

Independent Auditor's Report to the Members of The Law Society of Hong Kong

(Incorporated in Hong Kong and limited by guarantee)

We have audited the accompanying accounts of The Law Society of Hong Kong ("the Society") set out on pages 120 to 136, which comprise the balance sheet as at 31 December 2007 and the income and expenditure account, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Council Members' responsibility for the accounts

The Council Members of the Society are responsible for the preparation and the true and fair presentation of these accounts in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these accounts based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

Independent Auditor's Report to the Members of The Law Society of Hong Kong

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

Opinion

In our opinion, the accounts give a true and fair view of the state of the Society's affairs as at 31 December 2007 and of its surplus and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants

Hong Kong, 15 April 2008

Income and Expenditure Account

for the year ended 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007	2006
Income	3	\$ 91,563,804	\$ 86,005,047
Staff costs	4(a)	(28,272,825)	(27,938,827)
Office expenses	4(b)	(3,648,928)	(3,752,069)
Depreciation	7	(1,923,516)	(2,117,626)
Members' expenses	4(c)	(5,053,378)	(1,819,437)
Other operating expenses	4(d)	(28,480,894)	(32,056,673)
Surplus before taxation	4	\$ 24,184,263	\$ 18,320,415
Taxation	6(a)	(3,497,817)	(2,622,217)
Surplus for the year		\$ 20,686,446	\$ 15,698,198
Accumulated surpluses brought forward		157,280,642	141,582,444
Accumulated surpluses carried forward		\$ 177,967,088	\$ 157,280,642

Statement of Changes in Equity

for the year ended 31 December 2007

The surplus in the above income and expenditure account is the only change in equity for the current and prior years.

The notes on pages 123 to 136 form part of these accounts.

Balance Sheet

at 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007	2006
Non-current assets			
Fixed assets	7	\$ 99,528,127	\$ 101,237,074
Investment in a subsidiary	8	20	20
Deferred tax assets	13	1,163,924	1,234,599
		\$ 100,692,071	\$ 102,471,693
Current assets			
Trade debtors, deposits and prepayments	9	\$ 6,838,434	\$ 2,737,352
Amount due from subsidiary	10	127,947	107,428
Cash and cash equivalents	11	129,466,544	128,650,693
		\$ 136,432,925	\$ 131,495,473
Current liabilities			
Creditors and accrued charges	12	\$ 13,539,162	\$ 26,869,764
Membership, practising certificate and other fees received in advance		45,033,523	49,627,350
Tax payable	6(c)	585,223	189,410
		\$ 59,157,908	\$ 76,686,524
Net current assets		\$ 77,275,017	\$ 54,808,949
Net assets		\$ 177,967,088	\$ 157,280,642
Representing:			
Accumulated surpluses		\$ 177,967,088	\$ 157,280,642

Approved and authorised for issue by the Council
on 15 April 2008

LESTER G. HUANG)	
WONG KWAI HUEN)	Council Members
)	
)	
RAYMOND C.K. HO)	Secretary General
)	

The notes on pages 123 to 136 form part of these accounts.

Cash Flow Statement

for the year ended 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007	2006
Operating activities			
Surplus before taxation		\$ 24,184,263	\$ 18,320,415
Bank interest income		(4,292,847)	(3,648,476)
Depreciation		1,923,516	2,117,626
Operating surplus before changes in working capital		\$ 21,814,932	\$ 16,789,565
Increase in trade debtors, deposits and prepayments		(4,039,346)	(348,247)
Increase in amount due from subsidiary		(20,519)	(19,530)
(Decrease)/increase in creditors and accrued charges		(13,330,602)	3,057,508
(Decrease)/increase in membership, practising certificate and other fees received in advance		(4,593,827)	1,665,202
Cash generated from operations		\$ (169,362)	\$ 21,144,498
Hong Kong Profits Tax paid		(3,031,329)	(1,854,226)
Net cash (used in)/generated from operating activities		\$ (3,200,691)	\$ 19,290,272
Investing activities			
Interest received		\$ 4,231,111	\$ 3,648,476
Purchase of fixed assets		(214,569)	(129,139)
Net cash generated from investing activities		\$ 4,016,542	\$ 3,519,337
Net increase in cash and cash equivalents		\$ 815,851	\$ 22,809,609
Cash and cash equivalents at 1 January		128,650,693	105,841,084
Cash and cash equivalents at 31 December	11	\$ 129,466,544	\$ 128,650,693

The notes on pages 123 to 136 form part of these accounts.

