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 2011

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 2011 with comparative figures as follows:

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
	Notes	**2011** *HK$'000*	2010 *HK$'000*
Interest income	*4*	**1,589,621**	1,521,866
Interest expense	*4*	**(377,220)**	(286,617)
NET INTEREST INCOME		**1,212,401**	1,235,249
Other operating income	*5*	**276,759**	276,939
OPERATING INCOME		**1,489,160**	1,512,188
Operating expenses	*6*	**(734,176)**	(700,805)
Changes in fair value of investment properties		**6,644**	9,031
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		**761,628**	820,414
Impairment allowance written back in relation to the Lehman Brothers Minibonds repurchased		**34,157**	–
		795,785	820,414
Impairment allowances for loans and advances and receivables	*7*	**(327,574)**	(280,486)
PROFIT BEFORE TAX		**468,211**	539,928
Tax	*8*	**(93,342)**	(89,431)
PROFIT FOR THE YEAR		**374,869**	450,497
ATTRIBUTABLE TO:			
Owners of the Company		**374,869**	450,497
EARNINGS PER SHARE (HK$)	*10*		
Basic		**0.341**	0.410
Diluted		**0.341**	0.410

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

* *For identification purpose only*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2011	2010
	HK$'000	*HK$'000*
PROFIT FOR THE YEAR	**374,869**	450,497
OTHER COMPREHENSIVE INCOME FOR THE YEAR:		
Exchange gain on translating foreign operations, net of tax	**17,240**	13,205
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**392,109**	463,702
ATTRIBUTABLE TO:		
Owners of the Company	**392,109**	463,702

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**31/12/2011** *HK$'000*	31/12/2010 *HK$'000*
ASSETS			
Cash and short term placements		**4,575,282**	6,021,365
Placements with banks and financial institutions maturing after one month but not more than twelve months		**513,527**	723,715
Derivative financial instruments		**3,220**	10,167
Loans and advances and receivables	*11*	**27,575,499**	26,817,872
Available-for-sale financial assets		**6,804**	6,804
Held-to-maturity investments	*12*	**3,421,503**	2,709,776
Inventories of taxi licences		**2,676**	15,084
Investment properties		**195,309**	188,665
Property and equipment		**111,517**	119,615
Land held under finance leases		**657,900**	665,400
Interest in a jointly-controlled entity		**1,513**	1,513
Deferred tax assets		**21,610**	10,810
Goodwill	*13*	**2,774,403**	2,774,403
Intangible assets		**718**	718
Other assets		**105,884**	263,731
TOTAL ASSETS		**39,967,365**	40,329,638
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		**1,246,092**	680,382
Derivative financial instruments		**2,051**	5,435
Customer deposits at amortised cost		**28,334,785**	29,670,825
Certificates of deposit issued at amortised cost		**513,315**	200,000
Dividends payable		**120,771**	175,667
Unsecured bank loans at amortised cost		**2,960,734**	3,038,991
Current tax payable		**33,832**	40,907
Deferred tax liabilities		**29,584**	23,165
Other liabilities		**444,402**	428,909
TOTAL LIABILITIES		**33,685,566**	34,264,281
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital		**109,792**	109,792
Reserves	*14*	**6,172,007**	5,955,565
TOTAL EQUITY		**6,281,799**	6,065,357
TOTAL EQUITY AND LIABILITIES		**39,967,365**	40,329,638

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Year ended 31 December	
	2011	2010
	HK$'000	*HK$'000*
TOTAL EQUITY		
Balance at the beginning of the year	**6,065,357**	5,832,218
Profit for the year	**374,869**	450,497
Other comprehensive income	**17,240**	13,205
Total comprehensive income for the year	**392,109**	463,702
Dividends declared on shares	**(175,667)**	(230,563)
Balance at the end of the year	**6,281,799**	6,065,357

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 2011. Certain financial information in this announcement is extracted from the statutory financial statements for the year ended 31 December 2011, 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 the statutory financial statements has also made reference to the Guideline on the Application of the Banking (Disclosure) Rules and Corporate Governance of Locally Incorporated Authorised Institutions under the Supervisory Policy Manual 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

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.

Total comprehensive income within a subsidiary is 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.

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 complied with 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.

