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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 2011

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 2011 with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended	
		30 June	
		2011	2010
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Interest income	6	775,261	745,488
Interest expense	6	(169,658)	(118,288)
NET INTEREST INCOME		605,603	627,200
Other operating income	7	150,864	128,725
OPERATING INCOME		756,467	755,925
Operating expenses	8	(358,964)	(343,309)
Changes in fair value of investment properties		1,884	3,260
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		399,387	415,876
Impairment allowance written back in relation to the Lehman Brothers Minibonds repurchased		34,157	—
		433,544	415,876
Impairment allowances for loans and advances and receivables	9	(178,790)	(151,571)

* For identification purposes only

		For the six months ended	
		30 June	
		2011	2010
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
	<i>Notes</i>		
PROFIT BEFORE TAX		254,754	264,305
Tax	<i>10</i>	(47,610)	(46,073)
PROFIT FOR THE PERIOD		207,144	218,232
ATTRIBUTABLE TO:			
Owners of the Company		207,144	218,232
EARNINGS PER SHARE (HK\$)			
Basic	<i>12</i>	0.189	0.199
Diluted		0.189	0.199

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	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
PROFIT FOR THE PERIOD	207,144	218,232
OTHER COMPREHENSIVE INCOME FOR THE PERIOD:		
Exchange gain on translating foreign operations	<i>Note</i> 12,300	2,400
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	219,444	220,632
ATTRIBUTABLE TO:		
Owners of the Company	219,444	220,632

Note:

There were no tax effects arising from other comprehensive income for the six months ended 30 June 2011 and 2010.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
	<i>Notes</i>		
ASSETS			
Cash and short term placements		4,949,275	6,021,365
Placements with banks and financial institutions maturing after one month but not more than twelve months		332,536	723,715
Derivative financial instruments		1,819	10,167
Loans and advances and receivables	13	27,904,951	26,817,872
Available-for-sale financial assets	14	6,804	6,804
Held-to-maturity investments	15	4,212,071	2,709,776
Inventories of taxi licences		11,416	15,084
Investment properties		190,549	188,665
Property and equipment		120,363	119,615
Land held under finance leases		661,650	665,400
Interests in a jointly-controlled entity		1,513	1,513
Deferred tax assets		15,577	10,810
Goodwill		2,774,403	2,774,403
Intangible assets		718	718
Other assets		421,453	263,731
TOTAL ASSETS		41,605,098	40,329,638
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		1,846,807	680,382
Derivative financial instruments		2,360	5,435
Customer deposits at amortised cost		29,217,959	29,670,825
Certificates of deposit issued at amortised cost		512,938	200,000
Dividends payable		54,896	175,667
Unsecured bank loans at amortised cost		2,991,157	3,038,991
Current tax payable		73,362	40,907
Deferred tax liabilities		26,314	23,165
Other liabilities		649,400	428,909
TOTAL LIABILITIES		35,375,193	34,264,281
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital		109,792	109,792
Reserves	16	6,120,113	5,955,565
TOTAL EQUITY		6,229,905	6,065,357
TOTAL EQUITY AND LIABILITIES		41,605,098	40,329,638

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
TOTAL EQUITY		
Balance at the beginning of the period	6,065,357	5,832,218
Profit for the period	207,144	218,232
Other comprehensive income	12,300	2,400
Total comprehensive income for the period	219,444	220,632
Dividends declared on shares	(54,896)	(54,896)
Balance at the end of the period	6,229,905	5,997,954

NOTES TO FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

These condensed 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 (“the Listing Rules”), and in compliance with the Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* and Interpretations (“Int”) 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 accounting policies adopted in these consolidated interim financial statements are consistent with those adopted in the Company’s 2010 Annual Report except for the adoption of new Hong Kong Financial Reporting Standards (“HKFRSs”), HKASs and Interpretations as disclosed in note 3 below.

2. BASIS OF PREPARATION

The consolidated interim financial statements for the six months ended 30 June 2011 have been prepared in accordance with HKAS 34 *Interim Financial Reporting*.

The consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2010.

Basis of consolidation

The consolidated interim financial statements comprise the interim financial statements of the Company and its subsidiaries as at and for the period ended 30 June 2011.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full on consolidation.

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.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

2. BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

The subsidiaries consolidated for accounting purposes 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.

Basis of capital disclosures

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

Should the Group have not complied with the 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 the consolidated capital adequacy ratio of the Group is based on the ratio of the aggregate of risk weighted exposures to the aggregate of capital bases of the Company, Public Bank (Hong Kong) and Public Finance for regulatory purposes.

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The HKICPA has issued a number of new HKFRSs, HKASs and Interpretations, which are generally effective for accounting periods beginning on or after 1 January 2011. The Group has adopted the following HKFRSs, HKASs and Hong Kong (International Financial Reporting Interpretations Committee) Interpretations (“HK(IFRIC)-Int”) issued up to 30 June 2011 which are pertinent to its operations and relevant to these interim financial statements.

