大眾金融控股有限公司*

PUBLIC FINANCIAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

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

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

The Board of Directors (the "Board") of Public Financial Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010 with comparative figures as follows:

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
	Notes	**2010** *HK$'000*	2009 *HK$'000*
Interest income	4	**1,521,866**	1,481,193
Interest expense	4	**(286,617)**	(308,145)
NET INTEREST INCOME		**1,235,249**	1,173,048
Gains less losses from disposal of available-for-sale financial assets		**–**	26,035
Other operating income	5	**276,939**	232,048
Non-interest income		**276,939**	258,083
OPERATING INCOME		**1,512,188**	1,431,131
Operating expenses	6	**(700,805)**	(595,490)
Changes in fair value of investment properties		**9,031**	27,689
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		**820,414**	863,330
Impairment allowance in relation to the Lehman Brothers Minibonds repurchased		**–**	(42,962)
		820,414	820,368
Impairment allowances for loans and advances and receivables	7	**(280,486)**	(511,879)
OPERATING PROFIT		**539,928**	308,489
SHARE OF PROFITS AND LOSSES OF A JOINTLY-CONTROLLED ENTITY		**–**	–

* *For identification purpose only*

	Notes	Year ended 31 December **2010** ***HK$'000***	 2009 *HK$'000*
PROFIT BEFORE TAX		**539,928**	308,489
Tax	*8*	**(89,431)**	(33,416)
PROFIT FOR THE YEAR		**450,497**	275,073
Attributable to:			
Owners of the Company		**450,497**	275,073
EARNINGS PER SHARE (HK$)	*10*		
Basic		**0.410**	0.251
Diluted		**0.410**	0.251

Details of dividends paid/payable are disclosed in note 9 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2010	2009
		HK$'000	*HK$'000*
PROFIT FOR THE YEAR		**450,497**	275,073
OTHER COMPREHENSIVE INCOME/(LOSS):			
Exchange gain/(loss) on translating foreign operations		**13,205**	(80)
Gain on revaluation of available-for-sale financial assets		**–**	11,379
Transfer to consolidated income statement for disposal of available-for-sale financial assets		**–**	(26,035)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	*Note*	**13,205**	(14,736)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**463,702**	260,337
ATTRIBUTABLE TO:			
Owners of the Company		**463,702**	260,337

Note:

There were no tax effects arising from "other comprehensive income/(loss)" in years 2010 and 2009.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Group 31/12/2010 HK$'000	Group 31/12/2009 (Restated) HK$'000	Group 1/1/2009 (Restated) HK$'000	Company 31/12/2010 HK$'000	Company 31/12/2009 (Restated) HK$'000	Company 1/1/2009 (Restated) HK$'000
ASSETS							
Cash and short term placements		**6,021,365**	5,605,620	5,785,272	**35,082**	74,243	309,081
Placements with banks and financial institutions maturing after one month but not more than twelve months		**723,715**	868,483	173,099	**–**	–	–
Derivative financial instruments		**10,167**	11,657	1,151	**–**	–	–
Loans and advances and receivables	*11*	**26,817,872**	24,444,780	24,384,943	**–**	–	–
Available-for-sale financial assets		**6,804**	6,804	21,524	**–**	–	–
Held-to-maturity investments	*12*	**2,709,776**	4,216,634	969,216	**–**	–	–
Inventories of taxi licences		**15,084**	15,084	21,805	**–**	–	–
Investment properties		**188,665**	184,342	165,346	**1,132,190**	1,078,190	982,980
Property and equipment		**119,615**	124,130	119,110	**490**	228	–
Land held under finance leases		**665,400**	668,590	667,990	**–**	–	–
Interests in subsidiaries		**–**	–	–	**6,663,710**	6,667,998	6,660,283
Interest in a jointly-controlled entity		**1,513**	1,513	1,513	**–**	–	–
Deferred tax assets		**10,810**	16,234	9,168	**19**	2,129	–
Goodwill	*13*	**2,774,403**	2,774,403	2,774,403	**–**	–	–
Intangible assets		**718**	718	358	**–**	–	–
Other assets		**263,731**	434,062	234,767	**1,329**	1,483	7,014
TOTAL ASSETS		**40,329,638**	39,373,054	35,329,665	**7,832,820**	7,824,271	7,959,358
EQUITY AND LIABILITIES							
LIABILITIES							
Deposits and balances of banks and other financial institutions at amortised cost		**680,382**	1,024,628	641,732	**–**	–	–
Derivative financial instruments		**5,435**	1,668	4,150	**–**	–	–
Customer deposits at amortised cost		**29,670,825**	29,364,238	24,184,416	**–**	–	–
Certificates of deposit issued at amortised cost		**200,000**	–	879,850	**–**	–	–
Dividends payable		**175,667**	142,729	197,625	**175,667**	142,729	197,625
Unsecured bank loans at amortised cost		**3,038,991**	2,178,679	3,249,219	**2,160,052**	2,178,679	2,150,000
Current tax payable		**40,907**	2,726	6,403	**12**	–	–
Deferred tax liabilities		**23,165**	21,562	24,122	**28,137**	19,227	4,800
Other liabilities		**428,909**	804,606	372,642	**4,968**	5,158	3,401
TOTAL LIABILITIES		**34,264,281**	33,540,836	29,560,159	**2,368,836**	2,345,793	2,355,826
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY							
Issued capital		**109,792**	109,792	109,792	**109,792**	109,792	109,792
Reserves	*14*	**5,955,565**	5,722,426	5,659,714	**5,354,192**	5,368,686	5,493,740
TOTAL EQUITY		**6,065,357**	5,832,218	5,769,506	**5,463,984**	5,478,478	5,603,532
TOTAL EQUITY AND LIABILITIES		**40,329,638**	39,373,054	35,329,665	**7,832,820**	7,824,271	7,959,358

