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大眾金融控股有限公司*
PUBLIC FINANCIAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

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

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009

The Board of Directors (the "Board") of Public Financial Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2009 with comparative figures as follows:

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
		2009	2008
	Notes	***HK$'000***	*HK$'000*
Interest income	*4*	**1,481,193**	1,744,046
Interest expense	*4*	**(308,145)**	(692,465)
NET INTEREST INCOME		**1,173,048**	1,051,581
Gains less losses from disposal of available-for-sale financial assets		**26,035**	–
Other operating income	*5*	**232,048**	302,279
Non-interest income		**258,083**	302,279
OPERATING INCOME		**1,431,131**	1,353,860
Operating expenses	*6*	**(567,801)**	(523,932)
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		**863,330**	829,928
Impairment allowance in relation to the Lehman Brothers Minibonds repurchased		**(42,962)**	–
		820,368	829,928
Impairment allowances for loans and advances and receivables, held-to-maturity investments and available-for-sale securities	*7*	**(511,879)**	(441,534)
OPERATING PROFIT		**308,489**	388,394
SHARE OF PROFITS AND LOSSES OF A JOINTLY-CONTROLLED ENTITY		**–**	–
PROFIT BEFORE TAX		**308,489**	388,394
Tax	*8*	**(33,416)**	(30,207)
PROFIT FOR THE YEAR		**275,073**	358,187
Profit Attributable to Owners of the Company		**275,073**	358,187
DIVIDENDS			
Interim	*9*	**197,625**	252,521
EARNINGS PER SHARE (HK$)	*10*		
Basic		**0.251**	0.327
Diluted		**0.251**	0.327

* *For identification purposes only*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2009	2008
		HK$'000	*HK$'000*
PROFIT FOR THE YEAR		**275,073**	358,187
OTHER COMPREHENSIVE INCOME/(LOSS):			
Exchange (loss)/gain on translating foreign operations		**(80)**	13,660
Gain/(deficit) on revaluation of available-for-sale financial assets		**11,379**	(29,520)
Transfer to income statement for disposal of available-for-sale financial assets		**(26,035)**	–
OTHER COMPREHENSIVE LOSS FOR THE YEAR	*Note*	**(14,736)**	(15,860)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**260,337**	342,327
ATTRIBUTABLE TO:			
Owners of the Company		**260,337**	342,327

Note:

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Group 31 December		Company 31 December	
		2009	2008	**2009**	2008
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
ASSETS					
Cash and short term placements		**5,605,620**	5,785,272	**74,243**	309,081
Placements with banks and financial institutions		**868,483**	173,099	**–**	–
Derivative financial instruments		**11,657**	1,151	**–**	–
Loans and advances and receivables	*11*	**24,444,780**	24,384,943	**–**	–
Available-for-sale financial assets		**6,804**	21,524	**–**	–
Held-to-maturity investments	*13*	**4,216,634**	969,216	**–**	–
Inventories of taxi licences		**15,084**	21,805	**–**	–
Investment properties		**184,342**	165,346	**1,078,190**	982,980
Property and equipment		**124,130**	119,110	**228**	–
Land lease prepayments		**668,590**	667,990	**–**	–
Interests in subsidiaries		**–**	–	**6,667,998**	6,660,283
Interest in a jointly-controlled entity		**1,513**	1,513	**–**	–
Deferred tax assets		**16,234**	9,168	**2,129**	–
Goodwill	*14*	**2,774,403**	2,774,403	**–**	–
Intangible assets		**718**	358	**–**	–
Other assets		**434,062**	234,767	**1,483**	7,014
TOTAL ASSETS		**39,373,054**	35,329,665	**7,824,271**	7,959,358
EQUITY AND LIABILITIES					
LIABILITIES					
Deposits and balances of banks and other financial institutions at amortised cost		**1,024,628**	641,732	**–**	–
Derivative financial instruments		**1,668**	4,150	**–**	–
Customer deposits at amortised cost		**29,364,238**	24,184,416	**–**	–
Certificates of deposit issued at amortised cost		**–**	879,850	**–**	–
Dividend payable		**142,729**	197,625	**142,729**	197,625
Unsecured bank loans at amortised cost		**2,178,679**	3,249,219	**2,178,679**	2,150,000
Current tax payable		**2,726**	6,403	**–**	–
Deferred tax liabilities		**21,562**	24,122	**19,227**	4,800
Other liabilities		**804,606**	372,642	**5,158**	3,401
TOTAL LIABILITIES		**33,540,836**	29,560,159	**2,345,793**	2,355,826
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY					
Issued capital		**109,792**	109,792	**109,792**	109,792
Reserves	*15*	**5,722,426**	5,659,714	**5,368,686**	5,493,740
TOTAL EQUITY		**5,832,218**	5,769,506	**5,478,478**	5,603,532
TOTAL EQUITY AND LIABILITIES		**39,373,054**	35,329,665	**7,824,271**	7,959,358

CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

	Year ended 31 December	
	2009	2008
	HK$'000	*HK$'000*
TOTAL EQUITY		
Balance at the beginning of the year	**5,769,506**	5,654,221
Profit for the year	**275,073**	358,187
Other comprehensive losses	**(14,736)**	(15,860)
Total comprehensive income for the year	**260,337**	342,327
Proceeds from issuance of shares upon exercise of share options, net of expenses	**–**	25,479
Dividends declared on shares	**(197,625)**	(252,521)
Balance at the end of the year	**5,832,218**	5,769,506

NOTES TO FINANCIAL STATEMENTS

1.1 STATUTORY FINANCIAL STATEMENTS

The financial information set out in this announcement does not constitute the Group's statutory financial statements for the year ended 31 December 2009. Certain financial information in this announcement is extracted from the statutory financial statements for the year ended 31 December 2009, which will be available from the websites of The Stock Exchange of Hong Kong Limited and the Company.

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

1.2 BASIS OF PREPARATION

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

Basis of consolidation

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

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

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

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

– Public Bank (Hong Kong) Limited, Public Finance Limited, Winton (B.V.I.) Limited and their subsidiaries and a jointly-controlled entity.

Basis of capital disclosures

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

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

The computation of the consolidated capital adequacy ratio of the Group is based on the ratio of the aggregate of risk weighted exposures to the aggregate of capital bases of the Company, Public Bank (Hong Kong) Limited and Public Finance Limited for regulatory purpose.

There are no major restrictions or impediments on the transfer of capital or funds among the members of the Company's consolidation group except that liquidity, capital and other performance indicators of Public Securities Limited and Public Financial Securities Limited should satisfy the minimum requirements of the Financial Resources Rules issued by the Securities and Futures Commission. A portion of retained profits, based on a percentage of gross loans and advances, is set aside for non-distributable regulatory reserve as part of supplementary capital included in capital base pursuant to the HKMA capital requirements.

1.3 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued a number of new HKFRSs, and HKASs and Interpretations ("Int"), which are generally effective for accounting periods beginning on or after 1 January 2009. The Group has adopted the following HKFRSs and HKASs issued up to 31 December 2009 which are pertinent to its operations and relevant to these financial statements.

•	HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
•	HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Vesting Conditions and Cancellations
•	HKFRS 7 Amendments	Financial Instruments: Disclosures
•	HKFRS 8	Operating Segments
•	HKAS 1 (Revised)	Presentation of Financial Statements
•	HKAS 23 (Revised)	Borrowing Costs
•	HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
•	HK(IFRIC)-Int 9 and HKAS 39 Amendments	Reassessment of Embedded Derivative
•	HK(IFRIC)-Int 13	Customer Loyalty Programmes
•	HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
•	HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation
•	HK(IFRIC)-Int 18	Transfer of Assets from Customers

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

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

HKAS 27 Amendments remove the definition of the cost method and require all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the separate financial statements. HKFRS 1 Amendments allow a first-time adopters of HKFRSs to measure investments in subsidiaries, associates or jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements.

HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only, both of which include a requirement for the counterparty to complete a specified period of service. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award of a share option does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, the amendments have had no impact on its accounting for share-based payments.

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

HKFRS 8 specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. Further details of segment information are included in note 3 to the financial statements.

