

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 132 to 152, which comprise the balance sheet as at 31 December 2008 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.

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

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

(Incorporated in Hong Kong and limited by guarantee)

OPINION

In our opinion, the accounts give a true and fair view of the state of the Society's affairs as at 31 December 2008 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, 14 April 2009

INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 December 2008

(Expressed in Hong Kong dollars)

	Note	2008	2007
Income	3	\$ 85,238,365	\$ 91,563,804
Staff costs	4(a)	(30,885,595)	(28,272,825)
Office expenses	4(b)	(3,870,887)	(3,648,928)
Depreciation	7	(1,917,299)	(1,923,516)
Members' expenses	4(c)	(3,053,076)	(5,053,378)
Other operating expenses	4(d)	(24,018,032)	(28,480,894)
Surplus before taxation	4	\$ 21,493,476	\$ 24,184,263
Taxation	6(a)	(3,359,021)	(3,497,817)
Surplus for the year		\$ 18,134,455	\$ 20,686,446
Accumulated surpluses brought forward		177,967,088	157,280,642
Accumulated surpluses carried forward		\$ 196,101,543	\$ 177,967,088

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2008

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 135 to 152 form part of these accounts.

BALANCE SHEET

at 31 December 2008

(Expressed in Hong Kong dollars)

	Note	2008	2007
Non-current assets			
Fixed assets	7	\$ 98,910,959	\$ 99,528,127
Investment in subsidiaries	8	23	20
Deferred tax assets	13	868,134	1,163,924
		\$ 99,779,116	\$ 100,692,071
Current assets			
Trade debtors, deposits and prepayments	9	\$ 2,838,288	\$ 5,673,387
Amounts due from related companies	10	3,376,223	1,121,373
Amounts due from subsidiaries	10	2,131,671	171,621
Tax recoverable	6(c)	272,822	–
Cash and deposits with banks	11	141,396,616	129,466,544
		\$ 150,015,620	\$ 136,432,925
Current liabilities			
Creditors and accrued charges	12	\$ 6,137,799	\$ 13,539,162
Membership, practising certificate and other fees received in advance		47,555,394	45,033,523
Tax payable	6(c)	–	585,223
		\$ 53,693,193	\$ 59,157,908
Net current assets		\$ 96,322,427	\$ 77,275,017
NET ASSETS		\$ 196,101,543	\$ 177,967,088
Representing:			
Accumulated surpluses		\$ 196,101,543	\$ 177,967,088

Approved and authorised for issue by the Council
on 14 April 2009

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

The notes on pages 135 to 152 form part of these accounts.

CASH FLOW STATEMENT

for the year ended 31 December 2008

(Expressed in Hong Kong dollars)

	Note	2008	2007
Operating activities			
Surplus before taxation		\$ 21,493,476	\$ 24,184,263
Bank interest income		(2,258,424)	(4,292,847)
Depreciation		1,917,299	1,923,516
Operating surplus before changes in working capital		\$ 21,152,351	\$ 21,814,932
Decrease/(increase) in trade debtors, deposits and prepayments		2,898,850	(2,766,871)
Increase in amounts due from related companies		(2,254,850)	(1,121,373)
Increase in amount due from subsidiaries		(1,960,050)	(171,621)
Decrease in creditors and accrued charges		(7,401,363)	(13,330,602)
Increase/(decrease) in membership, practising certificate and other fees received in advance		2,521,871	(4,593,827)
Cash generated from operations		\$ 14,956,809	\$ (169,362)
Hong Kong Profits Tax paid		(3,921,276)	(3,031,329)
Net cash generated from/(used in) operating activities		\$ 11,035,533	\$ (3,200,691)
Investing activities			
Increase in deposits with banks with maturity of more than three months at acquisition		\$ (18,000,000)	\$ –
Interest received		2,194,673	4,231,111
Investment in subsidiaries		(3)	–
Purchase of fixed assets		(1,300,131)	(214,569)
Net cash (used in)/generated from investing activities		\$ (17,105,461)	\$ 4,016,542
Net (decrease)/increase in cash and cash equivalents		\$ (6,069,928)	\$ 815,851
Cash and cash equivalents at 1 January		129,466,544	128,650,693
Cash and cash equivalents at 31 December	11	\$ 123,396,616	\$ 129,466,544

The notes on pages 135 to 152 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 2008, the Society had 7,035 members (2007: 6,474).