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Year ended 31 December	
	2010	2009
	HK$'000	*HK$'000*
TOTAL EQUITY		
Balance at the beginning of the year	**5,832,218**	5,769,506
Profit for the year	**450,497**	275,073
Other comprehensive income/(loss)	**13,205**	(14,736)
Total comprehensive income for the year	**463,702**	260,337
Dividends declared on shares	**(230,563)**	(197,625)
Balance at the end of the year	**6,065,357**	5,832,218

NOTES TO FINANCIAL STATEMENTS

1.1 STATUTORY FINANCIAL STATEMENTS

The financial information set out in this announcement does not constitute the Group's statutory financial statements for the year ended 31 December 2010. Certain financial information in this announcement is extracted from the statutory financial statements for the year ended 31 December 2010, which will be available from the websites of The Stock Exchange of Hong Kong Limited and the Company.

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

1.2 BASIS OF PREPARATION

The consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of 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

Basis of consolidation from 1 January 2010

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

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 year 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 it 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.

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 consolidation prior to 1 January 2010

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

(a) Acquisition of non-controlling interests (formerly known as minority interests), prior to 1 January 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.

(b) Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interests and the parent shareholders.

(c) Upon loss of control, the Group accounted for the investment retained at its proportionate share of net assets value at the date control was lost. The carrying value of such investments at 1 January 2010 have not been restated.

Basis of capital disclosures

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

Should the Group have not complied with externally imposed capital requirements of the HKMA, capital management plans should be submitted to the HKMA for restoration of capital to the minimum 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 is set aside for non-distributable regulatory reserve as part of supplementary capital included in the capital base pursuant to the HKMA capital requirements.

1.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The HKICPA has issued a number of new HKFRSs, which are generally effective for current accounting periods. The Group has adopted the following HKFRSs and HKASs issued up to 31 December 2010 which are pertinent to its operations and relevant to these financial statements.

• HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters
• 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 27 (Revised)	Consolidated and Separate Financial Statements
• HKAS 39 Amendment	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	Amendment to HK-Int 4 Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases
• HK-Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
• HKFRS 5 Amendments included in Improvements to HKFRSs issued in October 2008	Amendment to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary
• Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009

The principal effects of adopting these new and revised HKFRSs are as follows:

HKFRS 1 Amendments address the retrospective application of HKFRSs to particular situations (such as exempt entities using the full cost method from the 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 have no financial impact on the Group.

HKFRS 1 (Revised) is 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 HKFRSs, the revisions have no 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 have no 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 (previously 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 consolidated income statement; and (v) separately accounting for pre-existing relationships between the acquirer and acquiree. The amendments have no 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 have no financial impact on the Group.

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

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 has no 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 states 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. The corresponding amortisation has also been reclassified to depreciation. The effect of the above changes are summarised below:

The amortisation of prepaid land lease will decrease and there will be a corresponding increase in depreciation of land held under finance leases. The impact to income is offset by each other.

As a result of retrospective application of the amendments which results in restatement of items in the consolidated statement of financial position, a consolidated statement of financial position as at 1 January 2009, and the related notes affected by the amendments have been presented in these financial statements.

HK-Int 5 addresses the classification of term loans with repayment on demand clause as current or non-current liabilities by entities reporting under HKFRSs. The adoption of HK-Int 5 has resulted in a change in disclosure that the entire term loan has been re-classified from repayable within one year to repayment on demand when a repayment on demand clause provides the lender with a clear and unambiguous unconditional right to demand repayment at any time at its sole discretion and a borrower does not have unconditional right to defer payment for at least 12 months after the reporting date. The effect of the above changes is summarised below:

The impact is to reclassify the unsecured bank loans of HK$80,000,000 from repayable within one year to repayment on demand.

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. The amendments have no 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 a separate transitional provision for each standard. While the adoption of some of them may result in changes in accounting policy, none of these amendments have a material financial impact on the Group.

HKFRS 2 Share-based Payment: It revises the scope that transactions 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 do not fall under the scope of this HKFRS.

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 1 Presentation of Financial Statements: It provides guidance on the classification of current or non-current convertible instruments.

HKAS 7 Statement of Cash Flows: It specifies that only expenditures that result in recognised assets in the consolidated statement of financial position are eligible for classification as investing activities.

HKAS 17 Leases: 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 18 Revenue: It provides additional guidance to determine whether an entity is acting as principal or agent.

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”.

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.

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

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

•	HKFRS 1 Amendment	Amendment to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[2]
•	HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets[4]
•	HKFRS 9	Financial Instruments[5]
•	HKAS 24 (Revised)	Related Party Disclosures[3]
•	HKAS 32 Amendment	Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues[1]
•	Amendments to HK(IFRIC)-Int 14	Prepayments of a Minimum Funding Requirement[3]
•	HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

Apart from the above, the HKICPA has 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 annual periods beginning on or after 1 July 2010, amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there is a separate transitional provision for each standard or interpretation.