1.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The HKICPA has issued a number of new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2011. The Group has adopted the following new and revised HKFRSs issued up to 31 December 2011 which are pertinent to its operations and relevant to 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*
•	HKAS 24 (Revised)	*Related Party Disclosures*
•	HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
•	HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
•	HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
•	*Improvements to HKFRSs 2010*	Amendments to a number of HKFRSs issued in May 2010

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

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 has no financial impact on the Group.

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The revised standard has no financial impact on the Group.

HKAS 32 Amendment addresses 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 amendment contained in this update requires 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 amendment has no financial impact on the Group.

HK(IFRIC)-Int 14 Amendments 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 have no 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. 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.

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments applicable to the Group are as follows:

(a) HKFRS 1 Amendment 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 Amendment clarifies 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 precede the application of HKFRS 3 (as revised in 2008).

    In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments proportionate share of the acquiree's identifiable net assets. All 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 amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

(c) HKFRS 7 Amendment is intended to simplify the disclosures provided by reducing the volume of disclosures on collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

(d) HKAS 1 Amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

(e) HKAS 27 Amendment 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.

(f) HKAS 34 Amendment 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.

(g) HK(IFRIC)-Int 13 clarifies that fair value of award credits should take account of expected forfeitures as well as the discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale.

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 Amendments — Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
- HKFRS 7 Amendments — Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
- HKFRS 7 Amendments — Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[4]
- HKFRS 9 and HKFRS 9 Amendments — *Financial Instruments*[6]
- HKFRS 10 — *Consolidated Financial Statements*[4]
- HKFRS 11 — *Joint Arrangements*[4]
- HKFRS 12 — *Disclosure of Interests in Other Entities*[4]
- HKFRS 13 — *Fair Value Measurement*[4]
- HKAS 1 Amendments — *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
- HKAS 12 Amendments — Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
- HKAS 19 (2011) — *Employee Benefits*[4]
- HKAS 27 (2011) — *Separate Financial Statements*[4]
- HKAS 28 (2011) — *Investments in Associates and Joint Ventures*[4]
- HKAS 32 Amendments — Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[5]
- HK(IFRIC)-Int 20 — *Stripping Costs in the Production Phase of a Surface Mine*[4]

[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 July 2012
[4] effective for annual periods beginning on or after 1 January 2013
[5] effective for annual periods beginning on or after 1 January 2014
[6] effective for annual periods beginning on or after 1 January 2015

The HKFRS 1 Amendments introduce a new deemed cost exemption for entities that have been subject to severe hyperinflation, whereby these entities can elect fair value as the deemed cost for assets and liabilities affected by severe hyperinflation in their first HKFRS financial statements. The amendments also remove the legacy fixed dates in HKFRS 1 relating to derecognition and day one gain or loss transactions. The amendments 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 Amendments from 1 January 2012. As the Group does not have continuing involvement in the derecognised assets, the amendments will not have any financial impact on the Group.

HKFRS 7 Amendments issue new disclosure requirements in relation to the offsetting models of financial assets and financial liabilities. The amendments also improve the transparency in the reporting of how companies mitigate credit risk, including disclosure of related collateral pledged or received. The Group expects to adopt the amendments from 1 January 2013. The application of the amendments is unlikely to have any material 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 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. The Group expects to adopt HKFRS 9 from 1 January 2015.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 *Consolidated and Separate Financial Statements* and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12. The application of this new standard is unlikely to have any material financial impact on the Group.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation. The application of this new standard is unlikely to have any material financial impact on the Group.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use has already been required or permitted under other HKFRSs. The Group expects to adopt the standard from 1 January 2013. The application of this new standard is unlikely to have any material financial impact on the Group.

HKAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013. The amendments affect presentation only and have no impact on the Group's financial position or performance.

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The Group expects to adopt HKAS 12 Amendments from 1 January 2012. Upon the adoption, the Group's deferred tax liability with respect to investment properties located in Hong Kong is expected to be reduced.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013. The application of this new standard is unlikely to have any material financial impact on the Group.

HKAS 32 Amendments clarify the requirements for offsetting financial instruments. The amendments address inconsistencies in current practice when applying the offsetting criteria and clarify the meaning of "currently has a legally enforceable right of set-off" and some gross settlement systems may be considered equivalents to net settlements. The Group expects to adopt the amendments from 1 January 2014. The application of these amendments is unlikely to have any material financial impact on the Group.

