,988</b>	123,948
Forward asset purchases	<b>19,504</b>	13,029
Other commitments with an original maturity of:		
Under one year or which are unconditionally cancellable	<b>3,297,413</b>	3,195,382
One year and over	<b>279,594</b>	223,496
Foreign exchange rate contracts	<b>5,286,409</b>	8,672,575
Interest rate swaps and future contracts	<b>227,780</b>	150,000
	<b>9,381,267</b>	12,652,419

## Notes to Financial Statements

**34. OFF-BALANCE SHEET EXPOSURE (Continued)**

- (b) The aggregate replacement costs and credit risk weighted amount of the above off-balance sheet exposures were:

**Group and Bank**

	<b>Replacement costs 2006 HK\$'000</b>	Replacement costs 2005 HK\$'000	<b>Credit risk weighted amount 2006 HK\$'000</b>	Credit risk weighted amount 2005 HK\$'000
Direct credit substitutes	–	–	<b>66,060</b>	46,209
Transaction-related contingencies	–	–	<b>2,955</b>	–
Trade-related contingencies	–	–	<b>28,499</b>	38,965
Forward forward deposits placed	–	–	<b>798</b>	24,790
Forward asset purchases	–	–	<b>3,901</b>	2,606
Other commitments with original maturity of one year and over	–	–	<b>139,797</b>	111,748
Foreign exchange rate contracts	<b>2,295</b>	4,775	<b>10,575</b>	17,557
Interest rate swaps and future contracts	–	–	–	150
	<b>2,295</b>	4,775	<b>252,585</b>	242,025

The Group had not entered into any bilateral netting arrangements and accordingly the above amounts are shown on a gross basis. The credit risk weighted amounts are calculated in accordance with the Third Schedule of the Banking Ordinance and guidelines issued by the Hong Kong Monetary Authority. 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. Replacement cost represents the cost of replacing all contracts which have a positive value when marked to market.

**(c) Capital commitments**

The Group's and the Bank's capital commitments in respect of purchases of fixed assets as at the balance sheet date were as follows:

	<b>2006 HK\$'000</b>	2005 HK\$'000
Contracted, but not provided for	<b>4,707</b>	1,072
Authorised, but not contracted for	<b>6,897</b>	9,008
	<b>11,604</b>	10,080

## Notes to Financial Statements

**35. OPERATING LEASE ARRANGEMENTS****(a) As lessor**

The Group leases its investment properties (note 24) under operating lease arrangements, with leases negotiated for terms ranging from one to two years. The terms of the leases generally also require the tenants to pay security deposits.

At 31 December 2006, the Group and the Bank had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>Group and Bank</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>533</b>	1,191
In the second to fifth years, inclusive	<b>222</b>	88
	<b>755</b>	1,279

**(b) As lessee**

The Group leases certain of its branch buildings under operating lease arrangements. Leases for buildings are negotiated for terms ranging from two to five years. The terms of the leases generally require the Group to pay security deposits.

At 31 December 2006, the Group and the Bank had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>Group and Bank</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>9,661</b>	4,613
In the second to fifth years, inclusive	<b>13,927</b>	3,132
	<b>23,588</b>	7,745

## Notes to Financial Statements

### 36. RELATED-PARTY TRANSACTIONS

Effective from May 2006, the Group is controlled by PFHL which owns 100% of the ordinary shares of the Bank.

Prior to May 2006, the Group was controlled by AFHL, which owned 100% of the ordinary shares of the Bank.

The Bank has entered into a number of banking transactions with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. 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:

	Notes	<b>Group</b> <b>2006</b> <b>HK\$'000</b>	2005 HK\$'000
Related party transactions included in the income statement:			
Management fees to the immediate holding company	(a)	<b>480</b>	–
Rental income from the ultimate holding company	(b)	<b>103</b>	291
Interest paid to the ultimate holding company	(c)	–	75
Interest paid to the immediate holding company	(c)	<b>9,162</b>	–
Interest paid to fellow subsidiaries	(c)	<b>4,641</b>	4,018
Interest paid to key management personnel	(c)	<b>123</b>	2,575
Interest income from key management personnel	(d)	–	104
Commission expenses paid to a fellow subsidiary	(e)	<b>243</b>	–
Commission income from fellow subsidiaries	(f)	–	2,843