- | | |
|----------------------------------|--|
| • HKAS 24 (Revised) | <i>Related Party Disclosures</i> |
| • HKAS 32 Amendments | <i>Amendments to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues</i> |
| • Amendments to HK(IFRIC)-Int 14 | <i>Prepayments of a Minimum Funding Requirement</i> |
| • HK(IFRIC)-Int 19 | <i>Extinguishing Financial Liabilities with Equity Instruments</i> |

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Amendments to HKFRS 1, HKFRS 3, HKFRS 7, HKAS 1, HKAS 27, HKAS 34 and HK(IFRIC)-Int 13 are effective for the reporting period.

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.

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

The amendments to HK(IFRIC)-Int 14 require 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

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. As the Group has not re-negotiated the terms of any financial liability which resulted in the issue of equity instruments to settle such financial liability, the interpretation has no financial impact on the Group.

In May 2010, the HKICPA issued *Improvements to HKFRSs* which sets out amendments to HKFRSs, primarily with a view to removing inconsistencies and clarifying wording. There is a separate transitional provision for each standard. While the adoption of some of them may result in changes in accounting policies, these amendments have no significant financial impact on the Group.

- (a) HKFRS 1 Amendment: It addresses the presentation and disclosure requirements for an entity which changes its accounting policies or its uses of the exemptions contained in this HKFRS. It also introduces the use of the 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 clarify that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arises from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date at fair value, unless another measurement basis is required by another HKFRS.

The amendments also add explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- (c) HKAS 1 (Revised) clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.
- (d) HKAS 27 clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

NOTES TO FINANCIAL STATEMENTS (Continued)

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

- (e) HKAS 34 Amendments: It requires the update 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.
- (f) 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.

4. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs

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 7 Amendments Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*¹
- HKFRS 9 *Financial Instruments*³
- HKAS 12 Amendments Amendments to HKAS 12 *Income Taxes: Deferred Tax: Recovery of Underlying Assets*²

¹ effective for annual periods beginning on or after 1 July 2011

² effective for annual periods beginning on or after 1 January 2012

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

HKFRS 7 Amendments require an entity to disclose both quantitative and qualitative information for the derecognition of financial assets where the entity has a continuing involvement in the derecognised assets. The Group expects to adopt HKFRS 7 from 1 July 2011. As the Group does not have continuing involvement in the derecognised assets, the amendments will not have any financial impact on the Group.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

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

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the “Additions”). The changes only affect the measurement of financial liabilities designated at fair value through profit or loss using the fair value option (“FVO”). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income (“OCI”). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability’s credit risk in OCI will create or enlarge an accounting mismatch in profit or loss. All other requirements in HKAS 39 in respect of liabilities are carried forward into HKFRS 9. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting, derecognition and impairment of financial assets continues to apply.

HKAS 12 Amendments provide guidance on deferred tax measurement for investment properties carried under the fair value model in accordance with HKAS 40. The presumption that the carrying value of underlying asset will be recovered through sale is rebutted if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time, rather than through sale.

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 the “Chief Operating Decision Maker” to make decisions about resource allocation to the segments and assess their performance. Summary of the operating segments is 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;

NOTES TO FINANCIAL STATEMENTS *(Continued)*

5. SEGMENT INFORMATION *(Continued)*

- 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 FINANCIAL STATEMENTS (Continued)

5. SEGMENT INFORMATION (Continued)

The following table represents revenue and profit information for operating segments for the six months ended 30 June 2011 and 2010, and certain asset and liability information regarding operating segments as at 30 June 2011 and 2010.

	Retail and commercial banking and lending		Wealth management services, stockbroking and securities management		Other businesses		Eliminated on consolidation		Total	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010	30 June 2011	30 June 2010	30 June 2011	30 June 2010	30 June 2011	30 June 2010
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Segment revenue										
External:										
Net interest income	605,571	627,187	32	13	-	-	-	-	605,603	627,200
Other operating income:										
Fees and commission income	78,183	70,071	59,053	43,069	205	228	-	-	137,441	113,368
Others	5,102	7,948	-	-	8,321	7,409	-	-	13,423	15,357
Inter-segment transactions:										
Fee and commission income	-	-	-	-	219	420	(219)	(420)	-	-
Operating income	688,856	705,206	59,085	43,082	8,745	8,057	(219)	(420)	756,467	755,925
Segment results	222,191	235,755	23,237	18,636	9,326	9,914	-	-	254,754	264,305
Share of profits and losses of a jointly-controlled entity									-	-
Profit before tax									254,754	264,305
Tax									(47,610)	(46,073)
Profit for the period									207,144	218,232
Segment assets other than interests in a jointly-controlled entity and intangible assets	38,037,289	35,325,430	572,452	325,003	202,830	201,151	-	-	38,812,571	35,851,584
Interests in a jointly-controlled entity	1,513	1,513	-	-	-	-	-	-	1,513	1,513
Intangible assets	-	-	718	718	-	-	-	-	718	718
Goodwill	2,774,403	2,774,403	-	-	-	-	-	-	2,774,403	2,774,403
	40,813,205	38,101,346	573,170	325,721	202,830	201,151	-	-	41,589,205	38,628,218
Unallocated assets:										
Deferred tax assets and tax recoverable									15,893	25,067
Total assets									41,605,098	38,653,285
Segment liabilities	34,775,866	32,281,212	438,164	192,560	6,591	54,664	-	-	35,220,621	32,528,436
Unallocated liabilities:										
Deferred tax liabilities and tax payable									99,676	71,999
Dividends payable									54,896	54,896
Total liabilities									35,375,193	32,655,331
Other segment information										
Additions to non-current assets – capital expenditure	13,298	8,240	-	-	-	-	-	-	13,298	8,240
Depreciation of property and equipment and land held under finance leases	16,130	15,551	-	-	-	-	-	-	16,130	15,551
Changes in fair value of investment properties	-	-	-	-	(1,884)	(3,260)	-	-	(1,884)	(3,260)
Impairment allowances for loans and advances and receivables	178,790	151,571	-	-	-	-	-	-	178,790	151,571
Net losses on disposal of property and equipment	149	13	-	-	-	-	-	-	149	13