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

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

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

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

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

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

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

HK(IFRIC)-Int 15 replaces HK Interpretation 3 Revenue – Pre-completion Contracts for the Sale of Development Properties and the current guidance for real estate. It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with HKAS 11 Construction Contracts or an agreement for the sale of goods or services in accordance with HKAS 18 Revenue. As the Group currently is not involved in any construction of real estate, the interpretation has had no financial impact on the Group.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In May 2009, the HKICPA issued Improvements to HKFRSs which set out amendments to HKFRSs, primarily with a view to removing inconsistencies and clarifying wording. The Group expects to adopt the amendments to HKFRSs from 1 January 2010. There is separate transitional provision for each standard. While the adoption of some of them may result in changes in accounting policy, none of these amendments are expected to have a material financial impact on the Group.

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

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Held-to-maturity investments

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

Estimation uncertainty

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

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

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

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2009 was HK$2,774,403,000 (2008: HK$2,774,403,000).

3. SEGMENT INFORMATION

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

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

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

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

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

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

	Retail and commercial banking and lending		Wealth management services, stockbroking and securities management		Other businesses		Eliminated on consolidation		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue										
External:										
Net interest income	**1,172,988**	1,051,226	**60**	355	**–**	–	**–**	–	**1,173,048**	1,051,581
Other operating income:										
Fees and commission income	**117,396**	154,562	**84,218**	113,125	**612**	630	**–**	–	**202,226**	268,317
Others	**14,299**	18,935	**360**	1,178	**15,163**	14,906	**–**	–	**29,822**	35,019
Profits/(losses) on sale of available-for-sale financial assets	**–**	(1,057)	**26,035**	–	**–**	–	**–**	–	**26,035**	(1,057)
Inter-segment transactions:										
Fee and commission income	**–**	–	**–**	–	**245**	247	**(245)**	(247)	**–**	–
	1,304,683	1,223,666	**110,673**	114,658	**16,020**	15,783	**(245)**	(247)	**1,431,131**	1,353,860
Segment results	**279,118**	357,217	**17,289**	26,381	**12,082**	4,796	**–**	–	**308,489**	388,394
Share of profits and losses of a jointly-controlled entity									**–**	–
Profit before tax									**308,489**	388,394
Tax									**(33,416)**	(30,207)
Profit for the year									**275,073**	358,187
Segment assets other than interests in a jointly-controlled entity and intangible assets	**35,730,967**	32,050,162	**649,793**	306,910	**199,426**	187,151	**–**	–	**36,580,186**	32,544,223
Interest in a jointly-controlled entity	**1,513**	1,513	**–**	–	**–**	–	**–**	–	**1,513**	1,513
Intangible assets	**–**	–	**718**	358	**–**	–	**–**	–	**718**	358
Goodwill	**2,774,403**	2,774,403	**–**	–	**–**	–	**–**	–	**2,774,403**	2,774,403
	38,506,883	34,826,078	**650,511**	307,268	**199,426**	187,151	**–**	–	**39,356,820**	35,320,497
Unallocated assets:										
Deferred tax assets									**16,234**	9,168
Total assets									**39,373,054**	35,329,665
Segment liabilities	**32,826,767**	29,163,996	**526,033**	155,090	**16,019**	12,923	**–**	–	**33,368,819**	29,332,009
Unallocated liabilities:										
Deferred tax liabilities and tax payable									**24,288**	30,525
Dividend payable									**147,729**	197,625
Total liabilities									**33,540,836**	29,560,159
Other segment information										
Additions to non-current assets – capital expenditure	**29,956**	84,416	**–**	–	**–**	–	**–**	–	**29,956**	84,416
Depreciation and amortisation of land lease prepayments	**30,274**	23,849	**–**	–	**–**	–	**–**	–	**30,274**	23,849
Changes in fair value of investment properties	**–**	–	**–**	–	**(27,689)**	(18,541)	**–**	–	**(27,689)**	(18,541)
Impairment allowances for loans and advances and receivables, held-to-maturity investments and available-for-sale securities	**511,879**	441,534	**–**	–	**–**	–	**–**	–	**511,879**	441,534
Net losses on disposal of property and equipment	**46**	74	**–**	–	**–**	–	**–**	–	**46**	74

Geographical information

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

Operating income or revenue from major customers

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

4. INTEREST INCOME AND EXPENSE

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

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

5. OTHER OPERATING INCOME

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

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

There were no net gains or losses arising from held-to-maturity investments, loans and advances and receivables, financial liabilities at amortised cost and financial liabilities designated at fair value through profit or loss for the years ended 31 December 2009 and 2008.

