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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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

The Board of Directors of Public Financial Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2010 with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2010 (Unaudited) Notes	2009 (Unaudited) HK\$'000
Interest income	6	745,488	758,655
Interest expense	6	(118,288)	(182,565)
NET INTEREST INCOME		627,200	576,090
Gain less losses from disposal of available-for-sale financial assets	7	–	26,035
Other operating income		128,725	101,626
Non-interest income		128,725	127,661
OPERATING INCOME		755,925	703,751
Operating expenses	8	(343,309)	(284,745)
Change in fair value of investment properties		3,260	15,772
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		415,876	434,778
Impairment allowances for loans and advances and receivables	9	(151,571)	(294,415)

* For identification purposes only

		For the six months ended 30 June	
	<i>Notes</i>	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
PROFIT BEFORE TAX		264,305	140,363
Tax	10	(46,073)	(22,708)
PROFIT FOR THE PERIOD		218,232	117,655
ATTRIBUTABLE TO:			
Owners of the Company		218,232	117,655
EARNINGS PER SHARE (HK\$)	12		
Basic		0.199	0.107
Diluted		0.199	0.107

Details of interim dividend paid/payable are disclosed in note 11 to the financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
PROFIT FOR THE PERIOD	218,232	117,655
<hr/>		
OTHER COMPREHENSIVE INCOME/(LOSS):		
Exchange gain/(loss) on translating foreign operations	2,400	(340)
Gain on revaluation of available-for-sale financial assets	–	11,379
Transfer to income statement for disposal of available-for-sale financial assets	–	(26,035)
<hr/>		
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	<i>Note</i>	2,400
		(14,996)
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TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	220,632	102,659
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ATTRIBUTABLE TO:		
Owners of the Company	220,632	102,659
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Note:

There were no tax effects arising from “other comprehensive income/(loss)” for the six months ended 30 June 2009 and 2010.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Restated) HK\$'000
ASSETS			
Cash and short term placements		5,204,047	5,605,620
Placements with banks and financial institutions		220,795	868,483
Derivative financial instruments		4,920	11,657
Loans and advances and receivables	13	25,517,279	24,444,780
Available-for-sale financial assets		6,804	6,804
Held-to-maturity investments	15	3,690,550	4,216,634
Inventories of taxi licences		15,084	15,084
Investment properties		182,894	184,342
Property and equipment		120,945	124,130
Land under finance lease		669,150	668,590
Interest in a jointly-controlled entity		1,513	1,513
Deferred tax assets		12,727	16,234
Goodwill		2,774,403	2,774,403
Intangible assets		718	718
Other assets		231,456	434,062
TOTAL ASSETS		38,653,285	39,373,054
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		1,930,873	1,024,628
Derivative financial instruments		5,465	1,668
Customer deposits at amortised cost		27,873,149	29,364,238
Certificates of deposit issued at amortised cost		200,000	–
Dividend payable		54,896	142,729
Unsecured bank loans at amortised cost		2,202,867	2,178,679
Current tax payable		49,889	2,726
Deferred tax liabilities		22,110	21,562
Other liabilities		316,082	804,606
TOTAL LIABILITIES		32,655,331	33,540,836
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital		109,792	109,792
Reserves	16	5,888,162	5,722,426
TOTAL EQUITY		5,997,954	5,832,218
TOTAL EQUITY AND LIABILITIES		38,653,285	39,373,054

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	For the six months ended	
	30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
TOTAL EQUITY		
Balance at the beginning of the period	5,832,218	5,769,506
Profit for the period	218,232	117,655
Other comprehensive income/(loss)	2,400	(14,996)
Total comprehensive income for the period	220,632	102,659
Dividends declared on shares	(54,896)	(54,896)
Balance at the end of the period	5,997,954	5,817,269

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

These consolidated interim financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”), and in compliance with the Hong Kong Accounting Standard (“HKAS”) 34: Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), and the disclosure requirements under the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority (“HKMA”).

The unaudited condensed consolidated interim financial statements do not include all the information and disclosures required in an annual report, and should be read in conjunction with the Company’s 2009 Annual Report.

The accounting policies adopted in these consolidated interim financial statements are consistent with those adopted in the Company’s 2009 Annual Report except for the adoption of new Hong Kong Financial Reporting Standards (“HKFRSs”) and HKASs as disclosed in note 3 below.

2. BASIS OF PREPARATION

The consolidated interim financial statements have been prepared under the historical cost convention, as modified by the revaluation of 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 interim financial statements comprise the interim financial statements of the Group as at and for the period ended 30 June 2010. The interim financial statements of the subsidiaries and a jointly-controlled entity are prepared for the same reporting period 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 period 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 purpose and which are members of the Group are as follows:

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. BASIS OF PREPARATION (Continued)

Basis of capital disclosures

The Group has followed capital requirements during the reporting period related to 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 required level as soon as possible.

The computation of 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) and Public Finance for regulatory purpose.

There are no major restrictions on 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 Securities and Futures (Financial Resources) Rules issued by the Securities and Futures Commission. A portion of retained profits is set aside for non-distributable regulatory reserve as part of supplementary capital included in capital base pursuant to the HKMA capital requirements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. IMPACT OF NEW HKFRSs AND HKASs

The HKICPA has issued a number of new HKFRSs, HKASs and Interpretations (“Int”), which are generally effective for accounting periods beginning on or after 1 January 2010. The Group has adopted the following HKFRSs and HKASs issued up to 30 June 2010 which are pertinent to its operations and relevant to these interim financial statements.

• HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters
• HKFRS 1 (Revised)	First Time Adoption of Hong Kong Financial Reporting Standards
• HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions
• HKFRS 3 (Revised)	Business Combinations
• HKAS 18 Amendments	Revenue
• HKAS 27 (Revised)	Consolidated and Separate Financial Statements
• HKAS 32 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues
• HKAS 39 Amendments	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
• HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners
• HK-Int 4 Amendment	Determination of Length of Lease Term in respect of Hong Kong Land Leases

Apart from the above, the HKICPA has also issued Improvements to HKFRSs 2009* which set out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Amendments are effective for annual periods beginning on or after 1 January 2010 although there is separate transitional provision for each standard.

* *Improvements to HKFRSs 2009 contain amendments to HKFRS 2, HKFRS 5, HKFRS 8, HKAS 7, HKAS 17, HKAS 36, HKAS 38, HKAS 39, HK(IFRIC)-Int 9.*

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

3. IMPACT OF NEW HKFRSs AND HKASs *(Continued)*

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 transactions. 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 re-measuring to the fair value the interest in the acquiree held by the entity immediately before the business combination, in a 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.

HKAS 18 Amendments provide 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 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 are made to HKAS 7 Statement of Cash Flows, 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

3. IMPACT OF NEW HKFRSs AND HKASs *(Continued)*

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.

HK(IFRIC)-Int 17 standardises practice in the accounting for all non-reciprocal distributions of non-cash assets to owners. 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 are made to HKAS 10 Events after 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-Int 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 properties accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40.

The adoption of HK-Int 4 has resulted in a change in accounting policy, disclosure and presentation relating to leasehold land. A leasehold land has been re-classified from operating lease to finance lease, and the land lease continues to be amortised over its lease term on straight line basis with no significant 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. 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

3. IMPACT OF NEW HKFRSs AND HKASs *(Continued)*

HKFRS 2 Share-based Payment: It revises the scope that transaction in which an 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 Statement of Cash Flows: 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 may be separable together with a related contract and identifiable liability in addition to identifiable asset. Additional consequential amendments to this HKAS arising from the revised HKFRS 3 are 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”.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

3. IMPACT OF NEW HKFRSs AND HKASs *(Continued)*

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.

Other than as further explained above regarding the impact of HK-Int 4, the adoption of these new and revised HKFRSs has had no significant impact on the financial position or performance of the Group.

4. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs AND HKASs

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

• HKFRS 9	Financial Instruments ³
• HKAS 24 (Revised)	Related Party Disclosure ²
• HK(IFRIC)-Int 14 Amendment	Prepayment of a Minimum Funding Requirement ²
• HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments ¹

Apart from the above, the HKICPA has also issued Improvements to HKFRSs 2010* which set out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendments to HKFRS 3 and HKAS 27 which are effective for the annual periods beginning on or after 1 July 2010, other amendments are effective for annual periods beginning on or after 1 January 2011 although there is separate transitional provision for each standard or interpretation.

¹ effective for annual periods beginning on or after 1 July 2010

² effective for annual periods beginning on or after 1 January 2011

³ effective for annual periods beginning on or after 1 January 2013

* *Improvements to HKFRSs 2010 contain amendments to HKFRS 1, HKFRS 3, HKFRS 7, HKAS 1, HKAS 27, HKAS 34 and HK(IFRIC)-Int 13.*

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 2011.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

4. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs AND HKASs *(Continued)*

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.

The amendments to HK(IFRIC)-Int 14 requires entities to recognise as an economic benefit 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 19 addresses the accounting by an entity when the terms of a financial liability are re-negotiated and resulted in the entity issuing 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 re-negotiated 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.

In May 2010, 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 2011. There is separate transitional provision for each standard. While the adoption of some of them may result changes in accounting policy, none of these amendments are expected to have a material financial impact on the Group.

- (a) HKFRS 1 Amendments: It addresses the presentation and disclosure requirements for entity which changes its accounting policies or its uses of the exemptions contained in this HKFRS. It also introduces the use of revaluation basis as deemed cost and extends the use of the deemed cost exemption to entities with operations subject to rate regulation.
- (b) HKFRS 3 Amendments: It states the transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised HKFRS. It explains the measurement principle for non-controlling interests in the acquiree for business combination. It also provides guidance on the accounting of share-based payment transactions of the acquiree or replacement of an acquiree's share-based payment transactions with share-based payment transactions of the acquirer in accordance with HKFRS 2 at the acquisition date.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs AND HKASs (Continued)

- (c) HKFRS 7 Amendments: It clarifies quantitative disclosure requirements for risks arising from financial instruments, and encourages accompanying narrative disclosures if the concentration of risk is not apparent from the quantitative disclosures. The requirements for disclosures of credit risk are clarified and reduced, which disclosures on carrying amount of assets that will have been past due or impaired unless they have been renegotiated, as well as description of collateral held by the entity as security and other credit enhancements and estimate of their fair value, are no longer required.
- (d) HKAS 1 (Revised) clarifies that entities may present the required reconciliations for each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.
- (e) Transition requirements for amendments to HKAS 21, HKAS 28 and HKAS 31 arising as a result of HKAS 27 Consolidated and Separate Financial Statements are to be applied prospectively for annual period beginning on or after 1 July 2010.
- (f) HKAS 34 Amendments: It requires the updating of relevant information related to significant events and transactions in the most recent annual financial report. HKAS 34 now specifies events and transactions for which disclosures are required, and guidance has been added covering the application of the requirements for financial instruments.
- (g) HK(IFRIC)-Int 13 clarifies that fair value of award credits should take account of expected forfeitures as well as the discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. 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 comprise 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 period 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. SEGMENT INFORMATION (Continued)

The following tables represent revenue and profit information for these segments for the six months ended 30 June 2010 and 2009, and certain asset and liability information regarding business segments as at 30 June 2010 and 2009.