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

	Notes	<b>Group</b> <b>2006</b> <b>HK\$'000</b>	2005 HK\$'000
Related party transactions included in the assets and liabilities of the Group:			
Deposit from the ultimate holding company	(c)	–	1,333
Deposits from the immediate holding company	(c)	<b>682,284</b>	–
Deposits from fellow subsidiaries	(c)	<b>179,214</b>	354,431
Customer deposits from key management personnel	(c)	<b>10,254</b>	102,171
Interest payable to the immediate holding company	(c)	<b>736</b>	–
Interest payable to fellow subsidiaries	(c)	<b>116</b>	577
Interest receivable from key management personnel	(d)	–	11
Loans to key management personnel	(d)	<b>34</b>	321
Amount payable to the ultimate holding company	(g)	–	2,059
Amounts payable to fellow subsidiaries	(g)	–	3,421
Amounts receivable from fellow subsidiaries	(g)	<b>461</b>	3,808
Amount receivable from the ultimate holding company	(h)	–	2,075

## Notes to Financial Statements

### 36. RELATED-PARTY TRANSACTIONS (Continued)

Notes:

- (a) The management fees arose from administrative services provided by the immediate holding company to the Group in 2006. They were charged based on cost incurred by the immediate holding company during the year.
- (b) The rental income was derived from properties rented to AFHL as its office.
- (c) The ultimate holding company, immediate holding company, fellow subsidiaries, and key management personnel placed deposits with the Group at the prevailing market rates. Interest expense/payables were paid by the Group for the year in respect of the placements. The balances were included in customer deposits in the balance sheet.
- (d) Interest income was received for mortgage loan being granted to one of the directors of the Group.
- (e) The commission expenses represented commission paid under Co-financing Hire Purchase Scheme for the referrals of taxi financing loans from a fellow subsidiary during the year.
- (f) The commission income of last year represented fee income received from a then fellow subsidiary for referral of insurance business.
- (g) The balances represented amounts receivable from/payable to the ultimate holding company and fellow subsidiaries for the sale/purchase of debt/equity investments during the year.
- (h) The balance represented an amount receivable from the ultimate holding company for the transfer of an unlisted available-for-sale security to the ultimate holding company in 2005.

### 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise certificates of deposits 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 securities, loans and advances and receivables, available-for-sale securities and securities measured 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. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk, foreign currency risk and market 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 policies and procedures for the control and monitoring of interest rate, credit, liquidity, capital, foreign currency and market risks, which are reviewed regularly by the Group's management, Credit Committee and Asset and Liability Management Committee. The internal auditors of the Group also perform regular audits to ensure compliance with the policies and procedures.

## Notes to Financial Statements

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

#### Interest Rate Risk Management

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 by management under limits approved by the directors.

The carrying amounts of financial instruments exposed to interest rate risk based on maturity or repricing as at 31 December 2006 and 2005 are detailed as follows:

#### 2006

	One year or less HK\$'000	Over 1 year but not more than 2 years HK\$'000	Over 2 years but not more than 3 years HK\$'000	Over 3 years but not more than 5 years HK\$'000	Over 5 years HK\$'000	Non-interest bearing HK\$'000	Total HK\$'000
<b>Assets:</b>							
<b>Fixed rate financial assets</b>							
Cash and short-term funds	1,715,764	-	-	-	-	240,584	1,956,348
Placements with banks and other financial institutions maturing between one and twelve months	452,080	-	-	-	-	-	452,080
Loans and advances and receivables	520,749	135,600	72,606	48,774	-	-	777,729
Available-for-sale securities	-	-	-	-	-	6,804	6,804
Certificates of deposit held	427,928	-	39,998	19,445	-	-	487,371
Held-to-maturity securities	1,500,916	140,024	126,654	77,736	-	-	1,845,330
	4,617,437	275,624	239,258	145,955	-	247,388	5,525,662
<b>Floating rate financial assets</b>							
Cash and short-term funds	51,112	-	-	-	-	-	51,112
Placements with banks and other financial institutions maturing between one and twelve months	114,693	-	-	-	-	-	114,693
Loans and advances and receivables	9,448,000	-	-	-	-	-	9,448,000
Certificates of deposit held	76,815	-	-	-	-	-	76,815
Held-to-maturity securities	1,339,986	-	-	-	-	-	1,339,986
	11,030,606	-	-	-	-	-	11,030,606
<b>Less:</b>							
<b>Liabilities:</b>							
<b>Fixed rate financial liabilities</b>							
Deposits and balances of banks and other financial institutions	503,286	-	-	-	-	12,811	516,097
Deposits from customers	10,554,484	31,475	614	-	-	-	10,586,573
	11,057,770	31,475	614	-	-	12,811	11,102,670
<b>Floating rate liabilities</b>							
Certificates of deposit issued	769,674	-	-	-	-	-	769,674
Deposits from customers	2,232,459	-	-	-	-	612,481	2,844,940
	3,002,133	-	-	-	-	612,481	3,614,614
<b>Total interest sensitivity gap</b>	<b>1,588,140</b>	<b>244,149</b>	<b>238,644</b>	<b>145,955</b>	<b>-</b>	<b>(377,904)</b>	<b>1,838,984</b>

## Notes to Financial Statements

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

#### Interest Rate Risk Management (Continued)

2005

	One year or less HK\$'000	Over 1 year but not more than 2 years HK\$'000	Over 2 years but not more than 3 years HK\$'000	Over 3 years but not more than 5 years HK\$'000	Over 5 years HK\$'000	Non-interest bearing HK\$'000	Total HK\$'000
<b>Assets:</b>							
<b>Fixed rate financial assets</b>							
Cash and short-term funds	2,062,205	-	-	-	-	205,062	2,267,267
Placements with banks and other financial institutions maturing between one and twelve months	361,675	-	-	-	-	-	361,675
Loans and advances and receivables	438,981	137,923	72,429	30,123	22,336	8,876	710,668
Available-for-sale securities	-	-	-	-	-	6,804	6,804
Certificates of deposit held	235,463	117,352	-	-	19,388	-	372,203
Held-to-maturity securities	688,916	320,888	140,985	181,094	530,037	-	1,861,920
	3,787,240	576,163	213,414	211,217	571,761	220,742	5,580,537
<b>Floating rate financial assets</b>							
Loans and advances and receivables	8,271,622	-	-	-	-	342,345	8,613,967
Trade bills	35,056	-	-	-	-	-	35,056
Certificates of deposit held	200,118	-	-	-	-	-	200,118
Held-to-maturity securities	1,244,181	-	-	-	-	-	1,244,181
	9,750,977	-	-	-	-	342,345	10,093,322
Less:							
<b>Liabilities:</b>							
<b>Fixed rate financial liabilities</b>							
Deposits and balances of banks and other financial institutions	966,379	-	-	-	-	-	966,379
Deposits from customers	11,509,930	14,861	118	-	-	-	11,524,909
Certificates of deposit issued	-	149,997	-	-	-	-	149,997
	12,476,309	164,858	118	-	-	-	12,641,285
<b>Floating rate liabilities</b>							
Negative fair values of derivatives	1,596	-	-	-	-	-	1,596
Certificates of deposit issued	1,273,454	-	-	-	-	-	1,273,454
	1,275,050	-	-	-	-	-	1,275,050
<b>Total interest sensitivity gap</b>	(213,142)	411,305	213,296	211,217	571,761	563,087	1,757,524

## Notes to Financial Statements

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

#### Interest Rate Risk Management (Continued)

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

	2006 Rate (%)	2005 Rate (%)
<b>Assets</b>		
Placements with banks and other financial institutions (including short-term funds)	5.00	3.79
Loans and advances (including trade bills)	5.81	4.38
Held-to-maturity securities	4.27	3.23
<b>Liabilities</b>		
Deposits and balances of banks and other financial institutions	4.59	3.03
Deposits from customers	4.09	2.61
Certificates of deposits issued	4.78	3.08

#### 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; exposures are monitored against credit limits and other control limits (such as large exposures and concentration limits); 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.

Credit and compliance audits are periodically held to evaluate the effectiveness of the credit review, approval and monitoring processes and to test the compliance of the established credit policies and procedures.