HK (IFRIC)-Int 20 addresses the recognition of waste removal costs that are incurred in surface mining activity during the production phase of a mine as an asset, as well as the initial measurement and subsequent measurement of the stripping activity asset. To the extent that the benefit from the stripping activity is realised in the form of inventory produced, the costs incurred are accounted for in accordance with HKAS 2 *Inventories*. To the extent that the benefit is improved access to ore and when criteria set out in the interpretation are met, the waste removal costs are recognised as a stripping activity asset under non-current assets. The interpretation has no financial impact on the Group.

2. SIGNIFICANT ACCOUNTING ESTIMATES

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 described 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 advances and receivables 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 2011 and 2010 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 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

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 the "Chief Operating Decision Maker" to make decisions about resource allocation to the segments and assess their performance. A 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;

- 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 the provision of authorised wealth management products and services; and

- other businesses 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 operating segments for the years ended 31 December 2011 and 2010, and certain asset and liability information regarding operating segments as at 31 December 2011 and 2010.

	Retail and commercial banking and lending		Wealth management services, stockbroking and securities management		Other businesses		Eliminated on consolidation		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	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	1,212,342	1,235,209	59	40	–	–	–	–	1,212,401	1,235,249
Other operating income:										
Fees and commission income	150,736	144,691	93,783	101,703	437	425	–	–	244,956	246,819
Others	11,917	15,570	–	–	19,886	14,550	–	–	31,803	30,120
Inter-segment transactions:										
Fee and commission income	–	–	–	–	336	714	(336)	(714)	–	–
Operating income	1,374,995	1,395,470	93,842	101,743	20,659	15,689	(336)	(714)	1,489,160	1,512,188
Profit before tax	421,746	467,319	21,621	50,620	24,844	21,989	–	–	468,211	539,928
Tax									(93,342)	(89,431)
Profit for the year									374,869	450,497
Segment assets other than interests in a jointly-controlled entity and intangible assets	36,718,085	36,958,536	236,279	377,117	199,034	205,640	–	–	37,153,398	37,541,293
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
	39,494,001	39,734,452	236,997	377,835	199,034	205,640	–	–	39,930,032	40,317,927
Unallocated assets:										
Deferred tax assets and tax recoverable									37,333	11,711
Total assets									39,967,365	40,329,638
Segment liabilities	33,429,739	33,731,692	64,984	228,923	6,656	63,927	–	–	33,501,379	34,024,542
Unallocated liabilities:										
Deferred tax liabilities and tax payable									63,416	64,072
Dividends payable									120,771	175,667
Total liabilities									33,685,566	34,264,281
Other segment information										
Additions to non-current assets – capital expenditure	16,668	19,362	–	–	–	–	–	–	16,668	19,362
Depreciation of property and equipment and land held under finance leases	32,014	31,626	–	–	–	–	–	–	32,014	31,626
Changes in fair value of investment properties	–	–	–	–	(6,644)	(9,031)	–	–	(6,644)	(9,031)
Impairment allowances for loans and advances and receivables	327,574	280,486	–	–	–	–	–	–	327,574	280,486
Net losses on disposal of property and equipment	199	108	–	–	–	–	–	–	199	108

Geographical information

Over 90% of the Group's operating income, profit before tax, 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

	2011	2010
	HK$'000	*HK$'000*
Interest income from:		
Loans and advances and receivables	**1,483,273**	1,419,480
Short term placements and placements with banks	**46,682**	29,319
Held-to-maturity investments	**59,666**	73,067
	1,589,621	1,521,866
Interest expense on:		
Deposits from banks and financial institutions	**27,654**	18,176
Deposits from customers	**318,103**	218,146
Bank loans	**31,463**	50,295
	377,220	286,617

Interest income and interest expenses for the year ended 31 December 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$1,589,621,000 and HK$377,220,000 (2010: HK$1,521,866,000 and HK$286,617,000) respectively. Interest income on the impaired loans and advances for the year ended 31 December 2011 amounted to HK$5,256,000 (2010: HK$10,850,000).

5. OTHER OPERATING INCOME

	2011	2010
	HK$'000	*HK$'000*
Fees and commission income:		
Retail and commercial banking	**152,307**	146,213
Wealth management services, stockbroking and securities management	**93,783**	101,703
	246,090	247,916
Less: Fees and commission expenses	**(1,134)**	(1,097)
Net fees and commission income	**244,956**	246,819
Gross rental income	**12,514**	12,880
Less: Direct operating expenses	**(79)**	(77)
Net rental income	**12,435**	12,803
Gains less losses arising from dealing in foreign currencies	**6,129**	6,958
Net losses on disposal of property and equipment	**(199)**	(108)
Dividend income from listed investments	**13**	13
Dividend income from unlisted investments	**500**	980
Net gain on derivative financial instruments	**1,169**	4,710
Others	**11,756**	4,764
	276,759	276,939

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 years ended 31 December 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.