	Retail and commercial banking and lending		Wealth management services, stockbroking and securities management		Other businesses		Eliminated on consolidation		Total	
	30 June 2010	30 June 2009	30 June 2010	30 June 2009	30 June 2010	30 June 2009	30 June 2010	30 June 2009	30 June 2010	30 June 2009
	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	627,187	576,042	13	48	–	–	–	–	627,200	576,090
Other operating income:										
Fees and commission income	70,071	53,983	43,069	32,081	228	257	–	–	113,368	86,321
Others	7,948	7,698	–	360	7,409	7,247	–	–	15,357	15,305
Profit on sale of available-for-sale financial assets	–	–	–	26,035	–	–	–	–	–	26,035
Inter-segment transactions:										
Fee and commission income	–	–	–	–	420	33	(420)	(33)	–	–
Operating income	705,206	637,723	43,082	58,524	8,057	7,537	(420)	(33)	755,925	703,751
Segment results	235,755	83,534	18,636	48,992	9,914	7,837	–	–	264,305	140,363
Share of profits and losses of a jointly-controlled entity									–	–
Profit before tax									264,305	140,363
Tax									(46,073)	(22,708)
Profit for the period									218,232	117,655
Segment assets other than interests in a jointly-controlled entity and intangible assets										
Interests in a jointly-controlled entity	35,325,430	34,495,981	325,003	353,854	201,151	199,924	–	–	35,851,584	35,049,759
Intangible assets	1,513	1,513	–	–	–	–	–	–	1,513	1,513
Goodwill	2,774,403	2,774,403	–	–	–	–	–	–	2,774,403	2,774,403
	38,101,346	37,271,897	325,721	354,212	201,151	199,924	–	–	38,628,218	37,826,033
Unallocated assets:										
Deferred tax assets and tax recoverable									25,067	8,958
Total assets									38,653,285	37,834,991
Segment liabilities	32,281,212	31,563,850	192,560	343,823	54,664	21,219	–	–	32,528,436	31,928,892
Unallocated liabilities:										
Deferred tax liabilities and tax payable									71,999	33,934
Dividend payable									54,896	54,896
Total liabilities									32,655,331	32,017,722
Other segment information										
Additions to non-current assets – capital expenditure	8,240	18,401	–	–	–	–	–	–	8,240	18,401
Depreciation of fixed assets and amortisation of land under finance lease	15,551	14,475	–	–	–	–	–	–	15,551	14,475
Changes in fair value of investment properties	–	–	–	–	(3,260)	(15,772)	–	–	(3,260)	(15,772)
Impairment allowances for loans and advances and receivables, held-to-maturity investments and available-for-sale securities	151,571	294,415	–	–	–	–	–	–	151,571	294,415
Net loss on disposal of property and equipment	13	21	–	–	–	–	–	–	13	21

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

5. SEGMENT INFORMATION *(Continued)*

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.

6. INTEREST INCOME AND EXPENSE

	For the six months ended 30 June	
	2010 (Unaudited)	2009 (Unaudited)
	HK\$'000	HK\$'000
Interest income from:		
Loans and advances and receivables	696,885	696,819
Short term placements and placements with banks	11,137	36,964
Held-to-maturity investments	37,466	24,872
	745,488	758,655
Interest expense on:		
Deposit from banks and financial institutions	8,806	5,840
Deposit from customers	86,975	166,877
Bank loans	22,507	9,848
	118,288	182,565

The interest income for the six months ended 30 June 2010 amounted to HK\$745,488,000 (2009: HK\$758,655,000) and interest expenses for the six months ended 30 June 2010 amounted to HK\$118,288,000 (2009: HK\$182,565,000) pursuant to the adoption of effective interest method for financial assets and liabilities which are not designated at fair value through profit or loss. The interest income of the impaired loans and advances for the six months ended 30 June 2010 amounted to HK\$6,420,000 (2009: HK\$3,009,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. OTHER OPERATING INCOME

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Fees and commission income:		
Retail and commercial banking	70,842	54,810
Wealth management services, stockbroking and securities management	43,069	32,081
	113,911	86,891
Less: Fees and commission expenses	(543)	(570)
Net fees and commission income	113,368	86,321
 Gross rental income	 6,502	 6,500
Less: Direct operating expenses	(38)	(42)
Net rental income	6,464	6,458
 Gain less losses arising from dealing in foreign currencies	 6,027	 7,889
Net losses on disposal of property and equipment	(13)	(21)
Dividends from listed investments	–	360
Dividends from unlisted investments	987	980
Net expense on derivative financial instruments	(545)	(2,708)
Others	2,437	2,347
	 128,725	 101,626

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 six months ended 30 June 2010 and 2009.