NOTES TO 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	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Interest income from:		
Loans and advances and receivables	725,536	696,885
Short term placements and placements with banks	17,067	11,137
Held-to-maturity investments	32,658	37,466
	775,261	745,488
Interest expense on:		
Deposits from banks and financial institutions	11,240	8,806
Deposits from customers	143,216	86,975
Bank loans	15,202	22,507
	169,658	118,288

Interest income and interest expenses for the six months ended 30 June 2011, calculated using the effective interest method on financial assets and financial liabilities which are not designated at fair value through profit or loss, amounted to HK\$775,261,000 and HK\$169,658,000, respectively (2010: HK\$745,488,000 and HK\$118,288,000). Interest income of the impaired loans and advances for the six months ended 30 June 2011 amounted to HK\$2,577,000 (2010: HK\$6,420,000).

NOTES TO FINANCIAL STATEMENTS (Continued)

7. OTHER OPERATING INCOME

	For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Fees and commission income:		
Retail and commercial banking	78,908	70,842
Wealth management services, stockbroking and securities management	59,053	43,069
	137,961	113,911
Less: Fees and commission expenses	(520)	(543)
Net fees and commission income	137,441	113,368
Gross rental income	6,052	6,502
Less: Direct operating expenses	(40)	(38)
Net rental income	6,012	6,464
Gains less losses arising from dealing in foreign currencies	4,186	6,027
Net losses on disposal of property and equipment	(149)	(13)
Dividend income from listed investments	8	7
Dividend income from unlisted investments	500	980
Net expense on derivative financial instruments	(541)	(545)
Others	3,407	2,437
	150,864	128,725

Direct operating expenses include 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 2011 and 2010.

All fees and commission income and expenses 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 expenses are related to trust and other fiduciary activities.

NOTES TO FINANCIAL STATEMENTS (Continued)

8. OPERATING EXPENSES

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<hr/>		
Staff costs:		
Salaries and other staff costs	192,477	186,263
Pension contributions	9,298	8,326
Less: Forfeited contributions	(7)	(5)
Net retirement benefit schemes	9,291	8,321
	<hr/>	
	201,768	194,584
Other operating expenses:		
Operating lease rentals on leasehold buildings	26,641	24,121
Depreciation of property and equipment and land held under finance leases	16,130	15,551
Administrative and general expenses	35,589	32,608
Others	78,836	76,445
	<hr/>	
Operating expenses before changes in fair value of investment properties	358,964	343,309
	<hr/>	

As at 30 June 2011, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years (2010: Nil). The current period credits arose in respect of staff who left the schemes during the period.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

9. IMPAIRMENT ALLOWANCES

	For the six months ended	
	30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<hr/>		
Net charge for/(write-back of) impairment losses and allowances:		
– loans and advances	180,976	152,422
– trade bills, accrued interest and receivables	(2,186)	(851)
	<hr/>	<hr/>
	178,790	151,571
	<hr/>	<hr/>
Net charge for/(write-back of) impairment losses and allowances:		
– individually assessed	179,850	159,338
– collectively assessed	(1,060)	(7,767)
	<hr/>	<hr/>
	178,790	151,571
	<hr/>	<hr/>
Of which:		
– new impairment losses and allowances (including any amount directly written off during the period)	258,914	241,902
– releases and recoveries	(80,124)	(90,331)
	<hr/>	<hr/>
Net charge to the consolidated income statement	178,790	151,571
	<hr/>	<hr/>

There were no impairment allowances for financial assets other than loans and advances and receivables for the six months ended 30 June 2011 and 2010.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

10. TAX

	For the six months ended	
	30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<hr/>		
Current tax charge:		
Hong Kong	42,440	42,393
Elsewhere	5,936	725
Underprovisions/(overprovisions) in prior years	852	(1,099)
Deferred tax (credit)/charge, net	(1,618)	4,054
	<hr/>	<hr/>
	47,610	46,073
	<hr/>	<hr/>

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

10. TAX (Continued)

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 2011 (Unaudited)					
	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	251,568		3,186		254,754	
Tax at the applicable tax rate	41,508	16.5	765	24.0	42,273	16.6
Effect on change in tax rates	–	–	74	2.3	74	–
Estimated tax effect of net expense that is not deductible	2,491	1.0	–	–	2,491	1.0
Adjustments in respect of deferred tax of previous periods	1,920	0.8	–	–	1,920	0.8
Adjustments in respect of current tax of previous periods	1,500	0.5	(648)	(20.3)	852	0.3
Tax charge at the Group's effective rate	47,419	18.8	191	6.0	47,610	18.7