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

6. OPERATING EXPENSES

	Year ended 31 December	
	2009	2008
	HK$'000	*HK$'000*
Staff costs:		
Salaries and other staff costs	**297,178**	265,863
Pension contributions	**15,541**	14,261
Less: Forfeited contributions	**(8)**	(52)
Net retirement benefit schemes	**15,533**	14,209
	312,711	280,072
Other operating expenses:		
Operating lease rentals on leasehold buildings	**45,743**	39,232
Depreciation and amortisation of land lease prepayments	**30,274**	23,849
Auditors' remuneration	**3,490**	3,625
Administrative and general expenses	**56,372**	49,426
Others	**146,900**	146,269
Operating expenses before changes in fair value of investment properties	**595,490**	542,473
Changes in fair value of investment properties	**(27,689)**	(18,541)
	567,801	523,932

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

7. IMPAIRMENT ALLOWANCES

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

8. TAX

	Group	
	Year ended 31 December	
	2009	2008
	HK$'000	*HK$'000*
Current tax charge:		
Hong Kong	**40,185**	80,086
Elsewhere	**3,905**	915
Over-provisions in prior years	**(1,048)**	(2,173)
Deferred tax charge	**(9,626)**	(48,621)
	33,416	30,207

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

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

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

9. DIVIDENDS

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

10. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the year of HK$275,073,000 (2008: HK$358,187,000) and the weighted average number of ordinary shares of 1,097,917,618 (2008: 1,096,354,200) in issue during the year.

(b) Diluted earnings per share

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

11. LOANS AND ADVANCES AND RECEIVABLES

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

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

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

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

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

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

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

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

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

Over 90% of the Group's gross loans and advances and receivables and their related impairment allowances are derived from operations carried out in Hong Kong. Accordingly, no geographical segment information is presented herein.

(c) The value of collateral held in respect of its overdue loans and advances and the split between the portion of the overdue loans and advances covered by credit protection (covered portion) and the remaining portion (uncovered portion) are as follows:

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

The eligibility of assets taken as collateral should satisfy the following criteria:

– The market value of the asset is readily determinable or can be reasonably established and verified.

– The asset is marketable and there exists a readily available secondary market for disposal of the asset.

– The Group's right to repossess the asset is legally enforceable without impediment.

– The Group is able to secure control over the asset if necessary.

(d) Repossessed assets

As at 31 December 2009, the total value of repossessed assets of the Group amounted to HK$25,715,000 (2008: Nil).

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

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

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

Group

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

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

Group

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

(g) Finance lease receivables

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

Group

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

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

12. OTHER PAST DUE AND RESCHEDULED ASSETS

There were no other overdue or rescheduled advances to banks and other financial institutions or other assets (other than loans and advances and receivables and held-to-maturity investments) as at 31 December 2009 and 2008.