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. OPERATING EXPENSES

	For the six months ended	
	30 June	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Staff costs:		
Salaries and other staff costs	186,263	138,385
Pension contributions	8,326	8,014
Less: Forfeited contributions	(5)	(4)
Net retirement benefit schemes	8,321	8,010
	194,584	146,395
Other operating expenses:		
Operating lease rentals on leasehold buildings	24,121	22,346
Depreciation of fixed assets and amortisation of land under finance lease	15,551	14,475
Administrative and general expenses	32,608	29,635
Others	76,445	71,894
Operating expenses before changes in fair value of investment properties	343,309	284,745

As at 30 June 2010, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years (2009: Nil). The current period credits arose in respect of staff who left the schemes during the period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. IMPAIRMENT ALLOWANCES

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Net charge for/(write-back of) impairment allowances:		
– Loans and advances	152,422	298,081
– Trade bills, accrued interest and receivables	(851)	(3,666)
	151,571	294,415
Net charge for/(write-back of) impairment losses and allowances:		
– Individually assessed	159,338	246,053
– Collectively assessed	(7,767)	48,362
	151,571	294,415
Of which:		
– new impairment losses and allowances (including any amount directly written off during the period)	241,902	354,254
– releases and recoveries	(90,331)	(59,839)
Net charge to the consolidated income statement	151,571	294,415
There were no impairment allowances for financial assets other than loans and advances and receivables for the six months ended 30 June 2010 and 2009.		
10. TAX		
	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Current tax charge:		
Hong Kong	42,393	18,601
Elsewhere	725	1,365
Over-provisions in prior years	(1,099)	–
Deferred tax charge	4,054	2,742
	46,073	22,708

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. TAX (Continued)

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. 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, interpretation 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:

	For the six months ended 30 June 2010 (Unaudited)					
	Hong Kong HK\$'000	%	Mainland China HK\$'000	%	Total HK\$'000	%
Profit before tax	260,693		3,612		264,305	
Tax at the applicable tax rate	43,015	16.5	795	22.0	43,810	16.6
Effect on change in tax rates	–	–	60	1.7	60	–
Estimated tax effect of net expense that is not deductible	3,540	1.4	–	–	3,540	1.3
Estimated tax losses from previous period utilised	(2)	–	–	–	(2)	–
Adjustments in respect of deferred tax of previous periods	(236)	(0.1)	–	–	(236)	(0.1)
Adjustments in respect of current tax of previous periods	2,328	0.9	(3,427)	(94.9)	(1,099)	(0.4)
Tax charge at the Group's effective rate	48,645	18.7	(2,572)	(71.2)	46,073	17.4
For the six months ended 30 June 2009 (Unaudited)						
	Hong Kong HK\$'000	%	Mainland China HK\$'000	%	Total HK\$'000	%
Profit before tax	133,541		6,822		140,363	
Tax at the applicable tax rate	22,033	16.5	1,365	20.0	23,398	16.7
Estimated tax effect of net income that is not taxable	(690)	(0.5)	–	–	(690)	(0.5)
Tax charge at the Group's effective rate	21,343	16.0	1,365	20.0	22,708	16.2

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

11. DIVIDENDS

	For the six months ended 30 June			
	2010	2009	2010	2009
	HK\$ per ordinary share	HK\$ per ordinary share		
Interim	0.05	0.05	54,896	54,896

12. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the period of HK\$218,232,000 (2009: HK\$117,655,000) and on the weighted average number of 1,097,917,618 (2009: 1,097,917,618) ordinary shares in issue during the period.

(b) Diluted earnings per share

The share options outstanding during the periods ended 30 June 2010 and 2009 had nil effect on the basic earnings per share for these periods. The calculation of diluted earnings per share for the period ended 30 June 2010 was based on the profit for the period of HK\$218,232,000 (2009: HK\$117,655,000) and on the weighted average number of 1,097,917,618 (2009: 1,097,917,618) ordinary shares, being the weighted average number of 1,097,917,618 (2009: 1,097,917,618) ordinary shares in issue during the period as used in the basic earnings per share calculation.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. LOANS AND ADVANCES AND RECEIVABLES

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Loans and advances	25,620,819	24,516,942
Trade bills	8,017	70,286
	<hr/>	<hr/>
Accrued interest	25,628,836	24,587,228
	78,944	72,955
	<hr/>	<hr/>
Other receivables	25,707,780	24,660,183
	58,033	55,247
	<hr/>	<hr/>
Gross loans and advances and receivables	25,765,813	24,715,430
	<hr/>	<hr/>
Less: Impairment allowances for loans and advances and receivables		
– Individually assessed	(146,271)	(160,868)
– Collectively assessed	(102,263)	(109,782)
	(248,534)	(270,650)
	<hr/>	<hr/>
Loans and advances and receivables	25,517,279	24,444,780
	<hr/>	<hr/>

Over 90% of the loans and advances and receivables are unrated exposures. Collateral for the Group's secured loans and advances and receivables include properties, cash, securities and taxi licences.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2010 (Unaudited)		31 December 2009 (Audited)	
	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	126,740	0.49	175,862	0.72
One year or less but over six months	97,427	0.38	72,266	0.30
Over one year	145,573	0.57	103,731	0.42
Loans and advances overdue for more than three months	369,740	1.44	351,859	1.44
Rescheduled loans and advances overdue for three months or less	62,933	0.25	79,383	0.32
Impaired accounts overdue for three months or less	13,244	0.05	95,924	0.39
Total overdue and impaired loans and advances	445,917	1.74	527,166	2.15