1 effective for annual periods beginning on or after 1 February 2010
2 effective for annual periods beginning on or after 1 July 2010
3 effective for annual periods beginning on or after 1 January 2011
4 effective for annual periods beginning on or after 1 July 2011
5 effective for annual periods beginning on or after 1 January 2013

HKFRS 1 Amendment relieves first-time adopters of HKFRSs from providing the additional disclosures in HKFRS 7 Amendments. As the Group is not a first-time adopter of HKFRSs, the amendment will not have any financial impact on the Group.

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.

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 would 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 these 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. The Group expects to adopt HKFRS 9 from 1 January 2011 subject to the completion date of accounting system enhancements.

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.

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 a 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 Amendment: 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 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 arose from business combinations whose acquisition dates preceded 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 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.

(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.

2. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Held-to-maturity investments

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

Estimation uncertainty

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

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

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

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2010 and 2009 was HK$2,774,403,000, of which HK$1,942,082,000 was attributed to Public Finance and HK$832,321,000 was attributed to Public Bank (Hong Kong). Further details are set out in note 13.

3. SEGMENT INFORMATION

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

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

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

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

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

The following tables represent revenue and profit information for these segments for the years ended 31 December 2010 and 2009, and certain asset and liability information regarding business segments as at 31 December 2010 and 2009.

	Retail and commercial banking and lending		Wealth management services, stockbroking and securities management		Other businesses		Eliminated on consolidation		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	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	1,235,209	1,172,988	40	60	–	–	–	–	1,235,249	1,173,048
Other operating income:										
Fees and commission income	144,691	117,396	101,703	84,218	425	612	–	–	246,819	202,226
Others	15,570	14,299	–	360	14,550	15,163	–	–	30,120	29,822
Profit on sale of available-for-sale financial assets	–	–	–	26,035	–	–	–	–	–	26,035
Inter-segment transactions:										
Fee and commission income	–	–	–	–	714	245	(714)	(245)	–	–
Operating income	1,395,470	1,304,683	101,743	110,673	15,689	16,020	(714)	(245)	1,512,188	1,431,131
Segment results	467,319	279,118	50,620	17,289	21,989	12,082	–	–	539,928	308,489
Share of profits and losses of a jointly-controlled entity									–	–
Profit before tax									539,928	308,489
Tax									(89,431)	(33,416)
Profit for the year									450,497	275,073
Segment assets other than interest in a jointly-controlled entity and intangible assets	36,958,536	35,730,967	377,117	649,793	205,640	199,426	–	–	37,541,293	36,580,186
Interest 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
	39,734,452	38,506,883	377,835	650,511	205,640	199,426	–	–	40,317,927	39,356,820
Unallocated assets:										
Deferred tax assets and tax recoverable									11,711	16,234
Total assets									40,329,638	39,373,054
Segment liabilities	33,731,692	32,831,767	228,923	526,033	63,927	16,019	–	–	34,024,542	33,373,819
Unallocated liabilities:										
Deferred tax liabilities and tax payable									64,072	24,288
Dividends payable									175,667	142,729
Total liabilities									34,264,281	33,540,836
Other segment information										
Additions to non-current assets – capital expenditure	19,362	29,956	–	–	–	–	–	–	19,362	29,956
Depreciation of property and equipment and land held under finance leases	31,626	30,274	–	–	–	–	–	–	31,626	30,274
Changes in fair value of investment properties	–	–	–	–	(9,031)	(27,689)	–	–	(9,031)	(27,689)
Impairment allowances for loans and advances and receivables, held-to-maturity investments and available-for-sale financial assets	280,486	511,879	–	–	–	–	–	–	280,486	511,879
Net losses on disposal of property and equipment	108	46	–	–	–	–	–	–	108	46

Geographical information

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

Operating income or revenue from major customers

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

4. INTEREST INCOME AND EXPENSE

	Year ended 31 December	
	2010	2009
	HK$'000	*HK$'000*
Interest income from:		
Loans and advances and receivables	**1,419,480**	1,379,815
Short term placements and placements with banks	**29,319**	47,958
Held-to-maturity investments	**73,067**	53,420
	1,521,866	1,481,193
Interest expense on:		
Deposits from banks and financial institutions	**18,176**	41,720
Deposits from customers	**218,146**	238,038
Bank loans	**50,295**	28,387
	286,617	308,145

Interest income and interest expenses for the year ended 31 December 2010, calculated using effective interest method, on financial assets and financial liabilities which are not designated at fair value through profit or loss amounted to HK$1,521,866,000 and HK$286,617,000, respectively (2009: HK$1,481,193,000 and HK$308,145,000). The interest income of the impaired loans and advances for the year ended 31 December 2010 amounted to HK$10,850,000 (2009: HK$10,645,000).