6. OPERATING EXPENSES

	2011 HK$'000	2010 HK$'000
Staff costs:		
Salaries and other staff costs	**396,105**	371,055
Pension contributions	**18,264**	16,640
Less: Forfeited contributions	**(18)**	(44)
Net retirement benefit schemes	**18,246**	16,596
	414,351	387,651
Other operating expenses:		
Operating lease rentals on leasehold buildings	**54,412**	49,872
Depreciation of property and equipment and land held under finance leases	**32,014**	31,626
Auditors' remuneration	**3,580**	3,409
Administrative and general expenses	**69,122**	67,005
Others	**160,697**	161,242
Operating expenses before changes in fair value of investment properties	**734,176**	700,805

As at 31 December 2011 and 2010, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years. The current year credits arose in respect of staff who left the schemes during the year.

7. IMPAIRMENT ALLOWANCES

	2011 HK$'000	2010 HK$'000
Net charge for/(write-back of) impairment losses and allowances:		
– loans and advances	**329,965**	278,172
– trade bills, accrued interest and receivables	**(2,391)**	2,314
	327,574	280,486
Net charge for/(write-back of) impairment losses and allowances:		
– individually assessed	**330,672**	357,407
– collectively assessed	**(3,098)**	(76,921)
	327,574	280,486
Of which:		
– new impairment losses and allowances (including any amount directly written off during the year)	**490,897**	514,834
– releases and recoveries	**(163,323)**	(234,348)
Net charge to the consolidated income statement	**327,574**	280,486

There were no impairment allowances for financial assets other than loans and advances and receivables for the years ended 31 December 2011 and 2010.

8. TAX

	2011 HK$'000	2010 HK$'000
Current tax charge:		
Hong Kong	**71,674**	84,203
Elsewhere	**18,892**	5,324
Underprovisions/(overprovisions) in prior years	**7,157**	(7,123)
Deferred tax (credit)/charge, net	**(4,381)**	7,027
	93,342	89,431

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 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:

	2011					
	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	**462,643**		**5,568**		**468,211**	
Tax at the applicable tax rate	**76,336**	**16.5**	**1,336**	**24.0**	**77,672**	**16.6**
Effect on change in tax rates	**–**	**–**	**74**	**1.3**	**74**	**–**
Estimated tax effect of net expenses that is not deductible	**5,262**	**1.1**	**–**	**–**	**5,262**	**1.1**
Estimated tax losses from previous periods utilised	**(5)**	**–**	**–**	**–**	**(5)**	**–**
Adjustments in respect of deferred tax of previous periods	**3,531**	**0.8**	**(349)**	**(6.3)**	**3,182**	**0.7**
Adjustments in respect of current tax of previous periods	**6,500**	**1.4**	**657**	**11.8**	**7,157**	**1.5**
Tax charge at the Group's effective rate	**91,624**	**19.8**	**1,718**	**30.8**	**93,342**	**19.9**

	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 rate	–	–	40	0.1	40	–
Estimated tax effect of net expenses/(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

9. DIVIDENDS

	2011	2010	**2011**	2010
	HK$ per ordinary share	*HK$ per ordinary share*	***HK$'000***	*HK$'000*
Interim:				
First	**0.05**	0.05	**54,896**	54,896
Second	**0.11**	0.16	**120,771**	175,667
	0.16	0.21	**175,667**	230,563

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$374,869,000 (2010: HK$450,497,000) and on the weighted average number of ordinary shares in issue of 1,097,917,618 (2010: 1,097,917,618) during the year.

(b) Diluted earnings per share

The share options outstanding during the years ended 31 December 2011 and 2010 had nil dilutive effect on the basic earnings per share for these years. The calculation of diluted earnings per share for the year ended 31 December 2011 was based on the profit for the year of HK$374,869,000 (2010: HK$450,497,000) 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 in issue of 1,097,917,618 (2010: 1,097,917,618) during the year as used in the basic earnings per share calculation.