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	876	2,492
One year or less but over six months	4,380	329
Over one year	4,940	3,573
Trade bills, accrued interest and other receivables overdue for more than three months	10,196	6,394
Impaired accounts overdue for three months or less	17	77
Total overdue and impaired trade bills, accrued interest and other receivables	10,213	6,471

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2010 (Unaudited)			31 December 2009 (Audited)		
	Hong Kong HK\$'000	China HK\$'000	Total HK\$'000	Hong Kong HK\$'000	China HK\$'000	Total HK\$'000
(i) Analysis of overdue loans and advances and receivables						
Loans and advances and receivables overdue more than three months	247,374	132,562	379,936	227,420	130,833	358,253
Individual impairment allowances	48,440	54,550	102,990	68,888	37,739	106,627
Collective impairment allowances	65,008	–	65,008	72,375	–	72,375
Current market value and fair value of collateral			254,487			182,720
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	323,568	132,562	456,130	402,804	130,833	533,637
Individual impairment allowances	91,721	54,550	146,271	123,129	37,739	160,868
Collective impairment allowances	65,008	–	65,008	72,375	–	72,375
Current market value and fair value of collateral			261,489			262,374

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	254,487	182,720
Covered portion of overdue loans and advances	150,678	91,885
Uncovered portion of overdue loans and advances	219,062	259,974

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 30 June 2010, the total value of repossessed assets of the Group amounted to HK\$89,400,000 (2009: HK\$25,715,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2010 (Unaudited)		31 December 2009 (Audited)
	Gross Percentage of amount total loans		Gross Percentage of amount total loans
	HK\$'000 and advances		HK\$'000 and advances
Loans and advances overdue less than three months	510,144	1.99	476,162
Rescheduled but not impaired loans and advances	—	—	—
	510,144	1.99	476,162
Trade bills, accrued interest and other receivables overdue less than three months	1,051		2,375

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2010 (Unaudited)	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000	Total HK\$'000
At 1 January 2010	160,868	109,782		270,650
Amount written off	(243,490)		–	(243,490)
Impairment losses and allowances charged to the income statement	241,766		136	241,902
Impairment losses and allowances released to the income statement	(82,428)		(7,903)	(90,331)
Net charge of impairment losses and allowances	159,338		(7,767)	151,571
Loans and advances and receivables recovered	69,517		–	69,517
Exchange difference	38		248	286
At 30 June 2010	146,271		102,263	248,534
Deducted from:				
Loans and advances	145,130		102,205	247,335
Trade bills, accrued interest and other receivables	1,141		58	1,199
	146,271		102,263	248,534

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	31 December 2009 (Audited)	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	<u>160,868</u>	<u>109,782</u>		<u>270,650</u>
Deducted from:				
Loans and advances	159,254	109,346		268,600
Trade bills, accrued interest and other receivables	1,614	436		2,050
	<u>160,868</u>	<u>109,782</u>		<u>270,650</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(g) Finance lease receivables

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

	Minimum lease payments		Present value of minimum lease payments	
	30 June 2010	31 December 2009	30 June 2010	31 December 2009
	(Unaudited)	(Audited)	(Unaudited)	(Audited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts receivable under finance leases:				
Within one year	454,326	372,656	353,617	273,611
In the second to fifth years, inclusive	1,216,654	1,072,706	942,928	789,937
Over five years	3,880,099	3,218,630	3,286,096	2,559,516
	5,551,079	4,663,992	4,582,641	3,623,064
Less: Unearned finance income		(968,438)	(1,040,928)	
Present value of minimum lease payments receivable		4,582,641	3,623,064	

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. OTHER PAST DUE AND RESCHEDULED ASSETS

There were no other overdue or rescheduled advances to banks and other financial institutions or financial assets other than loans and advances and receivables and held-to-maturity investments as at 30 June 2010 and 31 December 2009.

There were no impairment allowances for financial assets other than loans and advances and receivables, Lehman Brothers Minibonds and intangible assets as at 30 June 2010 and 31 December 2009, and no impairment allowances and losses were charged to the income statement for such other assets for the six months ended 30 June 2010 and 2009.

15. HELD-TO-MATURITY INVESTMENTS

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Certificates of deposit held	745,892	812,130
Treasury bills (including Exchange Fund Bills)	499,930	499,746
Other debt securities	2,444,728	2,904,758
	3,690,550	4,216,634
Listed or unlisted:		
– unlisted	3,690,550	4,216,634
	3,690,550	4,216,634
Analysed by type of issuers:		
– Central government	499,930	499,746
– Banks and other financial institutions	3,190,620	3,716,888
	3,690,550	4,216,634

Impairment allowances of held-to-maturity investments were nil as at 30 June 2010 and 31 December 2009. There were no movement in impairment allowance in 2009 and the period under review.