5. OTHER OPERATING INCOME

	Year ended 31 December	
	2010	2009
	HK$'000	*HK$'000*
Fees and commission income:		
Retail and commercial banking	**146,213**	119,087
Wealth management services, stockbroking and securities management	**101,703**	84,218
	247,916	203,305
Less: Fees and commission expense	**(1,097)**	(1,079)
Net fees and commission income	**246,819**	202,226
Gross rental income	**12,880**	13,336
Less: Direct operating expenses	**(77)**	(89)
Net rental income	**12,803**	13,247
Gains less losses arising from dealing in foreign currencies	**6,958**	272
Net losses on disposal of property and equipment	**(108)**	(46)
Dividend income from listed investments	**13**	360
Dividend income from unlisted investments	**980**	994
Net income on derivative financial instruments	**4,710**	9,989
Others	**4,764**	5,006
	276,939	232,048

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

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

6. OPERATING EXPENSES

	Year ended 31 December	
	2010	2009
	HK$'000	*HK$'000*
Staff costs:		
Salaries and other staff costs	**371,055**	297,178
Pension contributions	**16,640**	15,541
Less: Forfeited contributions	**(44)**	(8)
Net retirement benefit schemes	**16,596**	15,533
	387,651	312,711
Other operating expenses:		
Operating lease rentals on leasehold buildings	**49,872**	45,743
Depreciation of property and equipment and land held under finance leases (Restated)	**31,626**	30,274
Auditors' remuneration	**3,409**	3,490
Administrative and general expenses	**67,005**	56,372
Others	**161,242**	146,900
Operating expenses before changes in fair value of investment properties	**700,805**	595,490

As at 31 December 2010, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years (2009: Nil). The current year credits arose in respect of staff who left the schemes during the year.

7. IMPAIRMENT ALLOWANCES

	Year ended 31 December	
	2010	2009
	HK$'000	*HK$'000*
Net charge for/(write-back of) impairment allowances:		
– loans and advances	**278,172**	516,571
– trade bills, accrued interest and receivables	**2,314**	(4,692)
	280,486	511,879
Net charge for/(write-back of) impairment losses and allowances:		
– individually assessed	**357,407**	481,393
– collectively assessed	**(76,921)**	30,486
	280,486	511,879
Of which:		
– new impairment losses and allowances (including any amount directly written off during the year)	**514,834**	631,562
– releases and recoveries	**(234,348)**	(119,683)
Net charge to the consolidated income statement	**280,486**	511,879

There were no impairment allowances for financial assets other than loans and advances and receivables for the years ended 31 December 2010 and 2009.

8. TAX

	Year ended 31 December	
	2010	2009
	HK$'000	*HK$'000*
Current tax charge:		
Hong Kong	**84,203**	40,185
Elsewhere	**5,324**	3,905
Over-provisions in prior years	**(7,123)**	(1,048)
Deferred tax charge/(credit)	**7,027**	(9,626)
	89,431	33,416

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 year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

	2010					
	Hong Kong		**Mainland China**		**Total**	
	HK$'000	*%*	***HK$'000***	*%*	***HK$'000***	*%*
Profit before tax	**507,912**		**32,016**		**539,928**	
Tax at the applicable tax rate	**83,806**	**16.5**	**7,044**	**22.0**	**90,850**	**16.8**
Effect on change in tax rates	**–**	**–**	**40**	**0.1**	**40**	**–**
Estimated tax effect of net expense/ (income) that is not deductible/(taxable)	**6,809**	**1.3**	**(420)**	**(1.3)**	**6,389**	**1.2**
Estimated tax losses not recognised	**3**	**–**	**–**	**–**	**3**	**–**
Estimated tax losses from previous periods utilised	**(14)**	**–**	**–**	**–**	**(14)**	**–**
Adjustments in respect of deferred tax of previous periods	**(714)**	**(0.1)**	**–**	**–**	**(714)**	**(0.1)**
Adjustments in respect of current tax of previous periods	**(3,696)**	**(0.7)**	**(3,427)**	**(10.7)**	**(7,123)**	**(1.3)**
Tax charge at the Group's effective rate	**86,194**	**17.0**	**3,237**	**10.1**	**89,431**	**16.6**

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

9. DIVIDENDS

	2010	2009		
	HK$ per ordinary share	*HK$ per ordinary share*	**2010** ***HK$'000***	2009 *HK$'000*
Interim:				
First	**0.05**	0.05	**54,896**	54,896
Second	**0.16**	0.13	**175,667**	142,729
	0.21	0.18	**230,563**	197,625

10. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the year of HK$450,497,000 (2009: HK$275,073,000) and the weighted average number of ordinary shares of 1,097,917,618 (2009: 1,097,917,618) in issue during the year.

(b) Diluted earnings per share

The share options outstanding during the years ended 31 December 2010 and 2009 had nil effect on the basic earnings per share for these years. The calculation of diluted earnings per share for the year ended 31 December 2010 was based on the profit for the year of HK$450,497,000 (2009: HK$275,073,000) and on the weighted average number of ordinary shares of 1,097,917,618 (2009: 1,097,917,618), being the weighted average number of ordinary shares of 1,097,917,618 (2009: 1,097,917,618) in issue during the year as used in the basic earnings per share calculation.

11. LOANS AND ADVANCES AND RECEIVABLES

	Group 2010 HK$'000	Group 2009 HK$'000
Loans and advances to customers	**26,850,951**	24,516,942
Trade bills	**31,170**	70,286
Loans and trade bills	**26,882,121**	24,587,228
Accrued interest	**83,672**	72,955
	26,965,793	24,660,183
Other receivables	**56,953**	55,247
Gross loans and advances and receivables	**27,022,746**	24,715,430
Less: Impairment allowances for loans and advances and receivables		
– individually assessed	**(171,967)**	(160,868)
– collectively assessed	**(32,907)**	(109,782)
	(204,874)	(270,650)
Loans and advances and receivables	**26,817,872**	24,444,780

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, listed shares, taxi licences, public light bus licences and car bodies.