NOTES TO FINANCIAL STATEMENTS (Continued)

10. TAX (Continued)

	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

11. DIVIDENDS

	For the six months ended 30 June			
	2011 HK\$ per ordinary share	2010 HK\$ per ordinary share	2011 HK\$'000	2010 HK\$'000
Interim	0.05	0.05	54,896	54,896

NOTES TO FINANCIAL STATEMENTS *(Continued)*

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\$207,144,000 (2010: HK\$218,232,000) and on the weighted average number of 1,097,917,618 (2010: 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 2011 and 2010 had nil dilutive effect on the basic earnings per share for these periods. The calculation of diluted earnings per share for the period ended 30 June 2011 is based on the profit for the period of HK\$207,144,000 (2010: HK\$218,232,000) and on the weighted average number of ordinary shares of 1,097,917,618 (2010: 1,097,917,618), being the weighted average number of ordinary shares of 1,097,917,618 (2010: 1,097,917,618) in issue during the period as used in the basic earnings per share calculation.

13. LOANS AND ADVANCES AND RECEIVABLES

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Loans and advances to customers	27,906,775	26,850,951
Trade bills	65,039	31,170
Loans and advances, and trade bills	27,971,814	26,882,121
Accrued interest	83,542	83,672
Other receivables	28,055,356 54,570	26,965,793 56,953
Gross loans and advances and receivables	28,109,926	27,022,746
Less: Impairment allowances for loans and advances and receivables		
– individually assessed	(173,128)	(171,967)
– collectively assessed	(31,847)	(32,907)
	(204,975)	(204,874)
Loans and advances and receivables	27,904,951	26,817,872

NOTES TO FINANCIAL STATEMENTS *(Continued)*

13. LOANS AND ADVANCES AND RECEIVABLES *(Continued)*

Over 90% of the loans and advances and receivables were unrated exposures. Over 90% of the collateral for the Group's secured loans and advances and receivables were cash, properties, listed shares, taxi licences, public light bus licences and vehicles.

Loans and advances and receivables are summarised as follows:

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Neither past due nor impaired loans and receivables	27,149,560	26,150,795
Past due but not impaired loans and advances and receivables	670,453	540,761
Individually impaired loans and advances	276,630	315,715
Individually impaired receivables	13,283	15,475
Total loans and advances and receivables	28,109,926	27,022,746

About 65% of "Neither past due nor impaired loans and receivables" were residential property mortgage loans, commercial property mortgage loans and hire purchase loans secured by cash, properties, taxi licences and vehicles.

NOTES TO FINANCIAL STATEMENTS (Continued)

13. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(a) (i) Ageing analysis of overdue and impaired loans and advances

	30 June 2011 (Unaudited)		31 December 2010 (Audited)	
	Gross amount	Percentage of total loans and advances	Gross amount	Percentage of total loans and advances
	HK\$'000	%	HK\$'000	%
Loans and advances overdue for:				
Six months or less but over three months	90,667	0.33	90,673	0.34
One year or less but over six months	6,794	0.02	5,790	0.02
Over one year	138,745	0.50	175,927	0.66
Loans and advances overdue for more than three months	236,206	0.85	272,390	1.02
Rescheduled loans and advances overdue for three months or less	34,504	0.12	39,413	0.15
Impaired accounts overdue for three months or less	5,920	0.02	3,912	0.01
Total overdue and impaired loans and advances	276,630	0.99	315,715	1.18

NOTES TO FINANCIAL STATEMENTS *(Continued)*

13. LOANS AND ADVANCES AND RECEIVABLES *(Continued)*

(a) (ii) Ageing analysis of overdue and impaired trade bills, accrued interest and other receivables

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	5	12
One year or less but over six months	–	1,778
Over one year	13,265	13,683
Trade bills, accrued interest and other receivables overdue for more than three months	13,270	15,473
Impaired accounts overdue for three months or less	13	2
Total overdue and impaired trade bills, accrued interest and other receivables	13,283	15,475

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

NOTES TO 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 2011 (Unaudited)			31 December 2010 (Audited)		
	Hong Kong	Mainland	Total	Hong Kong	Mainland	Total
	HK\$'000	China	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(i) Analysis of overdue loans and advances and receivables						
Loans and advances and receivables overdue for more than three months	110,684	138,792	249,476	154,018	133,845	287,863
Individual impairment allowances	71,124	77,877	149,001	92,671	55,942	148,613
Collective impairment allowances	-	-	-	-	-	-
Current market value and fair value of collateral			206,126			252,189
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	151,121	138,792	289,913	197,345	133,845	331,190
Individual impairment allowances	95,251	77,877	173,128	116,025	55,942	171,967
Collective impairment allowances	-	-	-	-	-	-
Current market value and fair value of collateral			208,214			253,689

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 FINANCIAL STATEMENTS *(Continued)*

13. LOANS AND ADVANCES AND RECEIVABLES *(Continued)*

- (c) The value of collateral held in respect of the 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 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	<u>206,126</u>	<u>252,189</u>
Covered portion of overdue loans and advances	<u>76,442</u>	<u>88,701</u>
Uncovered portion of overdue loans and advances	<u>159,764</u>	<u>183,689</u>

The 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.