## 37. 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 portfolio.

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 the statutory liquidity ratio is always complied with. Standby facilities are maintained to provide liquidity to meet unexpected, material cash outflows in the ordinary course of business.

### Capital Management

The Group's policy is to maintain a strong capital base to support the development of the Group's businesses and to meet the statutory capital adequacy ratio and other regulatory capital requirements. Capital is allocated to the various activities of the Group depending on the risk taken by each business division and in accordance with the requirements of relevant regulatory bodies.

### Foreign Currency Risk Management

Foreign currency risk is the risk that the holding of foreign currencies will affect the Group's position as a result of a change in foreign currency exchange rates. The Group's foreign exchange risk positions arise from foreign exchange dealing, commercial banking operations and structural foreign currency exposures. All foreign exchange positions are managed by the Group's Treasury Department within limits approved by the directors. The Group's assets and liabilities are mainly denominated in Hong Kong dollars, United States dollars and Renminbi of which the exchange rates have remained relatively stable among each other for the years ended 31 December 2006 and 2005.

### Market Risk Management

Market risk is the risk to the Group's earnings and capital due to changes in the market level of interest rates, securities, foreign exchange and equities as well as the volatilities of those prices.

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

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

## Notes to Financial Statements

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

#### Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the balance sheet date, or date close to balance sheet date, without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices unless the position is immaterial. In such case, mid rate will be applied for both long and short positions.

If a quoted market price is not available on a recognised stock exchange or from a broker/dealer for non-exchange-traded financial instruments, the fair value of the instrument is estimated using valuation techniques, including use of recent arm's-length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates, and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the balance sheet date.

#### Use of derivatives

Being a financial institution, the Group employs derivatives during the course of running its ordinary banking businesses. These derivatives can be either exchange-traded or over-the-counter including interest rate futures, interest rate swaps and options. Before engaging in any such products and instruments, the Group will conduct thorough study and evaluation on both its risk and necessity affecting the Group's operations. In this respect, the Group will consider those over-the-counter derivatives, e.g., options and interest rate swaps, as solely for hedging purposes. While for the exchange-traded instruments, the Group will impose appropriate trading limits together with a daily mark-to-market revaluation process. The Group monitors closely these derivative positions in order to achieve a stable and commensurable contribution to the Group's revenue.

### 38. COMPARATIVE AMOUNTS

During the year, the Bank was acquired by PFHL. As a result, the presentation of certain balances in the financial statements have been revised to conform with the presentation of financial statements of PFHL. Accordingly, certain comparative figures have been revised to comply with the current year's presentation.

### 39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 10 January 2007.

## 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 2006 and 2005, over 90% of the Group's total operating income (net of interest expense), profit before tax, 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, as at 31 December 2006 and 31 December 2005 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 has the following main business segments:

The retail and commercial banking and lending segment mainly comprises the provision of deposit account services, wealth management services, the extension of mortgages and consumer lending, hire purchase and leasing, 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 investment in securities and the overall funding management of the Group.

Other business segment comprises securities trading and stockbroking and letting of investment properties.

## Supplementary Information (Unaudited)

## Segment information (Continued)

## (b) By business segments (Continued)

The Group's inter-segment transactions during the year were mainly related to letting of investment properties.

2006

	Retail and commercial banking and lending HK\$'000	Other businesses HK\$'000	Eliminated on consolidation HK\$'000	Total HK\$'000
<b>Segment revenue</b>				
Net interest income	258,901	437	–	259,338
Other operating income:				
Fees and commission income	39,354	15,560	–	54,914
Others	26,419	1,313	–	27,732
	<b>324,674</b>	<b>17,310</b>	<b>–</b>	<b>341,984</b>
<b>Segment results</b>	<b>150,314</b>	<b>21,974</b>	<b>–</b>	<b>172,288</b>
Net gain on disposal of a subsidiary and a jointly-controlled entity				38
Write-back of impairment allowances against loans to a jointly-controlled entity				1,000
Share of profits and losses of a jointly-controlled entity				176
Profit before tax				173,502
Tax				(28,002)
Profit after tax				145,500