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

13. HELD-TO-MATURITY INVESTMENTS

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

Movements in impairment allowance of held-to-maturity investments

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

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

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

14. GOODWILL

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

Impairment test of goodwill

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

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

15. RESERVES

Group

	Share premium account HK$'000	Capital redemption reserve HK$'000	Con-tributed surplus HK$'000	Available-for-sale financial assets revaluation reserve HK$'000	Employee share-based com-pensation reserve HK$'000	Regulatory reserve HK$'000	Retained profits HK$'000	Translation reserve HK$'000	Total HK$'000
At 1 January 2008	3,988,219	829	96,116	44,176	45,765	161,219	1,187,107	21,400	5,544,831
Profit for the year	–	–	–	–	–	–	358,187	–	358,187
Other comprehensive gains/(losses)	–	–	–	(29,520)	–	–	–	13,660	(15,860)
Premium, net of expenses arising on share options exercised	25,077	–	–	–	–	–	–	–	25,077
Transfer from retained profits	–	–	–	–	–	143,332	(143,332)	–	–
Dividends for 2008 *(note 9)*	–	–	–	–	–	–	(252,521)	–	(252,521)
At 31 December 2008 and 1 January 2009	**4,013,296**	**829**	**96,116**	**14,656**	**45,765**	**304,551**	**1,149,441**	**35,060**	**5,659,714**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**275,073**	**–**	**275,073**
Other comprehensive loss	**–**	**–**	**–**	**(14,656)**	**–**	**–**	**–**	**(80)**	**(14,736)**
Transfer to retained profits	**–**	**–**	**–**	**–**	**–**	**(38,170)**	**38,170**	**–**	**–**
Dividends for 2009 *(note 9)*	**–**	**–**	**–**	**–**	**–**	**–**	**(197,625)**	**–**	**(197,625)**
At 31 December 2009	**4,013,296**	**829**	**96,116**	**–**	**45,765**	**266,381**	**1,265,059**	**34,980**	**5,722,426**

Company

	Share premium account HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Available-for-sale financial assets revaluation reserve HK$'000	Employee share-based compensation reserve HK$'000	Regulatory reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2008	3,988,219	829	194,176	–	45,765	–	(6,928)	4,222,061
Premium, net of expense, arising on share options exercised	25,125	–	–	–	–	–	–	25,125
Dividends for 2008 *(note 9)*	–	–	–	–	–	–	(252,521)	(252,521)
Profit for the year	–	–	–	–	–	–	1,499,075	1,499,075
At 31 December 2008 and 1 January 2009	**4,013,344**	**829**	**194,176**	**–**	**45,765**	**–**	**1,239,626**	**5,493,740**
Premium, net of expense, arising on share options exercised	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Dividends for 2009 *(note 9)*	**–**	**–**	**–**	**–**	**–**	**–**	**(197,625)**	**(197,625)**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**72,571**	**72,571**
At 31 December 2009	**4,013,344**	**829**	**194,176**	**–**	**45,765**	**–**	**1,114,572**	**5,368,686**

The contributed surplus of the Group represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the Group's reorganisation in September 1991 over the nominal value of the Company's shares issued in exchange therefor.

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group's reorganisation in September 1991 over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda, a company may make distributions to its shareholders out of the contributed surplus under certain circumstances.

Deducted from the contributed surplus of the Group as at 31 December 2009 was positive goodwill of HK$98,406,000 (2008: HK$98,406,000), which arose from the acquisition of certain subsidiaries in prior years.

Note: In accordance with the HKMA's guideline "Impact of the New Hong Kong Accounting Standards on Authorised Institutions' Capital Base and Regulatory Reserve" (the "Guideline"), the regulatory reserve, together with the Group's collective impairment allowances, were included as supplementary capital on the Group's capital base at 31 December 2009 as defined in the Guideline.

16. OPERATING LEASE ARRANGEMENTS

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

As at 31 December 2009, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

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

(b) The Group has entered into non-cancellable operating lease arrangements with landlords, and the terms of the leases range from one to five years.

As at 31 December 2009, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

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

17. OFF-BALANCE SHEET EXPOSURE

Contingent liabilities, commitments and derivatives

The following is a summary of the contractual amount of each significant class of contingent liabilities, commitments and derivatives of the Group outstanding at the end of the reporting period:

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

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

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

As at 31 December 2009 and 2008, the Group had no material outstanding contingent liabilities and commitments save as disclosed above.

18. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The tables below show an analysis of financial assets and financial liabilities analysed by principal according to the period that they are expected to be recovered or settled.