The main types of guarantors for credit risk mitigation are as follows:

- Central government with a grading of Aa3 or above
- Unrated public sector enterprises
- Banks with a grading of Baa2 or above
- Unrated corporation
- Individual shareholders and directors of corporate customers

NOTES TO FINANCIAL STATEMENTS (Continued)

13. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(d) Repossessed assets

As at 30 June 2011, the total value of repossessed assets of the Group amounted to HK\$16,180,000 (31 December 2010: HK\$26,190,000).

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

	30 June 2011 (Unaudited)		31 December 2010 (Audited)	
	Gross amount	Percentage of total loans and advances	Gross amount	Percentage of total loans and advances
	HK\$'000	%	HK\$'000	%
Loans and advances overdue for less than three months	668,963	2.40	539,829	2.01
Rescheduled but not impaired loans and advances	—	—	—	—
	668,963	2.40	539,829	2.01
Trade bills, accrued interest and other receivables overdue less than three months	1,490		932	

NOTES TO FINANCIAL STATEMENTS *(Continued)*

13. LOANS AND ADVANCES AND RECEIVABLES *(Continued)*

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

	Individual impairment allowance HK\$'000	30 June 2011 (Unaudited) Collective impairment allowance HK\$'000	Total HK\$'000
At 1 January 2011	171,967	32,907	204,874
Amount written off	(255,169)	–	(255,169)
Impairment losses and allowances charged to the consolidated income statement	258,036	878	258,914
Impairment losses and allowances released to the consolidated income statement	(78,186)	(1,938)	(80,124)
Net charge of impairment losses and allowances	179,850	(1,060)	178,790
Loans and advances and receivables recovered	75,305	–	75,305
Exchange difference	1,175	–	1,175
At 30 June 2011	173,128	31,847	204,975
Deducted from:			
Loans and advances	171,309	31,488	202,797
Trade bills, accrued interest and other receivables	1,819	359	2,178
	173,128	31,847	204,975

NOTES TO 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 2010 (Audited)		
	Individual impairment allowance <i>HK\$'000</i>	Collective impairment allowance <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2010	160,868	109,782	270,650
Amount written off	(484,172)	–	(484,172)
Impairment losses and allowances charged to the consolidated income statement	514,834	–	514,834
Impairment losses and allowances released to the consolidated income statement	(157,427)	(76,921)	(234,348)
Net charge of impairment losses and allowances	357,407	(76,921)	280,486
Loans and advances and receivables recovered	136,940	–	136,940
Exchange difference	924	46	970
At 31 December 2010	171,967	32,907	204,874
Deducted from:			
Loans and advances	167,812	32,698	200,510
Trade bills, accrued interest and other receivables	4,155	209	4,364
	171,967	32,907	204,874

Impairment for some overdue consumer financing loans of Public Finance, which was collectively assessed in prior years, was assessed individually in 2010. This resulted in an increase in the individual impairment allowance of HK\$62,618,000 and a corresponding reduction in the collective impairment allowance.

NOTES TO 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 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Amounts receivable under finance leases:				
Within one year	405,743	437,537	318,822	340,354
In the second to fifth years, inclusive	1,061,961	1,157,354	820,391	889,179
Over five years	3,510,946	3,853,487	3,009,524	3,287,420
	4,978,650	5,448,378	4,148,737	4,516,953
Less: Unearned finance income	(829,913)	(931,425)		
Present value of minimum lease payments receivable	4,148,737	4,516,953		

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.

14. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Unlisted equity investments, at fair value:		
At the beginning and the end of the period/year	6,804	6,804

Unlisted investments are measured at fair value based on the present value of cash flows over a period of 10 years.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

15. HELD-TO-MATURITY INVESTMENTS

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Unlisted:		
Certificates of deposit held	1,366,848	147,767
Treasury bills (including Exchange Fund Bills)	1,049,915	1,099,681
Other debt securities	1,795,308	1,462,328
	4,212,071	2,709,776
Analysed by type of issuers:		
– Central government	1,049,915	1,099,681
– Banks and other financial institutions	3,162,156	1,610,095
	4,212,071	2,709,776

Impairment allowances of held-to-maturity investments were nil as at 30 June 2011 and 31 December 2010. There were no movements in impairment allowances in the period under review and 2010.