Loans and advances and receivables are summarised as follows:

	Group 2010 HK$'000	Group 2009 HK$'000
Neither past due nor impaired loans and receivables	**26,150,795**	23,703,256
Past due but not impaired loans and advances and receivables	**540,761**	478,537
Individually impaired loans and advances	**315,715**	527,166
Individually impaired receivables	**15,475**	6,471
Total loans and advances and receivables	**27,022,746**	24,715,430

About 63% 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.

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

	Group			
	2010		2009	
	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	**90,673**	**0.34**	175,862	0.72
One year or less but over six months	**5,790**	**0.02**	72,266	0.30
Over one year	**175,927**	**0.66**	103,731	0.42
Loans and advances overdue for more than three months	**272,390**	**1.02**	351,859	1.44
Rescheduled loans and advances overdue for three months or less	**39,413**	**0.15**	79,383	0.32
Impaired accounts overdue for three months or less	**3,912**	**0.01**	95,924	0.39
Total overdue and impaired loans and advances	**315,715**	**1.18**	527,166	2.15

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

	Group	
	2010 *HK$'000*	2009 *HK$'000*
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	**12**	2,492
One year or less but over six months	**1,778**	329
Over one year	**13,683**	3,573
Trade bills, accrued interest and other receivables overdue for more than three months	**15,473**	6,394
Impaired accounts overdue for three months or less	**2**	77
Total overdue and impaired trade bills, accrued interest and other receivables	**15,475**	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.

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

	Group					
	2010			2009		
	Hong Kong	**Mainland China**	**Total**	Hong Kong	Mainland China	Total
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
(i) Analysis of overdue loans and advances and receivables						
Loans and advances and receivables overdue more than three months	**154,018**	**133,845**	**287,863**	227,420	130,833	358,253
Individual impairment allowances	**92,671**	**55,942**	**148,613**	68,888	37,739	106,627
Collective impairment allowances	**–**	**–**	**–**	72,375	–	72,375
Current market value and fair value of collateral			**252,189**			182,720
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	**197,345**	**133,845**	**331,190**	402,804	130,833	533,637
Individual impairment allowances	**116,025**	**55,942**	**171,967**	123,129	37,739	160,868
Collective impairment allowances	**–**	**–**	**–**	72,375	–	72,375
Current market value and fair value of collateral			**253,689**			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.

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

	Group	
	2010	2009
	HK$'000	*HK$'000*
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	**252,189**	182,720
Covered portion of overdue loans and advances	**88,701**	91,885
Uncovered portion of overdue loans and advances	**183,689**	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.

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

– Central government with grading of Aa3 or above

– Unrated public sector enterprises

– Banks with grading of Baa2 or above

– Unrated corporation

– Individual shareholders and directors of corporate customers

(d) Repossessed assets

As at 31 December 2010, the total value of repossessed assets of the Group amounted to HK$26,190,000 (2009: HK$ 25,715,000).

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

	Group			
	2010		2009	
	Gross amount *HK$'000*	**Percentage of total loans and advances**	Gross amount *HK$'000*	Percentage of total loans and advances
Loans and advances overdue less than three months	**539,829**	**2.01**	476,162	1.94
Rescheduled but not impaired loans and advances	**–**	**–**	–	–
	539,829	**2.01**	476,162	1.94
Trade bills, accrued interest and other receivables overdue less than three months	**932**		2,375	

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

Group

	2010		
	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	**(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**

Group

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

(g) **Finance lease receivables**

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

	Group			
	Minimum lease payments		**Present value of minimum lease payments**	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts receivable under finance leases:				
Within one year	**437,537**	372,656	**340,354**	273,611
In the second to fifth years, inclusive	**1,157,354**	1,072,706	**889,179**	789,937
Over five years	**3,853,487**	3,218,630	**3,287,420**	2,559,516
	5,448,378	4,663,992	**4,516,953**	3,623,064
Less: Unearned finance income	**(931,425)**	(1,040,928)		
Present value of minimum lease payments receivable	**4,516,953**	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.

12. HELD-TO-MATURITY INVESTMENTS

	Group	
	2010	2009
	HK$'000	*HK$'000*
Unlisted:		
Certificates of deposit held	**147,767**	812,130
Treasury bills (including Exchange Fund Bills)	**1,099,681**	499,746
Other debt securities	**1,462,328**	2,904,758
	2,709,776	4,216,634
Analysed by type of issuers:		
– central government	**1,099,681**	499,746
– banks and other financial institutions	**1,610,095**	3,716,888
	2,709,776	4,216,634

Impairment allowances of held-to-maturity investments were nil as at 31 December 2010 and 2009. There were no movement in impairment allowances for the years ended 31 December 2010 and 2009.

There were neither impaired nor overdue held-to-maturity investments as at 31 December 2010 and 2009. There were no listed held-to-maturity investments as at 31 December 2010 and 2009.