There were neither impaired nor overdue held-to-maturity investments as at 30 June 2010 and 31 December 2009.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. RESERVES

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Available- for-sale financial assets HK\$'000	Employee share-based compensation reserve HK\$'000	Regulatory reserve HK\$'000	Retained profits HK\$'000	Translation reserve HK\$'000	Total HK\$'000
At 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 losses	–	–	–	(14,656)	–	–	–	(80)	(14,736)
Transfer to retained profits	–	–	–	–	–	(38,170)	38,170	–	–
Dividends for 2009	–	–	–	–	–	–	(197,625)	–	(197,625)
At 31 December 2009 and 1 January 2010	4,013,296	829	96,116	–	45,765	266,381	1,265,059	34,980	5,722,426
Profit for the period	–	–	–	–	–	–	218,232	–	218,232
Other comprehensive income	–	–	–	–	–	–	–	2,400	2,400
Transfer from retained profits	–	–	–	–	–	20,591	(20,591)	–	–
Dividends declared	–	–	–	–	–	–	(54,896)	–	(54,896)
At 30 June 2010	4,013,296	829	96,116	–	45,765	286,972	1,407,804	37,380	5,888,162

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. 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 30 June 2010 and 31 December 2009, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Within one year	6,119	7,349
In the second to fifth years, inclusive	3,910	2,003
	10,029	9,352

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

As at 30 June 2010 and 31 December 2009, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Within one year	45,613	38,580
In the second to fifth years, inclusive	30,543	27,183
	76,156	65,763

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. OFF-BALANCE SHEET EXPOSURE

(a) Contingent liabilities, commitments and derivatives

The following is a summary of the contractual amount of each significant class of contingent liabilities and commitments and derivatives of the Group outstanding as at 30 June 2010:

	Contractual amount HK\$'000	Credit equivalent amount HK\$'000	30 June 2010 (Unaudited) Credit risk weighted amount HK\$'000	Positive fair value - assets HK\$'000	Negative fair value - liabilities HK\$'000
Direct credit substitutes	229,339	229,339	20,350	–	–
Transaction-related contingencies	4,684	2,342	1,286	–	–
Trade related contingencies	114,118	22,823	16,257	–	–
Forward forward deposits placed	666,593	666,593	133,319	–	–
Forward asset purchases	13,845	13,845	2,769	–	–
	1,028,579	934,942	173,981	–	–
Derivatives held for trading:					
Foreign exchange rate contracts	320,311	7,351	13	4,918	5,465
Interest rate swaps	200,000	–	–	2	–
	520,311	7,351	13	4,920	5,465
Other commitments with original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	169,504	84,752	84,752	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,002,791	–	–	–	–
	4,721,185	1,027,045	258,746	4,920	5,465
Capital commitment contracted for, but not provided in the financial statements		5,108			

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. OFF-BALANCE SHEET EXPOSURE (Continued)

(a) Contingent liabilities and commitments and derivatives (Continued)

	31 December 2009 (Audited)				
	Contractual amount HK\$'000	Credit equivalent amount HK\$'000	Credit risk weighted amount HK\$'000	Positive fair value - assets HK\$'000	Negative fair value - liabilities HK\$'000
Direct credit substitutes	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				

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 30 June 2010 and 31 December 2009, the Group had no other material outstanding contingent liabilities and commitments save as disclosed above.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

(b) Derivative financial instruments

The Group uses the following derivative instruments:

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

	30 June 2010 (Unaudited)								Total HK\$'000	
	Over			Over			Repayable			
	Repayable on demand	Up to 1 month	more than 3 months	3 months but not more than 12 months	Over 1 year but not more than 5 years	Over 5 years	within an indefinite period			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000			
Financial assets:										
Cash and short term placements	899,259	4,304,788		–	–	–	–	–	5,204,047	
Placements with banks and financial institutions	–	–	131,437	89,358	–	–	–	–	220,795	
Loans and advances and receivables	700,515	1,293,877	1,115,020	2,751,088	7,886,719	11,688,232	330,362	25,765,813		
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804		
Held-to-maturity investments	–	3,155,154	415,552	79,961	39,883	–	–	3,690,550		
Other assets	288	167,403	208	258	174	–	63,125	231,456		
Foreign exchange contracts (gross)	–	689,517	66,357	–	–	–	–	755,874		
Total financial assets	1,600,062	9,610,739	1,728,574	2,920,665	7,926,776	11,688,232	400,291	35,875,339		
Financial liabilities:										
Deposits and balances of banks and other financial institutions at amortised cost	402,195	88,349	1,415,329	25,000	–	–	–	1,930,873		
Customer deposits at amortised cost	6,244,785	11,537,030	7,241,389	2,784,330	65,615	–	–	27,873,149		
Certificates of deposit issued at amortised cost	–	–	–	200,000	–	–	–	200,000		
Unsecured bank loans at amortised cost	–	714,960	–	–	1,487,907	–	–	2,202,867		
Other liabilities	671	191,995	10,416	5,999	3,714	–	103,287	316,082		
Foreign exchange contracts (gross)	–	694,199	62,220	–	–	–	–	756,419		
Total financial liabilities	6,647,651	13,226,533	8,729,354	3,015,329	1,557,236	–	103,287	33,279,390		

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	31 December 2009 (Audited)									
	Over									
	Over 1 month			3 months		Over 1 year			Repayable	
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	more than 3 months HK\$'000	more than 12 months HK\$'000	but not more than 5 years HK\$'000	Over than 5 years HK\$'000	Over 5 years HK\$'000	Over 5 years HK\$'000	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		
Foreign exchange contracts (gross)	–	949,956	592,345	–	–	–	–	–	1,542,301	
 Total financial assets	 1,690,058	 10,635,193	 3,391,781	 3,421,561	 7,118,442	 10,736,956	 395,343	 37,389,334		
 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		
Foreign exchange contracts (gross)	–	946,802	585,510	–	–	–	–	–	1,532,312	
 Total financial liabilities	 7,563,293	 12,693,908	 9,055,113	 3,989,192	 1,483,547	 –	 119,410	 34,904,463		

INTERIM DIVIDEND

The board of directors has on 29 June 2010 declared an interim dividend of HK\$0.05 (2009: HK\$0.05) per share payable on 6 August 2010 to shareholders whose names appear on the register of members of the Company on 21 July 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overview

During the period under review, the Hong Kong economy was generally stable and the level of consumer confidence in the gradual recovery of the Hong Kong economy was encouraging.