11. LOANS AND ADVANCES AND RECEIVABLES

	2011 *HK$'000*	2010 *HK$'000*
Loans and advances to customers	**27,621,506**	26,850,951
Trade bills	**7,264**	31,170
Loans and advances, and trade bills	**27,628,770**	26,882,121
Accrued interest	**90,602**	83,672
	27,719,372	26,965,793
Other receivables	**52,098**	56,953
Gross loans and advances and receivables	**27,771,470**	27,022,746
Less: Impairment allowances for loans and advances and receivables		
– individually assessed	**(166,162)**	(171,967)
– collectively assessed	**(29,809)**	(32,907)
	(195,971)	(204,874)
Loans and advances and receivables	**27,575,499**	26,817,872

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:

	2011 *HK$'000*	2010 *HK$'000*
Neither past due nor impaired loans and advances and receivables	**27,071,390**	26,150,795
Past due but not impaired loans and advances and receivables	**410,608**	540,761
Individually impaired loans and advances	**276,090**	315,715
Individually impaired receivables	**13,382**	15,475
Total loans and advances and receivables	**27,771,470**	27,022,746

About 64% of "Neither past due nor impaired loans and advances 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**

	2011 Gross amount *HK$'000*	**2011** Percentage of total loans and advances *%*	2010 Gross amount *HK$'000*	2010 Percentage of total loans and advances *%*
Loans and advances overdue for:				
Six months or less but over three months	**106,732**	**0.39**	90,673	0.34
One year or less but over six months	**2,630**	**0.01**	5,790	0.02
Over one year	**131,836**	**0.48**	175,927	0.66
Loans and advances overdue for more than three months	**241,198**	**0.88**	272,390	1.02
Rescheduled loans and advances overdue for three months or less	**31,404**	**0.11**	39,413	0.15
Impaired accounts overdue for three months or less	**3,488**	**0.01**	3,912	0.01
Total overdue and impaired loans and advances	**276,090**	**1.00**	315,715	1.18

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

	2011 *HK$'000*	2010 *HK$'000*
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	**328**	12
One year or less but over six months	**1**	1,778
Over one year	**13,049**	13,683
Trade bills, accrued interest and other receivables overdue for more than three months	**13,378**	15,473
Impaired accounts overdue for three months or less	**4**	2
Total overdue and impaired trade bills, accrued interest and other receivables	**13,382**	15,475

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

	2011			2010		
	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 for more than three months	**102,789**	**151,787**	**254,576**	154,018	133,845	287,863
Individual impairment allowances	**70,502**	**75,111**	**145,613**	92,671	55,942	148,613
Collective impairment allowances	**–**	**–**	**–**	–	–	–
Current market value and fair value of collateral			**203,239**			252,189
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	**137,685**	**151,787**	**289,472**	197,345	133,845	331,190
Individual impairment allowances	**91,051**	**75,111**	**166,162**	116,025	55,942	171,967
Collective impairment allowances	**–**	**–**	**–**	–	–	–
Current market value and fair value of collateral			**205,728**			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.

(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:

	2011 *HK$'000*	2010 *HK$'000*
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	**203,239**	252,189
Covered portion of overdue loans and advances	**75,741**	88,701
Uncovered portion of overdue loans and advances	**165,457**	183,689

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 corporations

– Individual shareholders and directors of corporate customers

(d) Repossessed assets

As at 31 December 2011, the total value of repossessed assets of the Group amounted to HK$3,100,000 (2010: HK$26,190,000).

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

	2011		2010	
	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	**409,960**	**1.48**	539,829	2.01
Rescheduled but not impaired loans and advances	**–**	**–**	–	–
	409,960	**1.48**	539,829	2.01
Trade bills, accrued interest and other receivables overdue for less than three months	**648**		932	

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

		2011	
	Individual impairment allowance	**Collective impairment allowance**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
At 1 January 2011	**171,967**	**32,907**	**204,874**
Amount written off	**(491,755)**	**–**	**(491,755)**
Impairment losses and allowances charged to the consolidated income statement	**488,129**	**2,768**	**490,897**
Impairment losses and allowances released to the consolidated income statement	**(157,457)**	**(5,866)**	**(163,323)**
Net charge of impairment losses and allowances	**330,672**	**(3,098)**	**327,574**
Loans and advances and receivables recovered	**152,319**	**–**	**152,319**
Exchange difference	**2,959**	**–**	**2,959**
At 31 December 2011	**166,162**	**29,809**	**195,971**
Deducted from:			
Loans and advances	**164,220**	**29,778**	**193,998**
Trade bills, accrued interest and other receivables	**1,942**	**31**	**1,973**
	166,162	**29,809**	**195,971**