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Society has not prepared consolidated accounts as the Council Members consider that the Society's subsidiaries are 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 collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") 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 Hong Kong Companies Ordinance which apply to the preparation of separate unconsolidated accounts.

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. However, none of these developments are relevant to the Society's operations.

The Society has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 19).

(b) Basis of preparation of the 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.

Notes to the accounts

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation of the accounts (continued)

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

(c) Subsidiaries

Subsidiaries are entities controlled by the Society. Control exists when the Society has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

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 (see note 2(f)).

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

Both the useful life of an asset and its residual value, if any, are reviewed annually.

Subsequent expenditure relating to fixed assets that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the society. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

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) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Society determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Leases which do not transfer substantially all the risks and rewards of ownership to the Society are classified as operating leases.

Where the Society has the use of other assets held under operating leases, payments made under the leases are charged to income or expenditure 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. Lease incentives received are recognised in income or expenditure as an integral part of the aggregate net lease payments made.

(f) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the fixed assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset 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 asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

Notes to the accounts

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Impairment of assets (continued)

– Recognition of impairment losses

An impairment loss is recognised in income or expenditure whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversal of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to income or expenditure in the year in which the reversals are recognised.

(g) 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.

(h) Trade debtors, deposits and prepayments

Trade debtors, deposits and prepayments are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

Impairment losses for bad and doubtful debts are recognised when there is objective evidence of impairment and are measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the asset's original effective interest rate where the effect of discounting is material. Objective evidence of impairment includes observable data that comes to the attention of the Society about events that have an impact on the asset's estimated future cash flows such as significant financial difficulty of the debtor.

Notes to the accounts

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Trade debtors, deposits and prepayments (*continued*)

Impairment losses for trade debtors included within trade debtors, deposits and prepayments whose recovery is considered doubtful but not remote are recorded using an allowance account. When the Society is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in income or expenditure.

(i) Creditors and accrued charges

Creditors and accrued charges 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.

(j) 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.

(k) 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.

(l) 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.

Notes to the accounts

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Income tax (continued)

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. Apart from differences which arise on initial recognition of assets and liabilities, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

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.

(m) 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 expenditure 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.

(n) Revenue recognition

Provided it is probable that the economic benefits will flow to the Society and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in income or expenditure.

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 using the effective interest method.

Notes to the accounts

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

(o) 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:

	2008	2007
Annual membership fees	\$ –	\$ 7,742,330
Practising certificate fees	41,799,600	40,001,000
Foreign lawyer registration fees	13,325,040	10,920,025
Foreign law firm registration fees	1,092,500	1,013,000
Other fees (note 3(a))	6,618,390	5,700,602
Disciplinary proceedings and ancillary costs reimbursed (note 2(g))	6,523,227	9,711,302
Continuing professional development	7,879,379	6,636,027
Miscellaneous income (note 3(b))	5,741,805	5,546,671
Bank interest	2,258,424	4,292,847
	\$ 85,238,365	\$ 91,563,804

- (a) Other fees include fees received for applications for waivers of guidelines for drafting Deeds of Mutual Covenant, examination fees, examination registration fees and good standing fees.
- (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.

Notes to the accounts

(Expressed in Hong Kong dollars)

4 SURPLUS BEFORE TAXATION

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

	2008	2007
(a) Staff costs:		
Salaries and allowances	\$ 27,001,526	\$ 26,759,209
Provident fund contributions	3,034,037	3,189,906
Provident fund contribution charges/ (forfeitures)	593,627	(1,889,599)
Recruitment and training	256,405	213,309
	\$ 30,885,595	\$ 28,272,825
(b) Office expenses:		
Operating lease charges on properties	\$ 611,349	\$ 605,653
Rates and service charges	986,989	969,839
Electricity and telephone	445,822	418,825
Postage	231,226	210,875
Printing and stationery	1,253,910	1,223,154
Repairs and maintenance	341,591	220,582
	\$ 3,870,887	\$ 3,648,928
(c) Members' expenses:		
Issue of membership cards	\$ 18,250	\$ 4,800
Functions – Centenary	–	2,620,723
– Others	2,267,832	1,952,244
Meetings	766,994	475,611
	\$ 3,053,076	\$ 5,053,378