Group

	2009							
	Repayable on demand *HK$'000*	Up to 1 month *HK$'000*	Over 1 month but not more than 3 months *HK$'000*	Over 3 months but not more than 12 months *HK$'000*	Over 1 year but not more than 5 years *HK$'000*	Over 5 years *HK$'000*	Repayable within an indefinite period *HK$'000*	Total *HK$'000*
Financial assets:								
Cash and short term placements	**726,251**	**4,879,369**	**–**	**–**	**–**	**–**	**–**	**5,605,620**
Placements with banks and financial institutions	**–**	**–**	**779,485**	**88,998**	**–**	**–**	**–**	**868,483**
Loans and advances and receivables	**963,795**	**1,560,843**	**1,115,379**	**2,920,641**	**7,076,453**	**10,736,956**	**341,363**	**24,715,430**
Available-for-sale financial assets	**–**	**–**	**–**	**–**	**–**	**–**	**6,804**	**6,804**
Held-to-maturity investments	**–**	**2,859,338**	**903,823**	**411,646**	**41,827**	**–**	**–**	**4,216,634**
Other assets	**12**	**385,687**	**749**	**276**	**162**	**–**	**47,176**	**434,062**
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	**273,574**	**364,312**	**345,383**	**41,359**	**–**	**–**	**–**	**1,024,628**
Customer deposits at amortised cost	**7,289,672**	**10,726,313**	**8,109,281**	**3,234,638**	**4,334**	**–**	**–**	**29,364,238**
Certificates of deposit issued at amortised cost	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Unsecured bank loans at amortised cost	**–**	**–**	**–**	**700,000**	**1,478,679**	**–**	**–**	**2,178,679**
Other liabilities	**47**	**656,481**	**14,939**	**13,195**	**534**	**–**	**119,410**	**804,606**

Group

	2008							
	Repayable on demand *HK$'000*	Up to 1 month *HK$'000*	Over 1 month but not more than 3 months *HK$'000*	Over 3 months but not more than 12 months *HK$'000*	Over 1 year but not more than 5 years *HK$'000*	Over 5 years *HK$'000*	Repayable within an indefinite period *HK$'000*	Total *HK$'000*
Financial assets:								
Cash and short term placements	475,138	5,310,134	–	–	–	–	–	5,785,272
Placements with banks and financial institutions	–	–	34,089	139,010	–	–	–	173,099
Loans and advances and receivables	537,303	1,379,984	1,305,662	2,571,270	8,296,139	10,269,581	212,732	24,572,671
Available-for-sale financial assets	–	–	–	–	–	–	21,524	21,524
Held-to-maturity investments	–	217,410	230,973	417,631	103,202	–	–	969,216
Other assets	–	13,489	–	–	–	–	221,278	234,767
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	30,324	398,546	161,297	51,565	–	–	–	641,732
Customer deposits at amortised cost	3,902,302	10,238,254	6,518,751	3,509,886	15,223	–	–	24,184,416
Certificates of deposit issued at amortised cost	–	–	–	879,850	–	–	–	879,850
Unsecured bank loans at amortised cost	–	–	–	3,249,219	–	–	–	3,249,219
Other liabilities	–	105,451	1,277	–	–	–	265,914	372,642

COMPLIANCE WITH SUPERVISORY POLICY MANUALS

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

CORPORATE GOVERNANCE

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting year covered by the 2009 annual report, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules except for the deviation in respect of the service term under code provision A.4.1 of the Listing Rules.

Under code provision A.4.1 of the Listing Rules, non-executive directors should be appointed for specific terms and subject to re-election. The Board is of the view that the current practice of appointing non-executive directors without specific terms but otherwise subject to rotation and re-election by shareholders is fair and reasonable, and does not intend to change the current practice at the moment.

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

DIVIDENDS

The first interim dividend of HK$0.05 (2008: HK$0.05) per ordinary share was paid on 7 August 2009. The second interim dividend of HK$0.13 (2008: HK$0.18) per ordinary share was declared on 29 December 2009 and will be payable on 25 February 2010 to shareholders of the Company whose names appear on the register of members on 27 January 2010. The directors do not recommend the payment of a final dividend for the year (2008: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 24 February 2010 to 1 March 2010, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the forthcoming annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 23 February 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overview

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

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

Group Financial Performance

Loans and Advances, Deposits from Customers and Total Assets

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

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

Revenue and Earnings

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

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

For the year under review, the Group recorded an increase in total operating income of HK$77.3 million or 5.7% to HK$1,431.1 million from HK$1,353.9 million in the previous year, contributed by an increase in net interest income, whilst total operating costs and overheads increased by 8.4% or HK$43.9 million to HK$567.8 million, resulting in an increase of HK$33.4 million in operating profit, before impairment allowances for loans and advances and impairment for Lehman Brothers' Minibonds repurchased, to HK$863.3 million.