There were neither impaired nor overdue held-to-maturity investments as at 30 June 2011 and 31 December 2010. There were no listed held-to-maturity investments as at 30 June 2011 and 31 December 2010.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

16. RESERVES

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Available- for-sale financial assets revaluation reserve HK\$'000	Employee share-based compensation reserve HK\$'000	Regulatory reserve HK\$'000	Retained profits HK\$'000	Translation reserve HK\$'000	Total HK\$'000
At 1 January 2010	4,013,296	829	96,116	–	45,765	266,381	1,265,059	34,980	5,722,426
Profit for the year	–	–	–	–	–	–	450,497	–	450,497
Other comprehensive income	–	–	–	–	–	–	–	13,205	13,205
Transfer from retained profits	–	–	–	–	–	55,943	(55,943)	–	–
Dividends for 2010	–	–	–	–	–	–	(230,563)	–	(230,563)
At 31 December 2010 and 1 January 2011	4,013,296	829	96,116	–	45,765	322,324	1,429,050	48,185	5,955,565
Profit for the period	–	–	–	–	–	–	207,144	–	207,144
Other comprehensive income	–	–	–	–	–	–	–	12,300	12,300
Transfer from retained profits	–	–	–	–	–	64,963	(64,963)	–	–
Dividends declared	–	–	–	–	–	–	(54,896)	–	(54,896)
At 30 June 2011	4,013,296	829	96,116	–	45,765	387,287	1,516,335	60,485	6,120,113

Note: In accordance with the HKMA's guideline "Impact of the New Hong Kong Accounting Standards on Authorised Institutions' Capital Base and Regulatory Reporting" (the "Guideline"), the Group's regulatory reserve and collective impairment allowance were included as supplementary capital in the Group's capital base at 30 June 2011 as defined in the Guideline. The regulatory reserve was held as a buffer of capital to absorb potential financial losses in excess of requirements of accounting standards pursuant to the direction of the HKMA.

NOTES TO FINANCIAL STATEMENTS (Continued)

17. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties under operating lease arrangements, and the terms of the leases range from 1 to 5 years.

As at 30 June 2011 and 31 December 2010, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Within one year	7,718	5,951
In the second to fifth years, inclusive	4,419	4,107
	12,137	10,058

(b) As lessee

The Group has entered into non-cancellable operating lease arrangements with landlords, and the terms of the leases range from 1 to 5 years.

As at 30 June 2011 and 31 December 2010, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Within one year	43,214	41,839
In the second to fifth years, inclusive	33,564	22,521
	76,778	64,360

NOTES TO 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, commitments and derivatives of the Group outstanding at the end of the reporting period:

	30 June 2011 (Unaudited)				
	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	231,926	231,926	31,862	–	–
Transaction-related contingencies	23,204	11,602	1,975	–	–
Trade-related contingencies	75,144	15,028	12,902	–	–
Forward forward deposits placed	155,660	155,660	31,132	–	–
Forward asset purchases	14,840	14,840	2,968	–	–
	500,774	429,056	80,839	–	–
Derivatives held for trading:					
Foreign exchange rate contracts	822,768	2,507	561	1,819	2,360
Interest rate swaps	–	–	–	–	–
	822,768	2,507	561	1,819	2,360
Other commitments with an original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	130,061	65,030	65,030	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,716,720	–	–	–	–
	5,170,323	496,593	146,430	1,819	2,360
Capital commitments contracted for, but not provided in the financial statements	4,395				

NOTES TO FINANCIAL STATEMENTS (Continued)

18. OFF-BALANCE SHEET EXPOSURE (Continued)

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

	31 December 2010 (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	249,122	249,122	29,633	–	–
Transaction-related contingencies	7,278	3,639	2,800	–	–
Trade-related contingencies	108,931	21,785	16,055	–	–
Forward forward deposits placed	–	–	–	–	–
Forward asset purchases	9,356	9,356	1,871	–	–
	374,687	283,902	50,359	–	–
Derivatives held for trading:					
Foreign exchange rate contracts	579,220	14,888	47	10,145	5,435
Interest rate swaps	200,000	–	–	22	–
	779,220	14,888	47	10,167	5,435
Other commitments with an original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	261,004	130,502	130,502	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	4,166,068	–	–	–	–
	5,580,979	429,292	180,908	10,167	5,435
Capital commitments contracted for, but not provided in the financial statements	7,160				

NOTES TO FINANCIAL STATEMENTS *(Continued)*

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

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

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 2011 and 31 December 2010, the Group had no material outstanding contingent liabilities and commitments save as disclosed above.

(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 a 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 used for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised in the consolidated 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 risk. The derivative financial 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 the 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 FINANCIAL STATEMENTS (Continued)

19. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

	30 June 2011 (Unaudited)							
	Repayable on demand	Up to 1 month	Over 1 month but not more than 3 months	Over 3 months but not more than 12 months	Over 1 year but not more than 5 years	Over 5 years	Repayable within an indefinite period	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets:								
Cash and short term placements	680,655	4,268,620	-	-	-	-	-	4,949,275
Placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	133,123	199,413	-	-	-	332,536
Loans and advances and receivables	539,679	1,309,003	1,138,264	3,547,268	8,187,967	13,255,600	132,145	28,109,926
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	-	2,424,060	1,735,527	50,076	2,408	-	-	4,212,071
Other assets	128	374,240	705	832	771	-	44,777	421,453
Foreign exchange contracts (gross)	-	772,439	50,329	-	-	-	-	822,768
Net interest rate swaps	-	-	-	-	-	-	-	-
Total financial assets	1,220,462	9,148,362	3,057,948	3,797,589	8,191,146	13,255,600	183,726	38,854,833
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	42,986	585,451	1,078,370	140,000	-	-	-	1,846,807
Customer deposits at amortised cost	5,882,657	11,133,631	9,022,992	3,091,527	87,152	-	-	29,217,959
Certificates of deposit issued at amortised cost	-	-	-	512,938	-	-	-	512,938
Unsecured bank loans at amortised cost	30,000	-	799,733	-	2,161,424	-	-	2,991,157
Other liabilities	784	287,015	17,814	11,247	4,117	-	328,423	649,400
Foreign exchange contracts (gross)	-	773,019	50,290	-	-	-	-	823,309
Total financial liabilities	5,956,427	12,779,116	10,969,199	3,755,712	2,252,693	-	328,423	36,041,570