	2010 Individual impairment allowance *HK$'000*	2010 Collective impairment allowance *HK$'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

(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**	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts receivable under finance leases:				
Within one year	**409,076**	437,537	**319,864**	340,354
In the second to fifth years, inclusive	**1,079,293**	1,157,354	**824,110**	889,179
Over five years	**3,510,259**	3,853,487	**2,986,859**	3,287,420
	4,998,628	5,448,378	**4,130,833**	4,516,953
Less: Unearned finance income	**(867,795)**	(931,425)		
Present value of minimum lease payments receivable	**4,130,833**	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.

12. HELD-TO-MATURITY INVESTMENTS

	2011	2010
	HK$'000	*HK$'000*
Unlisted:		
Certificates of deposit held	**1,042,281**	147,767
Treasury bills (including Exchange Fund Bills)	**1,489,901**	1,099,681
Other debt securities	**889,321**	1,462,328
	3,421,503	2,709,776
Analysed by type of issuers:		
– Central government	**1,489,901**	1,099,681
– Banks and other financial institutions	**1,931,602**	1,610,095
	3,421,503	2,709,776

Impairment allowances of held-to-maturity investments were nil as at 31 December 2011 and 2010. There were no movements in impairment allowances for the years ended 31 December 2011 and 2010.

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

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

13. GOODWILL

	2011	2010
	HK$'000	*HK$'000*
Cost and net carrying amount:		
At the beginning and 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 a 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 the 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 discount rates of 4% and 7% under baseline and stressed scenarios, respectively. Management's financial model assumes an average growth rate of 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 2011 and 2010 as its value in use exceeds the carrying amount.

14. RESERVES

	Share premium account HK$'000	Capital redemption reserve HK$'000	Contributed surplus 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 *(note 9)*	–	–	–	–	–	(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 year	**–**	**–**	**–**	**–**	**–**	**374,869**	**–**	**374,869**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**17,240**	**17,240**
Transfer from retained profits	**–**	**–**	**–**	**–**	**86,171**	**(86,171)**	**–**	**–**
Dividends for 2011 *(note 9)*	**–**	**–**	**–**	**–**	**–**	**(175,667)**	**–**	**(175,667)**
At 31 December 2011	**4,013,296**	**829**	**96,116**	**45,765**	**408,495**	**1,542,081**	**65,425**	**6,172,007**

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.

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 31 December 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 requirements from the HKMA.

15. 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 31 December 2011 and 2010, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	2011 *HK$'000*	2010 *HK$'000*
Within one year	**8,002**	5,951
In the second to fifth years, inclusive	**2,805**	4,107
	10,807	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 31 December 2011 and 2010, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	2011	2010
	HK$'000	*HK$'000*
Within one year	**42,606**	41,839
In the second to fifth years, inclusive	**32,350**	22,521
	74,956	64,360

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 year:

			2011		
	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	**184,720**	**184,720**	**24,824**	**–**	**–**
Transaction-related contingencies	**19,554**	**9,777**	**272**	**–**	**–**
Trade-related contingencies	**152,314**	**30,463**	**28,166**	**–**	**–**
Forward forward deposits placed	**66,200**	**66,200**	**13,240**	**–**	**–**
Forward asset purchases	**5,233**	**5,233**	**1,047**	**–**	**–**
	428,021	**296,393**	**67,549**	**–**	**–**
Derivatives held for trading:					
Foreign exchange rate contracts	**906,270**	**10,458**	**92**	**3,220**	**2,051**
Interest rate swaps	**–**	**–**	**–**	**–**	**–**
	906,270	**10,458**	**92**	**3,220**	**2,051**
Other commitments with an original maturity of:					
Not more than one year	**–**	**–**	**–**	**–**	**–**
More than one year	**134,394**	**67,197**	**67,197**	**–**	**–**
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	**3,054,708**	**–**	**–**	**–**	**–**
	4,523,393	**374,048**	**134,838**	**3,220**	**2,051**
Capital commitments contracted for, but not provided in the financial statements	**11,264**				

	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 commitments contracted for, but not provided in the financial statements	7,160				

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 2011 and 2010, 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.