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

13. GOODWILL

	Group	
	2010	2009
	HK$'000	*HK$'000*
Cost:		
At the beginning and at the end of the year	**2,774,403**	2,774,403

Impairment test of goodwill

There are two cash-generating units (the "CGUs") namely Public Finance and Public Bank (Hong Kong) which represent the main operating entities within the business segment "Retail and commercial banking and lending businesses" identified by the Group. Goodwill acquired through business combinations is allocated on pro-rata basis to the two CGUs based on the ratio of recoverable amounts of a CGU to those of the other CGU at the date of acquisition. The recoverable amounts of the CGUs at each subsequent reporting date are determined based on the value in use using the present value of cash flows taking into account the expected operating synergy and profitability and growth of businesses arising from the acquisition of Public Bank (Hong Kong) and its subsidiaries. The cash flow projections are based on financial budgets approved by management covering a 10-year period and assumed growth rates are used to extrapolate the cash flows in the following 40 years. The financial budgets are prepared based on a 10-year business plan which is appropriate after considering of sustainability of business growth, stability of core business developments, long term economic cycle and achievement of business targets extrapolated from a track record of financial results. All cash flows are discounted at a discount rate of 3% and 7% under baseline and stressed scenarios, respectively. Management's financial model assumes an average of growth rates from 5% to 6% per annum from the eleventh to fiftieth year taking into account long term gross domestic product growth and other relevant economic factors. The discount rates used are based on the rates which reflect specific risks relating to the CGUs.

No impairment loss has been recognised in respect of goodwill for the years ended 31 December 2010 and 2009 as its value in use exceeds the carrying amount.

14. RESERVES

Group

	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 2009	4,013,296	829	96,116	14,656	45,765	304,551	1,149,441	35,060	5,659,714
Profit for the year	–	–	–	–	–	–	275,073	–	275,073
Other comprehensive loss	–	–	–	(14,656)	–	–	–	(80)	(14,736)
Transfer to retained profits	–	–	–	–	–	(38,170)	38,170	–	–
Dividends for 2009 *(note 9)*	–	–	–	–	–	–	(197,625)	–	(197,625)
At 31 December 2009 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 year	**–**	**–**	**–**	**–**	**–**	**–**	**450,497**	**–**	**450,497**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**13,205**	**13,205**
Transfer from retained profits	**–**	**–**	**–**	**–**	**–**	**55,943**	**(55,943)**	**–**	**–**
Dividends for 2010 *(note 9)*	**–**	**–**	**–**	**–**	**–**	**–**	**(230,563)**	**–**	**(230,563)**
At 31 December 2010	**4,013,296**	**829**	**96,116**	**–**	**45,765**	**322,324**	**1,429,050**	**48,185**	**5,955,565**

Company

	Share premium account HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Available-for-sale financial assets revaluation reserve HK$'000	Employee share-based compensation reserve HK$'000	Regulatory reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2009	4,013,344	829	194,176	–	45,765	–	1,239,626	5,493,740
Dividends for 2009 *(note 9)*	–	–	–	–	–	–	(197,625)	(197,625)
Profit for the year	–	–	–	–	–	–	72,571	72,571
At 31 December 2009 and 1 January 2010	**4,013,344**	**829**	**194,176**	**–**	**45,765**	**–**	**1,114,572**	**5,368,686**
Dividends for 2010 *(note 9)*	**–**	**–**	**–**	**–**	**–**	**–**	**(230,563)**	**(230,563)**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**216,069**	**216,069**
At 31 December 2010	**4,013,344**	**829**	**194,176**	**–**	**45,765**	**–**	**1,100,078**	**5,354,192**

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

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

Deducted from the contributed surplus of the Group as at 31 December 2010 was positive goodwill of HK$98,406,000 (2009: HK$98,406,000), which arose from the acquisition of certain subsidiaries in prior years.

Note: In accordance with the HKMA's guideline "Impact of the New Hong Kong Accounting Standards on Authorised Institutions' Capital Base and Regulatory Reserve" (the "Guideline"), the regulatory reserve, together with the Group's collective impairment allowances, were included as supplementary capital on the Group's capital base at 31 December 2010 as defined in the Guideline.

15. OPERATING LEASE ARRANGEMENTS

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

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

	Group	
	2010	2009
	HK$'000	*HK$'000*
Within one year	**5,951**	7,349
In the second to fifth years, inclusive	**4,107**	2,003
	10,058	9,352

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

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

	Group	
	2010	2009
	HK$'000	*HK$'000*
Within one year	**41,839**	38,580
In the second to fifth years, inclusive	**22,521**	27,183
	64,360	65,763

16. OFF-BALANCE SHEET EXPOSURE

Contingent liabilities, commitments and derivatives

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

Group

	2010				
	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 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 commitment contracted for, but not provided in the financial statements	**7,160**				

Group

			2009		
	Contractual amount	Credit equivalent amount	Credit risk–weighted amount	Positive fair value–assets	Negative fair value–liabilities
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Direct credit substitutes	256,225	256,225	50,611	–	–
Transaction-related contingencies	2,653	1,327	197	–	–
Trade-related contingencies	100,655	20,131	16,203	–	–
Forward forward deposits placed	186,651	186,651	37,330	–	–
Forward asset purchases	21,570	21,570	4,314	–	–
	567,754	485,904	108,655	–	–
Derivatives held for trading:					
Foreign exchange rate contracts	1,542,301	25,920	59	11,657	1,668
Interest rate swaps	–	–	–	–	–
	1,542,301	25,920	59	11,657	1,668
Other commitments with original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	185,230	92,615	92,615	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	2,677,481	–	–	–	–
	4,972,766	604,439	201,329	11,657	1,668
Capital commitment contracted for, but not provided for 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 31 December 2010 and 2009, the Group had no material outstanding contingent liabilities and commitments save as disclosed above.

17. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

Group

	2010							
	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	–	–	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

Group

	2009							
	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$'000	Over 1 year but not more than 5 years HK$'000	Over 5 years HK$'000	Repayable within an indefinite period HK$'000	Total HK$'000
Financial assets :								
Cash and short term placements	726,251	4,879,369	–	–	–	–	–	5,605,620
Placements with banks and financial institutions	–	–	779,485	88,998	–	–	–	868,483
Loans and advances and receivables	963,795	1,560,843	1,115,379	2,920,641	7,076,453	10,736,956	341,363	24,715,430
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	–	2,859,338	903,823	411,646	41,827	–	–	4,216,634
Other assets	12	385,687	749	276	162	–	47,176	434,062
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

COMPLIANCE WITH SUPERVISORY POLICY MANUALS

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

CORPORATE GOVERNANCE

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting year covered by the 2010 annual report, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules except for the deviation in respect of the service term under code provision A.4.1 of the Listing Rules.

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

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

DIVIDENDS

The first interim dividend of HK$0.05 (2009: HK$0.05) per ordinary share was paid on 6 August 2010. The second interim dividend of HK$0.16 (2009: HK$0.13) per ordinary share was declared on 28 December 2010 and will be payable on 18 February 2011 to shareholders of the Company whose names appear on the register of members on 26 January 2011. The directors do not recommend the payment of a final dividend for the year (2009: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 1 March 2011 to 4 March 2011, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the forthcoming annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 28 February 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overview

For the year under review, the economy of Hong Kong has shown moderate recovery with unemployment rate continued to improve further. The residential property market was robust during the year, but showed signs of slowing down towards the end of the year after the implementation of prudential measures by the Hong Kong Government to address concerns over a property price bubble caused by speculative investments in the property sector. Due to the close economic ties with other nations globally which are still experiencing slow growth and economic uncertainties, there remains uncertainties in the economic and market conditions in Hong Kong and the People's Republic of China (the "PRC"). With intense competition for the loan business, the operating environment in the banking industry in Hong Kong and the PRC was challenging in the year under review.

During the year under review, retail sales activities and the unemployment rate in Hong Kong showed encouraging signs of improvement. Earnings and loan asset quality of financial institutions in Hong Kong had shown favourable improvement generally. The Group had benefited from these factors and recorded a significant increase in earnings by 63.8% or HK$175.4 million to HK$450.5 million for the year ended 31 December 2010 as compared to 2009.

Group Financial Performance

Loans and Advances, Deposits from Customers and Total Assets

The Group's total loans and advances (including trade bills) increased by 9.3% or HK$2.29 billion to HK$26.88 billion as at 31 December 2010 from HK$24.59 billion as at 31 December 2009. Deposits from customers increased by 1.0% or HK$0.31 billion to HK$29.67 billion as at 31 December 2010 from HK$29.36 billion as at 31 December 2009.

Total assets of the Group increased by HK$0.96 billion to HK$40.33 billion as at 31 December 2010 from HK$39.37 billion as at 31 December 2009.

Revenue and Earnings

For the year ended 31 December 2010, the Group recorded a profit after tax of HK$450.5 million, representing a significant increase of 63.8% or HK$175.4 million when compared to the profit after tax of HK$275.1 million in the previous year. The increase in profit after tax was mainly attributed to lower bad debt charge for impaired loans in the consumer financing business. Impairment allowances for loans and advances decreased by 45.2% or HK$231.4 million to HK$280.5 million in 2010 when compared to HK$511.9 million in the previous year.

The Group's basic earnings per share for 2010 was HK$0.41. The Board of Directors had declared a first interim and a second interim dividend of HK$0.05 per share and HK$0.16 per share in June 2010 and December 2010 respectively. The Board of Directors does not recommend the payment of a final dividend, making a total dividend for the year of HK$0.21 per share (2009: HK$0.18 per share).

For the year under review, the Group recorded an increase in total operating income of 5.7% or HK$81.1 million to HK$1,512.2 million from HK$1,431.1 million in the previous year, contributed by an increase in net interest income and fee income from the Group's stock brokering and loans related businesses.

The Group's net interest income increased by 5.3% or HK$62.2 million to HK$1,235.2 million. Interest expense decreased by 7.0% or HK$21.5 million to HK$286.6 million whilst interest income increased by 2.7% or HK$40.7 million to HK$1,521.9 million. The Group's non-interest income (excluding gains on disposal of available-for-sale financial assets) increased by 19.3% or HK$44.9 million to HK$276.9 million when compared to the previous year.

Total operating costs and overheads (before change in the fair value of investment properties) increased by 17.7% or HK$105.3 million, mainly due to increase in staff and premises related costs. The gain in the change in the fair value of investment properties decreased by HK$18.7 million to HK$9.03 million when compared to the previous year.

Branch Network

Public Bank (Hong Kong) has 30 branches (not including an additional new branch which will be opened for business in late January 2011) in Hong Kong and 3 branches in Shenzhen in the PRC to provide a broad range of commercial and retail banking services. Public Finance, a subsidiary of Public Bank (Hong Kong), has a network of 42 branches in Hong Kong. Winton Financial Limited ("Winton"), another operating subsidiary of the Company, which operates under a money lenders licence, expanded its network by 1 branch in 2010 to 9 branches in Hong Kong to provide personal financing to its target customer segment. Accordingly, the Group has a combined branch network of 84 branches to serve its customers.