NOTES TO FINANCIAL STATEMENTS (Continued)

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

	31 December 2010 (Audited)							
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	Over 1 month but not more than 3 months HK\$'000	Over 3 months but not more than 12 months HK\$'000	Over 1 year but not more than 5 years HK\$'000	Over 5 years HK\$'000	Repayable within an indefinite period HK\$'000	Total HK\$'000
Financial assets:								
Cash and short term placements	684,703	5,336,662	–	–	–	–	–	6,021,365
Placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	527,254	196,461	–	–	–	723,715
Loans and advances and receivables	606,792	1,643,747	790,748	2,814,346	8,365,811	12,598,319	202,983	27,022,746
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	–	1,720,179	839,863	147,375	2,359	–	–	2,709,776
Other assets	447	212,516	396	649	10	–	49,713	263,731
Foreign exchange contracts (gross)	–	573,001	6,219	–	–	–	–	579,220
Net interest rate swaps	–	–	22	–	–	–	–	22
Total financial assets	1,291,942	9,486,105	2,164,502	3,158,831	8,368,180	12,598,319	259,500	37,327,379
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	199,250	291,132	115,000	75,000	–	–	–	680,382
Customer deposits at amortised cost	6,551,816	11,278,914	9,274,125	2,427,200	138,770	–	–	29,670,825
Certificates of deposit issued at amortised cost	–	–	200,000	–	–	–	–	200,000
Unsecured bank loans at amortised cost	80,000	–	–	1,498,939	1,460,052	–	–	3,038,991
Other liabilities	1,607	227,165	14,733	9,759	6,747	–	168,898	428,909
Foreign exchange contracts (gross)	–	568,229	6,281	–	–	–	–	574,510
Total financial liabilities	6,832,673	12,365,440	9,610,139	4,010,898	1,605,569	–	168,898	34,593,617

INTERIM DIVIDEND

The board of directors has on 28 June 2011 declared an interim dividend of HK\$0.05 (2010: HK\$0.05) per share payable on 29 July 2011 to shareholders whose names appear on the register of members of the Company on 18 July 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overview

During the period under review, the economic condition of Hong Kong further improved with increased retail sales activities and lower unemployment rate. However, the uncertainty in global economic outlook and public financing crises in European Union countries continue to have a dampening impact on the Hong Kong economy, although there are encouraging signs of improved consumer confidence in Hong Kong.

After the withdrawal of the deposit guarantee scheme by the HKSAR Government at the end of 2010, competition for retail deposits intensified leading to higher cost of customer deposits and inter-bank funding. Escalating property prices in Hong Kong and in the People's Republic of China ("PRC") during the period under review remained a concern of the formation of an asset price bubble. Rising rentals and staff costs in Hong Kong and the PRC together with narrowing net interest margins, have contributed to the pressure on earnings of financial institutions in Hong Kong, including the Group's banking business and financial performance which were similarly affected.

Financial Review

Group performance

Revenue and Earnings

For the six months ended 30 June 2011, the Group recorded a profit after tax of HK\$207.1 million, representing a marginal decrease of 5.1% or HK\$11.1 million as compared to the profit after tax of HK\$218.2 million for the corresponding period in 2010. The earnings of the Group for the period under review were affected by narrowing net interest margin due to increased funding cost and increase in impairment allowance for consumer financing loans.

The Group's basic earnings per share for the six months ended 30 June 2011 was HK\$0.19. The directors had declared an interim dividend of HK\$0.05 per share on 28 June 2011 which is payable on 29 July 2011.

Impairment allowance for consumer financing loans increased in the period under review, and caused an increase in the Group's impairment allowance for financial assets by 18.0% or HK\$27.2 million to HK\$178.8 million from HK\$151.6 million in the corresponding period in 2010.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Financial Review *(Continued)*

Group performance (Continued)

Revenue and Earnings *(Continued)*

The Group's interest expense increased by 43.4% or HK\$51.4 million to HK\$169.7 million due to higher customer deposits and interbank funding costs, whilst interest income increased by only 4% or HK\$29.8 million to HK\$775.3 million, resulted in a decrease in net interest income and net interest margins of interest-bearing assets.

The Group's operating expenses increased marginally by 4.6% or HK\$15.7 million to HK\$359.0 million, mainly due to the increase in staff costs and premises related costs when compared to the corresponding period in 2010.

During the period under review, impairment allowance in relation to the settlement with Lehman Brothers Minibonds investors amounted to HK\$34.2 million was written back due to the recovery of proceeds received from the underlying collateral for the Lehman Brothers Minibonds, net of the additional ex-gratia payments made to eligible Lehman Brothers Minibonds investors.