The economic stimulus measures introduced by the Government of the People's Republic of China (the "PRC") continued to have positive impact on the recovery of the Hong Kong economy in the period under review.

During the period under review, property prices in Hong Kong were on the rise generally, and retail sales activities showed encouraging signs of improvement. In general, the earnings and loan asset quality of financial institutions in Hong Kong recorded positive growth. The Group benefited from these factors and recorded significant improvement in earnings for the six months ended 30 June 2010.

However, with the uncertainty in the global economy, and in particular in the European countries, the operating environment of the Group remains challenging. Competition for retail banking business in Hong Kong remains very keen, which will put pressure on net interest margins of financial institutions. The Group will continue to adopt a prudent approach in its lending business while expanding its customer base.

Financial Review

Group performance

Revenue and Earnings

For the six months ended 30 June 2010, the Group recorded a profit after tax of HK\$218.2 million, representing a significant improvement of 85.5% over the net earnings of HK\$117.7 million for the corresponding period in 2009. The increase in net operating income and the decrease in impairment allowances for loans and advances contributed to the strong rebound in the profit after tax of the Group during the period under review.

The Group's basic earnings per share for the six months ended 30 June 2010 was HK\$0.20. The directors had declared an interim dividend of HK\$0.05 per share on 29 June 2010 which is payable on 6 August 2010.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review (Continued)

Group performance (Continued)

Revenue and Earnings (Continued)

The decrease in personal bankruptcies and improvement in bad debts recovery arising from restructured consumer loans in the period under review had resulted in the Group's impairment allowances for financial assets to decline by 48.5% or HK\$142.8 million to HK\$151.6 million from HK\$294.4 million in the corresponding period in 2009.

The Group's operating income increased by 7.4% or HK\$52.2 million to HK\$756.0 million for the six months ended 30 June 2010 as compared to HK\$703.8 million in the corresponding period in 2009. The increase was mainly due to increase in net interest income of HK\$51.1 million. Interest expense decreased by 35.2% or HK\$64.3 million to HK\$118.3 million whilst interest income decreased marginally by 1.7% or HK\$13.2 million to HK\$745.5 million, leading to the increase in net interest income. Total fee income from loan transactions, stockbroking and other businesses registered an increase of 26.7% or HK\$27.1 million to HK\$128.7 million in the period under review.

The Group's operating expenses increased by 20.6% or HK\$58.6 million to HK\$343.3 million mainly due to increases in staff costs and premises related costs when compared to the corresponding period in 2009.

Loans and Advances, Customer Deposits and Total Assets

The Group's total loans and advances (including trade bills) expanded by HK\$1.04 billion to HK\$25.63 billion as at 30 June 2010 from HK\$24.59 billion as at 31 December 2009. However, the Group's deposits from customers decreased by HK\$1.49 billion to HK\$27.87 billion as at 30 June 2010 from HK\$29.36 billion as at 31 December 2009, due to keen competition and aggressive deposit pricing strategies of banks in Hong Kong. Total assets of the Group stood at HK\$38.65 billion as at 30 June 2010.

Branch Network

As at 30 June 2010, Public Bank (Hong Kong) Limited ("Public Bank (Hong Kong)") had 30 branches in Hong Kong and 3 branches in Shenzhen in the PRC, providing a broad range of commercial and retail banking services. A subsidiary of the Company, Winton Financial Limited ("Winton"), which operates under a money lenders license, expanded its network to 8 branches in Hong Kong providing personal financing to its target customer segment. Together with the 42 branches of Public Finance Limited ("Public Finance"), the Group had a combined branch network of 83 branches as at 30 June 2010.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Financial Review *(Continued)*

Business development of Public Bank (Hong Kong)

During the period under review, total loans and advances (including trade bills) of Public Bank (Hong Kong) grew by 4.4% or HK\$0.9 billion to HK\$21.19 billion as at 30 June 2010 from HK\$20.29 billion as at 31 December 2009. Deposits from customers however declined by 5.8% or HK\$1.51 billion to HK\$24.55 billion as at 30 June 2010 from HK\$26.06 billion as at 31 December 2009. During the period under review, Public Bank (Hong Kong) diversified its sources of funding to the issuance of certificates of deposit of HK\$0.2 billion and at the same time increased deposits from financial institutions and banks by HK\$0.9 billion.

The consolidated capital adequacy ratio of Public Bank (Hong Kong) was strong at over 19% as at 30 June 2010, and there were no exposure attributed to structured investment vehicles and “PIIGS” countries, namely Portugal, Ireland, Italy, Greece and Spain as at 30 June 2010.

Public Bank (Hong Kong) will continue to expand its branch network by opening new branches in appropriate locations to further develop its retail banking and related financial services business.