Business development of Public Bank (Hong Kong)

During the year under review, total loans and advances (including trade bills) of Public Bank (Hong Kong) recorded a moderate increase of 10.6% or HK$2.14 billion to HK$22.43 billion as at 31 December 2010 from HK$20.29 billion as at 31 December 2009 in a highly competitive and challenging banking industry in Hong Kong. Deposits from customers grew by 2.6% or HK$0.67 billion to HK$26.73 billion as at 31 December 2010 from HK$26.06 billion as at 31 December 2009.

The consolidated capital adequacy ratio of Public Bank (Hong Kong) stood at over 18% and it had no exposure attributed directly to structured investment vehicles, US-subprime mortgages and the five "PIIGS" countries as at the end of 2010.

Public Bank (Hong Kong) will continue to identify suitable locations for the relocation and opening of new branches to expand its reach and develop its banking and banking related financial services businesses and expand its customer base.

Segmental information

The Group's businesses comprise three main segments: (i) retail and commercial banking and lending, (ii) stockbroking and wealth management services, and (iii) other businesses. In 2010, over 80% of the Group's operating income and profit before tax was contributed by retail and commercial banking and lending in Hong Kong. When compared to the previous year, the Group's operating income from retail and commercial banking and lending business increased by 7.0% or HK$90.8 million to HK$1,395.5 million. Profit before tax from retail and commercial banking and lending business for 2010 increased by 67.4% or HK$188.2 million to HK$467.3 million mainly due to a significant improvement in impairment allowances for impaired loans and advances.

Contingent liabilities and commitments

The Group has no material contingent liabilities (other than those in the normal course of its banking and finance businesses related to treasury and trade finance activities and loan commitments disclosed in the notes to the financial statements) as at the end of the year under review. The Group did not incur any material capital expenditure or enter into any material commitments in respect of capital expenditure during the year under review. 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 year under review, this charge over the deposits was released and there was no charge over the assets of the Group as at 31 December 2010.

Operational Review

Funding and capital management

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

The Group relies principally on its internally generated capital, deposits from customers, deposits from financial institutions and the issuance of certificates of deposit to fund its retail consumer financing business and retail and commercial banking business. The Group's bank borrowings in the form of term loans denominated in Hong Kong dollars at floating interest rates stood at HK$3.0 billion as at the end of 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 0.5 times as at 31 December 2010. The bank borrowings have remaining maturity periods of less than 4 years. In the normal course of its commercial banking business, Public Bank (Hong Kong) had entered into foreign exchange and interest rate swap and forward contracts to reduce foreign exchange rate risk and interest rate risk exposures of the Group. Exposures to fluctuations in foreign exchange rates and interest rates were minimal during the year under review.

Asset quality

The Group's impaired loans to total loans ratio improved to 1.2% as at 31 December 2010 from 2.2% as at 31 December 2009 with improvement in the asset quality of the Group's unsecured consumer financing loans. The Group will continue to adopt a prudent credit risk management strategy and pursue the recovery of impaired loans diligently.

Human resource management

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

Options to subscribe for 66,526,000 shares in the Company were granted to employees of the Group in May 2005 pursuant to the Company's employees share option scheme approved by shareholders on 28 February 2002. In 2010, no share options to subscribe for shares in the Company were exercised by employees of the Group. As at 31 December 2010, options to subscribe for 28,509,000 shares in the Company remained unexercised.

As at 31 December 2010, the Group's staff force stood at 1,388 employees. The Group's total staff and staff related costs for 2010 amounted to HK$387.7 million.

Prospects

The economic and labour market conditions in Hong Kong are anticipated to improve further with strengthening consumer confidence. The positive economic policies and measures implemented in Hong Kong and in the PRC are expected to continue benefiting the consumer financing and commercial lending businesses of the Group. However, there is a degree of uncertainty in the outlook on the sustainability of the economic growth in Hong Kong and the PRC in 2011, as well as in the recovery of the global economy. The potential impact of the second round of quantitative easing in the US and the vulnerabilities of the global economy and financial systems will have an impact on the Hong Kong economy. An overheated property market in Hong Kong and in the PRC will remain a concern. The rise in property prices and rentals in Hong Kong may bring along inflationary pressures and may impact the profitability of financial institutions in Hong Kong in 2011.

Notwithstanding the aforesaid, the Group will continue to focus on expanding its retail and commercial banking business and consumer finance business cautiously with innovative new products and sound marketing strategies, and improvement in customer service to increase market share. The Group will continue to seek greater synergies within its business operations by increasing cross-selling of products and services throughout the combined branch network of Public Bank (Hong Kong), Public Finance and Winton in the year ahead.

Competition in the banking and financing industry in Hong Kong 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.

The exit of the full deposit guarantee scheme by the Hong Kong Government at the end of 2010 is anticipated to have some impact on increasing the cost of customer deposits and thus on the net interest margin of financial institutions in 2011. The Group will continue to safeguard its financial strength and capital adequacy, manage risks cautiously and set prudent yet flexible business development strategies to strike a balance between business growth and risk management. The Group will continue to pursue long term business growth objectives and take steps to align business strategies with future expansion plans, maintain profitability growth with prudent capital and funding management in meeting the challenges in the banking industry.

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

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

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

REVIEW BY AUDIT COMMITTEE

The 2010 annual results have been reviewed by the Company's Audit Committee which comprises three Independent Non-executive Directors and one Non-executive Director.

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

Hong Kong, 14 January 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 Dato' Thong Yaw Hong, Mr. Lee Chin Guan and Mr. Quah Poh Keat as Independent Non-executive Directors.