Notes to the accounts

(Expressed in Hong Kong dollars)

4 SURPLUS BEFORE TAXATION (CONTINUED)

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

(d) Other operating expenses:

	2008	2007
Conferences and overseas visits	\$ 1,096,355	\$ 783,866
Disciplinary proceedings and ancillary costs (note 2(g)) *	8,895,544	8,966,209
Professional education	4,330,655	3,727,620
Professional and consultancy fees	831,579	2,821,549
Professional development	645,979	1,757,167
Auditor's remuneration	132,700	105,380
Annual subscriptions	44,224	40,398
Donations	4,150,000	6,000,000
Insurance and medical	964,524	1,269,239
Sundry	2,926,472	3,009,466
	\$ 24,018,032	\$ 28,480,894

* A sum of \$1,265,358 (2007: \$432,514) was incurred in respect of interventions within solicitors' practices.

5 REMUNERATION OF COUNCIL MEMBERS

Remuneration of Council Members disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2008	2007
Council Members' fees	\$ —	\$ —
Salaries, allowances and benefits in kind	—	—
Discretionary bonuses	—	—
Retirement scheme contributions	—	—
	\$ —	\$ —

Notes to the accounts

(Expressed in Hong Kong dollars)

6 TAXATION

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

	2008	2007
Current tax		
Provision for Hong Kong Profits Tax for the year at 16.5% (2007: 17.5%)	\$ 2,958,482	\$ 3,427,142
Under-provision in respect of prior years	129,749	–
One-off reduction	(25,000)	–
	\$ 3,063,231	\$ 3,427,142
Deferred tax		
Reversal of temporary differences	\$ 295,790	\$ 70,675
	\$ 3,359,021	\$ 3,497,817

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

	2008	2007
Surplus before taxation	\$ 21,493,476	\$ 24,184,263
Notional tax on surplus before taxation, calculated at 16.5% (2007: 17.5%)	\$ 3,546,424	\$ 4,232,246
Tax effect of non-deductible expenses	13,978	14,825
Tax effect of non-taxable income	(372,640)	(749,254)
Effect on deferred tax balances at 1 January resulting from a change in tax rate	66,510	–
Under-provision in prior years	129,749	–
One-off reduction	(25,000)	–
	\$ 3,359,021	\$ 3,497,817

Notes to the accounts

(Expressed in Hong Kong dollars)

6 TAXATION (CONTINUED)

(c) Taxation in the balance sheet represents:

	2008	2007
Provision for Hong Kong Profits Tax for the year	\$ 2,958,482	\$ 3,427,142
Provisional profits tax paid	(3,231,304)	(2,841,919)
Tax (recoverable)/payable	\$ (272,822)	\$ 585,223

- (d) On 27 February 2008, the Financial Secretary of the Hong Kong SAR Government announced his annual Budget which proposes a cut in the Profits Tax rate from 17.5% to 16.5% with effect from the year of assessment 2008/09 and a one-off reduction of 75% of the tax payable for the year of assessment 2007/08 subject to a ceiling of \$25,000. This has been taken into account in the preparation of the Society's accounts.

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 2008	\$ 76,666,667	\$ 38,333,333	\$ 11,118,071	\$ 9,748,924	\$ 135,866,995
Additions	–	–	146,284	1,153,847	1,300,131
At 31 December 2008	\$ 76,666,667	\$ 38,333,333	\$ 11,264,355	\$ 10,902,771	\$ 137,167,126
Accumulated depreciation:					
At 1 January 2008	\$ 847,150	\$ 15,333,331	\$ 10,605,335	\$ 9,553,052	\$ 36,338,868
Charge for the year	84,715	1,533,333	186,401	112,850	1,917,299
At 31 December 2008	\$ 931,865	\$ 16,866,664	\$ 10,791,736	\$ 9,665,902	\$ 38,256,167
Net book value:					
At 31 December 2008	\$ 75,734,802	\$ 21,466,669	\$ 472,619	\$ 1,236,869	\$ 98,910,959
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

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 SUBSIDIARIES

Investment in subsidiaries represents unlisted shares at cost.