## Supplementary Information (Unaudited)

## Segment information (Continued)

## (b) By business segments (Continued)

2005

	Retail and commercial banking and lending HK\$'000	Other businesses HK\$'000	Eliminated on consolidation HK\$'000	Total HK\$'000
<b>Segment revenue</b>				
Net interest income	238,722	1,130	–	239,852
Other operating income:				
Fees and commission income	34,996	9,892	–	44,888
Others	28,087	2,168	–	30,255
	<u>301,805</u>	<u>13,190</u>	<u>–</u>	<u>314,995</u>
<b>Segment results</b>	<u>84,616</u>	<u>16,316</u>	<u>–</u>	<u>100,932</u>
Write-back of impairment allowances against loans to a jointly-controlled entity				3,500
Share of profits and losses of a jointly-controlled entity				<u>1,900</u>
Profit before tax				106,332
Tax				<u>(19,740)</u>
Profit after tax				<u>86,592</u>

## Supplementary Information (Unaudited)

### Segment information (Continued)

#### (c) By industry sector

An analysis of the gross amount of advances to customers by industry sector classified in accordance with the industry categories contained in the “Quarterly Analysis of Loans and Advances and Provisions” (MA(BS)2A) issued by the Hong Kong Monetary Authority was as follows:

	2006 HK\$'000	2005 HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial:		
Property development	291,630	204,435
Property investment	1,715,055	1,468,818
Financial concerns	74,066	171,008
Stockbrokers	66,018	59,564
Wholesale and retail trade	16,355	29,446
Manufacturing	483,925	675,978
Transport and transport equipment	1,686,953	521,219
Others	1,242,168	1,312,841
Individuals:		
Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	257,769	287,042
Loans for the purchase of other residential properties	2,660,370	2,653,803
Credit card advances	12,467	14,399
Others	229,648	300,660
Trade finance	727,657	859,754
Loans for use outside Hong Kong	601,929	516,936
Total loans exclude trade bills	<b>10,066,010</b>	9,075,903

## Supplementary Information (Unaudited)

## Cross-border claims

The following table illustrates the geographical disclosure of the Group's cross-border claims by type of counterparties on which the ultimate risk lies, and is shown according to the location of the counterparties after taking into account the transfer of risk. An individual country or geographical area is reported if it constitutes 10% or more of the aggregate cross-border claims and was prepared in accordance with the completion instructions contained in the "Return of External Position" (MA(BS)9A) issued by the Hong Kong Monetary Authority.

	<b>Banks and other financial institutions</b> HK\$' million	<b>Public sector entities</b> HK\$' million	<b>Others</b> HK\$' million	<b>Total</b> HK\$' million
As at 31 December 2006				
1. Asia Pacific excluding Hong Kong	<b>2,087</b>	<b>7</b>	<b>154</b>	<b>2,248</b>
of which:				
Australia	<b>899</b>	<b>–</b>	<b>23</b>	<b>922</b>
2. Western Europe	<b>2,953</b>	<b>–</b>	<b>308</b>	<b>3,261</b>
As at 31 December 2005				
1. Asia Pacific excluding Hong Kong	1,701	–	109	1,810
of which:				
Australia	841	–	45	886
2. Western Europe	3,277	–	333	3,610
of which:				
Germany	741	–	4	745
United Kingdom	828	–	15	843

## Supplementary Information (Unaudited)

### Currency risk

The following foreign currency exposures are prepared in accordance with the completion instructions contained in the “Return of Foreign Currency Position” (MA(BS)6) issued by the Hong Kong Monetary Authority. Foreign currency exposures with a net position (regardless of sign) constituting 10% or more of the total net position in all foreign currencies of the Group were as follows:

#### Group

	At 31 December 2006 (in HK\$' million)		
	US Dollars	Others	Total
Spot assets	3,762	1,332	5,094
Spot liabilities	(4,320)	(1,819)	(6,139)
Forward purchases	2,944	902	3,846
Forward sales	(2,319)	(205)	(2,524)
Net long position	67	210	277