Notes to the Accounts

(Expressed in Hong Kong dollars)

1 STATUS OF THE SOCIETY

The Society is a company limited by guarantee with no share capital. The liability of each member is limited to an amount not exceeding \$50. As at 31 December 2007, the Society had 6,474 members (2006: 6,300).

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation of the accounts

The Society has not prepared consolidated accounts as the Society's wholly-own subsidiary is immaterial and the Council Members consider that such consolidated accounts would be of no real value to the members of the Society in view of the insignificant amounts involved.

For the purposes of compliance with sections 122 and 123 of the Hong Kong Companies Ordinance, these accounts have been prepared to present a true and fair view of the state of affairs and income and expenditure of the Society only. Consequently, they have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs, which term collectively includes Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Companies Ordinance which apply to the preparation of separate unconsolidated accounts.

The measurement basis used in the preparation of the accounts is historical cost. A summary of the significant accounting policies adopted by the Society is set out below.

The preparation of the accounts in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future periods.

Notes to the Accounts

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

(b) New and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Society. The adoption of the new and revised HKFRSs has no significant impact on the accounts of the Society for the years presented, except that additional disclosures are provided in note 15 to the accounts upon the adoption of the amendment to HKAS 1, *Presentation of financial statements: Capital disclosures*.

The Society has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 20).

(c) Investment in a subsidiary

Investment in a subsidiary in the Society's balance sheet is stated at cost less any impairment losses.

(d) Fixed assets

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses.

Depreciation is calculated to write off the cost of fixed assets, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

- leasehold land held for own use is amortised on a straight-line basis over the remaining terms of the respective leases;
- buildings are depreciated on a straight-line basis over the shorter of their estimated useful lives, being 25 years from the date of purchase, and the unexpired terms of the respective leases;
- other fixed assets are depreciated on a straight-line basis over their estimated lives as follows:

Furniture, fixtures and equipment	3 – 5 years
Leasehold improvements	5 years

The carrying amounts of fixed assets are reviewed for indications of impairment at each balance sheet date. An impairment loss is recognised to the extent that the carrying amount of an asset, or the cash-generating unit to which it belongs, is more than its recoverable amount. The recoverable amount of an asset, or of the cash generating unit to which it belongs, is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the assets. An impairment loss is reversed if there has been a favourable change in estimates used to determine the recoverable amount.

Notes to the Accounts
(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

(d) Fixed assets (*continued*)

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income and expenditure account on the date of retirement or disposal.

(e) Disciplinary proceedings and ancillary costs

Disciplinary proceedings and ancillary costs are recognised in the income and expenditure account in the year in which they are incurred. Whilst every effort is made by the Society to secure reimbursement of such amounts, due to the uncertainty as to whether such costs will be recovered by reference to the provisions of section 25(1) of the Legal Practitioners Ordinance, reimbursements of such costs are recognised in the income and expenditure account only to the extent that they have been received. Also included in the account under this heading are the costs incurred in respect of interventions within solicitors' practices. Such costs are only recoverable from the solicitors concerned and, in view of their nature, such costs are unlikely to be recovered in full.

(f) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts.

Allowance for impairment of doubtful debts are measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted where the effect of discounting is material.

(g) Creditors and accruals

Creditors and accruals are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Society's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

Notes to the Accounts

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

(i) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(j) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income and expenditure account.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

(k) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Society has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Notes to the Accounts
(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

(l) Revenue recognition

Annual membership subscriptions, practising certificate fees, registration fees and other fees are recognised on a time-apportioned basis over the period to which they relate.

Tuition fees for continuing professional development are recognised over the period of instruction.

Interest income from bank deposits is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.

(m) Operating lease charges

Where the Society has the use of assets under operating leases, payments made under the leases are charged to the income and expenditure account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

(n) Related parties

For the purposes of these accounts, a party is considered to be related to the Society if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Society or exercise significant influence over the Society in making financial and operating decisions, or has joint control over the Society;
- (ii) the Society and the party are subject to common control;
- (iii) the party is a subsidiary, an associate of the Society or a joint venture in which the Society is a venturer;
- (iv) the party is a member of the Council or key management personnel of the Society, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Society or of any entity that is a related party of the Society.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

Notes to the Accounts

(Expressed in Hong Kong dollars)

3 INCOME

The principal activities of the Society are to act as the professional and regulatory body for solicitors in Hong Kong.