Details of the subsidiaries 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 Law Society Clubhouse Limited	Hong Kong	100%	Club services for members of the Society
The Commonwealth Law Conference 2009 Limited	Hong Kong	100%	Organisation of a conference

The losses of the subsidiaries for the year ended 31 December 2008 amounting to \$1,128,798 (2007: profits of \$17,700) and the subsidiaries' accumulated losses of \$1,202,620 (2007: \$73,822) have not been dealt with in the accounts of the Society.

9 TRADE DEBTORS, DEPOSITS AND PREPAYMENTS

	2008	2007
Trade debtors	\$ 453,799	\$ 2,857,627
Deposits and prepayments	2,384,489	2,815,760
	\$ 2,838,288	\$ 5,673,387

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. These amounts relate to a wide range of entities for whom there is no recent history of default.

10 AMOUNT DUE FROM SUBSIDIARIES AND RELATED COMPANIES

The amount due from subsidiaries and related companies are unsecured, interest free and has no fixed terms of repayment.

Notes to the accounts

(Expressed in Hong Kong dollars)

11 CASH AND DEPOSITS WITH BANKS

	2008	2007
Deposits with banks with maturity within three months at acquisition	\$ 113,697,383	\$ 117,150,462
Cash at bank and in hand	9,699,233	12,316,082
Cash and cash equivalents in the cash flow statement	\$ 123,396,616	\$ 129,466,544
Deposits with banks with maturity of more than three months at acquisition	18,000,000	–
Cash and deposits with banks	\$ 141,396,616	\$ 129,466,544

Included in cash and deposits with banks, \$Nil (2007: \$6,980,301) represents cash committed to The Law Society of Hong Kong Educational Trust.

12 CREDITORS AND ACCRUED CHARGES

	2008	2007
Creditors and accrued charges	\$ 6,137,798	\$ 6,558,861
Amount committed to The Law Society of Hong Kong Educational Trust Fund	–	6,980,301
	\$ 6,137,798	\$ 13,539,162

All creditors and accrued charges are expected to be settled within one year or are repayable on demand.

Notes to the accounts

(Expressed in Hong Kong dollars)

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 2007	\$ 1,234,599
Charged to income and expenditure account	(70,675)
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At 31 December 2007	\$ 1,163,924
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At 1 January 2008	\$ 1,163,924
Charged to income and expenditure account	(295,790)
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At 31 December 2008	\$ 868,134

The Society has no significant unrecognised deferred tax assets and liabilities at 31 December 2007 and 2008.

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 as they relate to a wide range of entities with no recent history of default.

The major 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.

Notes to the accounts

(Expressed in Hong Kong dollars)

14 FINANCIAL INSTRUMENTS (CONTINUED)

(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 1.99% (2007: 3.68%).

At 31 December 2008, it is estimated that a general increase/decrease of 1% in interest rates, with all other variables held constant, would increase/decrease the Society's surplus and equity by approximately \$1,413,966 (2007: \$1,294,665).

The sensitivity analysis above has been determined assuming the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The analysis is performed on the same basis for 2007.

(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. Adjustments are made to the capital structure in light of changes in economic conditions affecting the Society to the extent that these do not conflict with the Council Members' fiduciary duties towards the Society or the requirements of the Hong Kong Companies Ordinance.

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.

16 OPERATING LEASE COMMITMENTS

At 31 December 2008, the total future minimum lease payments under non-cancellable operating leases in respect of properties are payable as follows:

	2008	2007
Within one year	\$ 550,000	\$ 600,000
After one year but within five years	–	550,000
	\$ 550,000	\$ 1,150,000

Notes to the accounts

(Expressed in Hong Kong dollars)

16 OPERATING LEASE COMMITMENTS (CONTINUED)

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.

- (a) 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 \$1.1 million (2007: \$0.8 million).

Amounts due to these firms of solicitors at 31 December 2008 totalled \$0.1 million (2007: \$0.3 million) which are included in creditors and accrued charges.

(b)	2008	2007
Expenses borne for a subsidiary	\$ 505,277	\$ 483,563
Recharge of office expenses to a subsidiary	423,835	–
Recharge of office expenses to related companies	2,382,851	2,026,288
Donations to related parties	4,000,000	6,000,000

19 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2008

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 2008 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.