	2011							
	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	1,030,256	3,545,026	–	–	–	–	–	4,575,282
Placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	310,526	203,001	–	–	–	513,527
Loans and advances and receivables	484,465	961,726	1,819,034	3,250,393	8,048,363	13,084,580	122,909	27,771,470
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	–	2,597,828	811,216	9,991	2,468	–	–	3,421,503
Other assets	143	56,528	667	1,930	–	–	46,616	105,884
Foreign exchange contracts (gross)	–	783,428	80,699	42,143	–	–	–	906,270
Net interest rate swaps	–	–	–	–	–	–	–	–
Total financial assets	1,514,864	7,944,536	3,022,142	3,507,458	8,050,831	13,084,580	176,329	37,300,740
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	48,414	935,062	167,616	95,000	–	–	–	1,246,092
Customer deposits at amortised cost	6,070,069	10,514,240	8,982,624	2,665,694	102,158	–	–	28,334,785
Certificates of deposit issued at amortised cost	–	–	413,845	99,470	–	–	–	513,315
Unsecured bank loans at amortised cost	–	–	–	1,498,074	1,462,660	–	–	2,960,734
Other liabilities	1,727	192,375	35,695	15,693	4,902	–	194,010	444,402
Foreign exchange contracts (gross)	–	782,021	80,849	42,231	–	–	–	905,101
Total financial liabilities	6,120,210	12,423,698	9,680,629	4,416,162	1,569,720	–	194,010	34,404,429

	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 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

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 2011 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 (2010: HK$0.05) per ordinary share was paid on 29 July 2011. The second interim dividend of HK$0.11 (2010: HK$0.16) per ordinary share was declared on 27 December 2011 and will be payable on 20 February 2012 to shareholders of the Company whose names appear on the register of members on 31 January 2012. The directors do not recommend the payment of a final dividend for the year (2010: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Friday, 9 March 2012 to Wednesday, 14 March 2012, 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 Thursday, 8 March 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

During the year under review, global economic conditions were very challenging, with the European sovereign debt problems remaining unresolved. The slow economic recovery of the US economy and the low interest rate environment in the US continued to have an adverse effect on the economic and credit conditions in Hong Kong, leading to narrowing net interest margins for the banking sector in Hong Kong. Inflationary effects from increasing rental and staff costs in Hong Kong also impacted earnings growth of financial institutions in Hong Kong. The Group was adversely affected by these factors and recorded a decrease in earnings of HK$75.6 million or 16.8% to HK$374.9 million for the year ended 31 December 2011 as compared to the previous year.

FINANCIAL REVIEW

Loans and advances, customer deposits and total assets

The Group's total loans and advances (including trade bills) increased by HK$746.6 million or 2.8% to HK$27.63 billion as at 31 December 2011 from HK$26.88 billion as at 31 December 2010. Customer deposits, however, decreased by HK$1.34 billion or 4.5% to HK$28.33 billion as at 31 December 2011 from HK$29.67 billion as at 31 December 2010 due to keen competition for customer deposits in the banking industry, in particular in the last quarter of 2011.

As at 31 December 2011, the Group's total assets stood at HK$39.97 billion.

Revenue and earnings

For the year ended 31 December 2011, the Group recorded a profit after tax of HK$374.9 million, representing a decrease of HK$75.6 million or 16.8% when compared to the profit after tax of HK$450.5 million in the previous year. The decrease in profit after tax was mainly caused by narrowing net interest margins and an increase in impairment allowances from the Group's personal loans business.

The Group's basic earnings per share for 2011 was HK$0.34. The Board of Directors had declared a first interim dividend in June 2011 and a second interim dividend in December 2011 of HK$0.05 per share and HK$0.11 per share respectively. The Board of Directors does not recommend the payment of a final dividend, making a total dividend for the year of HK$0.16 per share (2010: HK$0.21 per share).

For the year under review, the Group recorded a decrease in net interest income caused by narrowing net interest margins with rising interest costs on customer deposits due to intensified competition for customer deposits amongst banks. The Group's net interest income decreased by HK$22.8 million or 1.8% to HK$1.21 billion. Interest income increased by HK$67.8 million or 4.5% to HK$1.59 billion but interest expense increased significantly by HK$90.6 million or 31.6% to HK$377.2 million.

Total operating cost (before changes in the fair value of investment properties) increased by HK$33.4 million or 4.8%, mainly due to increase in staff cost and rental cost on branch premises. Gains from the change in fair value of investment properties decreased by HK$2.4 million to HK$6.6 million as compared to the previous year.