Income consists of:

	2007	2006
Annual membership fees	\$ 7,742,330	\$ 7,529,810
Practising certificate fees	40,001,000	38,732,200
Foreign lawyer registration fees	10,920,025	9,365,000
Foreign law firm registration fees	1,013,000	823,000
Other fees (note 3(a))	5,700,602	5,810,782
Disciplinary proceedings and ancillary costs reimbursed (note 2(e))	9,711,302	8,560,027
Continuing professional development	6,636,027	7,306,875
Miscellaneous income (note 3(b))	5,546,671	4,228,877
Bank interest	4,292,847	3,648,476
	\$ 91,563,804	\$ 86,005,047

(a) Other fees include fees received for applications for waivers of guidelines for drafting Deeds of Mutual Covenant and consent fees and service charges for checking wills for solicitors on behalf of the deceased representatives.

(b) Miscellaneous income comprises principally income from advertisements in the Society's circulars and recharges to the Professional Indemnity Scheme for the Society's salaries and overheads incurred during the year in administering the Scheme.

4 SURPLUS BEFORE TAXATION

Surplus before taxation is arrived at after charging/(crediting):

	2007	2006
(a) Staff costs:		
Salaries and allowances	\$ 26,759,209	\$ 24,893,070
Provident fund contributions	3,189,906	2,747,573
Provident fund contribution forfeitures	(1,889,599)	—
Recruitment and training	213,309	298,184
	\$ 28,272,825	\$ 27,938,827

Notes to the Accounts

(Expressed in Hong Kong dollars)

4 SURPLUS BEFORE TAXATION (CONTINUED)*Surplus before taxation is arrived at after charging/(crediting): (continued)*

	2007	2006
(b) Office expenses:		
Operating lease charges on properties	\$ 605,653	\$ 483,322
Rates and service charges	969,839	968,326
Electricity and telephone	418,825	406,873
Postage	210,875	340,564
Printing and stationery	1,223,154	1,300,756
Repairs and maintenance	220,582	252,228
	\$ 3,648,928	\$ 3,752,069
(c) Members' expenses:		
Issue of membership cards	\$ 4,800	\$ 8,790
Functions – Centenary	2,620,723	–
– Others	1,952,244	1,213,335
Meetings	475,611	597,312
	\$ 5,053,378	\$ 1,819,437
(d) Other operating expenses:		
Conferences and overseas visits	\$ 783,866	\$ 431,977
Disciplinary proceedings and ancillary costs (note 2(e)) *	8,966,209	14,124,911
Professional education	3,727,620	3,883,424
Professional and consultancy fees	2,821,549	1,718,665
Professional development	1,757,167	1,702,726
Auditor's remuneration	105,380	105,310
Annual subscriptions	40,398	51,008
Donations	6,000,000	6,146,337
Insurance and medical	1,269,239	987,099
Sundry	3,009,466	2,905,216
	\$ 28,480,894	\$ 32,056,673

* A sum of \$432,514 (2006: \$744,384) was incurred in respect of interventions within solicitors' practices.

Notes to the Accounts

(Expressed in Hong Kong dollars)

5 REMUNERATION OF COUNCIL MEMBERS

None of the Council Members received or was due any remuneration for services rendered to the Society during the year (2006: \$Nil).

6 TAXATION

(a) Taxation in the income and expenditure account represents:

	2007	2006
Current tax		
Provision for Hong Kong Profits Tax for the year at 17.5% (2006: 17.5%)	\$ 3,427,142	\$ 2,582,415
Deferred tax		
Reversal of temporary differences	\$ 70,675	\$ 39,802
Total income tax expense	\$ 3,497,817	\$ 2,622,217

(b) Reconciliation between actual income tax expense and accounting surplus at applicable tax rate:

	2007	2006
Surplus before taxation	\$ 24,184,263	\$ 18,320,415
Notional tax on surplus before taxation, calculated at 17.5%	\$ 4,232,246	\$ 3,206,073
Tax effect of non-deductible expenses	14,825	54,627
Tax effect of non-taxable income	(749,254)	(638,483)
Actual income tax expense	\$ 3,497,817	\$ 2,622,217

(c) Taxation in the balance sheet represents:

	2007	2006
Provision for Hong Kong Profits Tax for the year	\$ 3,427,142	\$ 2,582,415
Provisional profits tax paid	(2,841,919)	(2,393,005)
Tax payable	\$ 585,223	\$ 189,410

Notes to the Accounts
(Expressed in Hong Kong dollars)

7 FIXED ASSETS

	Interest in leasehold land held for own use under operating lease	Building held for own use	Leasehold improvements	Furniture, fixtures and equipment	Total
Cost:					
At 1 January 2007	\$ 76,666,667	\$ 38,333,333	\$ 11,063,233	\$ 9,589,193	\$135,652,426
Additions	–	–	54,838	159,731	214,569
At 31 December 2007	\$ 76,666,667	\$ 38,333,333	\$ 11,118,071	\$ 9,748,924	\$135,866,995
Accumulated depreciation:					
At 1 January 2007	\$ 762,435	\$ 13,799,998	\$ 10,448,191	\$ 9,404,728	\$ 34,415,352
Charge for the year	84,715	1,533,333	157,144	148,324	1,923,516
At 31 December 2007	\$ 847,150	\$ 15,333,331	\$ 10,605,335	\$ 9,553,052	\$ 36,338,868
Net book value:					
At 31 December 2007	\$ 75,819,517	\$ 23,000,002	\$ 512,736	\$ 195,872	\$ 99,528,127
Cost:					
At 1 January 2006	\$ 76,666,667	\$ 38,333,333	\$ 11,047,033	\$ 9,476,254	\$135,523,287
Additions	–	–	16,200	112,939	129,139
At 31 December 2006	\$ 76,666,667	\$ 38,333,333	\$ 11,063,233	\$ 9,589,193	\$135,652,426
Accumulated depreciation:					
At 1 January 2006	\$ 677,720	\$ 12,266,665	\$ 10,189,108	\$ 9,164,233	\$ 32,297,726
Charge for the year	84,715	1,533,333	259,083	240,495	2,117,626
At 31 December 2006	\$ 762,435	\$ 13,799,998	\$ 10,448,191	\$ 9,404,728	\$ 34,415,352
Net book value:					
At 31 December 2006	\$ 75,904,232	\$ 24,533,335	\$ 615,042	\$ 184,465	\$101,237,074

The leasehold land and building are held in Hong Kong under a long lease.

Notes to the Accounts

(Expressed in Hong Kong dollars)

8 INVESTMENT IN A SUBSIDIARY

Investment in a subsidiary represents unlisted shares at cost.

Details of the subsidiary are as follows:

Name of company	Place of incorporation	Percentage of ordinary shares held directly	Nature of business
The Law Society of Hong Kong Publications Limited	Hong Kong	100%	Publishing the journal of the Society

The profit of the subsidiary for the year ended 31 December 2007 amounting to \$41,473 (2006: loss \$21,480) and the subsidiary's accumulated losses of \$77,768 (2006: accumulated losses of \$119,241) have not been dealt with in the accounts of the Society.

9 TRADE DEBTORS, DEPOSITS AND PREPAYMENTS

	2007	2006
Trade debtors	\$ 4,022,674	\$ 1,570,617
Deposits and prepayments	2,815,760	1,166,735
	\$ 6,838,434	\$ 2,737,352

All trade debtors, deposits and prepayments are expected to be recovered or recognised as expense within one year. All of the trade debtors were neither past due nor impaired.

10 AMOUNT DUE FROM SUBSIDIARY

The amount due from subsidiary is unsecured, interest free and has no fixed terms of repayment.

11 CASH AND CASH EQUIVALENTS

	2007	2006
Deposits with banks mature within three months at acquisition	\$ 117,150,462	\$ 121,843,675
Cash at bank and in hand	12,316,082	6,807,018
	\$ 129,466,544	\$ 128,650,693

Included in cash and cash equivalents, \$6,980,301 (2006: \$19,126,760) represents cash committed to The Law Society of Hong Kong Educational Trust Fund.