Total fee income from loan transactions, stockbroking and other businesses registered an increase of 17.2% or HK\$22.1 million to HK\$150.9 million in the period under review.

Loans and Advances, Customer Deposits and Total Assets

The Group's total loans and advances (including trade bills) further expanded by 4.1% or HK\$1.09 billion to HK\$27.97 billion as at 30 June 2011 from HK\$26.88 billion as at 31 December 2010. Due to keen competition and aggressive pricing offered by banks, the Group's deposits from customers decreased by 1.5% or HK\$0.45 billion to HK\$29.22 billion as at 30 June 2011 from HK\$29.67 billion as at 31 December 2010. Total assets of the Group stood at HK\$41.61 billion as at 30 June 2011.

Branch Network

During the period under review, Public Bank (Hong Kong) opened 2 new branches in Hong Kong, bringing its branch network to 32 branches in Hong Kong and 3 branches in Shenzhen in the PRC as at 30 June 2011. As at 30 June 2011, the Group had a combined branch network of 86 branches with 35 branches of Public Bank (Hong Kong), 42 branches of Public Finance which is a Deposit Taking Company, and 9 branches of Winton Financial Limited ("Winton") which operates under a money lenders licence.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Financial Review *(Continued)*

Business performance

Public Bank (Hong Kong)

During the period under review, total loans and advances (including trade bills) of Public Bank (Hong Kong) grew by 4.9% or HK\$1.09 billion to HK\$23.52 billion as at 30 June 2011 from HK\$22.43 billion as at 31 December 2010. Deposits from customers decreased by 2.3% or HK\$0.62 billion to HK\$26.11 billion as at 30 June 2011 from HK\$26.73 billion as at 31 December 2010. During the period under review, Public Bank (Hong Kong) diversified its sources of funding with an increase in certificates of deposit issued to banks and increase in deposits from financial institutions and banks.

The consolidated capital adequacy ratio of Public Bank (Hong Kong) was strong at 18.5% as at 30 June 2011, and there were no exposures attributed to structured investment vehicles and to Portugal, Ireland, Italy, Greece and Spain as at 30 June 2011.

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

Public Finance

Total loans and advances of Public Finance recorded a small decline of 0.1% or HK\$4.3 million to HK\$4.31 billion as at 30 June 2011 from the position as at 31 December 2010. Deposits from customers increased by 5.6% or HK\$176.1 million to HK\$3.30 billion as at 30 June 2011, from HK\$3.12 billion as at 31 December 2010.

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 30 June 2011, there was no charge over the assets of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Financial Review *(Continued)*

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. 91% of the Group's operating income and 87% of the 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 2010, the Group's operating income from retail and commercial banking and lending decreased by 2.3% or HK\$16.4 million to HK\$688.9 million. The increase in impairment allowance in consumer financing loans and narrowing net interest income have resulted in the decline in the Group's profit before tax from retail and commercial banking and lending by 5.8% or HK\$13.6 million to HK\$222.2 million when compared to the corresponding period in 2010.

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 activities and 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\$3.0 billion as at 30 June 2011. 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 0.5 times as at 30 June 2011, which is the same gearing ratio as at 31 December 2010. The Group's bank borrowings have remaining maturity periods of less than 4 years. In the normal course of its commercial banking business, Public Bank (Hong Kong) has entered into foreign exchange contracts and interest rate swaps and forward contracts to reduce the 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 swaps and forward contracts were immaterial.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Operational Review *(Continued)*

Asset quality

The Group's impaired loans and advances to total loans and advances ratio improved from 1.2% as at 31 December 2010 to 1.0% as at 30 June 2011, due to improved asset quality of the Group's 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 capital adequacy position, 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 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 enroll in 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.

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 2011, no share options to subscribe for shares in the Company were exercised by employees of the Group. As at 30 June 2011, options to subscribe for 27,667,000 shares in the Company remained unexercised.

As at 30 June 2011, the Group's staff force stood at 1,406 employees. For the six months ended 30 June 2011, the Group's total staff and staff-related costs amounted to HK\$201.8 million.

Prospects

The economic outlook of Hong Kong remains uncertain due to the uncertain global economic outlook and public financing crises in European Union countries, but is anticipated to show improvement in the second half of 2011. The close economic ties between Hong Kong and the PRC will continue to benefit Hong Kong from the continuing robust economic growth in the PRC. The positive economic growth in the PRC will benefit the retail businesses in Hong Kong, and lead to improved demand for banking and financing services in Hong Kong and 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.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Prospects *(Continued)*

Competition in the banking and financing industry is expected to remain keen with financial institutions seeking greater market share in loans and advances, customer deposits and fee income. The competitive environment and additional prudential measures introduced by the regulatory authority in Hong Kong will add further pressure on the cost of customer deposits and inter-bank borrowings. However, the Group will continue to safeguard its financial strength, manage risks cautiously and set prudent yet flexible business development strategies with diversified 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, offering of innovative products 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 growth in its banking and financing businesses and improvement in its financial performance in the second half of 2011.

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 2011.

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 2011 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 of directors 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 of directors 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 2011 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, 18 July 2011

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 Datuk Seri Thong Yaw Hong, Mr. Lee Chin Guan and Mr. Quah Poh Keat as Independent Non-executive Directors.