Impairment allowances for loans and advances increased by HK$47.1 million or 16.8% to HK$327.6 million in 2011 as compared to HK$280.5 million in the previous year caused by increase in impairment allowances on the personal loans business of the Group. Impairment allowance of HK$34.2 million in relation to the Lehman Brothers Minibonds was written back in the year from the recovery of proceeds received from the underlying collaterals.

Branch network

Public Bank (Hong Kong), a subsidiary of the Company, has 32 branches in Hong Kong and 3 branches in Shenzhen in the People's Republic of China ("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, has a network of 9 branches in Hong Kong to provide personal financing to its target customer segment. In total, as at 31 December 2011, the Group has a combined branch network of 86 branches to serve its customers.

Business Performance

Public Bank (Hong Kong)

During the year under review, total loans and advances (including trade bills) of Public Bank (Hong Kong) recorded an increase of HK$459.1 million or 2.0% to HK$22.89 billion as at 31 December 2011 from HK$22.43 billion as at 31 December 2010. Customer deposits decreased by HK$1.65 billion or 6.2% to HK$25.08 billion as at 31 December 2011 from HK$26.73 billion as at 31 December 2010.

The consolidated capital adequacy ratio of Public Bank (Hong Kong) stood at 19% as at 31 December 2011. It has no exposure attributed directly to structured investment vehicles, US-subprime mortgages and the five "PIIGS" countries namely Portugal, Italy, Ireland, Greece and Spain as at the end of 2011.

Public Bank (Hong Kong) will continue to identify suitable locations for the relocation of branches to better sites and plan to open two new branches in 2012 to expand its reach and further develop its banking and banking related financial services businesses and customer base.

Public Finance

Total loans and advances of Public Finance recorded a growth of HK$268.7 million or 6.2% to HK$4.58 billion as at 31 December 2011 from HK$4.31 billion as at 31 December 2010. Customer deposits increased by HK$332.0 million or 10.6% to HK$3.46 billion as at 31 December 2011 from HK$3.12 billion as at 31 December 2010. Public Finance's capital adequacy ratio stood at 28.1% as at 31 December 2011.

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. 92% of the Group's operating income and 90% of the profit before tax were contributed by retail and commercial banking and lending in Hong Kong for the year under review. When compared to the previous year, the Group's operating income from retail and commercial banking and lending business decreased by HK$20.5 million or 1.5% to HK$1,375.0 million. Profit before tax from retail and commercial banking and lending business for 2011 decreased by HK$45.6 million or 9.8% to HK$421.7 million mainly due to narrowing net interest margins and an increase in impairment allowances for impaired personal loans.

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

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, customer deposits, 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 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 0.47 times as at 31 December 2011. The bank borrowings have remaining maturity periods of less than 3 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 the 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 1.0% as at 31 December 2011 from 1.2% as at 31 December 2010. The Group will continue to adopt prudent credit underwriting standards, pursue the recovery of problem loans diligently, safeguard its capital adequacy and liquidity position, 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 2011, no share options to subscribe for shares in the Company were exercised by employees of the Group. As at 31 December 2011, options to subscribe for 26,413,000 shares in the Company remained unexercised.

As at 31 December 2011, the Group's staff force stood at 1,417 employees. For the year ended 31 December 2011, the Group's total staff-related costs amounted to HK$414.4 million.

PROSPECTS

The availability of credit in Hong Kong and funding costs may be affected by the potential outflow of funds from Hong Kong and rising credit risk premium if the European sovereign debt problems remain unresolved. Anticipated rising rental and staff costs in Hong Kong will continue to impact the profitability of financial institutions. The slow economic recovery in the US and signs of slower economic growth in the PRC will cast uncertainty on the economy growth outlook of Hong Kong.

Notwithstanding the aforesaid, the Group will continue to focus on expanding its retail and commercial banking business and consumer finance business cautiously with sound marketing strategies and excellent customer service quality. The Group will continue to seek greater synergies within its business operations to cross-sell the Group's products and services through the combined branch network of Public Bank (Hong Kong), Public Finance and Winton.

Competition in the banking and financing industry in Hong Kong is expected to intensify 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 Group will continue to pursue long-term business growth objectives, and take steps to align business strategies with future expansion plans and earnings growth with prudent capital and funding management in meeting the challenges ahead.

Barring unforeseen circumstances, the Group expects to register 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 2011 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, 17 January 2012

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