Notes to the Accounts
(Expressed in Hong Kong dollars)

12 CREDITORS AND ACCRUED CHARGES

	2007	2006
Creditors and accrued charges	\$ 6,558,861	\$ 7,743,004
Amount committed to The Law Society of Hong Kong Educational Trust Fund	6,980,301	19,126,760
	\$ 13,539,162	\$ 26,869,764

13 DEFERRED TAXATION

The components of deferred tax assets recognised in the balance sheet and the movements during the year are as follows:

	Depreciation in excess of depreciation allowances
Deferred tax arising from:	
At 1 January 2006	\$ 1,274,401
Charged to income and expenditure account	(39,802)
At 31 December 2006	\$ 1,234,599
At 1 January 2007	\$ 1,234,599
Charged to income and expenditure account	(70,675)
At 31 December 2007	\$ 1,163,924

The Society has no significant unrecognised deferred tax assets and liabilities at 31 December 2006 and 2007.

Notes to the Accounts

(Expressed in Hong Kong dollars)

14 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and interest rate risks arises in the normal course of the Society's operation. These risks are limited by the Society's financial management policies and practices described below.

(a) Credit risk

The Society does not have any significant credit risk with respect to trade and other receivables.

The maximum exposure to credit risk is represented by the carrying amount of bank deposits. The Society's policy is to place its cash and cash equivalents with financial institutions with good credit rating.

(b) Liquidity risk

The Society's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

(c) Interest rate risk

The Society's interest rate risk arises primarily from deposits with bank and other financial instruments at fixed rates that expose the Society to fair value interest rate risk. The Society's bank deposits have an effective interest rate of 3.68% (2006: 3.71%).

(d) Fair values

All financial instruments are carried at amount not materially different from their fair value as at the balance sheet date.

15 CAPITAL MANAGEMENT

The Society is a company limited by guarantee and has no share capital. The Society considers its capital to be the accumulated surpluses. The Society's primary objectives when managing its accumulated surpluses is to safeguard the Society's ability to continue as a going concern, so that it can continue to provide support and protect the interest of its members.

There has been no change in the Society's capital management practices as compared to prior year and the Society is not subject to any externally imposed capital requirements.

Notes to the Accounts
(Expressed in Hong Kong dollars)

16 OPERATING LEASE COMMITMENTS

At 31 December 2007, the total future minimum lease payments under non-cancellable operating leases in respect of properties are payable as follows:

	2007	2006
Within one year	\$ 600,000	\$ 600,000
After one year but within five years	550,000	1,276,000
	\$ 1,150,000	\$ 1,876,000

The Society leases a number of properties under operating leases. The leases typically run for an initial period of two to three years, with an option to renew the leases upon expiry when all terms are renegotiated.

17 PROFESSIONAL INDEMNITY INSURANCE SCHEME

It is the opinion of the Council that the assets and liabilities of the Professional Indemnity Insurance Scheme are not those of the Society and, accordingly, these assets and liabilities have not been included in these accounts.

18 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the accounts, the Society entered into the following material related party transactions.

Firms of solicitors in which the Council Members have interests carry out intervention work and disciplinary proceedings for the Society and charge the Society on an agreed basis. Charges for the work performed by such firms of solicitors to the Society for the year totalled \$0.8 million (2006: \$2.2 million).

Amounts due to these firms of solicitors at 31 December 2007 totalled \$0.3 million (2006: \$0.9 million) which are included in creditors and accrued charges.

Notes to the Accounts

(Expressed in Hong Kong dollars)

19 NON-ADJUSTING POST BALANCE SHEET EVENT

On 27 February 2008, the Financial Secretary of the Hong Kong SAR Government proposed a reduction in the Hong Kong Profits Tax rate from 17.5% to 16.5% with effect from the fiscal year 2008-09 and a one-off reduction of 75% of the tax payable for the 2007-08 assessment subject to a ceiling of \$25,000. Subject to the Legislative Council's approval and formal adoption of this reduced tax rate, the Society's current tax payable by the Society will decrease by \$25,000 and the accumulative deferred tax assets as at 1 January 2008 would be reduced by \$66,510. It is impracticable to further estimate the impact on future financial statements of the change in tax rate.

20 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2007

Up to the date of issue of these accounts, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been adopted in these accounts.

The Society is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Society's results of operations and financial position.