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

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

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

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

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

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

Branch Network

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

Business development of Public Bank (Hong Kong)

During the year under review, total loans and advances (including trade bills) of Public Bank (Hong Kong) increased marginally by 1.0% or HK$201.3 million to HK$20.29 billion as at 31 December 2009 from HK$20.08 billion as at 31 December 2008. Deposits from customers grew strongly by 25.3% or HK$5.27 billion to HK$26.06 billion as at 31 December 2009 from HK$20.79 billion as at 31 December 2008.

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

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

Segmental information

The Group's business comprise three main segments: (i) retail and commercial banking and lending, (ii) stockbroking and wealth management services, and (iii) other businesses. In 2009, over 90% of the Group's operating income and profit before tax was contributed by retail and commercial banking and lending in Hong Kong. When compared to the previous year, the Group's operating income from retail and commercial banking and lending increased by HK$81.0 million or 6.6% to HK$1,304.7 million. Profit before tax from retail and commercial banking and lending for 2009 decreased by HK$78.1 million or 21.9% to HK$279.1 million as a result of higher impairment allowances for impaired loans and advances.

Contingent liabilities and commitments

The Group has no material contingent liabilities (other than those in the normal course of its banking and finance businesses related to treasury and trade finance activities and loan commitments disclosed in the notes to the financial statements) as at the end of the year under review. The Group did not incur any material capital expenditure or enter into any material commitments in respect of capital expenditure during the year under review. In 2009, the Group created a charge over a bank deposit of HK$27 million by Public Bank (Hong Kong)'s Shenzhen Branch which remained in place as at 31 December 2009, to secure a floating-rate loan of RMB20 million to fund its lending business in the PRC. Other than as disclosed above, the Group had no other charge over the assets of the Group as at 31 December 2009. There was no charge over the assets of the Group as at 31 December 2008.

Operational Review

Funding and capital management

The main objective of the Group's funding activities is to ensure the availability of funds at reasonable cost to meet all contractual financial commitments, to fund growth in loans and advances and to generate reasonable returns from available funds. The Group also encourages its subsidiaries to be self-reliant in the funding of their business growth.

The Group relies principally on its internally generated capital, deposits from customers, deposits from financial institutions and the issuance of certificates of deposit to fund its retail consumer financing business and retail and commercial banking business. The Group's bank borrowings in the form of term loans denominated in Hong Kong dollars at floating interest rates stood at HK$2.18 billion as at the end of 2009. Based on the level of bank borrowings to the equity of the Group, the Group's gearing ratio stood at a healthy level of 0.37 times as at 31 December 2009. The bank borrowings have remaining maturity periods ranging from 1 year to 3 years. In the normal course of its commercial banking business, Public Bank (Hong Kong) had entered into foreign exchange and interest rate swap and forward contracts to reduce foreign exchange rate risk and interest rate risk exposures of the Group. Exposures to fluctuations in foreign exchange rates and interest rates were minimal during the year under review.

Asset quality

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

Human resource management

The objectives of the Group's human resource management activities are to reward and recognise performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression within the Group. Staff are enrolled for external and internal training courses and seminars, as well as professional and technical courses with appropriate sponsorship by the Group, to update their technical knowledge and skills, to increase their awareness of the market place and technological changes, and to improve their management skills and understanding of business strategies. Staff are also encouraged to participate in social activities organised by the Group to promote team spirit and build a cohesive workforce.

Options to subscribe for 66,526,000 shares in the Company were granted to employees of the Group in May 2005 pursuant to the Company's employees share option scheme approved by shareholders on 28 February 2002. In 2009, no share options to subscribe for shares in the Company were exercised by employees of the Group. As at 31 December 2009, options to subscribe for 29,325,000 shares in the Company remained unexercised.

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

Prospects

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

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

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

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

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year.

REVIEW BY AUDIT COMMITTEE

The 2009 annual results have been reviewed by the Company's Audit Committee which comprises three Independent Non-executive Directors and one Non-executive Director.

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

Hong Kong, 18 January 2010

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