	Renminbi (in HK\$' million)	
Net structural long position		199

	At 31 December 2005 (in HK\$' million)		
	US Dollars	Others	Total
Spot assets	3,396	1,690	5,086
Spot liabilities	(4,131)	(1,959)	(6,090)
Forward purchases	4,699	977	5,676
Forward sales	(3,863)	( 518)	(4,381)
Net long position	101	190	291

	Renminbi (in HK\$' million)	
Net structural long position		192

## Supplementary Information (Unaudited)

## Overdue and rescheduled loans

The gross amount of the Group's and the Bank's overdue and rescheduled loans included in loans and advances and receivables as at 31 December 2006 and 2005, analysed by overdue period was as follows:

## Group and Bank

	2006		2005	
	Gross amount HK\$'000	Percentage of total loans and advances	Gross amount HK\$'000	Percentage of total loans and advances
Loans overdue for:				
Six months or less but over three months	5,263	0.05	37,999	0.42
One year or less but over six months	10,499	0.10	2,557	0.03
Over one year	51,890	0.51	69,101	0.76
	<b>67,652</b>	<b>0.66</b>	109,657	1.21
Rescheduled loans	3,626	0.04	12,691	0.14
	<b>71,278</b>	<b>0.70</b>	122,348	1.35

Note: Rescheduled loans which have been overdue for over three months are included in the overdue loans as disclosed above.

As at 31 December 2006, the total value of the repossessed assets of the Group amounted to HK\$20 million (2005: HK\$40 million).

## Capital adequacy ratios

	2006	2005
Adjusted capital adequacy ratio at 31 December	17.17%	16.70%
Unadjusted capital adequacy ratio at 31 December	17.54%	17.15%

The unadjusted capital adequacy ratio was computed in accordance with the Third Schedule of the Banking Ordinance.

The unadjusted capital adequacy ratios as at 31 December 2006 was computed on a consolidated basis and included the Bank and three of its subsidiaries, namely Public Investments Limited, Public Credit Limited and Public Bank (Nominees) Limited.

The adjusted capital adequacy ratio which takes into account market risk was computed in accordance with the Guideline "Maintenance of Adequate Capital Against Market Risks" issued by the Hong Kong Monetary Authority and on the same consolidated basis as for the unadjusted capital adequacy ratio.

## Supplementary Information (Unaudited)

### Capital adequacy ratios (Continued)

The components of the total capital base as at the balance sheet date after deductions as reported under Part I of the “Capital Adequacy Return” (MA(BS)3) were set out below:

	2006 HK\$'000	2005 HK\$'000
Core capital:		
Paid-up ordinary share capital	810,000	810,000
Share premium	43,935	43,935
Reserves (eligible for inclusion in core capital)	787,512	706,217
Eligible supplementary capital:		
Reserves on revaluation of land and interests in land	134,967	134,967
Collective impairment allowances for impaired assets and regulatory reserve	101,644	91,110
Total capital base before deductions	1,878,058	1,786,229
Deductions from total capital base	(62,333)	( 111,757)
Total capital base after deductions	1,815,725	1,674,472

### Liquidity ratio

	2006	2005
Average liquidity ratio for the year ended 31 December	51.96%	47.12%

The average liquidity ratio was computed in accordance with the Fourth Schedule of the Banking Ordinance.

The average liquidity ratio is the simple average of calendar months' average liquidity ratios, which was computed on a non-consolidated basis and includes only the Head Office and branches of the Bank operating in Hong Kong.

### Corporate governance

The Group is committed to high standards of corporate governance. To accomplish this, the Group 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 Group in all aspects and the implementation of strategic business plans and policies approved and formulated by the directors.

## Supplementary Information (Unaudited)

### Corporate governance (Continued)

#### 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 Group's financial statements before submission to the directors and to review the Group'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 Group. It comprises the Chief Executive, Alternate Chief Executive, Senior Deputy General Manager, Assistant General Managers, and Head of Credit.

#### 5. Asset and Liability Management Committee

The Asset and Liability Management Committee reviews and assesses the risk profile and balance sheet structure of the Group, 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. IT Steering Committee

The IT Steering Committee is responsible for establishing policies and strategies for the computerisation of the Group, 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.

#### 7. 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.

#### 8. 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.

## Supplementary Information (Unaudited)

### Corporate governance (Continued)

#### 9. 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.

#### 10. 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.