Contingent liabilities and commitments

The Group had no material contingent liabilities (other than those in the normal course of its retail and commercial banking and retail consumer financing businesses in respect of its treasury and trade finance operations and loan commitments disclosed in the notes to the financial statements) as at the end of the period under review. The Group did not incur any material capital expenditure or enter into any material commitments in respect of capital expenditure during the period under review. As at 31 December 2009, there was a charge over bank deposits of HK\$27 million created by Public Bank (Hong Kong)’s Shenzhen Branch to secure a floating-rate loan of RMB20 million to fund its lending business in the PRC. During the period under review, this charge over the deposits of HK\$27 million was released and there was no charge over the assets of the Group as at 30 June 2010.

Segmental information

The Group’s business comprises three main segments: (i) retail and commercial banking and lending, (ii) wealth management services and stockbroking and (iii) other businesses. Over 90% of the Group’s operating income and over 80% of profit before tax were contributed by retail and commercial banking and lending in Hong Kong for the period under review. When compared to the first half of 2009, the Group’s operating income from retail and commercial banking and lending increased by 10.6% or HK\$67.5 million to HK\$705.2 million. Due to the decrease in impairment allowances for loans and advances, profit before tax from retail and commercial banking and lending increased by 182.2% or HK\$152.2 million to HK\$235.8 million when compared to the corresponding period in 2009.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Operational Review

Funding and capital management

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

The Group relies principally on its internally generated capital, deposits from customers, deposits from financial institutions and bank borrowings to fund its retail consumer financing business and commercial banking business. The Group's bank borrowings in the form of term loans denominated in Hong Kong dollars at floating rates stood at HK\$2.2 billion as at 30 June 2010. Based on the level of bank borrowings as compared to the equity of the Group, the Group's gearing ratio stood at a healthy level of 0.37 times as compared to 0.38 times as at 31 December 2009. The Group's bank borrowings have remaining maturity periods ranging from one year to three years. In the normal course of its commercial banking business, Public Bank (Hong Kong) has entered into foreign exchange contracts and interest rate swap and forward contracts to reduce foreign exchange risk and interest rate risk exposures of the Group. The risk exposures to fluctuations in foreign exchange and interest rates arising from such foreign exchange contracts and interest rate swap and forward contracts were immaterial.

Asset quality

The Group's impaired loans and advances to total loans and advances ratio improved from 2.1% as at 31 December 2009 to 1.7% as at 30 June 2010, due to improvement in asset quality of the Group's consumer financing and commercial loans. The Group will continue to adopt a prudent credit risk management strategy and endeavour with its best efforts in the recovery of impaired loans.

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 prudent risk management.

Human resources management

The objective of the Group's human resources management activities is 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 training courses, seminars, professional and technical courses with appropriate sponsorship from the Group in order to update their technical knowledge and skills, to increase their awareness of the market, and to improve their management and business skills. Staff are also encouraged to participate in social activities organised by the Group to promote team spirit and build a cohesive workforce.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Operational Review (Continued)

Human resources management (Continued)

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 the first half year of 2010, no share options to subscribe for shares in the Company were exercised by employees of the Group. As at 30 June 2010, options to subscribe for 28,953,000 shares in the Company remained unexercised.

As at 30 June 2010, the Group's staff force stood at 1,357 employees. For the six months ended 30 June 2010, the Group's total staff and related cost amounted to HK\$194.6 million.

Prospects

The economic outlook of Hong Kong and the PRC is expected to be positive in the second half of 2010 although there are uncertainties in the recovery of the global economy. Due to close economic ties between Hong Kong and the PRC, there will be demand for project and working capital financing for the commercial and industrial sectors in the PRC as well as demand for financing the purchase of residential and commercial properties in Hong Kong. The anticipated expiry of the full deposit guarantee provided by the HKSAR Government by the end of 2010 would likely increase the cost of funds from customer deposits and inter-bank borrowings, and this would have an impact on the earnings of financial institutions in Hong Kong. However, Hong Kong is expected to continue to benefit from the economic policies and measures taken by the Government of the PRC which will contribute to the increasing economic activities in Hong Kong. The anticipated positive economic growth in the PRC and Hong Kong will benefit the consumer financing business of the Group. The Group will continue to seek long term business growth and take steps to align the business strategies of the Group in line with its future expansion plans. The Group will also adopt prudent capital and funding management to meet the challenges ahead under the current uncertain global economic conditions.

Competition in the banking and financing industry is expected to intensify further with financial institutions seeking greater market share in loans and advances, customer deposits and fee income. The competitive environment will continue to exert pressure on the pricing of banking and financing products. However, the Group will continue to adopt prudent risk management measures balanced with flexible business strategies and diversified sources of income streams.

The Group will continue to focus on expanding its retail and commercial banking and lending business and its consumer financing business through its expanded branch network, innovative products development and aggressive marketing strategies. The Group will continue to target selected market segments of Public Bank (Hong Kong), Public Finance and Winton to grow its retail and commercial banking and lending and consumer financing businesses.

Barring unforeseen circumstances, the Group expects to register positive growth in its banking and financing businesses and its financial performance in the second half of 2010.

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 six months ended 30 June 2010.

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 period covered by the 2010 interim 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 shall 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.

REVIEW BY AUDIT COMMITTEE

The 2010 interim 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, 14 July 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.